The characteristics and performance of Japanese FDI in emerging and advanced economies, 1991-2014

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Abstract: This study examined the characteristics and performance of Japanese FDI (JFDI) across the world. The dataset used in the study includes comprehensive information of over 26,000 foreign subsidiaries established by 4000 Japanese firms in 135 countries and regions over the 1991–2014 period. The results of the analyses reveal that there are noticeable differences in Japanese FDI (JFDI) between emerging economies (EEs) and advanced economies (AEs) in the following eight areas: (1) growth in investment; (2) purposes of investment; (3) preferred industry (sector) of investment; (4) subsidiary characteristics; (5) parent firm characteristics; (6) financial performance; (7) exit rate; and (8) extent and impact of international diversification.
Keywords: Japanese FDI; advanced economies; emerging economies; longitudinal analysis; location choice; entry/exit/performance of FDI

Introduction

About thirteen years ago, my colleagues and I conducted a comprehensive analysis of Japanese foreign direct investment (JFDI) regarding the choice of investment location, namely, the choice between emerging economies (EEs) and advanced economies (AEs). This study was eventually published in Journal of World Business (Makino, Beamish, & Zhao, 2004). I believe that it was one of the largest longitudinal studies of FDI that examined subsidiary-level data for the period of 1991-1999. The present study replicated the same analyses by using the extended subsidiary-level data with additional years of observations (1991-2014). In this article, I report the updated evidence about the location choice of JFDI. The primary purpose of the study is to update the analyses of this earlier study, not to develop a new conceptual framework or test received hypotheses. I hope this study promotes further discussions on FDI choice from the view point of subsidiary-level characteristics. The findings were largely consistent with those from the previous analyses, suggesting that the characteristics we found in the study are quite persistent. One remarkable difference is that the total number of FDI in EEs has become greater than that in AEs since early 2000's, particularly due to the growth of investment in China.

The notion that there exist significant differences between AEs and EEs in terms of both competitive and institutional environments for JFDI and international operations of Japanese multinational enterprises (MNEs) is well documented in the literature (see Beamish, Delios, & Lecraw, 1997; Chan, Isobe, & Makino, 2008; Makino, Lau, & Yeh, 2002; Nitsch, Beamish, & Makino, 1995). EE markets are generally characterized by high potential for economic growth

but weaker institutional support such as lower levels of property rights protection and enforcement mechanisms, lack of reliable market information and efficient intermediary agents, higher levels of financial and political uncertainty, and disconnected economies and cultural diversity across sub-national regions (Chan, Makino, & Isobe, 2010; Hoskisson, Eden, Lau, & Wright, 2000; Khanna & Palepu, 1997; Luo & Tung, 2007; North, 1990; Peng & Hearth, 1996). In contrast, AE markets are characterized by relatively stable growth and stronger institutional support such as higher levels of property rights protection and enforcement mechanisms, reliable market information, efficient intermediary agents, stable financial and political foundations, and more integrated economies across sub-national regions. Given these differences, I believe that EE and AE markets provide interesting research settings for examining the influence of host location choice on the characteristics and performance of FDI.

The characteristics of JFDI examined in this study include the patterns of investment (growth trend, industries, and investment purposes), control level (a proportion of equity share owned by a Japanese firm and a ratio of Japanese expatriates within a subsidiary), and parent firm characteristics (size, host country experience, and R&D expenditures). This study also compares the performance of the subsidiaries, which is measured by self-reported financial performance and exit rates, across years, industries, and primary purposes of investment, between EEs and AEs. Furthermore, this study examines the impact of a parent firm's international diversification on their subsidiary's performance in EEs and AEs.

Our overarching hypothesis is that significant differences exist in the characteristics and performances of Japanese FDI in advanced (AE) versus emerging (EE) economies.

We examine the following aspects of JFDI:

(1) Growth in investment

(2) Purposes of investment

(3) Industrial sectors of investment

(4) Subsidiary characteristics

(5) Parent firm characteristics

(6) Performance (financial performance and exit rate)

(7) International diversification and performance

This study defined EE and AE following the country classification adopted by the International Monetary Fund (IMF). It classifies countries into EEs and AEs based on (1) per capita income level, (2) export diversification, and (3) degree of integration into the global financial system.[1]

The data for this study came from the *Kaigai Shinshutsu Kigyo Soran, Kuni-Betsu* (海外進出企業総覧－国別, or Japanese Overseas Investments, by Country). This database (TK database) is

[1] IMF's country classification is found in the link:
http://www.imf.org/external/pubs/ft/weo/2016/02/weodata/groups.htm

published annually by Toyo Keizai Shimposha (東洋経済新報社) and compiles information on foreign subsidiaries established by Japanese firms (both listed and non-listed). The data was collected based on annual survey conducted by Toyo Keizai. Data for Japanese parent companies was collected from the NEEDS database published by Nihon Keizai Shimbun (日本経済新聞社, or NIKKEI). These two datasets were combined into one dataset. The combined dataset includes the panel data of 26,134 subsidiaries in total, established by 4,059 parent companies operating in 135 countries in total over the 1991– 2014 period, which amounts to 469,834 subsidiary-year cases. A summary of the data profile is provided in Table 1. Since several variables examined in the study have missing values, the sample size for the analysis of each variable varied. A random-effect logistic regression analysis was used to test our hypotheses where the dependent variable is defined as a dummy variable (EE = 0 and AE = 1).

<Table 1>

1. Characteristics of JFDI in EEs and AEs

1.1. Growth in investment

Figure 1 presents the number of subsidiaries in both EEs and AEs for the 1991–2014 period. AEs received more investments than EEs prior to 2009. The growth in the number of subsidiaries in AEs slowed down since 1996, and more and more investments were directed to EEs. The rapid increase in investment in EEs is explained largely by the growth of investment in China. In our sample, there were 6,298 subsidiaries in China as of the end of 2014, accounting for 44.5% of FDI in EEs and 24.1% of the whole. Fig. 2 shows that the proportion of the number of subsidiaries in China has grown rapidly since 1991. The booming economies, which is often called “bubble economies’’, ended in 1995, and a long period of recession, or the “Lost decades”, started hereafter. Many Japanese firms faced shrinking market opportunities in Japan and came under pressures to reduce costs, started shifting their production bases to EEs, especially to China. The decline in JFDI in AEs and the increase in JFDI in EEs closely matches the crossroad in the Japanese economies in the mid-1990s.[2]

<Figures 1 and 2>

1.2. Subsidiary characteristics

Panel A in Table 2 presents the summary of subsidiary and parent firm characteristics. There were some noticeable differences in subsidiary characteristics between the EE and AE cases. First, the choice of control level within a subsidiary varied between EEs and AEs. The level of control is measured by the proportion (percentage) of equity ownership and the relative number of expatriates within a subsidiary. Equity ownership represents one of the major formal control mechanisms within a subsidiary (Anderson & Gatignon, 1986). The proportion of expatriates represents a parent firm’s influence in a decision making process over ongoing subsidiary operations (Boyacigiller, 1990; Downes & Thomas, 2000). We found that the equity ownership

[2] Fig. 1 and 2 are created based on the Toyo Keizai’s K*aigai Shinshutsu Kigyo Soran, Kuni-Betsu* (海外進出企業総覧－国別), the database being used in the analyses in this study.

held by a Japanese parent firm was significantly higher in AEs (64.2%) than in EEs (55.7%); and the percentage of Japanese expatriates was significantly higher in AEs (17.4%) than in EEs (7.4%).[3] The evidence also shows that subsidiaries in EEs tend to be younger (i.e., a smaller subsidiary age) and larger size (i.e., a larger number of employees and a larger relative size) than those subsidiaries established in AEs. This observation reflects the fact that many Japanese manufacturing firms began establishing large production bases in China and other Asian emerging economies since early 1990s for the purpose of access to low cost labor as well as production for local markets.

1.3. Parent firm characteristics

Panel A in Table 2 also shows comparisons of several parent firm characteristics. The evidence shows that that the parent firms investing in AEs had greater prior experience and technological advantages and were larger in size than those investing in EEs. Specifically, the parent firms investing in had more prior operational experience in a host country prior to investment (104 months) than those firms investing in EEs (65 months) on average; had a higher average R&D rate (3.4%) than those investing in EEs (2.7%); and had a larger size in net sales and the number of employees than those investing in EEs. In summary, our data suggest that some of the parent firms' characteristics have strong associations with the location choice of JFDI. Specifically, our findings indicate that Japanese firms with stronger technological advantages, greater prior experience in a host country, and larger size were more likely to invest in AEs than in EEs.

1.4. Purposes of investment

Panel B in Table 2 presents a list of the investment purposes. The percentage reported in the table represents a proportion of the number of each investment purpose over the total number of the purposes reported in multiple responses. The evidence shows that, among the sixteen identified investment purposes, "access to local markets" was the most frequently reported motivation for both EE and AE cases. Noticeable differences between EE and AE cases were found in several investment purposes. For example, the purposes related to access to low-cost labor and production in a host country (i.e., "access to labor forces" and "establishment of production network") tend to be more salient in EEs cases than in AEs cases. In contrast, the purposes related to acquisition of knowhow and planning, such as "information collection" and "product development and planning", as well as those purposes reflecting risk-hedge motivations, such as "hedge against exchange rate risks", and "measures against trade frictions", tend to be more salient in AE cases than those investments in EE cases. In sum, our observations suggest that "market-seeking" is the most pronounced motivation for JFDI both in EEs and AEs. "Labor-seeking" is a key motivation for JFDI in EEs, whereas "strategic-asset seeking" is more pronounced for JFDI in AEs. These findings confirm the fact that investing firms' motivations

[3] These observations provide support for the findings in previous studies. First, EEs tend to impose more strict ownership restrictions than AEs (Gomes-Casseres, 1990; Lecraw, 1984; Makino & Beamish, 1998). Second, MNEs are more likely to share ownership with local firms in EEs because they see a stronger need for local access (Beamish, 1985; Yiu & Makino, 2002). Third, expatriates are more frequently used as a means of transfer of technology skills in AEs (Beamish & Inkpen, 1998; Boyacigiller, 1990; Inkpen & Dinur, 1998).

are one of the major determinants of the location choice of their investment (e.g., Makino, et al., 2002).

1.5. Preferred industry of investment

Panel C in Table 2 presents the breakdown of JFDI by industry between EEs and AEs. The evidence shows two noticeable observations. First, in the both economies, manufacturing and wholesale trade had the largest number of FDI, accounting for 75% in EEs and 68% in AEs in total. Second, some differences appeared in relative concentration of industrial sectors. For example, JFDI in EEs was relatively more concentrated in the Secondary industrial sectors (e.g., construction and manufacturing) than JFDI in AEs. In contrast, JFDI in AEs was relatively more concentrated in both the Tertiary industrial sectors (e.g., wholesale trade, finance, and services) and the non-industrial sectors (e.g., presiding/investment companies) than JFDI in EEs. The second observation is consistent with the prediction of the conventional trade theory, which denotes that comparative advantages of nations should determine FDI. However, the second observation cannot be fully explained by this theory because it shows that the majority of JFDI appeared in the same industries, i.e., manufacturing and wholesale trade, in the both economies.

2. Performance of JFDI in EEs and AEs

Performance of subsidiaries was measured by two indices, financial performance and exit rate. Financial performance was measured by three self-reported performance categories. They include "loss" (making negative profits), "breakeven" (making neither negative nor positive profits), and "gain" (making positive profits).[4] Due to missing data, the sample size was reduced to about 22% of the original, or 103,059 subsidiary-year cases for the analysis of financial performance (see Table 3). The exit rate was measured by the proportion of the number of exited subsidiaries to the number of surviving ones during the observation period (1992–2014).[5]

2.1. Financial performance and exit rate in EEs and AEs: Average

Table 3 provides a table of financial performance and exit rate. Table 3 shows that, in general, subsidiaries were in general doing well. In total, 59.6% of subsidiaries were in the "gain" category, 22.8% in the "breakeven", and 17.6% in the "loss". In EEs, 61.3% of the subsidiaries were in the "gain" category, 21.8% in the "breakeven", and 16.9% in the "loss". A similar pattern was observed in AE cases. The data indicated that 58.2% of the subsidiaries in AEs were in the "gain" category, 23.6% "breakeven", and 18.2% "loss". The proportion of the subsidiaries

[4] Although there are some limitations to this method of measurement, there are a number of factors that recommend its use. First, performance data on subsidiaries is not often available, as most large organizations do not publish financial results by subsidiary. Second, managers' perceptions of performance have been demonstrated to correlate with objective financial measures (Geringer & Hebert, 1991) suggesting the feasibility of using a subjective performance measure.

[5] One of the difficulties with defining the entry and exit cases was to identify the correct years of entry and exit. This process often poses a challenge for a large dataset like the TK dataset because the dataset sometimes does not report all subsidiary cases in all years of the surviving period even when they are actually present. To correct this problem, I performed the following procedure: if the dataset reports a subsidiary at year t and year t-2 but does not report the same subsidiary in year t-1, then I assume that this subsidiary survived in year t-1.

in the "gain" category was slightly greater for EEs (61.3%) than for AEs (58.2%). In contrast, the proportion of those subsidiaries in the "loss" category was slightly greater for AEs (18.2%) than for EEs (16.9%). These observations suggest that the subsidiaries established in EEs were more likely to achieve a greater financial performance than those subsidiaries in AEs, although the differences were not conspicuously large. Table 3 also shows the breakdown of the exit rate. The exit rate was 5.0% in total, 4.2% for the EE cases and 5.7% for the AE cases. In either case, the exit rate was much higher than the entry rate (7.9%, 9.5%, and 6.7% respectively). JFDI in EEs exhibited a lower exit rate and a higher entry rate (4.2% vs. 9.5%) than those JFDI in AEs (5.7% vs. 6.6%).

In sum, the above observations suggest that firms investing in EEs, on average, have achieved a higher financial performance and lower exit rate than those investing in AEs.

2.2. Financial performance and exit rate in EEs and AEs: Variance

The comparison of the average performance above shows that EEs tended to provide better environments for JFDI with a higher financial performance and a lower exit rate. However, the story looks different when we examine the variances in the performance among countries in EEs and AEs. As Figs. 3, 4, and 5 show, the range of the subsidiary performance (both the financial performance and the exit rate) appeared much wider in EEs than in AEs.[6] Specifically, subsidiaries performing either extremely well or extremely poorly, in terms of the financial performance and the exit rate, were mostly found in EEs. This suggests that we should be careful when interpreting the performance of JFDI: we cannot unanimously conclude that subsidiaries in EEs are more successful than those in AEs because the variance in both financial performance and exit rate among countries is much greater in EEs than in AEs.

<Figures 3, 4, and 5>

2.3. Performance breakdown by year, by industry, and by investment purposes

Panel A in Table 4 presents the breakdown of subsidiary performance (both exit rate and financial performance) by investment purpose. The exit rate in AEs was higher than that in EEs for any purposes of investment except one (i.e., "hedge against exchange rate risks"). In contrast, the financial performance varied across investment purposes. The financial performance in AEs tended to be higher in core IB activities such as access to natural resources, labor forces, and market, and establishment of production and distribution networks. In contrast, the financial performance in EEs tended to be higher in non-core activities such as information collection, product development & planning, entry into new business, and regional HQ.

<Table 4 & Figures 6 & 7>

Panel B presents the breakdown of subsidiary performance by industry. The exit rate in AE cases was higher than in EE cases in all industrial sectors except agriculture and transportation. Some

[6] Here, the exit rate is measured by the ratio of the number of exit cases to the number of surviving cases per country per year over the observation period (1991–1999).

noticeable differences in exit rate appeared in construction (5.1% in EEs vs. 8.0% in AEs) and services (6.1% in EEs vs. 8.5% in AEs); and financial performance in construction (56.6% in EEs vs. 47.9% in AEs), retail trade (59.2% in EEs vs. 47.9% in AEs) and finance and other related industries (68.9% in EEs vs. 59.8% in AEs). The subsidiaries in EEs tended to achieve higher financial performance in agriculture and related sectors, construction, retail trade and finance related sectors, whereas those in AEs tended to achieve higher financial performance in mining, transportation and related services, wholesale trade. There is no difference in financial performance in manufacturing.

Panel C presents the breakdown of subsidiary performance by year. It shows that the subsidiaries in EEs have exhibited lower exit rate than those subsidiaries in AEs across all years except 1992. The data also show that the financial performance of subsidiaries tended to follow a cyclic pattern. For example, the subsidiaries in EEs (AEs) achieved a higher (lower) financial performance than those in AEs (EEs) for the periods of 1991 to 1997, 2003 to 2005, and 2010 to 2012. This may coincide the periods of the outbreaks of major financial crises. The end of the first high performance period in EEs (1991-1997) coincides the outbreak of Asian financial crisis in 1997, the second and the third high performance periods started after the recession caused by the outbreak of SARS in 2003 and the global financial crisis (i.e., Lehman Shock), respectively.

2.4. Performance breakdown by diversification

One of the core research questions in the international business literature is how international diversification influences subsidiary and parent-firm performance (Delios & Beamish, 1999; Geringer, Tallman, & Olsen, 2000; Hitt, Hoskisson, & Kim, 1997; Lu & Beamish, 2001, 2004). The literature, however, has provided mixed results (see Glaum & Oester, 2007 for review). In this study, we measured international diversification at a parent-firm level by using a count of the number of foreign subsidiaries owned by a parent firm.[7]

<Figure 6>

Our analyses revealed some similar patterns for the both EE and AE cases. First, as Fig. 6-a shows, the number of subsidiaries had a positive relationship with financial performance when it was below 20 and had no clear relationship when it was beyond 20. Second, as Fig. 6-b shows, the number of subsidiaries had a loosely inverted U-shaped relationship with the exit rate. Specifically, the exit rate was the lowest when the number of subsidiaries was around 16 to 30 and moved up when it was beyond 30. Taken together, our observations suggest that the degree of international diversification tend to have similar effects on financial performance and the survival likelihood between EEs and AEs. Specifically, the evidence shows that subsidiaries tended to have the highest performance and the lowest exit rate when their parent firms had 16 to 30 subsidiaries in total.

Discussion

[7] We conducted the same analyses using the number of host countries entered by a parent firm. We found qualitatively the same results.

The results of this study suggest that there are both differences and similarities in the characteristics and performance of JFDI in EEs and AEs. The summary of the findings is presented in Table 5.

In sum, our analyses revealed several noticeable observations. First, JFDI in EEs are characterized by a high growth rate and a low level of control within a subsidiary, are concentrated in the secondary industrial sector, and are established by parent firms with market-seeking and labor-seeking purposes and with relatively weak ownership advantages. JFDI in AEs are characterized by a stable growth rate and a high level of control within a subsidiary, are concentrated in the tertiary and non-industrial sectors, and are established by parent firms with market-seeking and strategic-seeking purposes and with relatively strong ownership advantages.

Second, with regard to performance, JFDI in EEs appeared to have a higher average financial performance and a lower average exit rate with a greater variance. In contrast, JFDI in AEs appeared to have a lower average financial performance and a higher average exit rate with a smaller variance. These findings suggest that AEs provide low-return and low-risk environments that make subsidiary performance more stable. In contrast, EEs provide high-return and high-risk environments that make subsidiary performance less stable.

Third, the degree of international diversification had a positive curvilinear relationship with financial performance of the subsidiaries and a U-shaped relationship with exit rate in both EEs and AEs. Specifically, our data show that parent firms holding 16 to 30 subsidiaries in number tend to achieve the highest financial performance and the lowest exit rate.

This study provides a few implications for future research on FDI in general and the location choice of FDI in particular. First, researchers should reaffirm that parent firm and affiliate heterogeneities are the key determinants of FDI. The conventional studies of IB have focused on a “firm” as a primary level of analysis and have attempted to explain the flows of FDI, the existence, strategy, and organization of MNEs, and the globalization of business and its economic impact (Buckley, 2002). However, analyses of subsidiary level characteristics, especially investment purposes, reasons for exit, and performance outcomes, are still lacking in the extant IB research despite some effort made by recent studies (e.g., Anand & Delios,1997; Henisz & Delios, 2001; Birkinshaw & Hood, 1998; Makino, Lau, & Yeh, 2002). Meanwhile researchers in international economics began shifting their focus from comparative advantage to “firm heterogeneity”, and the latter has been becoming a central conceptual under-pining for the new trade theories (Helpman, Melitz, & Yeaple, 2004; Melitz, 2003). Researchers should continue investigating how firm-specific factors and attributes, which form firm heterogeneity, influence FDI and other international business practices, and explain why. Furthermore, analyses of firm heterogeneity require micro datasets, like the TK database, that provide detailed subsidiary and parent firm level information. Traditionally, international business researchers and researchers in international economics work independently and rarely communicate. The availability of micro datasets will facilitate communications between the two parties and hence allow further advancement of our knowledge of FDI and international business practices, and this is what I really hope to see in near future.

Second, we need more studies on performance of FDI. Our observations suggest that the values of two performance measures, financial performance and exit rate, vary significantly between EEs and AEs in terms of two sources of variations, the average (between-location variation) and the variance (within-location variation). One important question is where these variations come from and why. While a handful researchers have investigated decomposition of firm performance and how much differences in locations (countries and sub-national regions), industries, firms, and sub-units (business units and subsidiaries) can explain performance variation (Chan, Makino, & Isobe, 2010; Delios & Beamish, 2001; Fang, Jiang, Makino, & Beamish, 2010; Ma, Tong, & Fitza, 2013; Makino, Isobe, & Chan, 2004; McGahan & Porter, 1997; McGahan & Victer, 2010; Miller & Eden, 2006; Rumelt, 1991), few studies have closely examined which locational characteristics and attributes explain variations in financial performance and exit rate of FDI (Chan, Isobe, & Makino, 2008). More studies are needed to develop both conceptual and empirical investigations about possible linkages between performance and location of FDI. Future studies also address other dimensions of performance such as growth and innovation. Since growth and innovation directly drive the economic growth of an economy, research on growth and innovation will contribute to development of micro-foundation of the theory of economic growth though FDI.

Third, researchers might employ the variance-centered view to examine the characteristics and performance of FDI (Makino & Chan, 2017). Most extant studies use the average-centered view and explain how the average characteristics and performance of FDI varies between countries (between-country variation). However, these studies have rarely explained the variance, or the range of variations, in the characteristics and performance 'within' a country (within-country variation). Examining only the former while ignoring the latter often creates misleading interpretations of the results, as was in the case of a large variance in both financial performance and exit rates in EEs in our study. To achieve a more precise understanding of the sources of variations in characteristics and performance of FDI, the conventional average-centered view should be complemented by a view that explains effects on the variance. I believe the variance-centered view will pave a new avenue for international business and economics research.

This study has several limitations. First, our study focuses exclusively on Japanese FDI and does not examine the generalizability of our findings for FDIs by non-Japanese firms. The generalizability of the findings in other home country contexts should be examined in future studies. Second, our classification of location may be too simplistic. In this study, we followed the classification proposed by IMF. However, we recognized that other institutions such as the United Nations and the World Bank have different classification methods. The results of the analyses may be subject to the classification method used. Furthermore, the simple dichotomous category of economies, EE and AE, mask the impact of the variation among countries within each category. Third, the measurements used in the study are rather coarse. A future study should use more sophisticated measures of some of the parent-firm and subsidiary-specific characteristics such as parent firm ownership advantage and subsidiary performance.

Despite these limitations, I believe that continuous investigation of longitudinal trends of FDI is an important step for advancing our understanding of the practice of FDI. Business and

economic transactions have rapidly been globalized, and the speed of globalization will be much faster in the future. In order to develop a better understanding of the nature of the firm, i.e., strategy, organization, and performance of the firm, researchers should closely examine the role of countries and their constituents in the process of globalization of business and management of the firm. The present study is a preliminary step for this direction. Future research might discuss how the findings of this study may have implications for research on Chinese FDI. If Chinese FDI follows similar paths of Japanese FDI, researchers should further investigate the common organizational mechanisms that drive international expansion, location choice, and performance of FDI and develop/extend a general theory of FDI from the perspective of foreign subsidiaries. If it takes different paths, they should investigate how country specific factors such as institutions moderate the firms' decision on FDI in general (Peng, Wang, & Jiang, 2008) and location choice in particular (Basile, Castellani, & Zanfei, 2008; Flores, & Aguilera, 2007).

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Table 1

The Profile of the sample

	EEs	AEs	Total
Total number of subsidiaries per year (mean)	4,242 – 15,257 (9,429)	8,660- 10,905 (10,147)	12,902 – 26,134 (19,676)
Total number of parent firms per year (mean)	1,497 – 3,130 (2,569)	2,207 – 2,609 (2,397)	2,805 – 4,059 (3520)
Total number of host countries per year (mean)	96 – 105 (92)	28 - 31 (30)	122-135 (128)
Subsidiary-year cases	202,545 (43.1%)	267,289 (56.9%)	469,834 (100%)
Total number of subsidiaries that appear in the database (1991 – 2014)	22,780	26,836	49,616
Number of left censored cases (subsidiaries surviving in the end of 1991)	3,514	9,388	12,902
Number of right censored cases (subsidiaries surviving in the end of 2014)	14,155	11,979	26,134
Number of subsidiaries surviving through 100\\92 to 2013			
Number of right censored cases (subsidiaries surviving in the end of 2014)			
Number of subsidiaries surviving through 100\\92 to 2013			

Table 2 Descriptive and Logistic regression analyses

	Characteristics	Descriptive statistics (average, 1991-2014) #1						Random-effect logistic regression			
		EEs		AEs		Total		B	P-value	[95% CI]	
	Subsidiary & parent firm				N						
A	**characteristics**		N				N				
	Japanese parent firm ownership (%)	55.7%	202471	64.2%	267126	60.5%	469597	0.03	0.10	0.0	0.1
	Ratio of Japanese expatriate (%) *a*	7.4%	123753	17.4%	166376	13.1%	290129	12.46	0.00	9.1	15.8
	Subsidiary age in month	139	188865	184	236818	164	425683	0.12	0.00	0.1	0.1
	No. of subsidiary employees	323	153823	159	204484	229	358307	-2.89	0.00	-3.3	-2.5
	Relative size (%) *b*	4.8%	81099	2.2%	114404	3.3%	195503	-40.36	0.00	-46.7	-34.1
	Prior host country experience *c*	65	188849	104	236748	87	425597	0.10	0.00	0.1	0.1
	Parent firm R&D rate (%) *d*	2.7%	52904	3.4%	72440	3.1%	125344	80.95	0.00	58.5	103.4
	No. of parent firm employees *e*	0	108920	0	153243	0	262163	-26.72	0.00	-40.6	-12.8
	Parent firm net sales *f*	3	114579	2	162518	2	277097	-3.88	0.00	-4.4	-3.4
B	**Investment purposes**		N		N		N				
	Access to natural resources	3.4%	5533	2.4%	4871	2.8%	10404	0.68	0.65	-2.2	3.6
	Access to labor forces	12.8%	20828	4.6%	9439	8.2%	30267	-3.77	0.00	-6.0	-1.6
	Invitation from the local government	5.1%	8313	1.8%	3761	3.3%	12074	-3.69	0.00	-6.0	-1.4
	Establishment of production network	18.2%	29674	9.0%	18686	13.1%	48360	-0.62	0.56	-2.7	1.4
	Establishment of distribution network	5.9%	9583	9.5%	19679	7.9%	29262	1.02	0.18	-0.5	2.5
	Access to local market	26.5%	43303	33.2%	68768	30.3%	112071	0.18	0.77	-1.0	1.4
	Import to a third-country	4.4%	7130	4.2%	8767	4.3%	15897	0.80	0.39	-1.0	2.6
	Import back to Japan	6.0%	9873	2.8%	5789	4.2%	15662	-1.75	0.24	-4.7	1.2
	Follow customers/affiliated companies	2.9%	4695	2.2%	4464	2.5%	9159	-1.42	0.30	-4.1	1.3
	Hedge against exchange rate risks	0.8%	1329	2.4%	4987	1.7%	6316	1.35	0.75	-7.0	9.7
	Information collection	7.0%	11379	15.3%	31664	11.6%	43043	1.40	0.22	-0.8	3.6
	Product development & planning	2.4%	3879	4.0%	8270	3.3%	12149	2.04	0.17	-0.9	5.0
	Entry into a new business	1.9%	3050	2.1%	4253	2.0%	7303	-1.32	0.47	-4.9	2.2
	Regional HQ	0.6%	1049	2.5%	5179	1.7%	6228	3.37	0.41	-4.6	11.3
	Measures against trade frictions	0.2%	376	1.2%	2481	0.8%	2857	28.61	0.00	24.6	32.6
	Others	2.0%	3255	2.8%	5846	2.5%	9101	2.53	0.13	-0.8	5.8
	Total	100.0%	163249	100.0%	206904	100.0%	370153				
C	**Industry**		N		N		N				
	Agriculture, Forestry and Fishing	0.8%	1717	0.4%	1150	0.6%	2867	-0.42	0.87	-5.3	4.5
	Mining	0.9%	1787	1.0%	2738	1.0%	4525	1.72	0.42	-2.5	5.9
	Construction	3.6%	7250	1.4%	3856	2.4%	11106	-19.93	0.00	-22.5	-17.3
	Transportation, Communications, Electric, & Gas	6.3%	12701	4.8%	12853	5.4%	25554	16.10	0.00	12.1	20.1
	Wholesale Trade	19.2%	38848	37.6%	100532	29.7%	139380	27.40	0.00	23.6	31.2
	Retail Trade	1.1%	2318	1.8%	4900	1.5%	7218	29.26	0.00	24.0	34.6
	Finance, Insurance and Real Estate	4.7%	9514	9.8%	26102	7.6%	35616	32.36	0.00	29.4	35.4
	Services	6.5%	13081	7.8%	20808	7.2%	33889	20.81	0.00	17.6	24.0
	Presiding/investment company	1.4%	2765	4.7%	12692	3.3%	15457	26.46	0.00	21.6	31.4
	Non-classifiable	0.2%	366	0.4%	1143	0.3%	1509	24.86	0.00	19.2	30.5
	Manufacturing (base line)	55.4%	112197	30.1%	80502	41.0%	192699		-	-	-
	Total	100.0%	202544	100.0%	267276	100.0%	469820				
D	**Year dummy variables (1991-2014)**								included		
	Intercept							-8.03	0.00	-12.6	-3.5
	Log likelihood							-6688			
	Wald chi-square (d.f. 58)							22651			
	Probability > chi-square							0.000			
	N										
	Subsidiary-year							67010			
	Subsidiary							10846			

NOTES: *#1*. Due to missing data for several variables, the final sample size for the analysis of each variable varies.

a. Over subsidiary employee

b. No. of subsidiary employees over no. of parent firm employees

c. Parent firm's prior experience in a host country in month

d. R&D expenditure over the total sales

e. In 1000

f. In Japanese Yen million

Table 3 Breakdown of self-reported financial performance and entry/exit rates

	EE		AE		Total	
A. Performance (1991-2014)		N		N		N
Gain	60.1%	23,484	59.3%	37,921	59.6%	61,405
Breakeven	22.4%	8,752	23.0%	14,748	22.8%	23,500
Loss	17.5%	6,824	17.7%	11,330	17.6%	18,154
Total	100.0%	39,060	100.0%	63,999	100.0%	103,059
B. Entry and exit (1992–2014)		N		N		N
Surviving subsidiaries in the end of 1991		3,514		9,388		12,902
Surviving subsidiaries in the end of 2014		14,155		11,979		26,134
a. Total No. of entries (1992-2014)		19,266		17,448		36,714
b. Total No. of exits (1992-2014)		8625		14,857		23,482
c. Total No. of existed subsidiaries (1992-2014)		203,400		262,040		465,440
Entry rate in 1992-2014 (a/c)	9.5%		6.7%		7.9%	
Exit rate in 1992-2014 (b/c)	4.2%		5.7%		5.0%	

Table 4 Entry, Exit, and Performance by Industry, Purpose, and Year

		Exit rate (%)a			Performance (%)b		
		EE	AE	Total	EE	AE	Total
A.	**Investment purposes**						
	Access to natural resources	4.8%	5.6%	5.2%	54.7%	59.4%	57.0%
	Access to labor forces	2.6%	4.0%	3.1%	59.3%	66.5%	61.7%
	Invitation from the local government	3.6%	4.5%	3.9%	62.8%	65.4%	63.6%
	Establishment of production network	2.2%	3.4%	2.7%	60.5%	61.5%	61.0%
	Establishment of distribution network	2.5%	3.5%	3.1%	58.2%	59.1%	58.8%
	Access to local market	2.9%	3.7%	3.4%	61.5%	60.2%	60.7%
	Import to a third-country	2.5%	3.6%	3.1%	60.6%	62.7%	61.8%
	Import back to Japan	2.5%	4.1%	3.1%	55.8%	57.0%	56.3%
	Follow customers/affiliated companies	1.9%	3.1%	2.5%	60.5%	56.4%	58.3%
	Hedge against exchange rate risks	8.0%	7.4%	7.5%	63.7%	64.5%	64.3%
	Information collection	3.8%	4.6%	4.4%	59.9%	56.4%	57.2%
	Product development & planning	3.9%	6.4%	5.6%	56.4%	49.9%	51.7%
	Entry into a new business	3.6%	5.8%	4.9%	53.9%	46.7%	49.2%
	Regional HQ	1.7%	3.4%	3.1%	65.3%	54.1%	55.5%
	Measures against trade frictions	3.2%	4.1%	4.0%	60.2%	52.8%	53.6%
	Others	6.0%	6.1%	6.0%	56.7%	56.8%	56.8%
B.	**Industry**						
	Agriculture, Forestry and Fishing	8.7%	7.4%	8.2%	50.1%	44.2%	48.0%
	Mining	7.1%	7.4%	7.2%	52.4%	60.2%	56.6%
	Construction	5.1%	8.0%	6.1%	56.6%	47.3%	53.5%
	Transportation, Communications, Electric, & Gas	5.7%	4.6%	5.2%	59.3%	62.6%	61.2%
	Wholesale Trade	3.6%	4.3%	4.1%	58.4%	60.1%	59.8%
	Retail Trade	7.7%	8.2%	8.0%	59.2%	47.9%	50.6%
	Finance, Insurance and Real Estate	8.6%	9.2%	9.0%	68.3%	59.8%	61.6%
	Services	6.1%	8.5%	7.6%	57.1%	53.0%	54.4%
	Presiding/investment company	5.5%	6.2%	6.0%	49.8%	48.7%	48.8%
	Non-classifiable	11.5%	10.4%	10.7%	31.6%	35.4%	34.6%
	Manufacturing	3.4%	4.8%	4.0%	61.3%	61.6%	61.5%
C.	**Year**						
	1991	-	-	-	60.0%	54.7%	56.2%
	1992	3.9%	3.4%	3.5%	59.4%	53.4%	55.0%
	1993	4.9%	5.2%	5.1%	60.5%	52.4%	54.6%
	1994	3.2%	3.8%	3.6%	59.6%	52.5%	54.5%
	1995	2.9%	3.9%	3.6%	60.5%	55.4%	56.9%
	1996	3.8%	5.6%	5.0%	62.0%	56.8%	58.4%
	1997	5.6%	6.5%	6.2%	61.0%	58.4%	59.2%
	1998	4.2%	7.6%	6.2%	59.2%	61.4%	60.6%
	1999	4.3%	6.4%	5.6%	53.7%	61.7%	58.7%
	2000	5.5%	7.4%	6.6%	53.4%	60.8%	57.9%
	2001	6.1%	7.7%	7.0%	56.8%	62.7%	60.3%
	2002	5.9%	7.8%	7.0%	59.0%	62.7%	61.2%
	2003	5.0%	6.5%	5.9%	62.9%	54.9%	58.5%
	2004	4.6%	7.2%	6.1%	62.9%	60.2%	61.5%
	2005	4.2%	5.8%	5.1%	65.9%	63.2%	64.5%
	2006	5.1%	6.5%	5.8%	68.1%	69.6%	68.8%
	2007	3.5%	5.6%	4.6%	64.5%	65.5%	65.0%
	2008	5.3%	5.9%	5.6%	66.3%	67.7%	66.9%
	2009	2.8%	3.7%	3.2%	65.7%	67.9%	66.7%
	2010	3.5%	4.3%	3.9%	58.1%	58.0%	58.1%
	2011	3.5%	4.4%	3.9%	66.8%	61.2%	64.4%
	2012	3.3%	4.5%	3.9%	68.2%	66.7%	67.6%
	2013	3.4%	4.6%	4.0%	67.0%	67.7%	67.3%
	2014	4.4%	5.8%	5.1%	61.8%	65.1%	63.2%

a Exit rates for investment purpose and industry are calculated by the number of the exited subsidiaries (event) over the total number of surviving subsidiaries (subsidiary-year) over the period of 1992–2014 for each purpose and industry, respectively. Exit rate for year is calculated by the number of the exited subsidiaries in year t over the number of total subsidiaries in year t + 1.

b Our database report annual subsidiary performance in three categories: ‘‘Loss’’, ‘‘Breakeven’’, and ‘‘Gain’’. The performance column in this table represents percentage of the subsidiaries in the ‘‘Gain’’ category.

Table 5 Summary of findings

	EE	AE
Characteristics		
(1) Growth in investment (in number)	Growing (due largely to the growth in number in FDI in China)	Slowing down (after the mid-1990s)
(2) Purposes of investment	Market-seeking Labor-seeking	Market-seeking Strategic-asset seeking
(3) Industry	Primary and Secondary sectors	Tertiary and Non-industrial sectors
(4) Subsidiary characteristics	Control mode: Lower Lower parent ownership Lower ratio of Japanese expatriates Age: younger Size: larger	Control mode: Higher Higher parent ownership Higher ratio of Japanese expatriates Age: older Size: smaller
(5) Parent firm characteristics	Weaker ownership advantages: Higher R&D intensity Limited prior local experience Size: smaller	Stronger ownership advantages: Higher R&D intensity Longer prior local experience Size: larger
Performance		
(1) Financial performance	Higher mean; Greater variance Higher in agriculture, construction, retail trade, and finance Higher in 1991 to 1997, 2003 to 2005, and 2010 to 2012	Lower mean; Smaller variance Higher in mining, transportation, and wholesale trade Higher in 1998 to 2002, 2006 to 2009, and 2013-2014
(2) Exit rate	Lower mean; Greater variance Constantly lower across investment purposes Constantly lower across industries Constantly lower across years	Higher mean; Smaller variance Constantly higher across investment purposes Constantly higher across industries Constantly higher across years
(3) Impact of international diversification	Positive curvilinear relationship with the financial performance U-shaped relationship with the exit rate	Positive curvilinear relationship with the financial performance U-shaped relationship with the exit rate

Figure 1 Number of subsidiaries in EEs and Ads

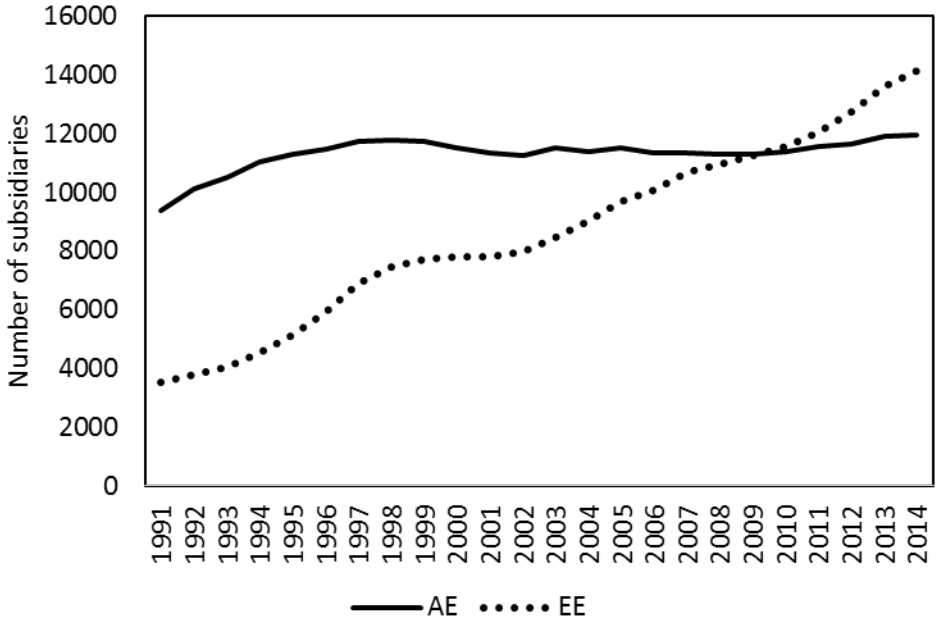


Figure 2 Proportion of subsidiaries in China

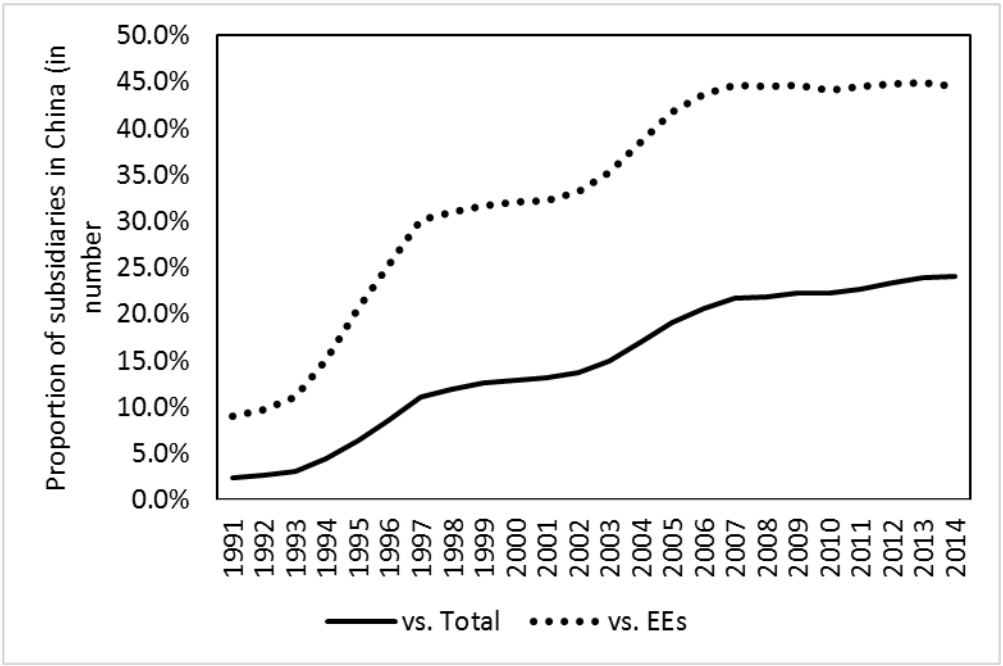


Figure 3 Frequency of countries by the proportion of “gain” in self-reported financial performance

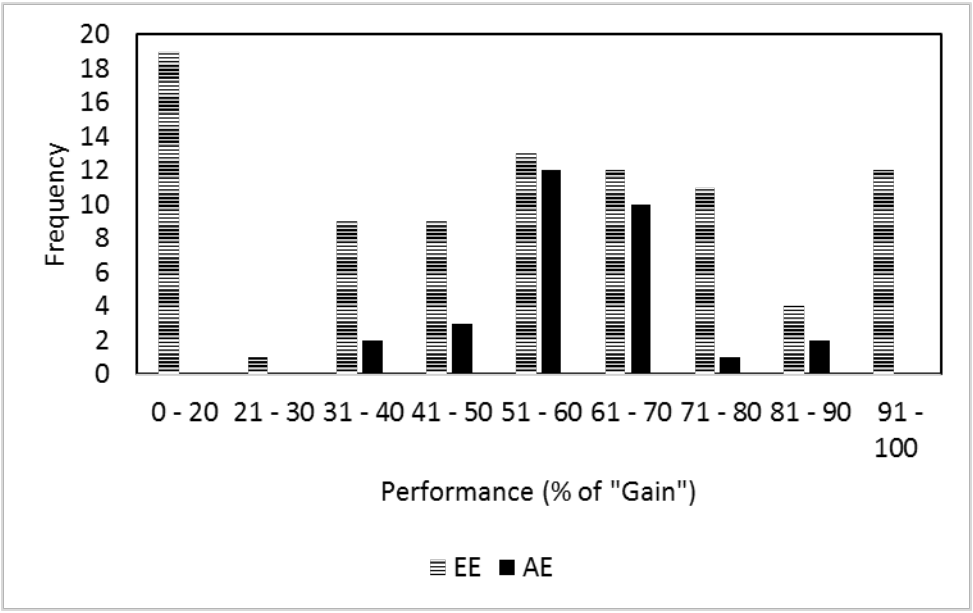


Figure 4 Frequency of countries by exit rate (%)

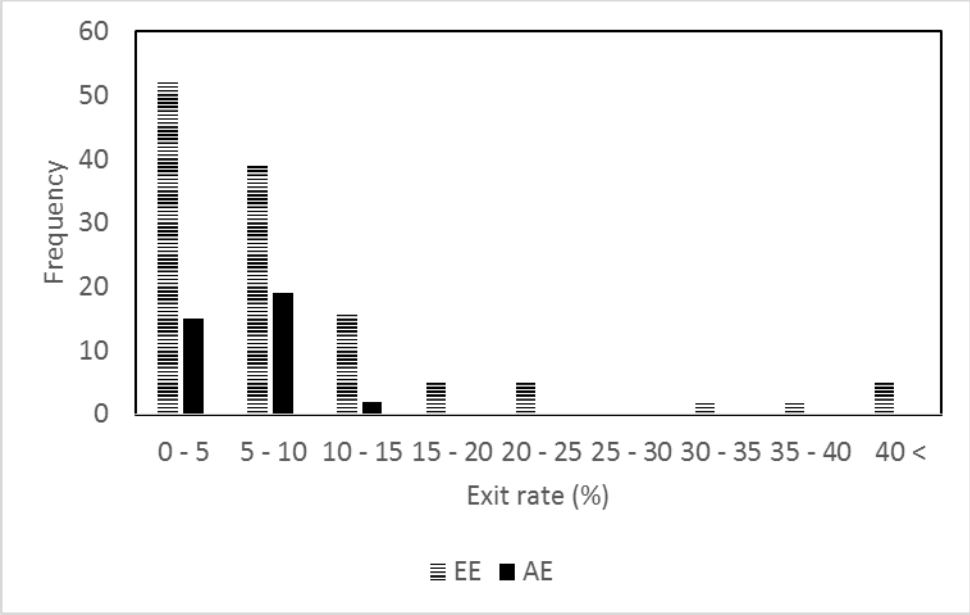
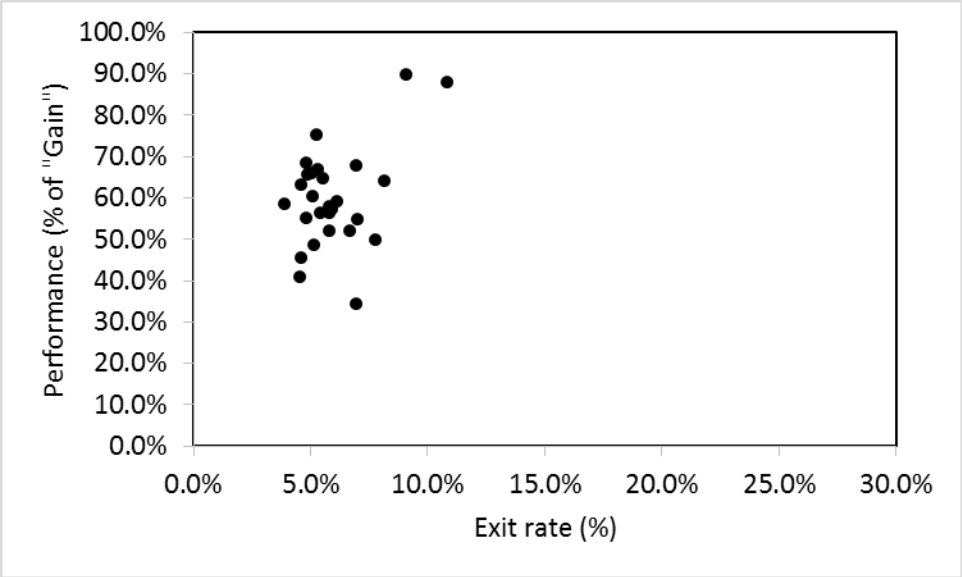


Figure 5 Performance-Exit rate matrix by economy

a. Advanced economies



b. Emerging economies

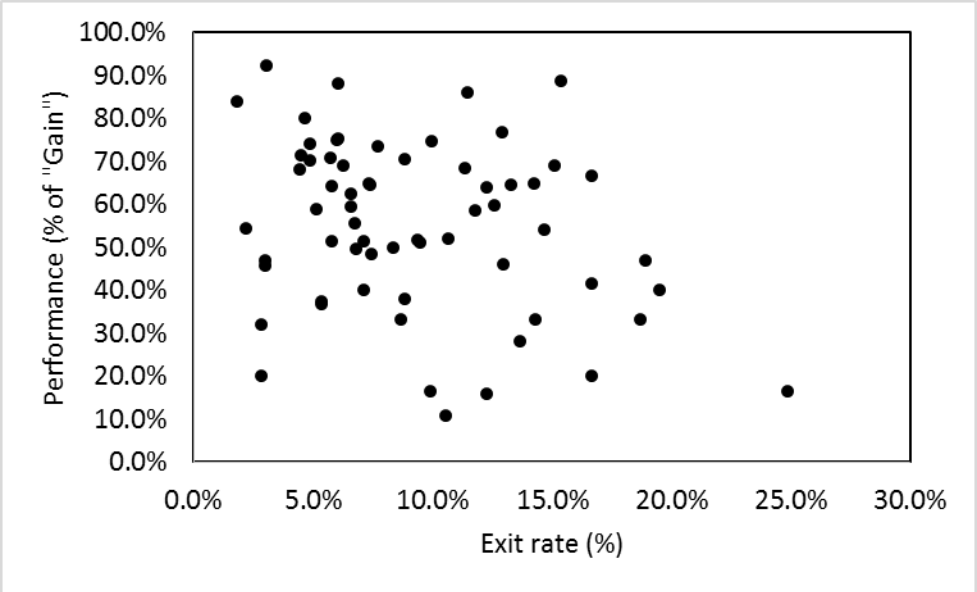
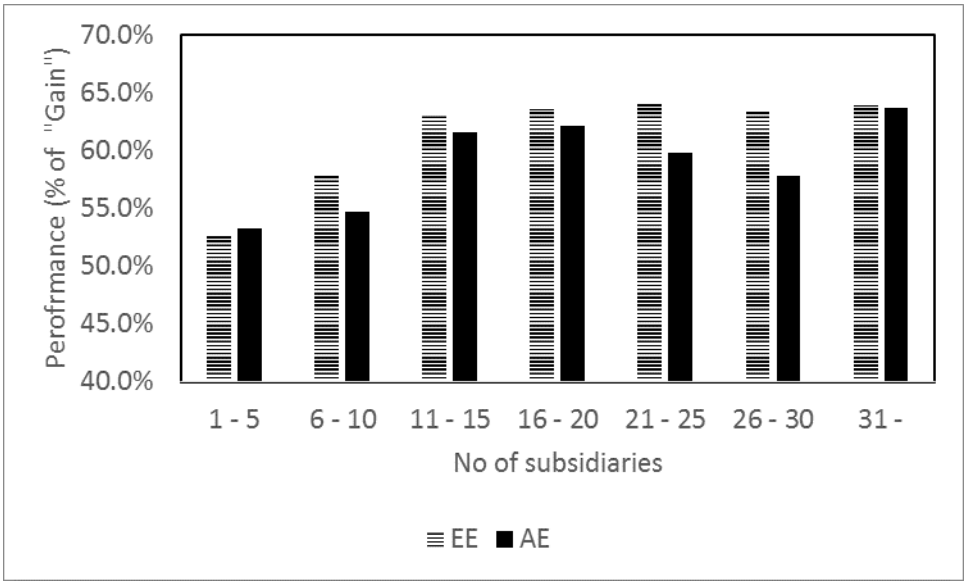


Figure 6 Diversification, Performance, and Exit rate

a. Diversification and Performance



b. Diversification and Exit rate