

# Complex Vertical FDI and Firm Heterogeneity

Toshiyuki MATSUURA

*The Institute of Economic Research, Hitotsubashi University, Japan*

*Research Institute of Economy, Trade and Industry, Japan*

Kazunobu HAYAKAWA

*Inter-Disciplinary Studies Center, Institute of Developing Economies, Japan*

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**Abstract:** In this paper, we statistically test the validity of mechanics of complex VFDI in Japanese machinery FDI to East Asia. Our simple illustration shows that, in complex VFDI, the affiliates' production activity in a country is positively related to that in neighboring countries with large differences in location advantages with the country. Furthermore, we illustrate that firms with high productivity are likely to choose not pure VFDI but complex VFDI strategy. Based on such illustrations, we estimate multiple-spatial lag model for Japanese machinery FDI to East Asia. As a result, our empirical results show that mechanics of the complex VFDI work in Japanese FDI to East Asia and that those work more strongly in the MNEs with higher productivity.

**Keywords:** Third-country effects; Complex VFDI, Spatial lag model

**JEL Classification:** F21; F23

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