

**The Determinants of Offshore Production by Multinational Corporations (MNCs):  
A Comparison of Japanese and U.S. MNCs\***

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**Abstract**

The rise of offshore production by multinational corporations (MNCs) has been a central force in the recent economic globalization. This study employs confidential *affiliate-level* panel data to improve measures of foreign affiliate activities of Japanese firms in manufacturing sectors. Combining existing data on U.S. MNCs with the Japanese data, we illustrate the pattern and determinant of their foreign affiliate sales by destination market across countries and industries for the period 1989-2005. Among our results, Japanese and U.S. MNCs are similar in the substantial growth of their foreign affiliate sales, the importance of sales to local markets, and a systematic variation of sales by destination market across regions. However, Japanese MNCs are distinctive from U.S. MNCs in that their foreign affiliates increased worldwide employment massively and various sales largely in host countries with lower average years of schooling. In particular, Japanese affiliate sales in Asia were prominently higher in host markets with lower educational attainment. We interpret these results as evidence that comparative advantage motives play a larger role in explaining offshore production by Japanese MNCs than U.S. MNCs.

*Keywords:* Multinational firm, FDI, Japan, U.S., skill endowment

*JEL classification:* F21, F23

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