

Greenfield or Brownfield?

Firm's FDI Choice and Intangible Capital

Haruka Takayama*

University of Virginia

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Abstract

A firm that decides to locate its business abroad can either establish a new facility in its host country or purchase a local firm. These two modes of investment are known as *greenfield* and *brownfield (or cross-border mergers and acquisitions [M&A])*, respectively. I hypothesize that brownfield investment is the preferred market entry option for firms that seek to obtain existing intangible capital. I test this hypothesis empirically by analyzing the determinants of the two modes of FDI using US firm-level data. Regression results show that firms with lower intangible capital intensity are more likely to choose brownfield investment than greenfield investment. By contrast, I do not find that physical capital intensity is a significant determinant of the investment mode.

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Classifications: International trade / direct investment

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