

# Japanese multinational networks in services

Evidence from firm-level data  
(Research Results of RIETI Project)

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# Outline

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  - Foreign affiliates serve more than the host market
  - MNEs activity is highly concentrated in few parent firms
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# Background

- Analysis of Japanese foreign affiliate sales undertaken by OECD and RIETI as part of a broader multi-country research project based on confidential firm-level services trade and investment data.
- Services trade can be conducted through four modes of supply:
  - Cross-border supply
  - Consumption abroad
  - Commercial presence - Dominant mode for most services , corresponding to sales by locally-established affiliates
  - Presence of natural persons
- Detailed micro-data allows us to analyse the heterogeneity of multinational parents and their networks of services affiliates in size, scope, industrial and regional orientation.

# Japanese parents and affiliates: Data

- For Japan, we use data on outward foreign affiliate statistics from the Basic Survey on Overseas Business Activities (BSOBA) by the Ministry of Economy, Trade and Industry (METI).
- Data on the parent companies, i.e. Japanese corporations which own overseas affiliates, and the foreign affiliates themselves, directly or indirectly owned by Japanese companies.
- Nice feature of the BSOBA survey : decomposition of the foreign affiliates' activities in the host economy, those performed with the parent company (intra-firm trade), and exports to third countries.
- The focus is on affiliates engaged in services activities - the final sample covers approximately 13,000 foreign affiliates and 4,500 parents, over a period of six years (2008-2013).
- Services considered in the analysis : Audio-visual services, Construction, Computer services, Distribution, Financial services, Logistics, Telecommunication, and Transport services.

# How much do firms sell through foreign affiliates?

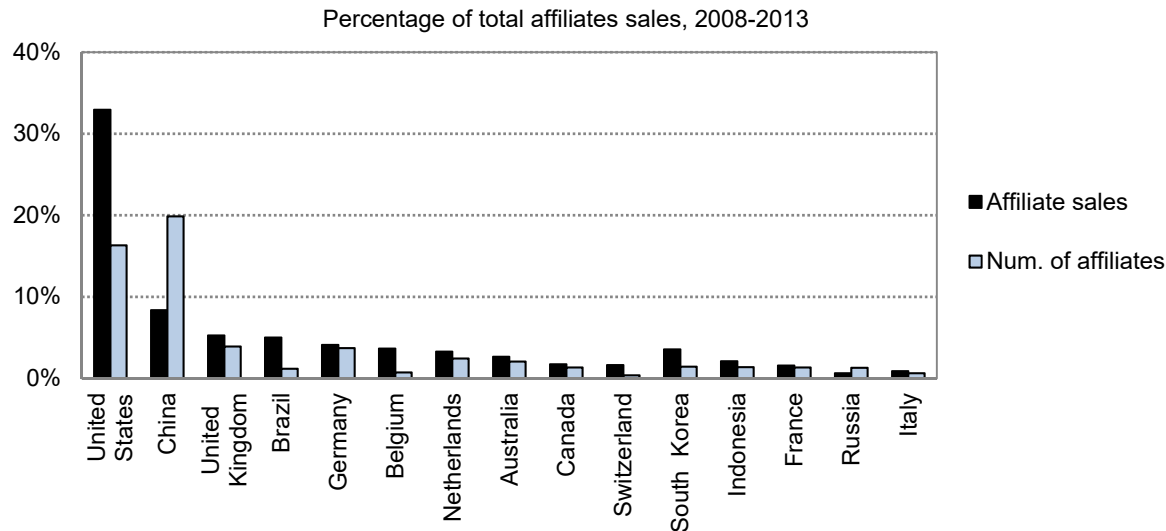
**Number of multinational firms and foreign affiliate services sales, 2008-2013**

Year	Number of parent companies	Average number of affiliates per parent	Average number of countries per parent	Average number of sectors per parent	Average turnover per affiliate, million JPY	Average number of employees per affiliate	Average turnover of parent, million JPY	Average number of employees of parent	Parent's main activity in services
2008	2,071	4.2	3.0	1.3	12,585	117.4	170,638	1,595	56%
2009	2,300	3.9	2.9	1.3	9,690	115.5	124,767	1,490	56%
2010	2,358	3.9	2.9	1.3	10,024	122.7	124,406	1,515	55%
2011	2,416	4.0	2.9	1.3	9,527	121.7	124,646	1,514	55%
2012	3,519	3.3	2.5	1.2	8,421	114.5	89,915	1,086	58%
2013	3,551	3.5	2.6	1.2	10,101	108.1	97,692	1,113	58%

- A growing number of parents but with a tendency to consolidate affiliates' activity abroad
  - Fewer affiliates per parent, in fewer markets, realising fewer sales and employing fewer workers
  - Entry of smaller and less diversified firms observed over time, perhaps linked to reduction in barriers to investment abroad
- More than two fifths of the parents are MNEs **not** primarily engaged in services activities
  - Possible reasons: distribution hubs; offshoring of services; intra-firm trade

# Where do they sell?

## Foreign affiliate establishments and sales, by hosting economy



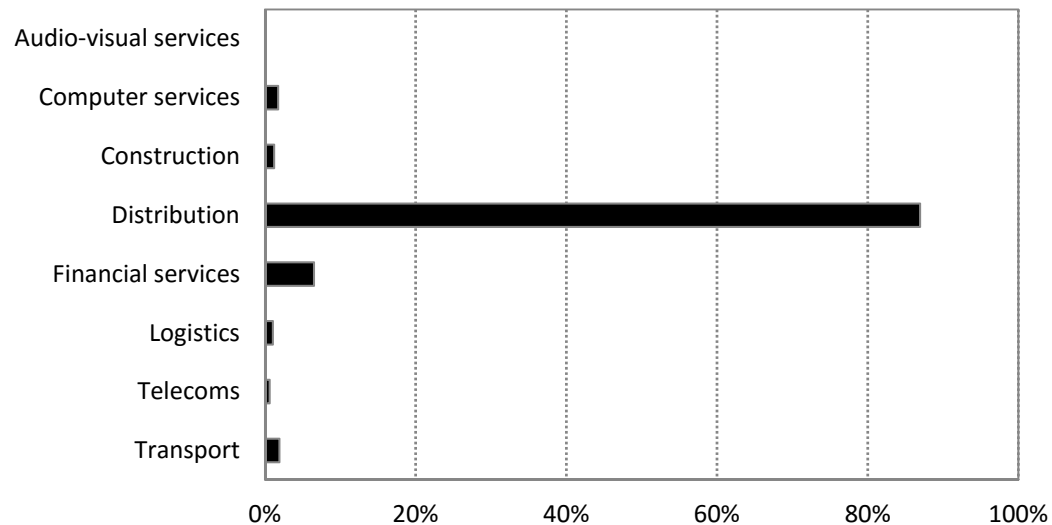
- Nearly 60% of all Japanese foreign affiliates are hosted in the top 15 countries, where they realise 80% of total affiliates sales
- China is the market hosting the largest number of affiliates, but the United States is the first market in terms of affiliate sales
- Regional value chains, local and regional market size, and market potential play a role in shaping investment decisions

*For instance, about a fifth of Japanese affiliates are located in China and generate under 10% of total affiliate sales, while a lower number of Japanese subsidiaries in the more mature U.S. market are responsible for over one third of total affiliates sales*

# Which services do they sell?

## Composition of foreign affiliate sales, by sector

Percentage of total affiliates sales, selected sectors 2008-2013



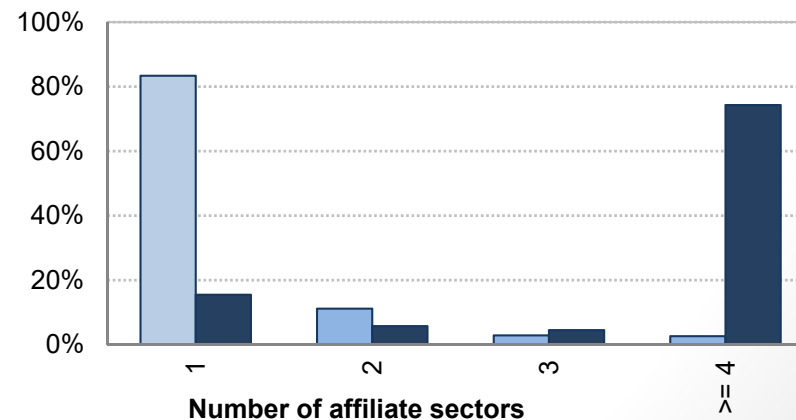
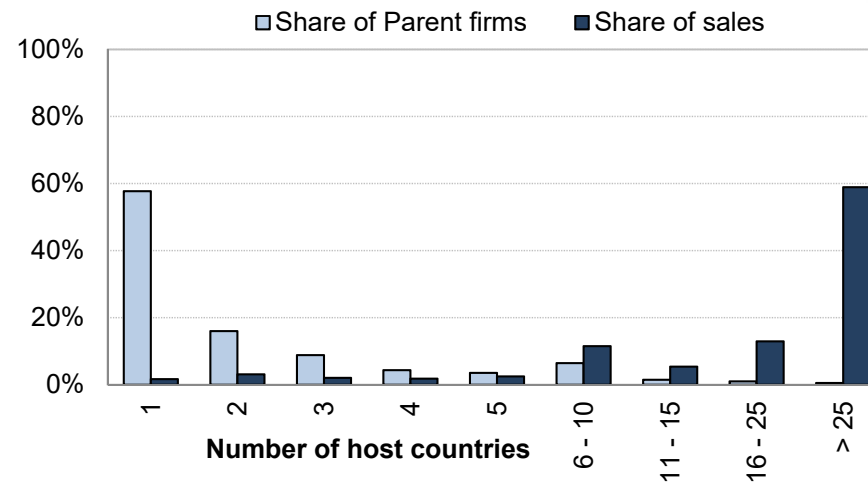
- Most services affiliates are engaged in distribution services (wholesale and retail) and those services account for the vast majority of affiliate sales abroad
- Japanese firms also have a visible presence abroad in financial services

# MNE activity is highly concentrated in few firms

- Foreign affiliate sales are highly concentrated among the few firms that are established in a highly diversified portfolio of partner countries
- Barely 1% of parent firms with services affiliates spread across more than 25 countries account for about 60% of all foreign affiliates sales
- However, most Japanese multinationals are present in just one host country and contribute to only 1% of total affiliate sales
- Similarly only 3% of parents have affiliates in at least 4 different services sectors, but they account for three quarters of total affiliate sales

**Concentration of international activity**

Average shares, 2008-2013





# Multinational groups concentrate their activity in a few key markets

## Concentration of international activity within firms

Average shares, 2008-2013

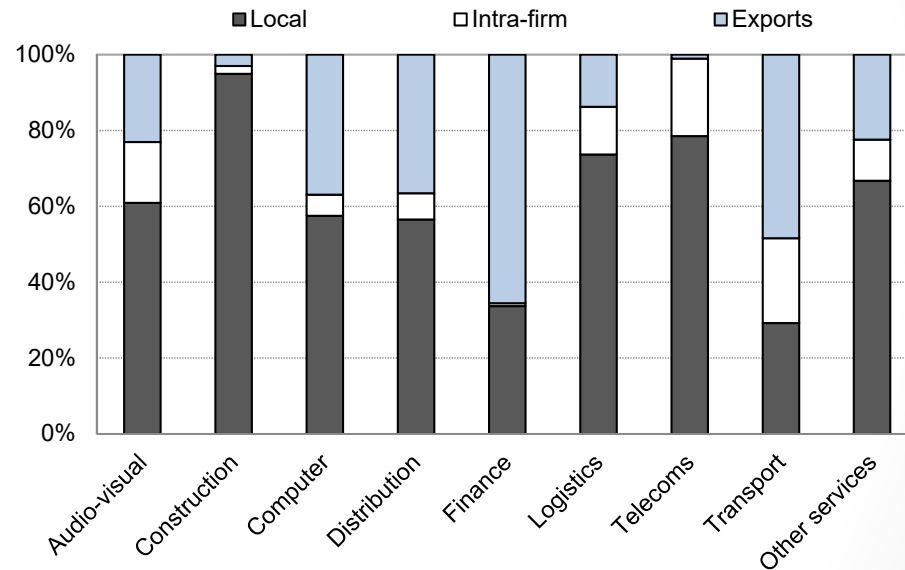
Host country ranking (all affiliates)	Share of market (all affiliates)	Share of market (firms with 1 host country)	Share of market (firms with 2 host countries)	Share of market (firms with 3 host countries)	Share of market (firms with 4 host countries)	Share of market (firms with 5 host countries)	Share of market (firms with 10 host countries)
1	48.2%	100%	92.0%	70.4%	68.5%	60.2%	43.0%
2	19.8%		8.0%	23.2%	20.1%	22.6%	29.1%
3	10.6%			6.4%	8.5%	10.2%	10.4%
4	7.2%				2.9%	5.3%	5.6%
5	4.1%					1.8%	4.2%

- The performance of MNE networks is dependent on their top market, even where they have a wide geographic scope
- The most important host country accounts on average for almost half of the parent group's foreign affiliate sales
- Even for parents with affiliates in 10 different countries, 43% of total foreign sales are realised in the top market, and close to three quarters in the top 2 markets

# Foreign affiliates serve more than their host market

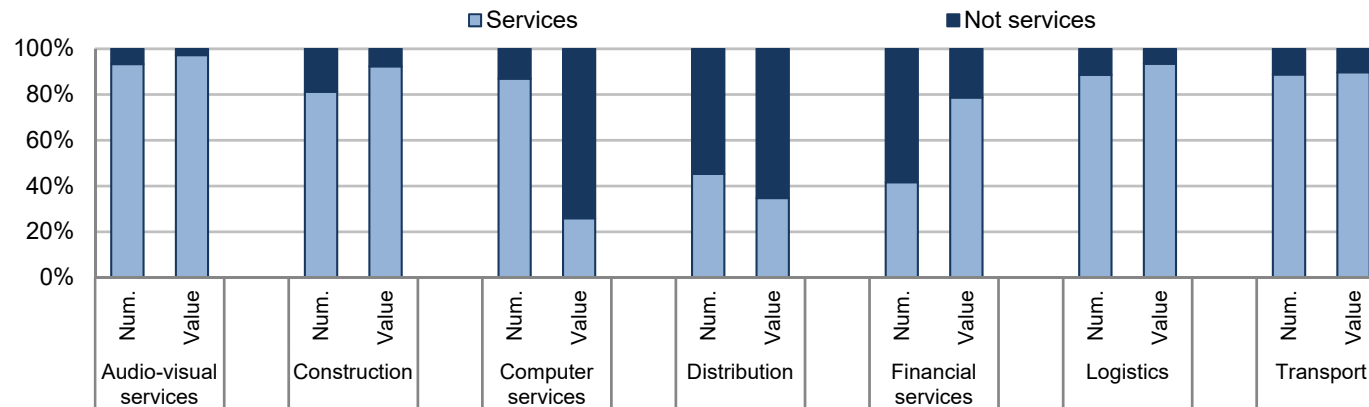
- Japanese parents establish affiliates abroad selling not only locally but also to third countries (so called **export platform phenomenon**)
- Export platform sales are prevalent in financial services, transport, distribution and computer services
- On the other hand, affiliates in construction, telecoms and logistics are established mostly to better penetrate the local market
- While intra-firm trade, marginal in most sectors, accounts for about 20% of total affiliate sales in transport, telecoms and audio-visual services

**Decomposition of total foreign affiliate sales, by final destination**  
Percentage of total foreign affiliate sales, average 2008-2013



# Manufacturing firms are active in services trade

Distribution of foreign affiliate sales between services and non-services MNEs, by sector



- Japanese parents in non-services sectors establish specialised distributional centres and credit affiliates abroad to complement and sustain the offering of their manufacturing products
- Japanese manufacturing MNEs also contribute high shares of foreign affiliate activity in knowledge-intensive sectors such as computer services (e.g. back-office IT functions, offshore R&D centres, software embedded in or bundled with goods)

# Conclusions

- Multinational enterprises' services activities are highly concentrated in the hands of few large firms with a wide geographical coverage.
- Regional value chains and regional market potential tend to shape investment decisions, with foreign affiliates serving as export platforms.
- Manufacturing MNEs strengthen their presence abroad by establishing a network of services foreign affiliates sustaining the expansion of their client base in foreign markets.
- Services are more and more bundled or embedded in goods sold abroad. The complementarities between services and goods in trade and FDI would benefit from further investigation.
- Further work will also explore the policy determinants and other drivers of foreign affiliate activity serving local, intra-firm and third country clients.