

【自由論題セッション】

Empirical analysis of Japanese FDI strategies:
Network production approach

Sun Qiwei (Shiga University)

Foreign direct investment (FDI) is the overseas expansion of companies for long-term management activities. Traditionally foreign direct investment is mainly divided into horizontal and vertical direct investment, which have been enormously helpful in describing multinationals' motivations of FDI. As shown in recent literature, however, FDI patterns which cannot be interpreted as vertical or horizontal FDI are increasing in the past decade and they find that FDI strategies of multinationals differ by region and industry. It has great significance to clarify the multinationals' FDI patterns in considering the FDI policy, especially the inward direct investment policy, which is considered important for economic growth. In this study, I will clarify the FDI patterns of Japanese multinationals, which is conducive to enhancing the competitiveness of Japan and Japanese multinationals.

More recent empirical work reveals that it is difficult to interpret FDI with the two-country (home country and host country) division. Gordon, Raymond, & Matthew (2001) find that the U.S. data shows evidence of both types of FDI and U.S. multinationals tailor their entry strategies to reflect host-country conditions, which has been extremely useful in understanding broad patterns of multinational behavior. To verify such trends of multinationals outside U.S., furthermore, studies on other regions are necessary. This study, as a supplement to research map on new findings of FDI patterns, analyzes the economic activities of foreign affiliates of Japan which is regarded as a leading investment country of Asia where FDI is active, to clarify the Japanese FDI characteristics.

Yeaple (2003) analyzes the determinants of complex integration strategies using a three-country model and reveals that the strategy is affected by interdependencies across countries, which varies with industry characteristics and is important to understanding the structure of FDI. Another representative theoretical model study on the choice of FDI strategy is by Grossman, Helpman, & Szeidl (2006). They study on optimal integration strategies of firms differ in their productivity levels and reveal the important role that industry characteristics play in determining the optimal integration strategies. The two representative studies on FDI strategies analyze why firms might follow a strategy of complex integration and reveal the importance of interdependencies across countries and industry characteristics on the integration strategy. They are of great significance for understanding and predicting the FDI of MNEs. Given the potential for such cross-country dependencies, empirical work should be given greater consideration to verify the theoretical findings with evidence.

More recent literature, Baldwin & Okubo (2014)-looking at the trade behavior of multinationals'

foreign affiliates-classify FDI patterns by sales and sourcing ratio shown in the sales-sourcing box, a novel methodology, which provides new perspective for understanding of network production. They open the door to do empirical research by focusing on the sales and sourcing patterns of affiliates.

I do empirical work to clarify the effect of network production and supply chain on Japanese FDI using an extended estimating equation based on gravity model from the literature. Here, regressions are estimated on data aggregated over affiliates located in 18 countries and regions in three major host regions, Asia, North America, and Europe, by nation by industry, from 1995 to 2006. Here, the data of the survey called “The Survey on Overseas Business Activities” as tracked by METI, was reprocessed by Research Institute of Economy, Trade and Industry (RIETI). I carried out empirical study focusing on manufacturing in three main regions.

As expected theoretically, I find evidence of network production from source side in Europe, but no evidence from sales side in sample period. Also, I find that the access to local market is still attractive to FDI in Asia and Europe, which, on the other hand, is not found in North America. It suggests that Japanese affiliates follow diverse FDI strategies in different host regions. My results show the evidence of network production regionally, which appears to be an important part of the overall picture of FDI in 21st century. And they also suggest that the local market seems to be still an important factor for multinational firms’ overseas expansion in 1995-2006, which is consistent with the standard view of horizontal FDI that it is oriented towards producing goods for the host-country market.

References

- Baldwin, R., & Okubo, T. (2014). *Networked FDI: Sales and Sourcing Patterns of Japanese Foreign Affiliates*. The World Economy.
- Gordon, H. H., Raymond, M. J., & Matthew, S. J. (2001). *Expansion Strategies of U.S. Multinational Firms*. Washington, D.C.: The Brookings Trade Forum 2001.
- Grossman, G. M., Helpman, E., & Szeidl, A. (2006). *Optimal integration strategies for the multinational firm*. Journal of International Economics 216– 238.
- Yeaple, S. R. (2003). *The complex integration strategies of multinationals and cross country dependencies in the structure of foreign direct investment*. Journal of International Economics 60, 293– 314.