

## **Location Decisions of Heterogeneous Multinational Firms**

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### **Abstract**

The existing studies on multinational firms' location decisions have placed primary emphasis on the role of country attributes. This paper contributes to the literature by interacting country asymmetry with firm heterogeneity and examining how multinational firms with varied levels of total factor productivity (TFP) self-select into different host countries. Using a dataset that records the subsidiaries of over 1150 French manufacturing multinationals in 80 potential hosts, we find that firm-level TFP plays an important role in explaining the sorting of French firms across host countries. In particular, both the parametric and non-parametric estimates suggest that more productive French firms are consistently more likely than their less efficient domestic competitors to invest in host countries with high labor costs or high fixed costs. The evidence also suggests that lower host-country tariffs discourage unproductive firms from investing in the markets and lead to a greater proportion of investment by more productive multinational firms.