

Intra-firm trade and contract completeness: Evidence from Japanese affiliate firms

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Abstract

The issue on the growth and its variation of intra-firm trade of intermediate inputs is of great interest in international economics. This paper examines the determinants of intra-firm trade by shedding light not only on factor price and trade cost but also on the organizational form in terms of the ownership of overseas plant and control over intermediate input for further processing, using micro data at the affiliate firm level. In the empirical analysis, since organizational form and intra-firm trade are jointly determined, we adopted instrumental variable regression treating a choice of purchasing manager as an endogenous variable. The results suggest that control over input decisions critically affect intra-firm trade of intermediate input.

Keywords: Intra-firm trade, incomplete contract, ownership and control

JEL codes: F14, F23, L14

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