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Foreign Direct Investment and Temporary Workers in Japan

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Abstract

The rapid growth in the number of temporary workers in Japan during the 2000s generated greater income inequality and greater job insecurity because temporary workers' wages are lower and their jobs are more tenuous than those of permanent workers. However, little is established about the relation between globalization and domestic growth in the temporary workforce. This study examines that relationship. It investigates whether the initiation of foreign direct investment (FDI) into Asia increased temporary workers' share of total wages and employment. This study employs a first-differenced difference-in-difference estimation with propensity score matching to examine how the initiation of FDI among Japanese manufacturers during 2003–2004 affected domestic employment. Firm-level data cover the period following the 2004 deregulation, which accelerated increases in the number of temporary workers by allowing manufacturers to employ such workers indirectly through employment agencies. Positive effects of vertical FDI are observed on the temporary worker ratio one year after starting FDI, but vanish in subsequent years. Therefore, this study concludes that the relationship between temporary workers and offshoring is complementary in the early stage of FDI and that no persistent effect of offshoring occurs that results in greater income inequality and greater job insecurity through an increase in the number of temporary workers.

Keywords: foreign direct investment; difference-in-difference estimation; propensity score matching; temporary workers

JEL Classification: F16, F21, F23

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