

Abstract

Multinationals' activity have been explain in the literature since the 1980's by the emergence of two different FDI structures, multinationals that follow either vertical or horizontal FDI strategies. The distinction between these strategies is made by different intra-firm trade structures and by the determinants that motivate these structures, such as transportation cost and factor endowment difference. More recently, export platform strategy started to be recognized in the literature as an important structure to explain MNCs' activity in the world, involving not only home and host country analysis but also third countries' effect. In this study we use intra-firm-trade indices to classify Japanese investment from more vertical to more horizontal FDI and we test the effect of distance, as a proxy for transport cost, and skilled-labor difference, on these two groups of investments. We also examine the magnitude of Japanese export platform FDI in the world and the factors that motivate MNCs to follow this investment strategy. We find that distance, despite the expected transport cost positive effect on horizontal FDI, has a significant negative effect on both vertical and horizontal foreign affiliates' activity; on the other hand, skilled-labor difference follow an inverted U-shape relation with Japanese more vertical FDI. In regard to export platform strategy, distance has a positive effect while skilled-labor difference a negative impact on the choice of this investment structure, which might be explain by the FDI regional factor. Given our results it is crucial to include a broader range of FDI strategies apart from vertical and horizontal structures, as well as third countries' effect on MNCs' investment decision to better understand multinationals' activity in the world.