

**Expansion of Overseas Production and the Impact on Employment in Domestic  
Supporting Industries: An Empirical Analysis Based on Buyer-Supplier Transaction  
Relationships**

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August 2013

**Abstract**

This paper focuses on non-internationalized supplier firms and investigates how the expansion of overseas activities by their main customer firms affects their employment, utilizing a unique dataset that includes information on buyer-supplier transaction relationships for Japanese manufacturing firms for the period 1998-2007. We do not find any negative effect of top buyers' overseas expansion on domestic suppliers' employment. Instead, we find a significant *positive* effect. Our result implies that, contrary to fears of a potential hollowing out of domestic supporting industries, the expansion of overseas activities of customer firms has a positive impact on suppliers' employment. Expansion of overseas production by downstream firms may increase purchases from upstream firms in Japan and this would be the case if downstream firms can increase their world-wide sales by expanding overseas production. Therefore, our result suggests that having a transaction relationship with successful downstream multinational firms that expand their global sales through overseas production is important for non-internationalized suppliers in Japan.

*Keywords:* Labor demand; Supplier firms; Multinational enterprises; Transaction relationships; Japan.

*JEL Classification:* F23, F14, F16, F61, J23

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