

Exchange rate movements, Japanese firm export, and the role of R&D and global outsourcing

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Using the most comprehensive Japanese firm level dataset, we investigate the effect of exchange on Japanese firms' performance in the international market. We also examine firm characteristics on firm export dynamics. The estimation results overall indicate the exchange rate plays important role for the entry of firm into the international market, but limited role for the expansion and exiting from the export market. On the other hand, firm characteristics such as productivity, R&D intensity, number of overseas affiliates and IT investment play an important role in every stage of export dynamics. In addition, past export experience is important to revive to the export market. We also confirm that overseas procurement (proxy by the number of overseas affiliates) plays very important role for increase in export ratio

This obtained results provide an important policy implication. Most common policy for promoting the firm export activity is to depreciate own currency exchange rate, but this policy can be also harmful to the exporter. Because under the current ongoing increase in the global production network, the currency devaluation leads higher international intermediate product procurement cost for the firm and may have the negative effect on their international competitiveness. Hence the government should be more careful in assessing the effect of exchange rate devaluation policy to the economy. In addition, in order to assist firm exporting expanding, the government also should consider the policy for support for the global procurement of the firm.

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