

# Economic Development of Japan



Vietnamese workers going to Japan to acquire skills (Hanoi)



Experienced but aging engineers



## No.15 Remaining Challenges

# Topics for Discussion

- ❑ Discuss social phenomena associated with the slowdown and decline of Japanese population.
- ❑ Is Japan becoming an unequal society? If so, what is the cause? How does Japan's inequality compare with inequalities in other countries?
- ❑ What are the responses of Japanese manufacturing firms, especially SMEs, to declining population, labor shortage and lackluster domestic demand?
- ❑ How is Japan coping with severe labor shortage? What kind of additional labor supply is targeted for mobilization?

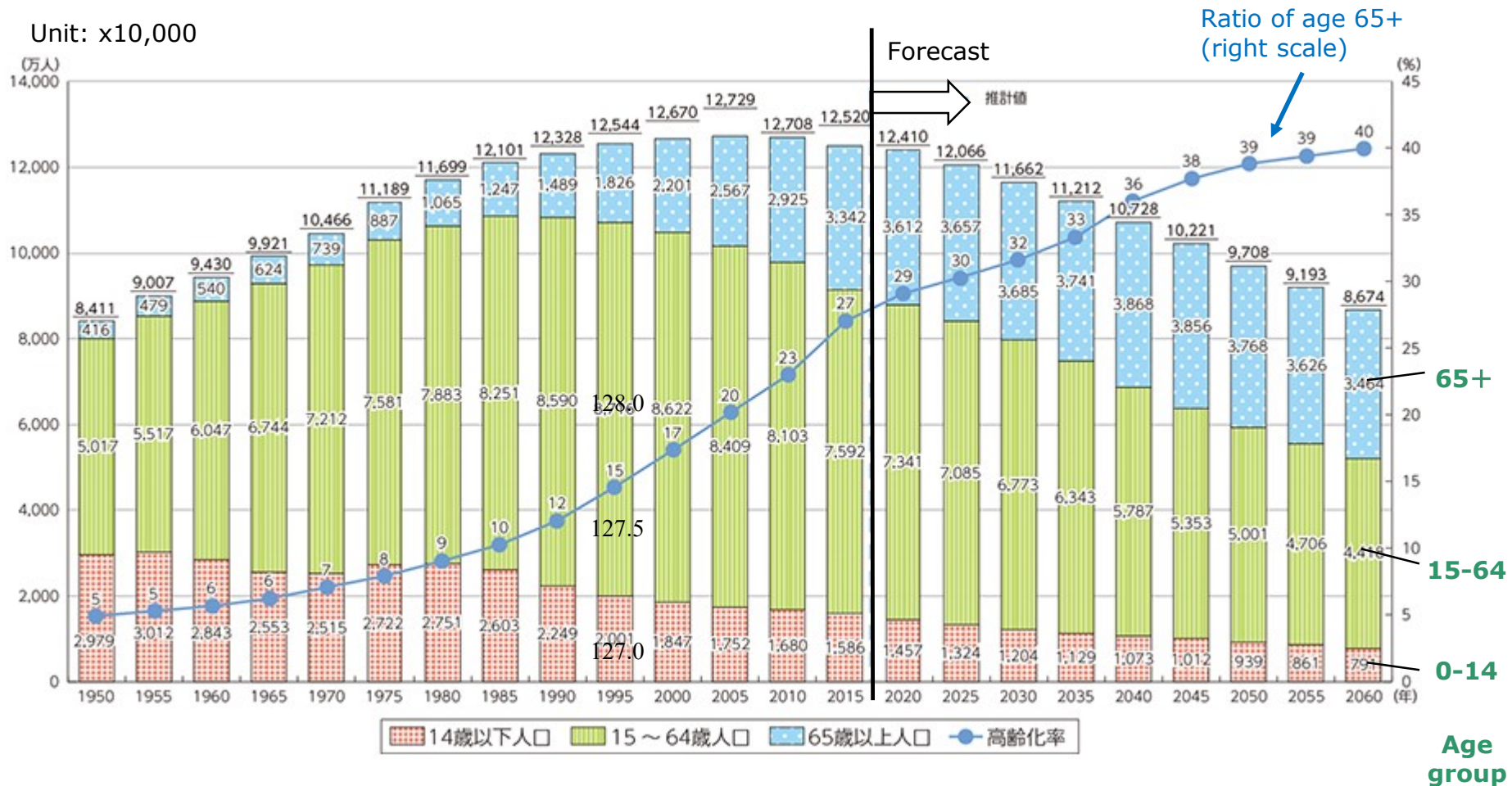
# Demography, Labor and Inequality

- ❑ Japan is a global leader in *koreika* (aging) and *shoshika* (producing fewer children). Population peaked around 2008 at 127 million, then began to decline gradually. The share of working-age population (age 16 to 64) peaked at 70% around 1995, then fell to about 60% at present.
- ❑ *Kasoka* is a problem of depopulation and accelerated aging in rural regions to the extent that basic transport, medical and commercial services are no longer rendered. This is caused by migration of young people to large cities for education and job opportunities, in addition to passing away of senior citizens.
- ❑ There is an acute labor shortage, especially in construction, transportation, food catering, elderly care and childcare. Female labor and aged but healthy labor need to be mobilized. The restrictive immigration law has begun to be revised in order to import more foreign labor.
- ❑ Popular perception is that Japan is rapidly becoming an unequal society. Although data does not corroborate widening income gaps (after redistribution through the fiscal mechanism), poverty is steadily rising.
- ❑ There is a serious problem of unequal treatment for same tasks done by regular workers who enjoy permanent status and non-regular workers such as part-timers and short-term contract workers.



# Japanese Population Begins to Shrink after 2008

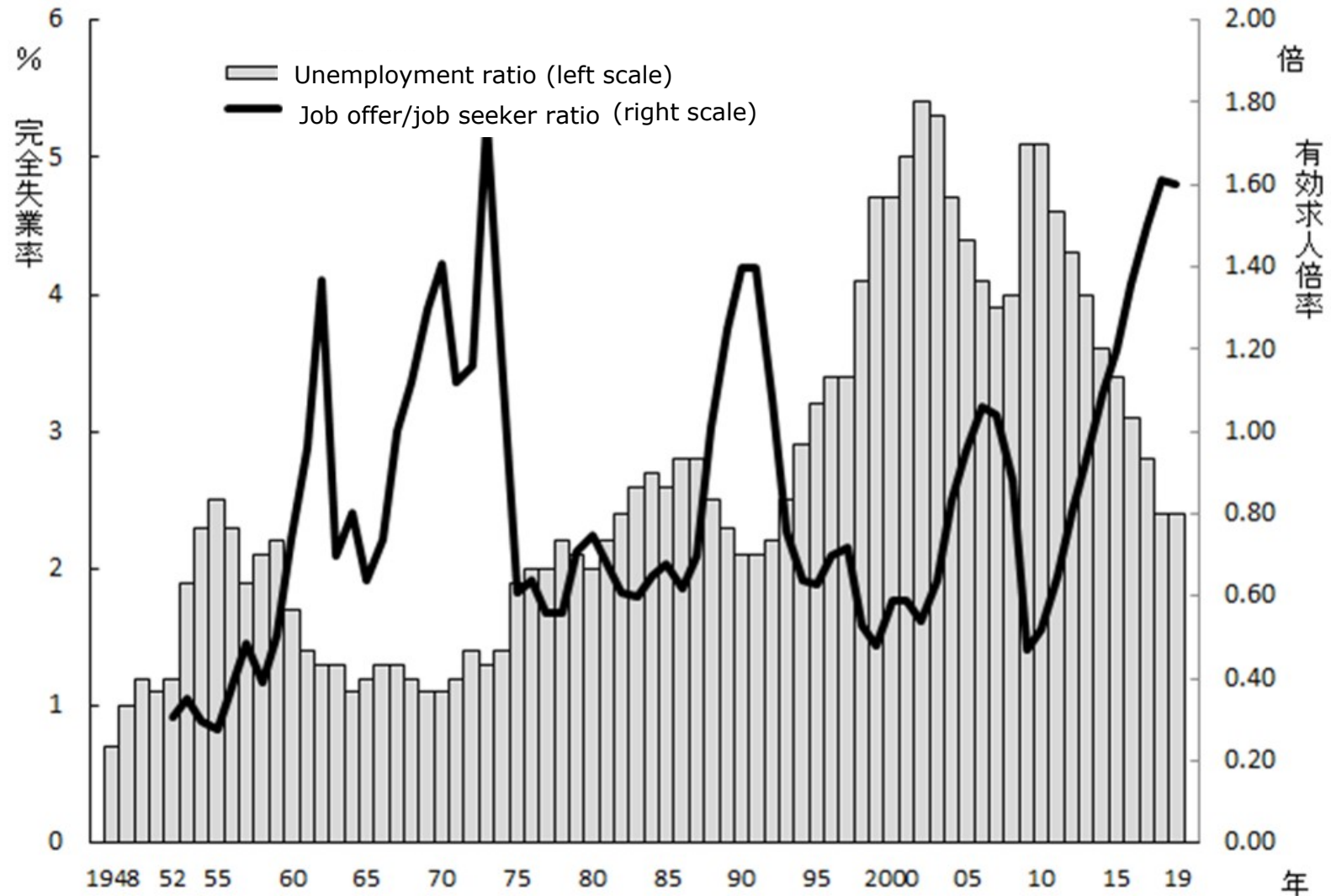
Sources: Up to 2015, Ministry of Internal Affairs and Communications, *National Census*; from 2020, National Institute of Population and Social Security Research, "Forecast of Future Japanese Population" (middle estimate).



Source: Special Report on Demographic Dynamics (2008) and others.

# Unemployment & Job Offer/Job Seeker Ratio

Unemployment was high in the post-bubble period but labor market tightens in the 2010s

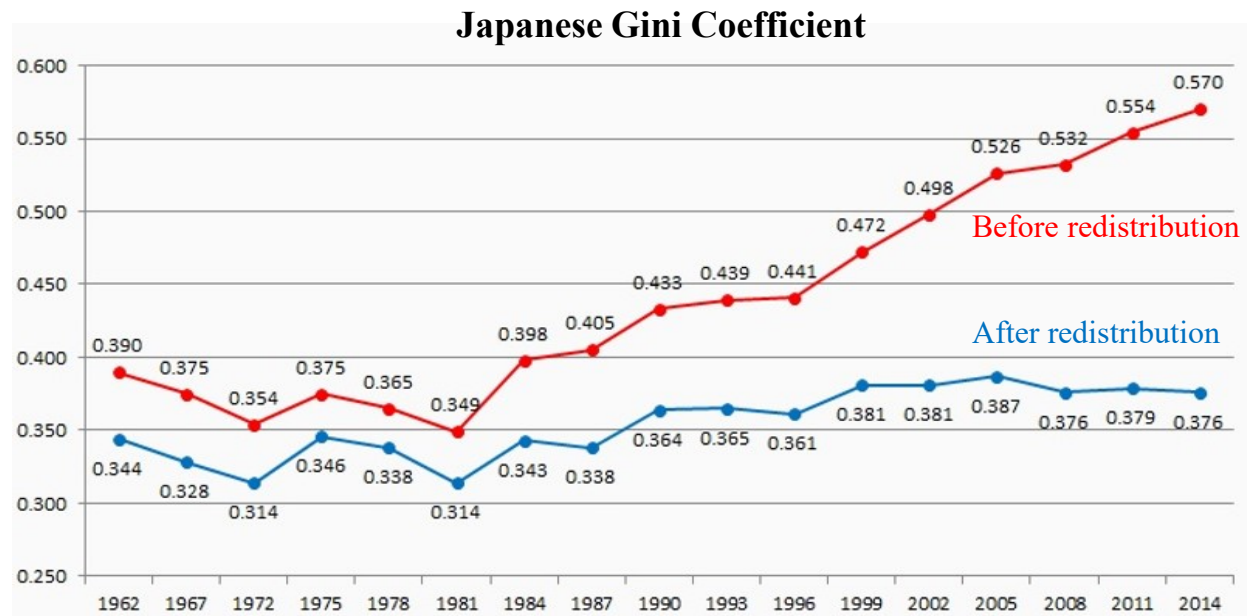


Sources: Ministry of International Affairs and Communications, *Labor Force Survey*; Ministry of Health, Labor and Welfare, *Situation of General Labor Matching* (various issues).

# Japanese Gini Coefficient is Stable

## (After Redistribution)

- ❑ The Gini coefficient measures income inequality from zero (completely equal) to one (completely unequal).
- ❑ The Japanese Gini (before redistribution) has risen sharply from around 0.35 to 0.57. However, after income redistribution (mainly through social welfare policy), the Gini remained stable around 0.38. The government interprets this as evidence of successful redistribution policy.
- ❑ Nevertheless, people's perception is that Japan is rapidly becoming unequal. The main problem is emergence of a poor underclass even with redistribution, not existence of super rich.



Source: Ministry of Health, Labor and Welfare, *Survey Report on Income Redistribution* (conducted every three years).

# Hiseiki Koyo and Karoshi

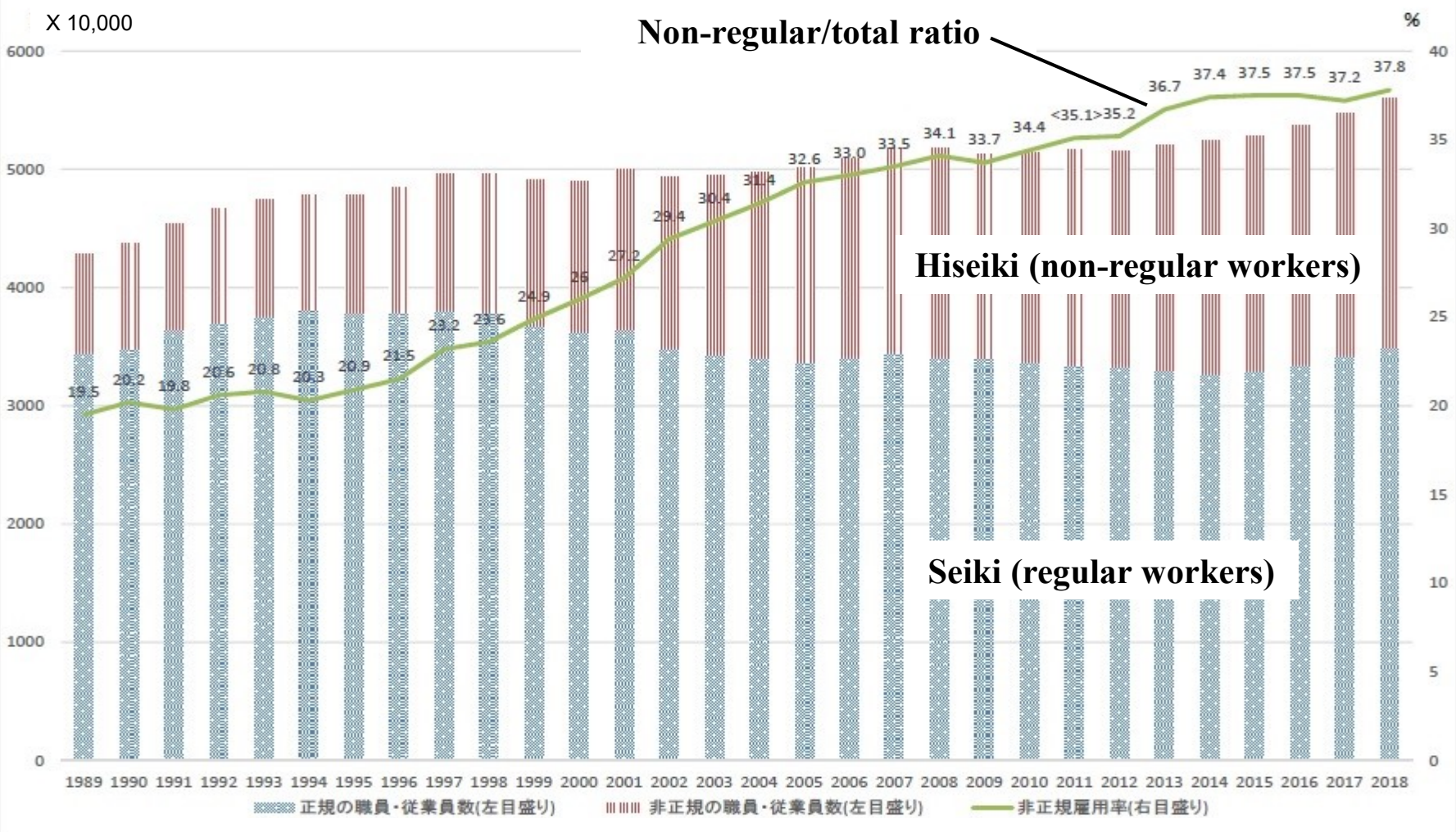
## Non-regular workers and death & suicide due to hard work

- ❑ Regular and non-regular workers are treated differently. Even if the job description is the same, the latter receive less wage to the tune of only 63 percent of the former (Ministry of Health, Labor and Welfare survey, 2014) and little or no benefits and promotion prospects, and face job insecurity.
- ❑ Non-regular workers have increased rapidly in number from about 20% of total employment in 1990 to nearly 40% today. The prolonged recession increased firms' desire to cut labor cost and have an option to reduce workforce at slow times.
- ❑ Female workers and youths account for the bulk of non-regular workforce. They tend to be trapped in second-rate citizen status with little prospect of moving up to regular position. This creates inability to marry for financial reasons, less children, low lifetime saving, continued poverty into old age and the next generation, and extreme hardship for single, divorced or widowed mothers.
- ❑ Even regular workers are forced to work hard to keep their jobs under strong cost-cutting pressure. Unpaid overtime is illegal but a common practice, often leading to job-related illness and *karoshi* (death or suicide).



Workers

# Seiki Koyo versus Hiseiki Koyo



Source: Ministry of International Affairs and Communications, *Labor Force Survey* (various issues).

**Hiseiki koyo** (non-regular employment) is increasing gradually since the 1990s. It is now about 40% of total employment. **Seiki koyo** (regular employment) declined slightly, but it returned to an upward trend from 2014.



# Future of Japanese Monozukuri

- ❑ Japanese monozukuri (manufacturing) features endless pursuit of quality and skills, customer satisfaction and long-term trust. Quality and skills are often accumulated in SMEs that supply precision components to large assemblers.
- ❑ Demand is shifting abroad due to Japanese depopulation, technology change and emergence of rival countries. Large Japanese manufacturing firms have moved most of their factories abroad.
- ❑ As a result, manufacturing SMEs have lost domestic big-order customers and are forced to go abroad to produce and to find new customers. There is also a shortage of young Japanese engineers who inherit monozukuri spirit and skill. Yet, Japanese SMEs lack foreign experience and language ability.
- ❑ Government used to discourage SMEs' overseas expansion for fear of job loss, but turned to active promotion in 2010 because problems faced by manufacturing SMEs were severe, structural and irreversible. Also, labor shortage emerged. Outward FDI by SMEs is now positively supported and incentivized by METI, JETRO, JICA, SMRJ and local governments.
- ❑ For Thailand, Vietnam, Indonesia and other latecomers in Southeast Asia, receiving Japanese SMEs contributes to technology and skill learning.

# Japan's Outward Manufacturing FDI

**1960s-70s:** initial FDI; some FDI waves caused friction with host countries in Southeast Asia (Japanese benefits only; “Economic Animal”).

**1980s -:** trade friction with US and Europe prompted car and electronics makers to invest, produce and sell in Western countries instead of exporting from Japan.

**Mid 80s & 1990s:** a sharp yen appreciation and opening of China pushed many large Japanese firms abroad. Some of their SME subcontractors also followed.

**2000s -:** readjustment of production sites due to accelerated global and regional integration (WTO, regional and bilateral FTAs...)

**2008 -:** Global financial crisis and tougher international competition force large firms to go abroad more aggressively and procure parts globally. Japanese SME suppliers have lost large domestic customers.

**Now:** Long-term local production relations in Aichi (Toyota) and other industrial cities are disintegrating. At the same time, firms must cope with supply chain disruption due to a disaster, pandemic, terrorism, etc.

# Features of Japanese FDI



## Strengths:

- **Manufacturing-centered**—investments in property, trade, and mining are relatively small compared with other source countries (China, Korea, Singapore, etc.)
- **Monozukuri spirit**—proud of clean and efficient factories; endless pursuit of quality and customer satisfaction
- **Long-term orientation**—Japanese FDI is last in coming to new frontiers but, once invested, will stay long even with difficulties
- **Partner assistance**—provides training to local firms and engineers because long-term relation & trust are key to Japanese business model
- **Legal compliance**—observance of business contracts and local labor, tax, environment laws; no bribe giving

## Weaknesses:

- **Slow and risk-averse**—decision-making is slow and cautious compared with more adventurous investors (China, Korea, India...)
- **Inward orientation**—even abroad, Japanese often stay within Japanese method and community; poor at global networking/marketing or working dynamically with other cultures; language problem

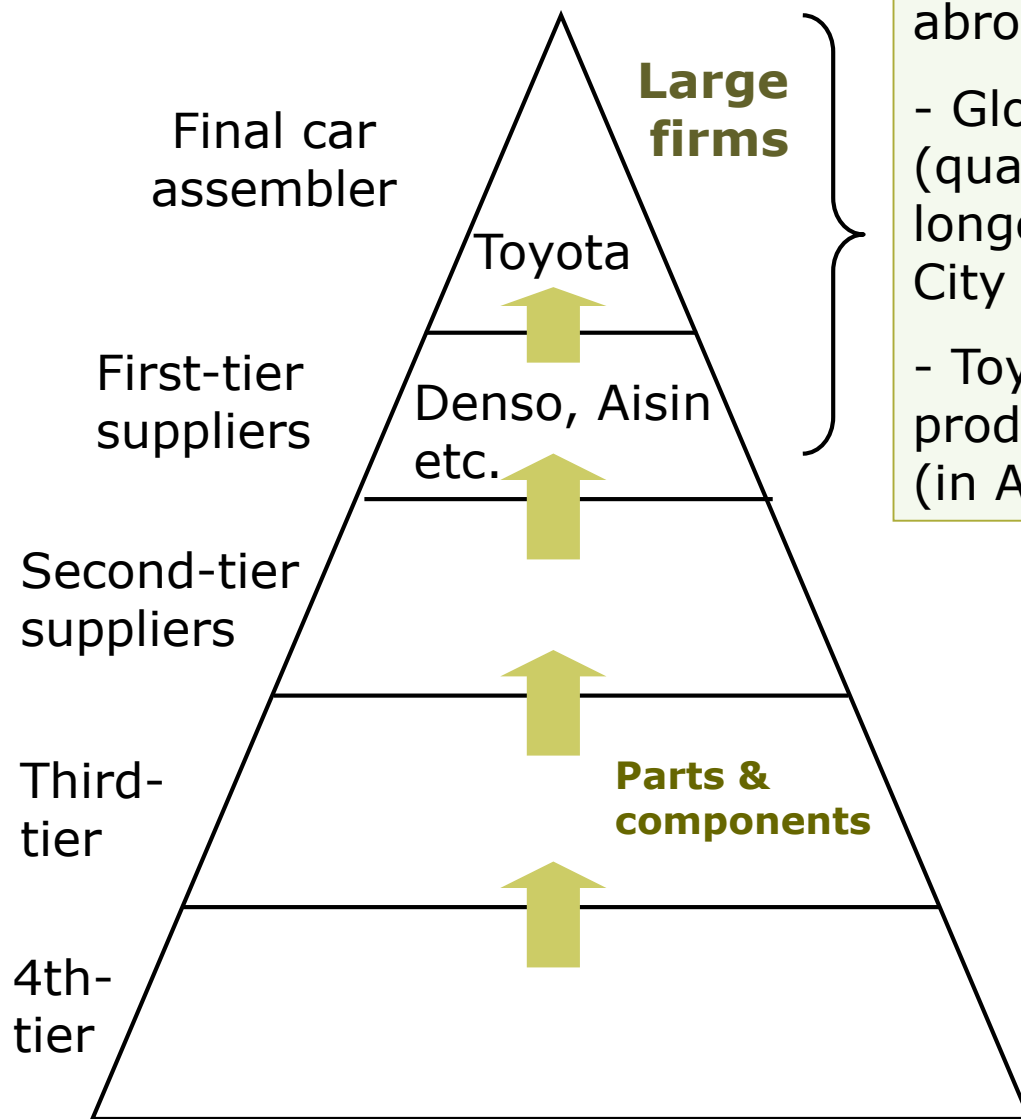
# Changing Situation

In the 1980s-90s, Japan was a leading country in car and consumer electronics manufacturing—but now:

- **Electronics** is stagnant (Sony, Sharp, Toshiba...); electronic devices such as phones, TVs and computers are now modularized, designed by Apple/Samsung/LG, and assembled in developing Asia. But Japan is still strong in providing key materials and components. Panasonic, Hitachi, Olympus, etc. shift to such areas as new energy and medical devices.
- **Car** industry is still alive and well, but technology is shifting: connectedness, auto-drive, sharing, electric car, etc. Will Japan keep the lead?
- Japanese products may be high quality but they are usually expensive. Japan lacks speed, flexibility and ICT capability compared with China, Korea and others.
- Japan must find new sector(s) to create high value, to replace traditional mechanical industries. It does not have to be manufacturing. It can be quality services related to aging, human value, life comfort, etc.



# Disintegration of Toyota Pyramid (Aichi Prefecture, near Nagoya)



- Accelerated relocation of factories abroad
- Global part procurement with QCD (quality-cost-delivery) requirement; no longer committed to buy from Toyota City or former suppliers
- Toyota says it will “maintain domestic production of at least 3 million cars” (in Aichi, Tohoku, Kyushu)

## Numerous SMEs:

- Previously, regular & captured suppliers to Toyota
- High technology and QCD, but no other capabilities
- Toyota no longer promises orders in Japan or abroad.

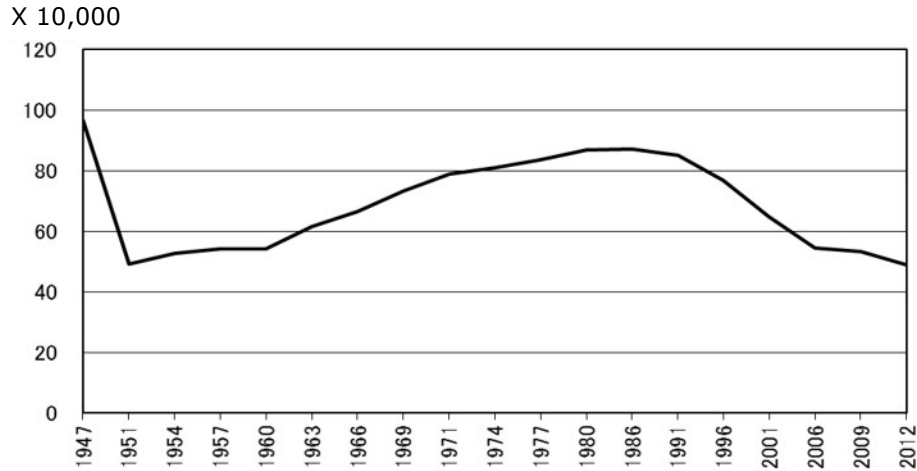
# Changing Situation

Competitive SMEs have been a driver of Japanese growth in the past, but they now face many challenges.

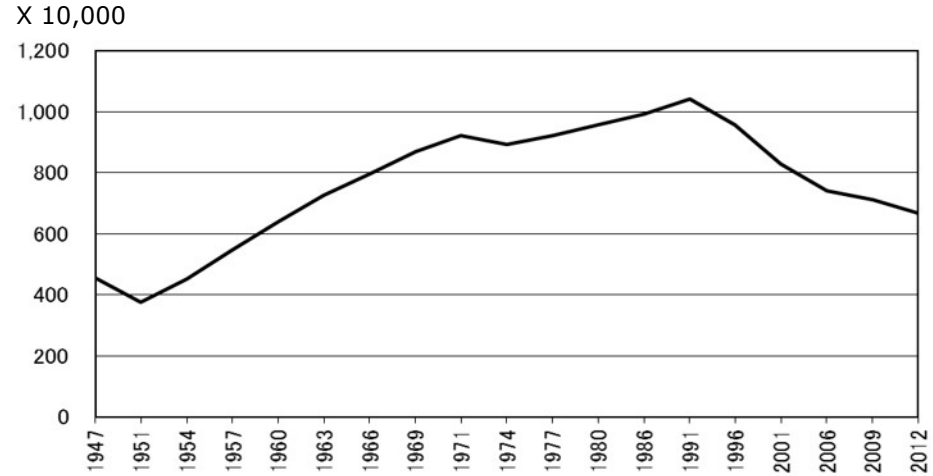
- Labor shortage
- Aging of SME owners
- Lack of next generation (young) engineers
- Weak domestic demand and demand shift abroad
- Rises of China, Korea, Taiwan, etc. as competitors
- Policies that do not support innovation or new sectors effectively

The number of Japanese SMEs is declining sharply in every region and sector. The Lehman Shock (2008) further further accelerated this trend [COVID-19 will further accelerate it].

## Number of Manufacturing SMEs

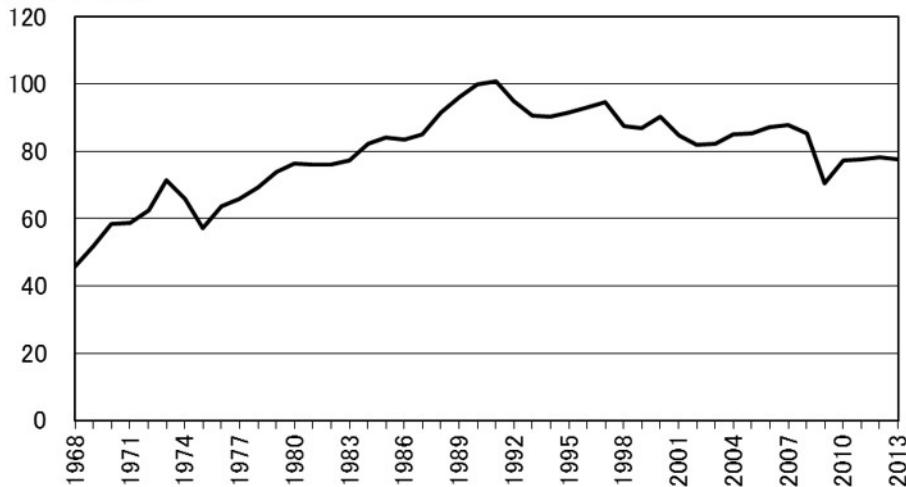


## Employees at Manuf. SMEs



## Production Index of Manuf. SMEs

(1990=100)



Compared with around  
1990 (peak time)

- Establishments 44% ↓
- Employees 36% ↓
- Production 23% ↓  
(by 2012-13)

# Policy Response

- ❑ Many manufacturing SMEs want to invest abroad for survival. Most popular destinations are Vietnam, Thailand and Indonesia.
- ❑ Before 2010, government discouraged SMEs' overseas investment for fear of job loss at home ("hollowing out").
- ❑ From 2010, government (METI) began to promote SMEs' outward FDI to cope with weak demand and labor shortage at home, in the aftermath of global financial crisis (2008-09).
- ❑ METI created national and regional support networks where JICA, JETRO, AOTS, SMRJ, local governments, etc. are mobilized.

## Council for Supporting SME Overseas Business Expansion

(National & 9 Regional levels, est. 2010)

### **Government:**

METI, MoFA,  
MoAgr, Finance  
Services Agency

### **Official agencies:**

JETRO, SMRJ,  
MEXI, JICA

### **SME assoc's:**

Japan Chamber  
of Commerce &  
Industry, CFSCIJ,  
SME Chuokai

### **Financial institutions:**

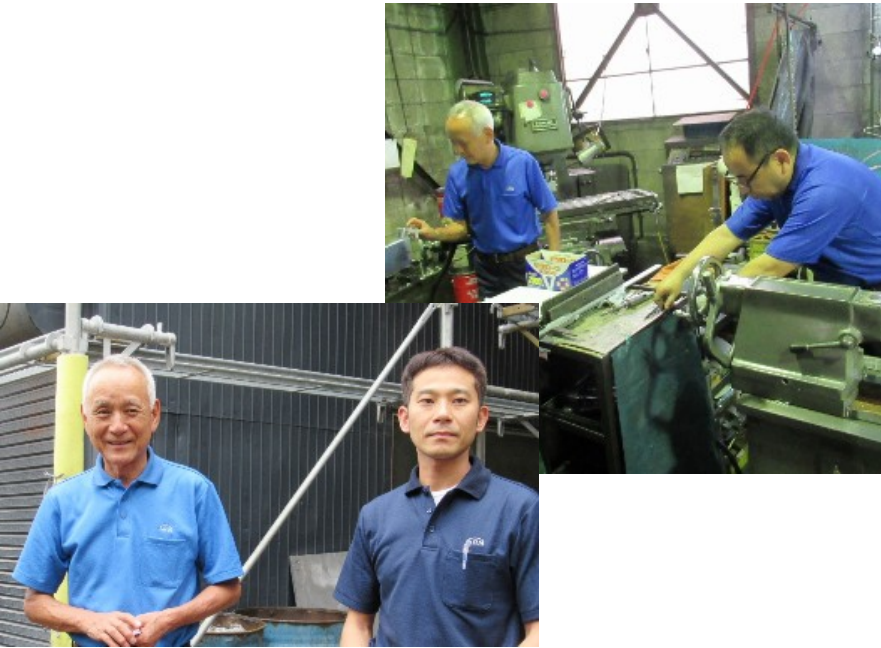
Japanese Bankers  
Assoc., other bank &  
credit assoc's, Japan  
Finance Corporation,  
Shoko Chukin

### **Other:**

Japan Federation  
of Bar Assoc's,  
AOTS (technical  
cooperation)



# Photos from Manufacturing SME Visits (June 2018)



Shirane Kikai (precision metal parts), Kawaguchi City; GD and his son who will inherit the business.



Tomiwa Chuzo (metal casting), Kawaguchi City; state-certified excellent engineer & GD



Industrial Technology Support Center, Higashiosaka City; technology experts

Osaka Kosakusho (high-tech metal parts), Higashiosaka City; Chairman with a young worker

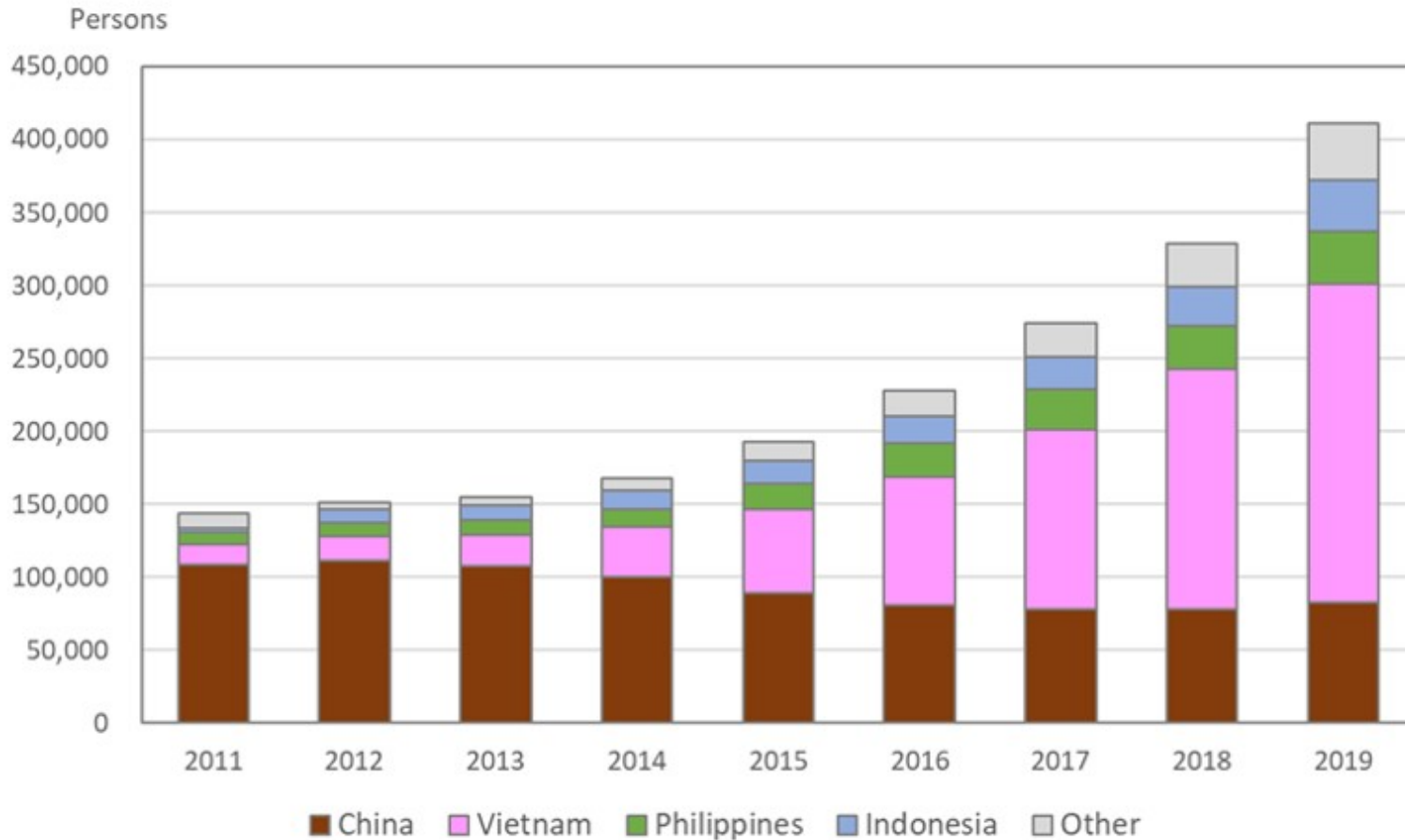


# Importing Foreign Labor

- ❑ Labor shortage in Japan is severe and structural. It will get worse in the future. Japan has long refused to import foreign labor (except skilled professionals), but now it must change this policy to alleviate labor shortage.
- ❑ Gino Jisshusei (technical interns) and foreign students (incl. Japanese language students) working part-time within hour limits are the main sources of foreign labor. There are also illegal foreign workers.
- ❑ Gino Jisshusei aims at technology transfer by improving the skills of young foreign workers in Japan for three years before going home. But it is often viewed as a source of cheap unskilled labor. This system, when poorly managed, increases crime, worker disappearance, unpaid wage or overtime, illegal work assignment and other human rights violations.
- ❑ In 2017, the government revised this system to deal with these problems and also to receive a greater number of foreign labor. Subsequently, more measures were implemented to bring more foreign workers to Japan.
- ❑ Rather than adjusting existing systems in minor ways, Japan needs to reconsider its immigration policy more fundamentally to cope with its long-term labor problem. This should include, among other things, how to welcome and integrate foreigners as part of the extended Japanese society.

# Gino Jisshusei

Foreign technical interns trained in Japanese gemba (factories, farms, hospitals, construction sites, etc.) for three years



Source: Japan International Training Cooperation Organization.

# Gino Jisshusei

## (Technical Interns)



- ❑ Young foreigners learn skills at Japanese firms for three years, then return home. Some workers do acquire skills, but others consider this simply as an earning opportunity abroad. Some Japanese firms also consider this as a cheap supply of temporary labor.
- ❑ To cope with acute domestic labor shortage, the Japanese government recently expanded target sectors, number of years and other conditions. But unprepared rapid expansion may increase crime, worker disappearance and mistreatment of foreign workers.
- ❑ Japan and Vietnam are now working to solve these problems. New policies are issued on both sides to improve selection and monitoring.
- ❑ On the positive side, many Japanese manufacturing SMEs are impressed with the serious working attitude of Gino Jisshusei and decide to hire them permanently or to invest in their home countries.



# VEPR Report on Vietnamese Gino Jisshusei (2017)

- ❑ A JICA-funded research was conducted by the Vietnam Institute for Economic and Policy Research (Hanoi), which included visits to Aichi Prefecture in Japan and Ha Nam Province in Vietnam.
- ❑ Jisshusei candidates are from country side and recruited by brokers or word-of-mouth. They must study Japanese language and culture for six months before going to Japan. Dispatching Organizations in Vietnam and Supervisory Organizations in Japan take care of them.
- ❑ On average, a jisshusei pays **\$5,300** to broker and Dispatching Organization, and carries debt of **\$4,700** upon arrival in Japan. He or she earns **\$44,500** over three years, and brings home **\$23,000** after deducting living cost and repaying debt (**in successful cases**).
- ❑ Jisshusei feel initial cost is too high, but they don't know Japanese firms also incur high cost to receive them. Jisshusei generally lack information so they may fall prey to dishonest brokers.

# Revision of Gino Jisshusei Policy

(Nov. 2017)

## **Coping with emerging problems**

- ❑ Newly established Gino Jisshu Organizations shall approve training plans and monitor the performance of Supervisory Organizations and host firms in Japan.

## **Importing more foreign labor (for firms with good record)**

- ❑ The training period in Japan is extended from three to five years.
- ❑ Maximum foreign labor share at any company is increased from 5% to 10% of regular workforce.
- ❑ Eligible sectors are expanded: agriculture, fishery, construction, food processing, textile and garment, metal and machinery, elderly care, etc. The list can be further expanded or revised in future.

## **Introducing Tokutei Gino (specified skills workers)**

- ❑ In 2019, a new labor category was created to absorb foreign labor without training component, to supplement Gino Jisshusei.

# Esuhai Company

One of the Best Labor Exporting Firms to Japan



- ❑ Mr. Le Long Son studied engineering in Japan. After returning to Vietnam, he set up a company to send Ginno Jisshusei to Japan based on his strong belief on labor attitude and discipline.
- ❑ Candidates are taught on manners, attitudes, Japanese thinking, 5S and Japanese language with great discipline. They are carefully monitored during and after their stay in Japan. Workers are encouraged to use acquired skill for future, not going back to farmers.
- ❑ Esuhai does matching between workers and Japanese FDI in Vietnam. It also participates in a government committee to improve the system.



# Hai Phong JSC

## One of the Best Labor Exporting Firms to Japan



- ❑ Mr. Tuyen graduated from Hanoi Industrial College, worked in Suzuoka as Gino Jisshusei for three years, then returned to Vietnam to establish his labor exporting company, like Mr. Son. He teaches attitudes, 5S, skills and Japanese language.
- ❑ He created a new program to instill strong will and long-term life planning to his students. Hard physical exercise, military style discipline, and oral declaration of purpose in front of audience before going to Japan are part of his program.
- ❑ His business is rapidly expanding with JICA and GRIPS support.



# Additional Topics for Discussion

- ❑ Can Japan revitalize economic growth, or is it too mature and old to compete with China and other emerging economies? What should be the national goal of mature Japan?
- ❑ How should Japan cope with aging and labor shortage? Is there any way to turn these negatives to positives?
- ❑ Should Japan receive more foreign workers, migrants and refugees? Does accepting them revitalize the society and economy? Are there any pitfalls—such as social and cultural conflicts?
- ❑ Is it possible to increase marriage and fertility rates by policy? How do you evaluate the current Japanese policy to cope with *koreika* and *shoshika*?