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LOCALIZATION FACTORS FROM JAPANESE FIRMS IN AUTOMOTIVE-RELATED INDUSTRIES IN MEXICO

Abstract:

This paper examines the role of municipal-level characteristics in the industrial location decision from Japanese firms in automotive industries at the municipal level in Mexico. An econometric model is developed to test if agglomeration, industry-specific and municipal area characteristics are determinant for the location selection of Japanese firms. Previous literature identifies four main types of location factors that influence the distribution of new FDI manufacturing projects in the host country. These include regional demand, regional production costs, regional policies and regional presence of agglomeration economies. The empirical results suggest that certain non-agglomeration characteristics influence the location decision of Japanese firms in automotive-related industries. These include market size, potential labor market and the manufacturing sector wage level. Also, the presence of agglomeration economies measured by the number of firms in automotive-related industries was significant for the location decision of Japanese firms.

Keywords:

Foreign Direct Investment; Japanese FDI; Localization factors; Mexican Automotive Industry

JEL Classification: F21, O54, R12