

The Role of Multinationals in Japanese Productivity Decline

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Abstract

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 the closure of some firms and plants. The media portray foreign multinationals as closing down productive Japanese plants and relocating them elsewhere in Asia. We find that this is not the case. Equally, the plants that are closed are below average productivity and the exit component contributes a very small fraction to productivity growth (using both the GR and FHK methods). In short, plant exit has not been the reason for Japan's low productivity growth in the 1990s. Instead a lack of productivity growth within plants is identified as being the main cause.