

Outsourcing in East Asia and Its Impact on Japanese and South Korean Labor Market

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ABSTRACT

This paper investigates intra-regional outsourcing of intermediate inputs within East Asia and examines the impacts of the international division of labor on labor market of developed economies, such as Japan and South Korea, using the industry level data.

The first half of this paper shows and describes deepening of intra-regional trade and foreign direct investment focusing on the 1990s and onwards. In particular, looking at trade data of Japan, Korea, China, and ASEAN countries, we show that trade of processed intermediate goods and parts and components increased in every country or region in East Asia.

The second half of this paper, we overview the labor market conditions in Japan and Korea and conduct econometric analyses to investigate the impact of international outsourcing of intermediate inputs on labor demand in Japan and in Korea. Employing a translog cost function framework, we analyze the relationship between international outsourcing and the skill structure of labor demand and calculate the elasticities of factor demand. In the case of Japan, we find that outsourcing to Asia tend to shift labor demand away from workers with upper secondary education towards workers with tertiary education. Particularly, outsourcing to China have strong positive impact on demand for workers with tertiary education.