

# The location of Japanese MNCs affiliates: agglomeration, spillovers and firm heterogeneity<sup>Y</sup>

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## Abstract

This study examines the determinants of location choices of foreign affiliates by Japanese firms, using a new data set that matches affiliates and parents during 2001–2003. The analysis is based on new economic geography theory and thus focuses on the effect of market and supplier access, as well as production and trade costs. Our interest is twofold. First, we investigate the importance of agglomeration and spillover effects on the firms' decision through the use of proxies relating to the presence of Japanese affiliates in the host countries as well as to that of Japanese multinational firms at home. Overall, our results confirm the economic importance of information sharing and network effects both at home and in the host country beside traditional determinants pertaining to production and transaction costs and access and supply access. Second, we explore whether the effects of key determinants of locational choice vary substantially depending on the characteristics of the investing firm and the plant. We find less

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productive and smaller parents to be more likely to create an affiliate in China rather than in Western Europe or an OECD country. Moreover less productive firms appear to be more sensitive to distance-related costs and low institutional quality while being more responsive to the presence of Japanese firms and JETRO presence in the host country.

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