

Outward foreign direct investment and firm-level employment dynamics in Japanese manufacturing firms¹

Yang Liu

Research Institute of Economy, Trade and Industry (RIETI)

liu-yang@rieti.go.jp

Bin Ni

Faculty of Economics, Hosei University

jiadaniel@hotmail.com

Abstract

The effects of overseas foreign direct investment (FDI) on domestic employment have drawn much academic and policy attention. Most previous studies focused on the effect on net employment growth. However, the firm-level dynamic of “net employment growth = job creation – job destruction” indicates that the effects on job creation and destruction within firms are not fully explored. For example, a positive effect on net employment growth could result from increasing job creation and decreasing job destruction, but it could also indicate decreasing job creation with a greater decrease in job destruction. Furthermore, the mechanisms differ among effects on job creation and destruction. This study uses a unique dataset of Japanese firms’ overseas activities to examine the individual effect of outward FDI on firm-level job creation and destruction, respectively. We found that investment in Asian countries has a positive impact on domestic job creation in Japan, whereas the impact of investment in European and North American countries is negative. In terms of job destruction, the impact is negative regardless of the FDI destination. The results are explained using the standard theory of job creation and destruction with FDI introduced.

Keywords: Outward FDI, firm-level job creation, job destruction, Japanese manufacturing firms

JEL classification: J21 J23

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