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THE LOCATION OF JAPANESE MNC AFFILIATES: AGGLOMERATION, SPILLOVERS AND FIRM HETEROGENEITY

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NON-TECHNICAL SUMMARY

We examine the location choices of the foreign affiliates of Japanese manufacturing firms, using a new data set that matches parents to the affiliates they created over the 1995-2003 period. We are thus able to determine whether heterogeneous firms respond differently to host country features (such as proximity, wages, institutional quality or access to markets) or to networks and spillovers. One first sign that FDI motivation is context-specific comes from the cross-country variation in the share of affiliates reporting that more than 80% of their sales are local. While this is 59.7% in our sample, it is only 50% in China but reaches 65% in developed countries. In contrast, the share of affiliates reporting that more than 80% of their purchases are local is 36.6% in our sample, but with an analogous figure of 44% for China and 34% for developed countries. This arguably attests to the role of vertical motives, particularly in low-income countries such as China.

Our motivation is two-fold. First, we expect our results to shed light on the controversial productivity-internationalization nexus. Our second motivation relates to the identification of potential information barriers to the internationalization of Japanese firms. We investigate whether Japanese parents of different productivity and size respond differently to host-country features such as distance, institutional quality, access to markets, and networks and spillovers. Much evidence suggests that Japanese affiliates tend to cluster in the same regions. We consider three forms of relatedness. The first two concern the host location: (1) affiliates in the same industry originating from the same country (Japan); and (2) downstream affiliates originating from the same country. The third form (3) captures proximity at home (in the same Japanese prefecture) to parents having affiliates in the same destination country. Clusters of Japanese affiliates may form regional production networks, selling intermediate inputs to each other, sharing knowledge and therefore lowering production costs. We also investigate whether location choices are influenced by the presence of a JETRO agency.

Overall, our results confirm the economic importance of information-sharing and network effects, both at home and in the host country, as well as the traditional determinants such as production and transaction costs, and market and supply access. The effects of the key determinants of location choice vary substantially with the characteristics of the investing firm and the affiliate. Less-productive and smaller parents are more likely to create affiliates in China rather than in Western Europe or an OECD country. This result suggests that the choice of investing in more distant and competitive markets is positively correlated with firm productivity. This is in line with recent advances in the literature explaining FDI decisions by firm-specific features (Helpman et al. 2004). Moreover, less-productive firms appear to be more sensitive to distance-related costs and low institutional quality, but are more responsive to the presence of Japanese firms and JETRO presence in the host country.

J.E.L. Classification: F12, F15.

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