

Activities of Japanese Multinationals with Productivity Heterogeneity

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Abstract

The purpose of this paper is to examine theoretically the impact of market specific factors on productivity-cutoff for internationalization and empirically test what impact actually the market specific factors have on productivity-cutoff for internationalization modes of multinational firms. This paper examines the impact of market size, wage, distance between home and foreign market on productivity-cutoff for internationalization mode of firms and their activities, by using the firm-level data of Japanese multinationals. The results from empirical analysis in the paper show: (i) the increase of market size lowers the productivity-cutoff for internationalization, (ii) it increases the number of firms carrying out overseas production and the value of production and (iii) it lowers the average productivity. They also show that the impact of longer distance between two markets on productivity-cutoff and firm activities is not monotonous. As the distance increases, the number of firms tends to decrease in a country within a certain area, but increase in a country outside the area. Both average domestic sales and overseas sales tend to increase in a country within the area, but decline in a country outside the area. These results are consistent with the theoretically predicted outcome.

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