



## Abstract

# The Impact of Firm Relocation on Regional Economies : Evidence from Business Relocation in Korea

This study aims to analyze the impacts of firm relocation on regional economies. In particular, the impacts are measured in terms of employment growth rate and the duration of survival after the relocation.

Difference in difference estimation models are employed to investigate the impact of firm relocation on its employment growth rate. The increase in a firm's employment growth rate led by its spatial relocation comes into effect after 5 years from the relocation on average. Comparing to firms in service sectors, manufacturing firms tend to experience higher employment growth rate as a result of the relocation. The increment of a firm's employment growth rate caused by its spatial relocation is greater among large firms, though the effect occurs less promptly than small and medium sized firms.

The impact of firm relocation on its hazard rate of failure, investigated using a discrete hazard rate analysis is not statistically significant. Nevertheless, the impact of firm relocation on its hazard rate of failure varies by the attributes of the region that the firm has relocated into. In specific, the enhancement in the level of accessibility and the endowment of human capital of the region lowers a firm's hazard

rate of failure after its spatial relocation, while the firm's survival rate is negatively influenced by the intensity of agglomeration of the region.

Policy implications from these findings are as follows. First, to enhance the regional economic impacts of firm's attraction, local governments are required to pay greater attention to incubate firms' growth and success after their relocation. Second, given that the endowment of human capital is critical for a firm's survival after relocation, especially among firms moved into non-Seoul metropolitan area, policy measures to improve spatial inequality in the access to human capital needs to be developed.

**Keyword**

firm relocation, regional economic impacts of firm attraction, employment change, hazard rate of a firm's failure