

Trade Liberalization and FDI Strategy in Heterogeneous Firms: Evidence from Japanese Firm-level Data

Toshiyuki MATSUURA[§]

Institute for Economic and Industrial Studies, Keio University, Japan

Kazunobu HAYAKAWA

Inter-disciplinary Studies Center, Institute of Developing Economies, Japan

Abstract: This paper tries to clarify the reasons for the rapid growth of FDIs to developing countries, particularly East Asian countries, compared with that of FDIs to developed countries. To do that, we examine the mechanics of HFDI and VFDDI with shedding light on the role of trade costs. Our empirical analysis by the estimation of the multinomial logit model about Japanese firms' FDI choice reveals that the reduction of trade costs between host and home countries attracts even not so productive VFDDI firms but does not the HFDI firms. Since developing countries, particularly East Asian countries, experience a relatively rapid decrease of trade costs with Japan, our result indicates that the increase of VFDDI through the trade cost reduction yields the recent relative surge of FDIs to developing countries.

Keywords: Multinational firm; Firm heterogeneity; Productivity

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[§] Corresponding author. Toshiyuki Matsuura, Address: Institute for Economic and Industrial Studies, Keio University, 2-15-45 Mita, Minato-ku, Tokyo 108-8345 Japan. Phone: 81-3-5427-1479; Fax: 81-3-5427-1640. E-mail: matsuura@sanken.keio.ac.jp