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Disemployment by Foreign Direct Investment?

Multinationals and Japanese Employment

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Abstract

Using unique parent–foreign affiliate matched data from Japan for 1995 to 2009, this paper examines the effects of foreign direct investment (FDI) on domestic employment, especially in manufacturing. One of the contributions of this paper is that we utilize the matched data for each country in which Japan invests, which enables us to identify the different impacts of FDI among destinations. In addition, we estimate the unconditional labor demand function, rather than estimating it conditionally on domestic output, to control for the simultaneity between the demand for domestic labor and the output for the global market.

Our main findings are as follows. First, foreign wages negatively affect domestic employment; and, second, the decline in the price of investment goods has a significantly larger negative effect on domestic employment than it does on foreign wages. The results suggest that the disemployment in Japan has been driven mainly by the substitution between capital and labor, rather than by the reallocation of labor from Japan to abroad. Third, the *decline* in the investment goods price in the United States negatively affected the domestic labor demand of multinationals in Japan. On the other hand, the *increases* in the investment goods price in China also had negative impacts on the domestic employment. This contrast may reflect the difference of specialization patterns through FDI across countries. (213 words)

Key words: Foreign Direct Investment; Disemployment; Unconditional Labor Demand
JEL classification codes: F14, F16, F23, J23

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