

Global Fixed Capital Investment by Multinational Firms

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We develop and test a simple model of the simultaneous determination of gross fixed capital formation by multinational firms in home and host countries. We treat multinational firms as multi-product firms, which have monopoly power over all the products they make, choosing an optimal investment location for each product variant. We test the predictions of the model on a unique dataset covering 1620 fixed capital investment decisions by Japanese multinationals firms in the manufacturing sector. We find that the rate of investment is not only determined by factors affecting the return on investment in a country (e.g. effective demand and wages), but also by wage levels in other countries in which the firm operates manufacturing affiliates. Firms facing global liquidity constraints show systematically lower investment ratios, suggesting that financing constraints are another source of interaction between investments.