During the 1980s and 1990s, Japanese manufacturers began to relocate production from sites in Japan to low-wage East Asian countries such as China, Malaysia and Thailand. Imports of manufacturing goods increased substantially over the same period. This rapid rise in imports, and the quickening spread of globalization, has led to concerns among policymakers that employment growth and plant survival may suffer, with some regions more affected than others. This is the first paper which attempts to examine empirically effect of industrial agglomeration in the region on employment growth and plant survival to increased import penetration.

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from low-wage countries. A rich, plant-level dataset on Japanese manufacturing sectors is used to examine this effect.

We find that exposure to low-wage country imports has a negative effect on plant employment growth rates and its survival. However, where plants have high productivity, the effect of low-wage imports is ameliorated. We also find evidence that the advance of globalization has led Japanese firms to consider inter-industry agglomeration, such as output linkage to be less important. However, regions with more input linkages and intra-industry agglomeration remain firms’ preferred location for the plants when exposure to low-wage countries is high.

Key Words: Import Competition from low-wage country, Manufacturing plant, Economic Geography

JEL Classification: R12, R34, F14, L25, L60

I. Introduction

The 1980s and 1990s witnessed a relocation of Japanese manufacturing sites from Japan towards low-wage, East Asian countries such as China, Malaysia and Thailand. This has added an international dimension to the division of labor between these countries and Japan. Perhaps as a consequence of this, the share of imported manufacturing goods by Japan from low-wage countries has risen, especially during the 1990s. In 1990, 16.0% of imports came from low-wage countries, but by 2004 the proportion had risen to 41.6% (see Figure 1). This rapid increase in imports and globalization has led to growing concern among policymakers since both may reduce Japanese employment demand, particularly in regions where manufacturers of which products are competing with those from low-wage countries are concentrated.