

**Abstract:** This paper examines the agglomeration effects of multinational firms on the location decisions of first-time Japanese manufacturing investors in China for the period 1995-2007. This is accomplished by exploiting newly constructed measures of inter-firm backward and forward linkages formed in a home country. The conditional and mixed logit estimates reveal that agglomeration by first-tier suppliers and customers draws subsequent investment into a location. However, such agglomeration effects are not pervasive and do not extend to the second and third tiers. Instead, we find that agglomeration by third-tier suppliers generates a countervailing force, making a location relatively unattractive.