



Expansion abroad and jobs at home: Evidence from Japanese multinational enterprises[☆]

Nobuaki Yamashita^{a,*}, Kyoji Fukao^b

^a School of Economics and Finance, La Trobe University, Australia

^b The Institute of Economic Research, Hitotsubashi University, Japan

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ABSTRACT

This paper examines the so-called ‘exporting job’ hypothesis – that expansion of overseas operations of manufacturing multinational enterprises (MNEs) reduces home employment – using a newly constructed matched parent-affiliate panel dataset of Japanese MNEs over the period 1991–2002. The results do not support the widely held view that overseas operations of MNEs lower home employment. On the contrary, there is some evidence that expansion of overseas operations may have helped to maintain the level of home employment.

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1. Introduction

The debate over the possible adverse effects of overseas production by multinational enterprises (MNEs) on home employment (‘exporting jobs’) first emerged in the US in the late-1960s (Kravis and Lipsey, 1988). It has gained increased attention in policy circles of industrial countries in recent year with the growing importance of international fragmentation of production

(Lipsey, 1995; Harrison and McMillan, 2006). It had also become the subject of heated policy debate in Japan under the label of ‘manufacturing hollowing-out’ following the spread of production bases of Japanese MNEs to low cost countries in East Asia from the mid-1980s.

Given its policy importance, there has been a proliferation of empirical investigations of the exporting jobs hypothesis, using matched parent-affiliates datasets for MNEs of various national: Brainard and Riker (1997), Hanson et al. (2003) and Desai et al. (2009), for the US MNEs, Braconier and Ekholm (2000), and Fors and Kokko (2001) for Swedish MNEs, Navaretti and Casellani (2004) for Italian MNEs, Becker et al. (2005) and Marlin (2006) for German MNEs and Konings and Murphy (2006) for European MNEs. However, to our best knowledge, so far no similar study has been undertaken for Japanese MNEs. This paper fills that gap. The available Japanese evidence on this subject is mainly drawn from the readily available industry-level FDI data (Fukao, 1995; Fukao and Amano, 1998; Fukao and Yuan, 2001). Since the FDI decision is made at the firm-level rather than the industry-level, the firm-level dataset allows us to undertake the first analysis for properly assessing the exporting jobs hypothesis for Japanese MNEs. Head and Ries (2002) uses the firm-level data compiled from the Toyo Keizai which only includes the listed firms in the Japanese stock market in Japan. Instead, the dataset compiled for our paper cover divers scale of Japanese parent firms.

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* Corresponding author at: School of Economics and Finance, La Trobe University, Bundoora, VIC 3078, Australia. Tel.: +61 3 9479 2719; fax: +61 3 9479 1654.

E-mail addresses: N.Yamashita@latrobe.edu.au (N. Yamashita), k.fukao@svr.cc.hit-u.ac.jp (K. Fukao).

This paper uses a newly constructed firm-level matched parent-affiliates panel dataset over the period 1991–2002. The data is compiled from the unpublished returns to two annual enterprises surveys of Japanese MNEs parent firms and their foreign affiliates, *the Basic Survey of Business Structure and Activity* and *the Basic Survey of Overseas Japanese Business Activity*, collected by Japan Ministry of the Economy, Trade and Industry (METI) over the period 1991–2002.¹ The METI database is well known for their high quality and reliability (Nishimura et al., 2005; Kimura and Kiyota, 2006; Hijzen et al., 2010). The analysis of this paper is based on estimating labour demand of parent firms controlling for the firm attributes and specific regional characteristics of overseas operation of MNEs.

The findings of this paper do not support the ‘exporting job hypothesis’. Instead, there is some evidence of complementary relationship between employment in foreign affiliates of MNEs and their home employment; a 10 percent increase of foreign affiliate employment leads to a 0.2 percent increase in home employment. This finding is robust to alternative model specifications that appropriately allow for locations-specific characteristics of foreign affiliates. Thus, this paper alerts to the possibility that, as the globalisation process continues, policy initiative driven by the public fear of exporting jobs could have perverse effect of constraining MNE’s ability to avert domestic employment contraction by outsourcing some segments of the production process.

The next section summarises the theoretical discussion and the existing empirical evidence on the impacts of overseas operation on MNEs’ home economic activity. Sections 4–6 introduce the econometric specification, the description of the data and the estimation method, followed by interpretation on the results in Section 7. Section 8 concludes.

2. The effect of the overseas operations on domestic operations of MNEs

There is no definitive theory of the effects of overseas operations of MNEs on home economic activity. One view argues that for a fixed level of overall production including parent and affiliate production, any expansion in the overseas operations of MNEs simultaneously reduces domestic operations (*the substitution effect*). However, this simplistic substitution story ignores the positive effects of overseas expansion on domestic activity. It is equally possible that increased overseas operations might enhance the scale of home economic activity due to better resource allocations and the expanded overseas market (*the scale effect*). Therefore, the net impact of increased overseas operation on home economic activity can be either *positive* or *negative*, depending on the magnitude of the scale and the substitution effects (Hanson et al., 2003).

The net effect of overseas operation can also vary among different types of MNEs. In general, the theory postulates two types of MNEs, depending on the investment motivation: *vertical* or *horizontal*. The former type of MNEs vertically separate the production process between parent MNEs and their foreign affiliates. MNEs of this type are usually motivated to take advantage of the existence of international factor price differentials between home and host-country. In this case, overseas and domestic employment can be substitutes, since some domestic

¹ Fortunately, Japan is one of the few countries, besides the US and Sweden, where detailed information on the overseas operations of national firms has been collected systematically over a long period of time. (Lipsey, 2003) Recently, these firm-level surveys containing direct measures of Japanese MNEs’ performance have become increasingly available to researchers (Kimura and Kiyota, 2006; Todo and Shimizutani, 2008; Hijzen et al., 2010). However, none of them has explored the issue of our paper.

Table 1

Pattern of home and overseas employment of Japanese MNEs.

Year	Home employment in 1000	Overseas employment in 1000	Overseas employment ratio
1991	2245	1261	0.56
1994	2275	1972	0.87
1995	2267	1986	0.88
1996	2328	2258	0.97
1997	2292	2540	1.11
1998	2188	2339	1.07
1999	2261	2812	1.24
2000	2215	3049	1.38
2001	2121	2645	1.25
2002	2066	2844	1.38
Average	2225.8	2370.6	1.07

Source: Based on the METI database, which is explained in Appendix A.

operations are directly relocated to overseas locations. However, it is possible that the domestic operation is expanded due to the enhanced production efficiency of vertical specialisation.

The horizontal type of MNE overseas operations are motivated by the objective of expanding overall sales. In this case, expanded overseas operations may either have little effect on the scale of the domestic operation of MNEs or their domestic operations may even expand due to the expanded worldwide scale of production. Beyond this theoretical classification of MNE types, the postulated relationship between overseas and domestic employment might also depend on the extent to which overseas operations are located in developed as opposed to developing countries, and also whether foreign affiliates have plant-level or firm-level economies of scale. To date, the theory of MNEs does not provide clear-cut predictions about the possible effects of foreign production on home operations.

Fukao (1995) makes an early attempt to examine the possible impacts of foreign affiliate production on domestic employment for Japan. Fukao and Yuan (2001) develop a three-digit level of cross-industry data, concerning the impact of FDI on the employment growth rate over the period 1989–1998. The unique feature of their study is the differentiation of FDI by investment motivation and region of the host-country. Fukao and Yuan (2001) find that Japanese FDI in East Asia led to shedding of around 600,000 workers at home. They also find that market-oriented FDI in East Asia appeared to increase home country employment. Our paper makes an important extension of these studies by examining the exporting jobs hypothesis, using newly developed parent-affiliates panel dataset. The previous studies primarily use readily available FDI data at industry-level. There is virtually no direct evidence of how Japanese MNEs adjust home employment in response to changes in production capacity of foreign affiliates. This is certainly an area where studies on Japanese MNEs lag behind those of US and Sweden-based MNEs.² Firm-level analysis is more appropriate because FDI decision is determined at firm-level rather than industry-level. The only exception is Head and Ries (2002) that use firm-level data for Japanese MNEs from Toyo

² The extensive empirical research on the effects of overseas operations on home operations is based on US MNEs (Kravis and Lipsey, 1988; Lipsey, 1995; Brainard and Riker, 1997; Hanson et al., 2003; Harrison and McMillan, 2006; Desai et al., 2009). These studies make use of firm-level survey data from the Bureau of Economic Analysis (BEA), the US Department of Commerce. Despite using the same dataset, the evidence is, at best, mixed. Studies on MNEs for other countries are also contradictory. Muendler and Becker (2006) found that jobs growth in foreign affiliates adversely affect employment in Germany MNEs parents. While Braconier and Ekholm (2000) uncovered a mild substitution between home and foreign employment in developed countries for Swedish MNEs, Navaretti and Casellani (2004) found no impacts of FDI on employment of Italian MNEs parents.

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