

# Are there trade-offs between the existing and the new foreign activities?

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February 21, 2015

## Abstract

For each multinational firm, designing a new foreign activity is a sequential choice. In some cases, new foreign businesses complement existing entities. In other cases, new foreign businesses substitute old entities. These intra-firm changes in allocations of corporate resources caused by relocations are not deeply considered in the literature. In our model, a multinational enterprise (MNE) determines a new location, if any, either as an addition to its existing ones, or as a replacement of an old one. The location is considered under hub-spoke spatial relations. Firms maximize the world-wide corporate profit, balancing variable trade costs and fixed costs. In the empirical analysis, we use a panel data on Japanese-owned foreign affiliates and their parents. We measure some key factors to an event of entry and exit, taking into account the network of existing foreign locations. We compare our results with Yeaple (2008), discussing hub and scopes (central and peripheral locations) of intra-firm network for U.S. manufacturing. We show some differences between the U.S. MNEs and Japanese MNEs. We also discuss the difference in trade-offs of intra-firm network between manufacturing and the service sectors.

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\*The author wrote this paper when she was a project member of the JIP, measuring industry-level and firm-level productivity, supervised under Kyoji Fukao at RIETI, Japan. She would like to thank the institute for the support to access the micro-level dataset. She would also thank the financial support from the JSPS No.26380290. The author is grateful for helpful comments and suggestions by Taiji Furusawa, Fukunari Kimura, Tomohiko Inui, Hiroshi Mukunoki, Eiichi Tomiura, and Shujiro Urata and participants at the RIETI Seminar and the JSIE Conference.