October 2024

Foreign Direct Investment and Parents' Markups

Kaoru Hosono[1]

Miho Takizawa[2]

Kenta Yamanouchi[3]

Abstract

We investigate the effect of foreign direct investment (FDI) on markups charged by parent firms by using parent-foreign subsidiary matched data for Japanese firms from 1997 to 2018. We find that parent manufacturing firms charge higher markups as the ratio of sales of foreign subsidiaries to those of the parent firm increases. This relationship is especially observed only for FDIs in developing countries. The consolidated groups' markups, defined as average markups across the parent firms and their foreign subsidiaries, also increase with that ratio in the manufacturing industry. These results show that the multinationals shift the production of less differentiated products or tasks with tougher competition to developing countries.

Keywords: Foreign Direct Investment, Japan, Markup, Multinationals

JEL classification: D24, F23, L11

[1] Gakushuin University and RIETI. Email: kaoru.hosono@gakushuin.ac.jp

[2] Gakushuin University. Email: miho.takizawa@gakushuin.ac.jp

[3] Corresponding author: Kagawa University. Address: 2-1, Saiwai-cho, Takamatsu, Kagawa, Japan; Tel: 81-87-832-1837; E-mail: yamanouchi.kenta@kagawa-u.ac.jp