

Impact of supply chain network structure on FDI:

Theory and evidence^{*}

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Abstract: This study investigates how structure of supply chain network of the domestic market influences FDI of firms embedded in the network. We firstly describe a binary choice of firms whether invest or not by a coordination game on fixed network with incomplete information on part of firms' profit, and addressed that the unique equilibrium of the game is represented by Katz-Bonacich centrality measure which captures both direct and indirect effects from the network. Furthermore, we also give empirical tests for the theoretical hypothesis with a large sized disaggregated data of Japanese firms, and verified that Katz-Bonacich centrality of each firm has a significantly positive effect on its FDI even when the sector-specific fixed effects and other attributes are controlled, as our theory anticipated.

Key words: FDI, network game, supply chain, Katz-Bonacich centrality.

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