

# Analyzing the Economic and Strategic Outcomes of Foreign Relocations: A Multi-Country Study

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## **Abstract**

Foreign relocations have increased in frequency due to global uncertainties such as trade wars and political instability. Yet, the phenomenon has received less attention compared to foreign direct investment. Understanding the factors pressuring foreign firms to leave host markets for another foreign location is critical to building sustainable development strategies and crafting balanced international investment policies. This study aims to empirically analyze the determinants of foreign relocation decisions across various sectors and regions. We will analyze variables including GDP per capita, corporate tax rate, tariffs, distance, innovation and business environment. We hope to shed some light on the relocation decisions.

**Keywords:** foreign relocation, foreign direct investment, location specific advantages.

## **Introduction**

Cross border relocation of production facilities, research centers, or service operations has become a central strategic lever for multinational enterprises (MNEs). While much international business literature has traditionally focused on why firms expand from their home country to a host country (Dunning 1998), the decision to relocate existing foreign assets to a different host country— has received far less attention. As firms respond to cost pressures, market opportunities, and institutional dynamics, foreign relocation practices become more important (Narula & Dunning, 2010; Buckley & Ghauri, 2004). In addition, foreign relocation decisions can generate profound economic and strategic impacts on both the relocating firms and the countries involved. Though relocation can occur within a country, we defined foreign relocation as the movement of production, service, or administrative functions from one country to another. This relocation could result in the dissolve of the existing operations or simply restructure them.

To understand the determinants of foreign relocation, we used the eclectic paradigm, also known as the OLI framework, developed by John Dunning (1980, 1988). According to Dunning (1988), firms decide to undertake international production when they possess Ownership (O) advantages, such as proprietary technology, brand reputation, or managerial skills; Location (L) advantages, including favorable market size, resource endowments, or institutional frameworks in host countries; and Internalization (I) advantages, which arise when firms find it more efficient to exploit their ownership advantages internally rather than through licensing or partnerships. Guided by the eclectic paradigm (Dunning 2001), this paper examines the primary economic and strategic drivers that motivate firms to relocate abroad, drawing on a panel of 28 source countries across the world. We focus on the location advantage aspect by investigating six variables that theory and empirical evidence suggest are significant in shaping relocation choices. They are tariff barriers, innovation, peace and political stability, GDP per capita, corporate tax rates, and geographic distance. We compared these drivers between those from the first move (from the home/source country to the first host country) to those when firms relocate in the second move (from the first host country to the second host country). We seek to answer two interrelated research questions: (i) Does the location specific advantage support both moves? and (ii) How do their effects differ across activities? We hope to provide a better understanding of the strategic considerations that guide MNE relocation decisions.

The remainder of the paper proceeds as follows. We survey the theoretical and recent empirical contributions to relocation. Then we describe our hypotheses by explaining each driver. Later, the data set and methodology employed. This will be followed by presenting the results and discussing the policy implications for host-country governments aiming to retain or attract relocated activities, and outlines avenues for future research.

## **Literature Review**

Foreign relocation has been explained by classic theory such as the eclectic paradigm or the OLI theory. The OLI theory argues that firms relocate when ownership-specific assets can be better exploited abroad, when locations offer market access, cost or institutional advantages, and when internalization solves contracting problems (Dunning, 1993). In other words, the framework rests on three pillars-ownership advantages (O), location advantages (L), and internalization advantages (I). Ownership advantages include proprietary technology, brand reputation, and managerial skills. Cantwell & Narula (2001) show that ownership advantages such as advanced technological capabilities enable firms to exploit relocation opportunities more effectively by maintaining competitiveness despite distance and coordination costs. Location advantages include factor costs, market size, and institutional quality. Empirical work shows that taxes, policy stability, and market potential shape where plants go (Devereux & Griffith, 1998; Head & Mayer, 2004). Lastly, internalization advantages highlight the benefits of organizing transactions within the firm rather than through the market (Dunning, 1980; Dunning, 1993). Internalization advantages help explain why firms often choose wholly-owned subsidiaries or captive offshoring rather than relying on local contractors, especially when protecting intellectual property or ensuring quality (Rugman & Verbeke, 2003). Location advantages are central to foreign relocation decisions, as firms assess various host-country attributes such as labor cost differentials, trade openness, infrastructure, and political stability (Beugelsdijk, McCann, & Mudambi, 2010).

Beyond OLI, a variety of other theories and frameworks contribute to understanding the determinants of foreign relocation. Transaction cost theory (Williamson, 1985), for example, emphasizes the role of minimizing transaction costs as a driver of relocation decisions. Firms seek to minimize costs related to negotiating and enforcing contracts when operating in foreign markets. Furthermore, institutional theory (Scott, 2008) underscores the importance of the institutional environment in shaping relocation decisions. Firms may be drawn to countries with robust legal frameworks, stable political environments, and efficient market regulations, which can reduce uncertainty and provide a more predictable business climate.

## **Hypotheses**

### **GDP per capita**

A significant amount of literature highlights that MNEs often relocate operations to countries with lower GDP per capita to capitalize on cost advantages, particularly in labor-intensive industries. Lower GDP per capita is frequently associated with reduced wage levels, fewer regulatory burdens, and lower input costs, making such locations attractive for firms seeking to enhance efficiency and reduce operational expenses (Helpman, Melitz, & Yeaple, 2004). This pattern of foreign relocation aligns with the Location (L) component of the OLI paradigm. Jensen and Pedersen (2011) show that firms are more likely to relocate manufacturing and service operations to developing or emerging markets where unit labor costs are significantly lower than in high-income economies. Overall, the pursuit of cost efficiency drives firms

toward relocation destinations where lower GDP per capita reflects a more favorable cost structure, particularly when combined with supportive investment climates.

*H<sub>1</sub>: As firms relocate operations from the first host country to the second host country, the GDP per capita of the second host country is lower than that of the first host country.*

### **Corporate Tax Rate**

Corporate tax rates are a fundamental component of the location-specific factors that influence foreign relocation decisions. Within the framework of the OLI paradigm, the Location (L) advantages include fiscal conditions such as tax policies, which directly affect the profitability of operating in a given country (Dunning & Lundan, 2008). Dischinger, Knoll, & Riedel (2014) states that MNEs often strategically relocate operations or shift profit-generating activities to jurisdictions with lower corporate tax rates to optimize their global tax liabilities. Moreover, MNEs are increasingly using relocation strategies—such as establishing regional headquarters, moving R&D units, or setting up shell entities—to benefit from favorable tax regimes, including those created through bilateral tax treaties and special economic zones (Miller & Eden, 2006; Narula & Pineli, 2019). Empirical studies confirm that countries offering lower effective tax rates tend to receive higher volumes of FDI, as firms view tax savings as a key form of cost arbitrage (Cassou, 1997; Barrios, Huizinga, Laeven, & Nicodème, 2012).

*H<sub>2</sub>: As firms relocate operations from the first host country to the second host country, the corporate tax rate of the second host country is lower than that of the first host country.*

### **Geographic Distance**

The OLI framework treats distance as a central determinant of the “Location” component of multinational expansion. Empirical work demonstrates that geographic proximity reduces transportation and coordination costs, thereby strengthening location advantages for asset-intensive activities such as manufacturing (Buckley & Casson, 2009). Hennart (2009) also states that spatial distance raises transaction and coordination costs, making it more difficult for firms to combine headquarters capabilities with local assets. Empirical studies of MNE location choice similarly show that firms tend to prefer geographically proximate countries. For example, Berry, Guillén, and Zhou (2010) find that geographic distance significantly reduces the probability that firms will invest in particular host countries because distance increases uncertainty and operational costs. Likewise, Head and Ries (2008) provide the same result which is firm-level evidence showing that multinational firms exhibit strong preferences for nearby markets when expanding their international production networks. They explain that the greater geographic separation discourages foreign investment because distance reduces firms’ ability to transfer knowledge, manage subsidiaries, and respond to local market conditions. In addition, a growing body of research indicates that firms are increasingly adopting nearshoring strategies as a way to bolster supply chain resilience in the face of systemic shocks, such as the COVID-19 pandemic and geopolitical tensions (Khalifa, 2022).

*H<sub>3</sub>: As firms relocate operations from the first host country to the second host country, the geographic distance of the second host country is smaller than that of the first host country.*

## **Tariffs**

Tariff structures play a critical role in shaping foreign relocation strategies, as firms often adjust their international operations in response to trade barriers. High import tariffs in a target market can draw MNEs to relocate production within that market to avoid the added costs associated with cross-border trade or tariff-jumping FDI (Blonigen, 2002). Empirical evidence shows that increases in tariffs can lead to a significant rise in FDI inflows as firms attempt to maintain market access while minimizing trade costs (Brainard, 1997; Egger & Pfaffermayr, 2004). For instance, Blonigen and Feenstra (1997) found that U.S. auto manufacturers established production facilities in foreign markets with high import duties to circumvent tariff barriers. Motta & Norman (1996) show that tariffs can alter the relative attractiveness of exporting versus investing abroad, reinforcing the idea that trade policy modifies both internalization incentives and the strategic deployment of ownership advantages. Rugman & Verbeke (2003) explained that tariff volatility increases uncertainty, raising internalization advantages by making internal governance more efficient than arm's-length market transactions. Therefore, tariffs not only affect trade flows but also act as a strategic determinant of foreign relocation.

*H<sub>4</sub>: As firms relocate operations from the first host country to the second host country, the tariff rate of the second host country is higher than that of the first host country.*

## **Political Stability**

Political stability and security are critical determinants in foreign relocation decisions, and recent literature increasingly incorporates indices such as the Global Peace Index (GPI) to assess host-country risk. The GPI, which measures levels of societal safety, internal and external conflict, and militarization, serves as a proxy for operational and political risk that may deter or attract foreign investment (IEP, 2023). Firms tend to avoid relocating to countries with low peace scores due to risks such as supply chain disruptions, expropriation, and higher costs of securing assets and personnel (Busse & Hefeker, 2007). This behavior reflects the Location (L) aspect of Dunning's OLI paradigm, which emphasizes the importance of institutional and political conditions in host countries (Dunning, 1988). Studies show a strong negative correlation between conflict or instability and FDI inflows, suggesting that MNEs prefer peaceful environments that ensure predictability and legal protection (Bussmann, 2010). Thus, peace and stability—as captured by the GPI—are increasingly central in explaining the geography of foreign relocation.

*H<sub>5</sub>: As firms relocate operations from the first host country to the second host country, the political stability of the second host country is higher than that of the first host country.*

## Innovation

The Location (L) component of the OLI paradigm emphasizes the importance of host-country characteristics in shaping MNEs' decisions to relocate innovation-related activities. In particular, MNEs engage in strategic asset-seeking relocation to access location-specific innovation advantages such as the availability of skilled talent, leading research institutions, established innovation clusters, and supportive government policies (Dunning & Lundan, 2008). Rather than concentrating R&D exclusively in their home markets, firms increasingly disperse innovation activities globally to embed themselves within local knowledge ecosystems that offer complementary capabilities and learning opportunities (Cantwell & Mudambi, 2005). Firms target technologically sophisticated regions that support interactive learning and knowledge spillovers, particularly within established innovation clusters (Cantwell, 2009; Lorenzen & Mudambi 2013). These clusters enable MNEs to embed themselves in local networks of universities, suppliers, and competitors, fostering the recombination of internal and external knowledge to enhance innovation outcomes (Papanastassiou, Pearce, & Zanfei, 2020). Thus, in line with the OLI framework, MNEs' innovation-oriented relocation is primarily driven by the quality and density of localized innovation advantages.

*H<sub>6</sub>: As firms relocate operations from the first host country to the second host country, the innovation of the second host country is higher than that of the first host country.*

We now examine whether different types of FDI activities may be subject to different motivations. We focus on possible differences in the activity types of headquarters-based FDI, manufacturing-based FDI, and business services-based FDI. MNEs operating in headquarters activities, manufacturing, and business services exhibit different FDI determinants due to differences in strategic motives and operational needs. For headquarters functions, FDI is often driven by strategic asset-seeking motives, such as access to global managerial talent, proximity to financial markets, and regulatory environments conducive to corporate governance; factors like institutional quality and international connectivity are therefore critical (Cantwell & Mudambi, 2005; Dunning, 1998). In contrast, manufacturing MNEs predominantly respond to traditional location advantages, including market size, labor and factor costs, and proximity to suppliers and consumers, leading to a strong influence of host-country economic fundamentals and trade openness on investment decisions (Blonigen, 2005; Markusen & Venables, 1998). Business services MNEs, particularly those in knowledge-intensive segments, prioritize agglomeration economies, skilled labor pools, and regulatory environments that support cross-border service delivery, making institutional frameworks and service market liberalization more salient determinants than for manufacturing firms (Mudambi & Tallman, 2010; Rugman & Verbeke, 2001). These differences illustrate that while overarching economic factors like market potential matter across sectors, the relative importance of institutional quality, factor costs, and access to specialized resources varies sharply between headquarters, manufacturing, and business services FDI.

*H<sub>7a</sub>: As firms relocate operations from the first host country to the second host country, the determinants of relocation differ between business services FDI and manufacturing FDI.*

*H<sub>7b</sub>: As firms relocate operations from the first host country to the second host country, the determinants of relocation differ between headquarters FDI and manufacturing FDI.*

## Data and Methodology

Our relocation data were drawn from a worldwide database of foreign direct investment (FDI) projects from the Financial Times' fDi Markets database. We examine FDI projects that move across a border from one destination country to another, and exclude FDI projects which move internally within a destination country. We obtained 192 such projects in the 2014-2022 period. The database also indicates the type of activity of the FDI projects that were relocated. We used the three main activities in this paper which are: headquarters, manufacturing, and business services (e.g., financial services, software & IT services,) as these are the majority of activities that companies relocated to a second host country. For GDP per capita, we retrieved the data from the World Development Indicators database by the World Bank. The corporate tax rate data was obtained from the Tax Foundation database. Distance was calculated by using the Euclidean distance which is the straight-line distance between two points in space. This measure is commonly used in the international business (IB) literature (Kogut & Singh, 1988; Beugelsdijk, et al., 2015; Hahn & Doh, 2025). We collect the latitude and longitude information from the World Factbook (CIA, 2025). We also obtained the tariff rate data from the World Development Indicator Databank. We used the weighted mean applied tariff which is the average of effectively applied rates weighted by the product import shares corresponding to each partner country. The Global Peace Index data are from the Institute for Economics and Peace (IEP). According to the IEP website, the GPI is comprised of 23 qualitative and quantitative indicators from highly respected sources, and measures the state of peace across three domains: the level of Societal Safety and Security; the extent of Ongoing Domestic and International Conflict; and the degree of militarization. We use the Global Innovation Index (GII) as an indicator for innovation. The GII was obtained from the World Intellectual Property Organization (WIPO). According to the WIPO website, the index is built on the collection of 81 indicators from international public and private sources.

### Model 1

We can separate the methodology into two models. In the first model we used a paired sample *t*-test to compare the differences between the means of the first group (the differences between the source country and the first host country) and that of the second group (the differences between the first host country and the second host country). In other words, for each variable, we ran two paired *t*-tests. We did this for five variables but chose a slightly different comparison for the distance variable. For the distance variable only we did a paired *t*-test regarding the distance between the source and the first host countries, and then the

distance between the source and the second host countries. This better reflects the possible transaction cost that is hypothesized to affect the investing firm.

## Model 2

In the second model, we investigate the hypotheses in more detail by activity type. We examine which factors are influential in a firm's decision to choose a particular *activity* in a particular location. The activity types are manufacturing, business services and headquarters. We then used multinomial logit to predict the outcome by having activity type as our dependent variable and our hypothesis-generating and control variables as predictors. It is necessary to choose a reference group or baseline group. We used manufacturing as the baseline group here. Our right-hand-side variables were transformed into the log ratios by having the second host country data as a numerator and the first host country data as a denominator. We also gain the skewness-correcting feature of the log. However for distance we computed and used a difference score. The difference score was the difference in distance between the source country and the second host country as compared to the difference in distance between the source country and the first host country. We abbreviate this measure as DistDiff below. In summary, the multinomial logit model was as follows.

$$\begin{aligned} \frac{P(Y_k=1)}{P(Y_0=1)} = & \beta_1 + \beta_2 \log(\text{GDP per capita}_{\text{second host}} / \text{GDP per capita}_{\text{first host}}) \\ & + \beta_3 \log(\text{Corporate tax rate}_{\text{second host}} / \text{Corporate tax rate}_{\text{first host}}) \\ & + \beta_4 \text{DistDiff} + \beta_5 \log(\text{Tariffs}_{\text{second host}} / \text{Tariffs}_{\text{first host}}) + \beta_6 \log(\text{GPI}_{\text{second host}} / \text{GPI}_{\text{first}} \\ & \text{host}) \\ & + \beta_7 \log(\text{Innovation}_{\text{second host}} / \text{Innovation}_{\text{first host}}) \end{aligned}$$

Note that  $Y_0$  is baseline.  $\beta_1$  is the intercept while  $\beta_2$  to  $\beta_7$  are the coefficients.

## Results

### Model 1

We begin with the results from Model 1 analyses as shown in Table 1. For GDP per capita, the first paired *t*-test shows that the GDP per capita has decreased when firms moved from the source country to the first country destination (from \$50,817.94 to \$38,358.66,  $t = 6.550$ ,  $p < 0.0001$ ). On the other hand, when firms relocated from the first host country to the second host country, the GDP per capita has decreased even further (to 29,448.43,  $t = 4.7542$ ,  $p < 0.0001$ ). As a result, the first hypothesis is supported. That also means that firms tend to seek countries with lower GDP per capita for their location-specific advantages. For corporate tax rates, the results show that the rates tend to decrease for the first move from 27.12% to 24.40% which seems to support the OLI theory ( $t = 4.291$ ,  $p < 0.0001$ ). However, we see a significant reversal in the case of the relocation from the first host to the second host as the tax rates have gone up to 26.12%. As a result, the second hypothesis is not supported. For

distance, the difference in distance between the source and the first host country, and the source and the second home country significantly increased rather than decreased as we hypothesized. The distance increased from 555.06 to 78.59. Therefore, firms tend to relocate even further away for their second host country which means the third hypothesis is not supported.

As for tariffs, the rate has decreased from 2.86% to 1.96% during the first move ( $t = 3.887$ ,  $p < 0.0001$ ). We also find that during the relocation from the first host country to the second host country, the rate significantly increased to 2.356615% ( $t = -2.968$ ,  $p = 0.0034$ ). Therefore the fourth hypothesis is supported. The fifth hypothesis about political stability is not supported as both  $p$ -values are greater than 5%. For the last hypothesis, the Global Innovation Index for the first move declined from 57.42 to 54.56 ( $t = 3.596$ ,  $p = 0.0004$ ). The index declined to 47.63 further when firms relocated to the second host country ( $t = 7.557$ ,  $p < 0.0001$ ). The sixth hypothesis is not supported.

Table 1: The results of the paired  $t$ -tests.

| Variables              | Source<br>Country<br><br>Mean<br>(SE) | 1 <sup>st</sup> Host<br>Country<br><br>Mean<br>(SE) | $t$  | $p$         | 1 <sup>st</sup> Host<br>Country<br><br>Mean<br>(SE) | 2 <sup>nd</sup> Host<br>Country<br><br>Mean (SE) | $t$       | $p$         |
|------------------------|---------------------------------------|-----------------------------------------------------|------|-------------|-----------------------------------------------------|--------------------------------------------------|-----------|-------------|
| GDP Per<br>Capita      | 50817.94<br>(1279.72)                 | 38358.66<br>(1435.03)                               | 6.55 | <<br>0.0001 | 38358.66<br>(1435.03)                               | 29448.43<br>(1523.087)                           | 4.75      | <<br>0.0001 |
| Corporate<br>Tax Rates | 27.12<br>(0.43)                       | 24.4<br>(0.44)                                      | 4.29 | <<br>0.0001 | 24.4<br>(0.44)                                      | 26.1<br>(0.44)                                   | -<br>2.76 | <br>0.006   |
| Distance               |                                       |                                                     |      |             | 55.06<br>(4.05)                                     | 78.59<br>(3.58)                                  | -7.4      | <<br>0.0001 |
| Tariffs                | 2.85<br>(0.23)                        | 1.96<br>(0.07)                                      | 3.88 | <<br>0.0001 | 1.96<br>(0.07)                                      | 2.34<br>(0.13)                                   | 2.97      | 0.003       |
| Political<br>Stability | 1.94<br>(0.04)                        | 1.86<br>(0.02)                                      | 1.97 | 0.05        | 1.86<br>(0.02)                                      | 1.89<br>(0.03)                                   | -<br>0.90 | <br>0.37    |
| Innovation             | 57.42<br>(0.49)                       | 54.56<br>(0.64)                                     | 3.6  | 0.0004      | 54.56<br>(0.64)                                     | 47.63<br>(0.84)                                  | 7.56      | <<br>0.0001 |

Table 2 displays the results for the second model. For business services, two variables are significant—GPI and corporate tax rate. For GPI, the coefficient of -3.29 means that firms tend to relocate manufacturing facilities rather than business services when GPI increases. Firms are generally less likely to relocate business services there because these activities rely heavily on stability, skilled talent, and secure legal environments. In contrast, firms may still relocate manufacturing facilities to higher-GPI countries if there are cost advantages, such as lower labor costs, favorable tax incentives, or proximity to raw materials and markets. For corporate tax rate, the coefficient is 4.69 which means as the corporate tax rate increases, firms tend to relocate business services compared to manufacturing facilities. It could be that manufacturing facilities could generate more income to the firm as they will sell products/services they produce and hence pay higher tax. Therefore, the firm may try to avoid locating in the country with high tax rate. It also shows that tax rates tend to be higher in the second host country which corresponds to the results we found in the second hypothesis.

As for the headquarters, the result for tariffs coefficient is .54 which means as tariffs increase firms tend to choose to relocate the headquarters rather than manufacturing activities. This could be because tariffs apply to traded goods, not to where a firm is legally based. Moving production is costly, time-intensive, and involves rebuilding supply chains, while shifting headquarters or rerouting transactions through foreign affiliates is relatively quick and inexpensive. As a result, firms often respond to higher tariffs through organizational changes or “tariff avoidance” strategies before considering the much more difficult step of relocating physical production (Blonigen, 2002).

Table 2: The results of the multinomial logit.

| Activity                 | Coef.   | Std. Err. | z     | p        |
|--------------------------|---------|-----------|-------|----------|
| <i>Business Services</i> |         |           |       |          |
| Intercept                | -171.85 | 262.34    | -0.66 | 0.51     |
| GDP Per Capita           | 0.19    | 0.53      | 0.36  | 0.72     |
| Tariffs                  | 0.11    | 0.41      | 0.28  | 0.78     |
| GPI                      | -3.29   | 1.27      | -2.59 | 0.01     |
| Corp. Tax                | 4.69    | 0.99      | 4.75  | < 0.0001 |
| GII                      | 1.5     | 1.77      | 0.85  | 0.4      |
| Year                     | 0.08    | 0.13      | 0.65  | 0.52     |
| Distance                 | 0       | 0.01      | 0.04  | 0.97     |
| <i>Headquarters</i>      |         |           |       |          |
| Intercept                | 42.59   | 187.57    | 0.23  | 0.82     |
| GDP Per Capita           | -0.34   | 0.34      | -0.99 | 0.32     |
| Tariffs                  | 0.54    | 0.27      | 2.04  | 0.04     |
| GPI                      | -2.97   | 0.91      | -3.28 | < 0.0001 |
| Corp. Tax                | 1.81    | 0.58      | 3.12  | < 0.0001 |
| GII                      | 4.04    | 1.24      | 3.25  | < 0.0001 |

|                      |       |      |       |      |
|----------------------|-------|------|-------|------|
| Year                 | -0.02 | 0.93 | -0.23 | 0.82 |
| Distance             | 0     | 0    | -0.34 | 0.73 |
| <i>Manufacturing</i> | Base  |      |       |      |

GPI coefficient of -2.97 shows that as the GPI increases, firms tend to relocate manufacturing facility rather than the headquarters. Manufacturing is often more geographically flexible, with risks mitigated through insurance, security measures, and supply chain management, (Kedia & Chhokar, 1986; Kobrin, 1991). The headquarters are knowledge-intensive and sensitive to political instability and security risks. Therefore, increases in GPI tend to shift firms' operational risk tolerance toward manufacturing, rather than strategic or administrative functions.

The coefficient of corporate tax rate is 1.81 which means as the corporate tax increases, firms will relocate more headquarters activity rather than manufacturing activities. When corporate taxes increase in certain countries, firms may still choose to relocate headquarters or administrative functions there rather than manufacturing because the strategic, financial, and legal benefits of a headquarters location can outweigh higher tax costs. Being headquartered in a high-tax country can improve access to capital markets, credibility with investors, regulatory protections, and political connections, which are especially valuable for decision-making and global coordination (Desai & Dharmapala, 2006). In contrast, manufacturing is more sensitive to operational costs, such as labor, materials, and logistics, so higher corporate taxes have a smaller effect on location decisions for production, which is why firms are less likely to move factories to high-tax jurisdictions (Grubert & Mutti, 1991; Hines & Rice, 1994). Additionally, some high-tax countries offer headquarter incentives, R&D credits, or legal protections, encouraging firms to centralize strategic functions while keeping manufacturing in lower-cost countries (Desai & Dharmapala, 2006). This explains why increases in corporate taxes can lead firms to relocate more headquarters activity rather than manufacturing activities.

Lastly, the coefficient of GII is 4.04 which means firms tend to relocate the headquarters rather than manufacturing activities as the GII increases. As the Global Innovation Index (GII) increases, firms tend to relocate headquarters or strategic functions to countries with higher innovation capacity rather than moving manufacturing, because headquarters activities rely heavily on knowledge, R&D, and innovation ecosystems, which are captured by the GII. High GII countries offer better access to skilled talent, research institutions, intellectual property protections, and collaboration networks, which enhance decision-making, innovation management, and strategic planning. In contrast, manufacturing is largely cost- and resource-driven, so firms are less sensitive to a country's innovation environment when locating production facilities (Czarnitzki & Hottenrott, 2011; Dachs et al., 2018). Thus, firms concentrate knowledge-intensive headquarters functions in high-GII countries while keeping manufacturing in locations optimized for cost and operational efficiency.

## Conclusions

We found that the OLI theory seems to explain the relocation decisions to a certain extent. Yet, for some variables even when there are fewer location-specific advantages in a second host country versus the first host country, firms decide to relocate anyway. This implies that there are other factors (ownership-specific advantages and internalization advantages) which we did not include but nonetheless intertwine and play a role in relocation decision. In other words, firms' relocation decisions are not driven by a single factor but by the interaction of these three advantages. Another explanation could be that despite the robustness of the OLI framework, recent global trends—including digitalization, geopolitical tensions, and sustainability imperatives—have added new layers of complexity to relocation strategies (Verbeke, 2020). According to Buckley & Ghauri (2004) the rise of digital technologies and global supply chains has led to new considerations in the relocation process, with firms increasingly seeking locations that offer advanced infrastructure and technological capabilities. Factors such as cultural proximity and government incentives are also critical in determining a firm's relocation choices. For example, countries that offer tax incentives, subsidies, or preferential trade agreements may be particularly attractive to foreign investors (Globerman & Shapiro, 2003).

Our limitations include the lack of the latest data as we only had the data until 2022. Besides, these data include the COVID period which MNEs could behave differently. Furthermore, future research could include the relocation within the same country as the data show that majority of the relocation happened that way. In addition, including job and investment aspects into consideration could be done in the future.

We hope that the results will shed light on foreign relocation decisions within international business theory by providing new insights into how MNEs adjust their location strategies across countries and sectors. In particular, the findings aim to contribute to a deeper understanding of the determinants and dynamics of FDI relocation, especially under changing economic and geopolitical conditions. Furthermore, the study offers important implications for government policy by identifying the key factors that attract and retain FDI. These insights can assist policymakers in designing more effective strategies to enhance location attractiveness, improve institutional frameworks, and support sector-specific investment promotion.

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