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Structural Changes in Japanese Firms: Business Dynamism in an Aging Society

by Gee Hee Hong, Arata Ito, Yukiko Umeno Saito, Anh Thi Ngoc Nguyen

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I N T E R N A T I O N A L M O N E T A R Y F U N D

IMF Working Paper

Asia and Pacific Department

Structural Changes in Japanese Firms: Business Dynamism in an Aging Society¹

Prepared Gee Hee Hong, Arata Ito, Yukiko Umeno Saito and Anh Thi Ngoc Nguyen

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Abstract

The COVID-19 pandemic has posed a serious threat to the survival of Japanese firms, highlighting the importance of understanding how and why firms exit. In this paper, we use a rich firm-level dataset of Japanese firms to document how firm exit patterns have evolved between 2007 and 2017. Firm exit patterns have been heavily influenced by Japan's demographic trends, as a majority of exits in recent years were voluntary exits of firms (business closures) owned by CEOs aged 65 years or older without business successors. In contrast to this increase in voluntary exits, other "traditional" firm exits (such as bankruptcies), have declined. These findings underscore the importance of addressing business transition issues in a rapidly aging society.

JEL Classification Numbers: D22, G33, L10, L14, R11

Keywords: firm growth, business succession, population aging, firm exits, inter-firm-network, zombie firms

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