

# Exports and FDI entry decision: Evidence from Japanese foreign-affiliated firms\*

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## Abstract

Why does aggregate Foreign Direct Investments (FDI) fall with distance? To answer this question we examine behavior of Japanese Multinational Enterprises (MNEs). We are interested in FDI entry decision given export experience in foreign markets. We postulate that one of the firms' strategies is learning the foreign market potential by exporting first, followed by establishment of foreign affiliate if expected profitability is high enough. We suggest a theoretical model and test it empirically using firm-level data from two basic surveys of Japanese companies: Basic Survey of Japanese Business Structure and Activities and Basic Survey of Overseas Business Activities for a period of 1995-2013.

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