

Foreign Direct Investment by Japanese Firms in the US

Lindsay Oldenski

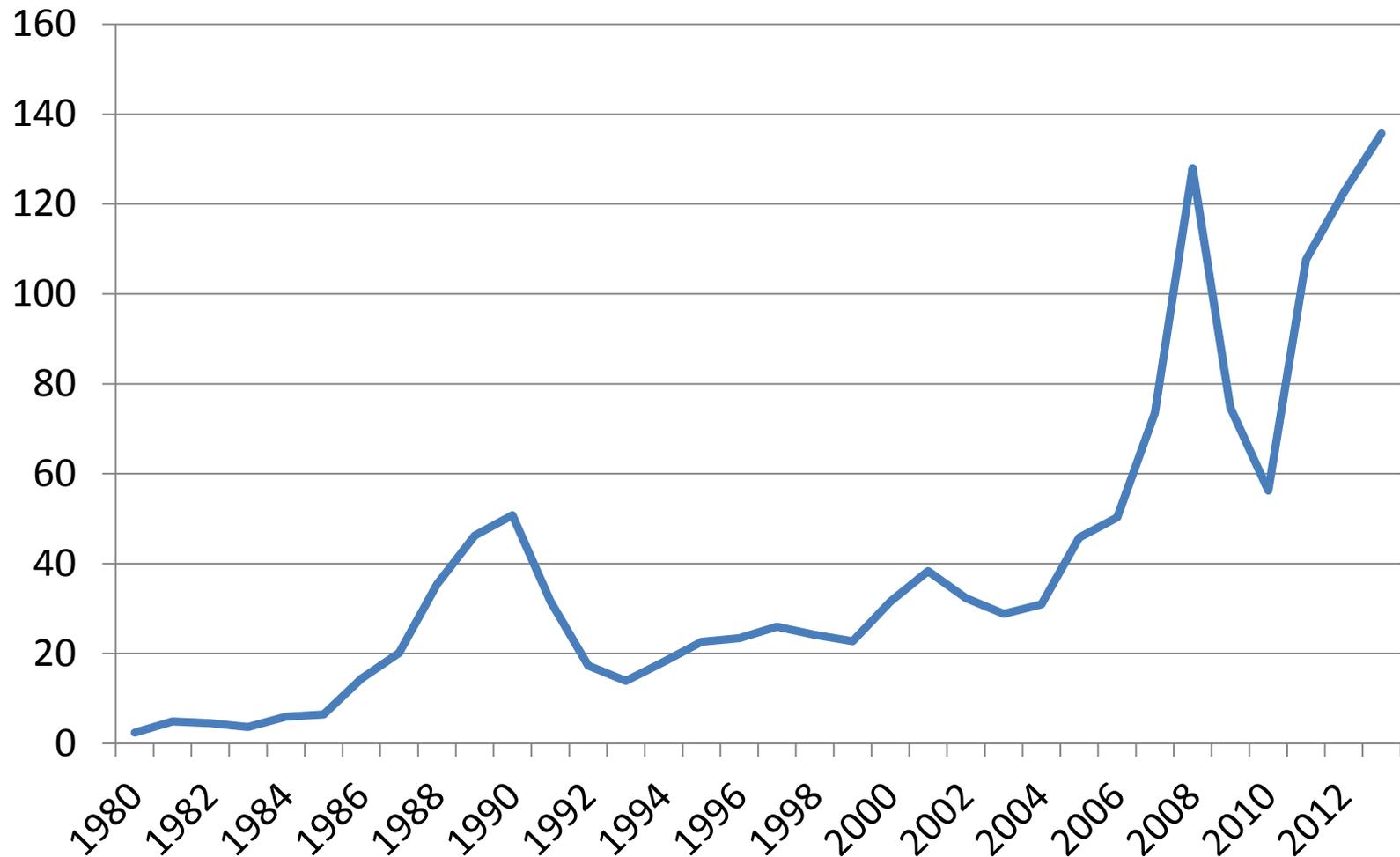
PIIE and Georgetown University

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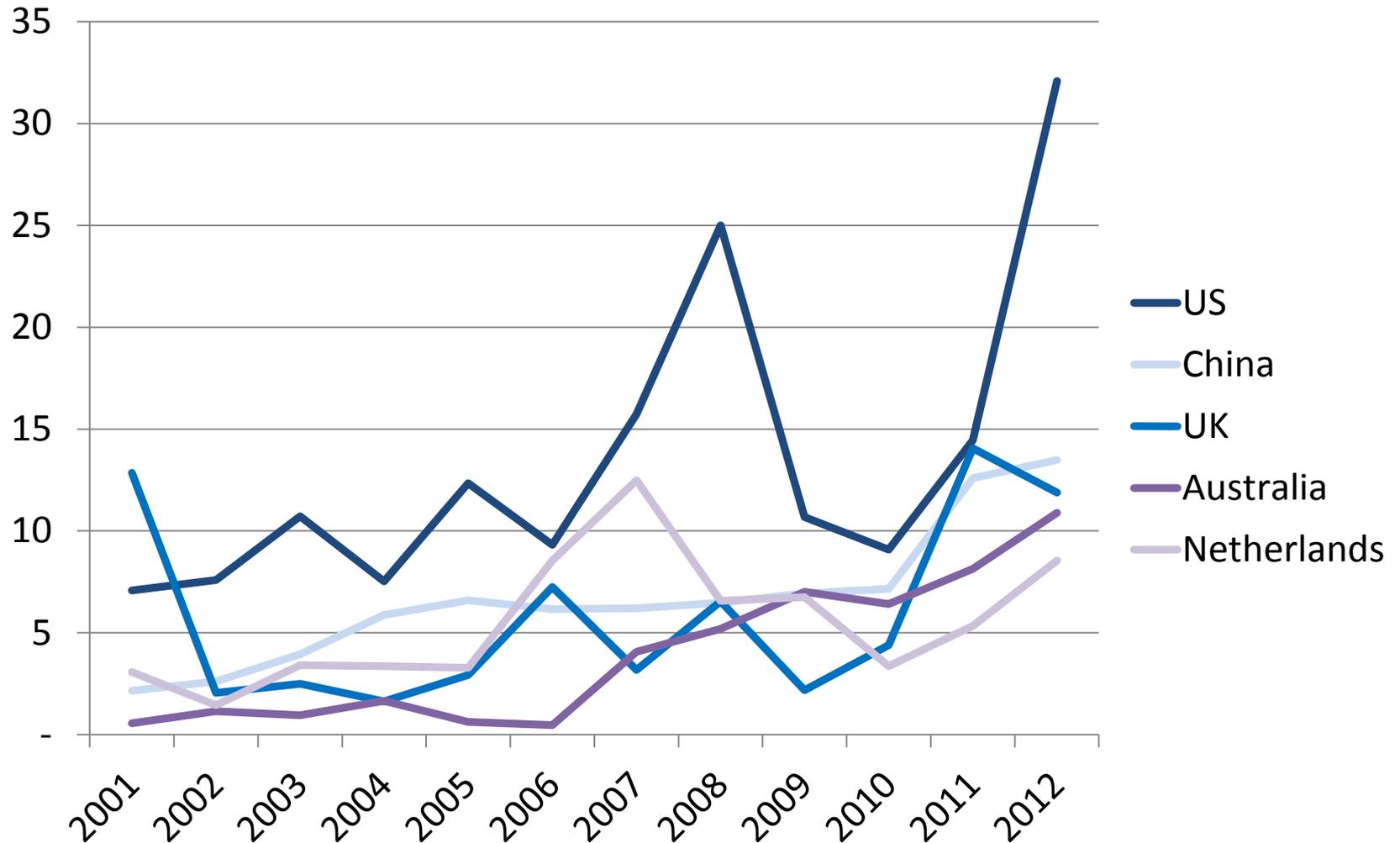
Overview

- Outward foreign direct investment (FDI) by Japanese firms has been expanding rapidly.
- In 2013 Japanese firms were the largest source of new inflows of FDI in the US for the first time since 1992, investing almost \$45 billion.
- What is driving this growth, and what are the implications for both Japanese firms and host countries such as the US?

Outward FDI Flows from Japan (\$b)



Japanese Outward FDI by Country (\$b)



Source: UNCTAD FDI/TNC database, based on data from the Bank of Japan.

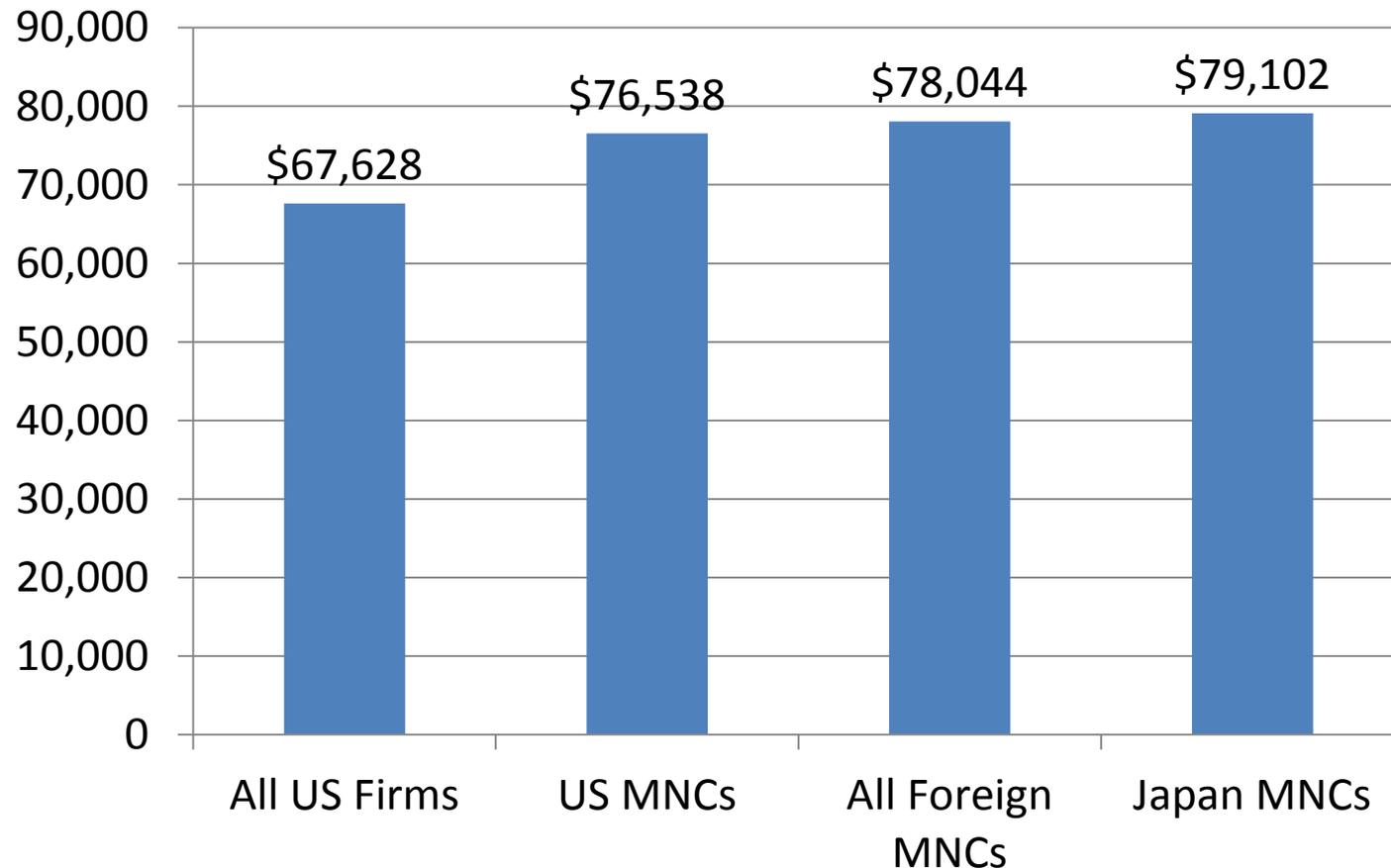
Why do Japanese Firms Invest so Much in the US?

- Domestic demand in Japan is falling, mainly due to a decline in population.
- Rate of return on FDI is higher than that on domestic investment within Japan.
- Greater offshoring and globally engagement by US firms.
- Differences in immigration policy, especially for IT workers.
- Access to English speaking workers.

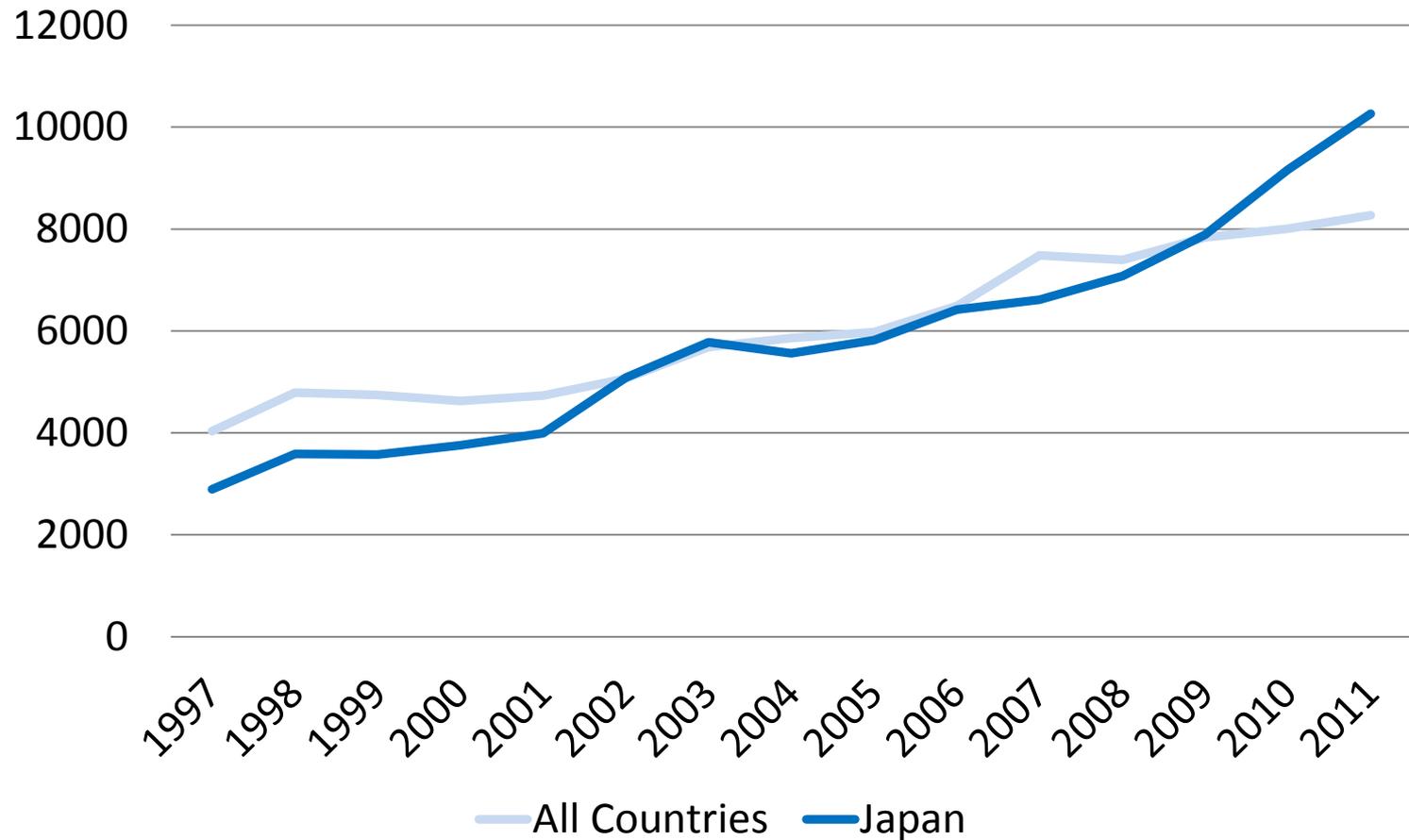
History of US Perceptions of FDI by Japanese firms

- 1980s: many in the US feared that Japanese firms would keep high value activities in Japan and import intimidate inputs.
- 1995: PIIE research by Monty Graham and Paul Krugman found that Japanese investors located high-value activities in the US and increasingly used local suppliers.
- Today: Japanese firms continue to make significant contributions to the US domestic economy in terms of wages and benefits, sales, value added, R&D, exports and imports.

Wages and Benefits per US Worker (\$)



R&D Spending per US Worker (\$)



R&D

- The *amount* of R&D spending by Japanese firms in the US increased by 160% between 2000 and 2011, while total R&D expenditures by all foreign firms grew 73%.
- In 2000, the R&D *intensity* of Japanese firms in the US was lower than that of the average foreign firm. But by 2011 Japanese firms in the US had R&D spending of more than \$10,260 per worker, compared to \$8,270 for the average foreign firm in the US.

R&D

- Software patents have become an increasingly prominent segment of patenting overall, yet Japanese software patenting behavior at home has been much weaker than in the US.
- Software patents filed by Japanese companies operating in the US account for 24% of Japanese patents issued in the US, which is higher than the 17% share among American firms, and much higher than the 6% of overall Japanese patents (Branstetter, Arora and Drev 2013).

Productivity Spillover Effects

- Foreign firms may also have indirect “spillover” effects on the productivity of domestic firms.
- Moran and Oldenski (2013) used firm-level data on both FDI in the US and the operations of domestic US firms to study these effects. The findings suggest that about 12% of the total productivity growth in the US from 1987 to 2007 can be attributed to productivity spillovers from inward FDI.
- These results are consistent with the findings of other studies on multinational spillover effects, including Branstetter (2006), Haskel, Pereira and Slaughter (2007) and Keller and Yeaple (2009).

Conclusions

- FDI by Japanese firms in the US is increasing rapidly.
- This investment allows Japanese firms to improve their software patenting and global engagement, as well as gaining access to higher returns, strong US demand, and skilled labor.
- The US also benefits from the high wages, R&D investment, and productivity spillovers of Japanese firms in the US.