

# Labour Shortage in Japan ?

## Foreign Workers in Low-paid Jobs\*

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### Abstract

The Ministry of Welfare and Labour estimated in 2006 that over 900 thousand foreigners (excluding Koreans with the right of permanent residence) are working in Japan, including 20 thousand illegal workers. The majority of them, some 70 thousand, are working in low-paid jobs, although the Japanese government only allows foreigners to work in highly skilled jobs. Why are many foreigners working legally as unskilled labour ? Because Chinese may work as trainees and Japanese Brazilians are permanent residents who can work freely in Japan.

This paper points out that there is not, and will not be, a labour shortage in Japan in the near future, in spite of prevailing views to the contrary. Small and medium-sized companies have a strong demand for foreign workers, whom they substitute for young Japanese workers. Japanese female "part timers", elderly employees aged 60 years and over, and foreigners, provide cheap labour for companies, but they clearly prefer young foreign workers to other workers.

### 1. Introduction

With each year that passes in Japan, we see more foreigners working at small restaurants, construction sites and small factories. The number of registered foreigners was more than 2 million in 2005, and reached some 2.2 million in 2007, 1.7 per cent of the Japan's population. Koreans number 610 thousand, though most Koreans are born in Japan. There are 590 thousand Chinese, 320 thousand Brazilians and 200 thousand Filipinos. Since 2000, the number of foreign workers has increased by some 80 thousand every year.

In 2006 the number of foreign workers (born outside of Japan) was estimated by the Ministry of Welfare and Labour to be some 930 thousand (including illegal workers). These were categorized as follows: 180 thousand specialists and technical experts including entertainers, 95 thousand trainees, 370 thousand permanent residents of Japanese descent, 110 thousand students, and 170 thousand illegal

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workers.

The Japanese government officially gives foreigners permission to work only at skilled jobs. However, the number of skilled foreign workers working in Japan is 180 thousand, only one fifth of the total. It should be noted that the majority of foreigners are working at unskilled jobs in Japan. That is, the majority of Japanese companies expect foreigners to work at unskilled jobs, not skilled jobs.

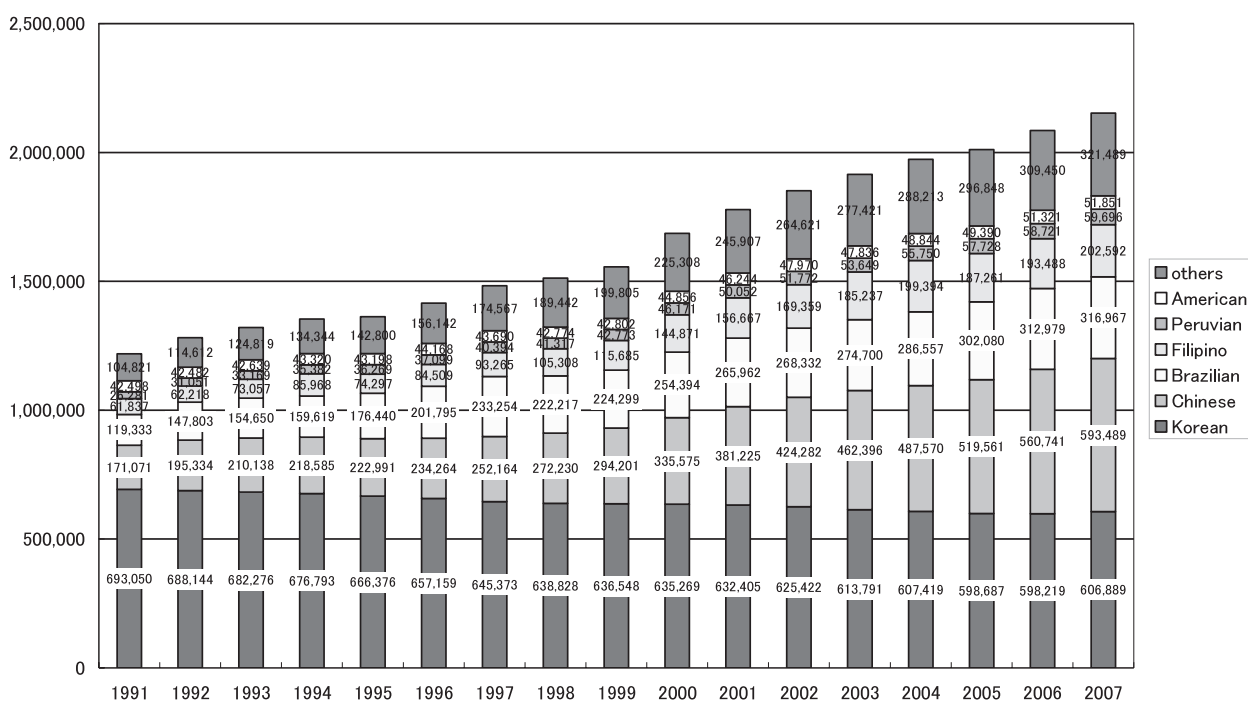
In this paper I will first discuss the perceived labour shortage, which has received a lot of publicity in the media. In my opinion, the perception of a labour shortage is incorrect, since a lot of Japanese are currently discouraged from working. Second, foreigners are working at low-paid jobs at the moment. The Japanese government and managers, however, will have to deal with foreigner workers in the same way as Japanese workers, because overt discrimination towards foreigners is criticised. In this case, what is the advantage of employing foreigners ?

This paper composes of 5 sections as follows. Section 2 examines projections for the Japanese labour force and the demand for foreign workers. In Section 3, I will present data on foreign workers in the Tokai area, and I will confirm that foreigners are working in unstable labour conditions. Section 4 discusses whether foreign workers in Japan could increase in the future or not. Concluding remarks are in Section 5.

## 2. Labour Supply and Demand in Japan

Many politicians and managers are arguing for an increase of the number of foreign workers because

Figure 1 The Number of the Registered Foreigners



of a labour shortage. This argument, however, is totally invalid. Managers have always tried to cut the labour cost, as Adam Smith pointed out in his famous book *The Wealth of Nations*. In reality, if the wages offered are lower than what people expect, they will not work. Excessively low wages are the real reason behind the current labour shortage in Japan. In this section, I will point out that the Japanese manufacturing and service industries need low paid workers, and that they are the employers of cheap labour from China, Brazil and so on.

Japan has one of the most aged populations in the world. Currently one fourth of the population is aged 65 years and over, because of a lower birth rate and longer life span. Along with the aging of the population, the labour force is expected to decrease. Figures in Table 1 show estimates by the Ministry of Welfare and Labour.

Table 1 indicates that the labour force is expected to dramatically decrease in the near future, by some 3.6 million for men and some 1.1 million for women from 2005 to 2025. These figures, however, are calculated on the assumption that the labour market participation rate will remain the same as it is now. That is, assuming that the labour market participation rate for women continues at the current low rate of less than 50 per cent. As is well known, Japan is an exception among the industrialised countries in respect of the number of women not working, especially for educated women. If their working ratio could increase to 60 per cent from current 50 per cent, over 5 million new workers would appear in the labour market. This number would be enough to compensate for the decrease in young workers in the future. That is, if Japanese women work more, the labour shortage will not occur.

Figure 2 shows the labour market participation rate for women by age. Japanese women have a tendency to quit their jobs when they have a baby, just as Korean women do. Long working hours force them to leave their jobs. Japanese regular workers are working for around 2,000 hours, compared with

Table 1 Projection of Labour Force by Ministry of Welfare and Labour

(ten thousand persons)

Men	2005	2025	Difference	Women	2005	2025	difference
total	3,994	3,631	-363	total	2,778	2,666	-112
15-19	61	56	-5	15-19	56	47	-9
20-24	279	235	-44	20-24	267	211	-56
25-29	418	303	-115	25-29	309	226	-83
30-34	486	316	-170	30-34	306	202	-104
35-39	433	340	-93	35-39	277	227	-50
40-44	398	380	-18	40-44	287	286	-1
45-49	378	415	37	45-49	286	324	38
50-54	424	460	36	50-54	307	355	48
55-59	477	388	-89	55-59	310	288	-22
60-64	302	310	8	60-64	177	235	58
65-	338	427	89	65-	195	264	69

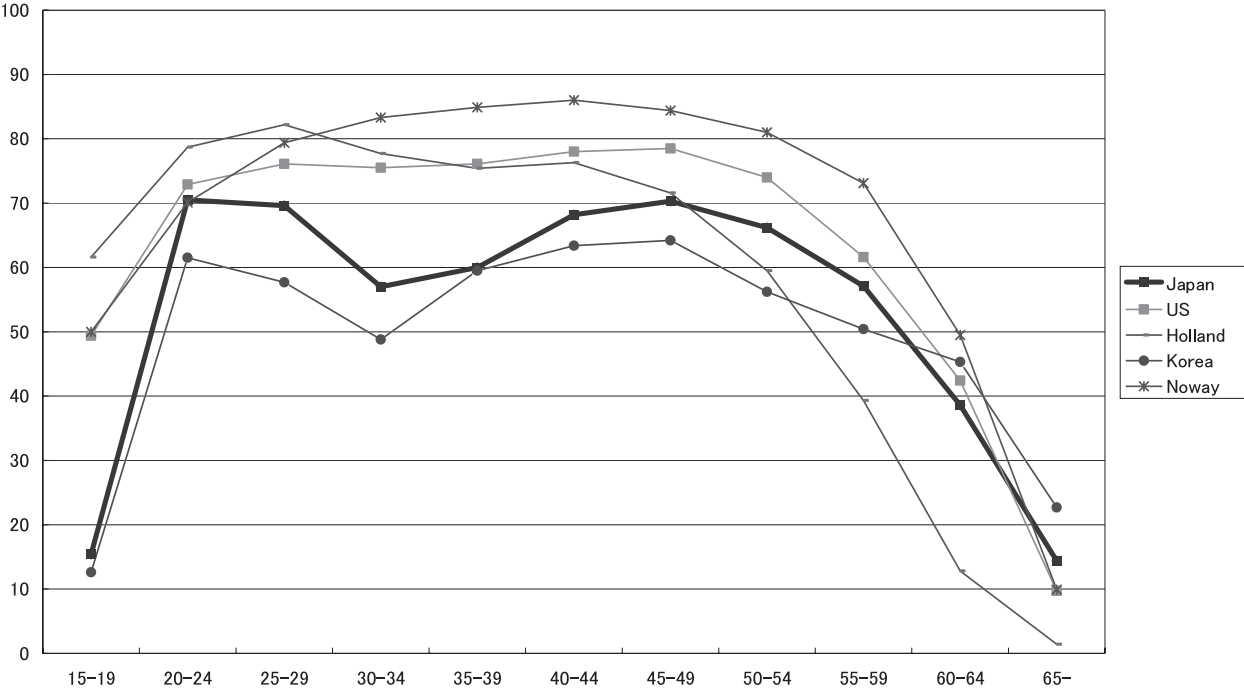
around 1,600 hours in Germany and France (manufacturing workers, Ministry of Welfare and labour). Long working hours prevent workers from finding a balance between work and family life.

Once women leave employment, the opportunity to re-enter the labour market is strongly limited to low-paid and unskilled jobs. Women returning to the work force are commonly referred to as “part-timers”. In these circumstances it is understandable that many educated women do not want to work again. Although some “part-timers” are skilled workers, their wages are still lower than those of “regular employees”, because a “part-timer” is different labour category from that of “regular employee”. The hourly wage rate for the former is half of that for the latter. Regular employees have bonuses, retirement payments, and half of their social security burden is paid by the company, while “part-timers” receive none of these benefits. “Part timers” are assumed to be married women, who are dependent on their husbands.

The above facts explain the low labour market participation rate for Japanese women. If their wage rates were higher, Japanese women might work more. If the labour market participation rate for Japanese women were to increase to 60 percent from the current 50 percent, 5 million new workers would appear in the Japanese labour market. In this case, a decrease in the working-aged population would not equate to a decrease in the labour force.

Why are the wages of “part-timers” so low ? Because a wide wage gap exists among companies in Japan, and small and medium-sized companies demand cheap labour. Figure 3 shows the wage curve for regular employees by age group and by company size. A large company is one with 1,000 or more

Figure 2 Labour Market Participation Rate for Women by Age Class (2005)



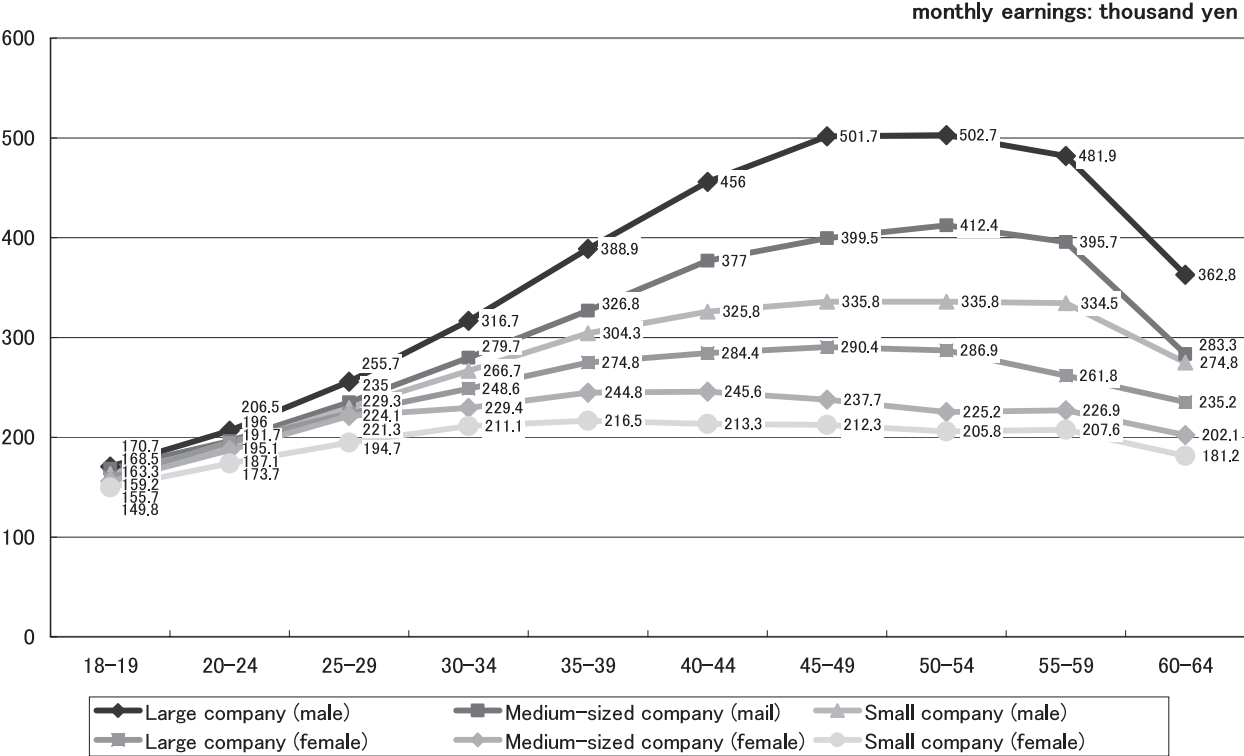
regular employees. A medium-sized company has between 100 and 999 employees, and a small-sized company has between 10 and 99 employees. Figures show monthly earnings for regular employees.

Figure 3 presents three facts on Japanese wage system as follows. First, a seniority wage system still remains for large- and medium-sized companies. This means that the younger workers are, the lower their wage level is. Second, there is a huge wage differential governed by company size. Employees in large companies receive some 1.2 times the salary of employees in medium-sized companies, and some 1.5 times the salaries of those in small-sized companies (for male employees aged 40 years and over). Third, even those women employed as regular employees receive lower wages than their male counterparts. Monthly earnings for women are less than 60 percent of men's for those aged 30 years and over. Even as regular employees, female workers are working for less.

The wage differences between companies have been widening over the past decade. If a value of 100 is taken to represent the average wage at large company, then for medium-sized companies the corresponding figure would have been 85 in 1995, 83 in 2000, and 81 in 2005. For small-sized companies the corresponding figures would be 79, 76 and 73 respectively.

The above findings show that medium and small-sized companies can not pay as much as large companies. Because of labour conditions in these companies, including hours worked, wages and workplace security, they are not able to employ enough Japanese workers. It is mainly small companies that are experiencing a labour shortage, a fact which has not received enough attention. As a result, they

Figure 3 Wage Profile of Regular Employee by Company Size (2005)



employ a lot of foreign workers, whether they are legal or illegal.

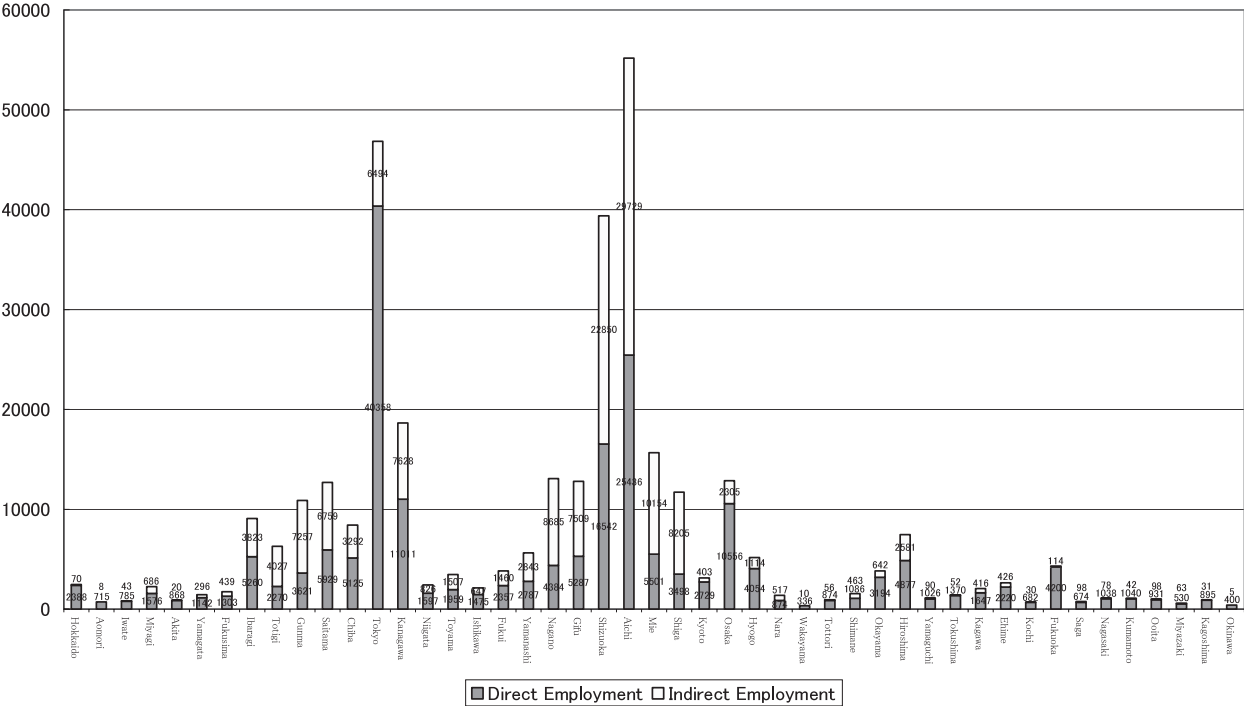
It should be noted that the high profits and high wages of large companies are supported by low wages at these smaller ones. Think of the Toyota group with all its smaller subsidiaries. In the case of Toyota, most foreign workers are Japanese Brazilians, who are working at smaller subsidiary factories, not at the famous Toyota factory, and not as regular employees, but as a non-regular employees referred to as “haken”. Section 3 presents statistics for foreign workers in the Tokai area.

### 3. Foreign Workers in the Tokai Area : Japanese Brazilians and Chinese Trainees

According to the Foreign Workers Survey (2005) undertaken by the Ministry of Welfare and Labour, some 54 percent of foreign workers are working in production factories, especially at car manufacturers. There are many car factories in the Tokai area, including Toyota, Honda, and Suzuki. Many foreign workers are working at factories with less than 100 Japanese regular employees.

Figure 4 shows that Aichi and Shizuoka are the most significant working places for foreigners along with Tokyo. Furthermore, in the Tokai area, half of foreigners working in companies with more than 50 employees are not directly employed by companies, but are the staff of employment agencies. On the other hand, in Tokyo over 80 percent of foreigners are employed directly by companies. This suggests that foreign workers in Tokyo might be skilled workers and those in the Tokai area could be unskilled workers. Unskilled workers are substitutable and their wages are likely to be at a low level.

Figure 4 The Number of Foreign Workers in Companies with 50 Employees and over



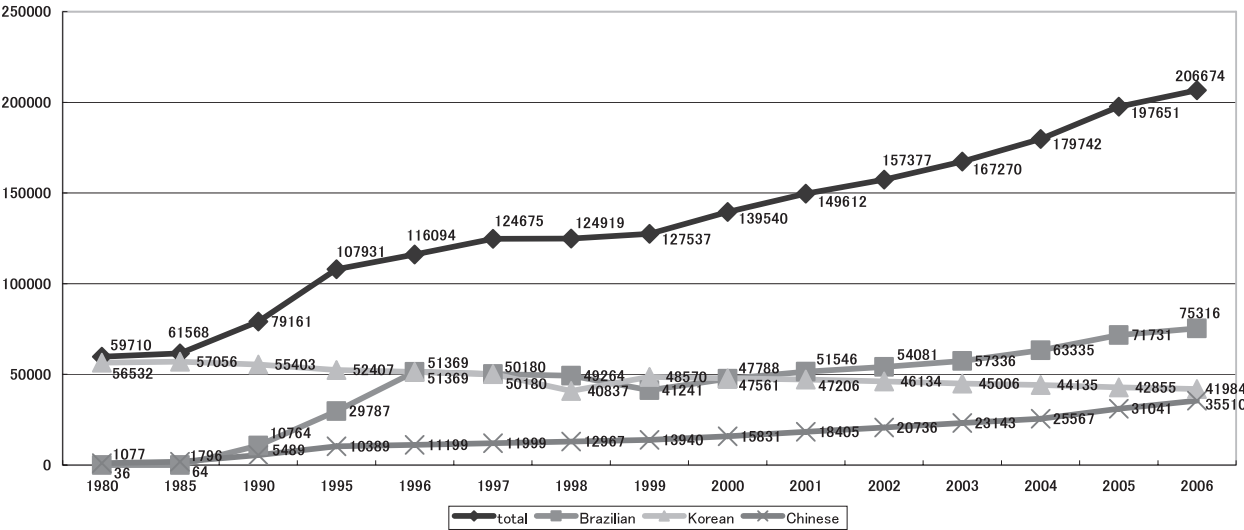
In 2006, the number of foreigners registered in Aichi prefecture reached 210 thousand, representing 2.8 percent of the population. This is much higher than the average for Japan, which is 1.6 percent. The largest group in this population is made up of Japanese Brazilians (75 thousand), followed by 42 thousand for Koreans (including those who were born in Japan) and 35 thousand for Chinese. This composition of the foreign labour force is different from the national average (see Figure 1). Nation wide the most numerous groups are Koreans, Chinese and Brazilians in that order. Japanese Brazilians are concentrated in the Tokai area.

Figure 5 shows that the population of Japanese Brazilians in Aichi started to increase in 1990. In 1990, the Japanese government decided to create a new visa category within the class of permanent residents, which allows Japanese descendants to work in Japan without any restrictions. They are able to live and work freely in Japan. Since then, foreign workers, mainly Japanese Brazilians, have begun to be employed as unskilled labourers at car parts subsidiaries, (referred to as “haken” or “ukeoi”), although the Japanese government still officially prohibits foreigners working in unskilled jobs .

The total number of Japanese Brazilians registered was some 320 thousand in 2007. They became new immigrants to Japan, although most can't understand Japanese properly. As a result, they have faced a lot of difficulties over wage contracts and their children have experienced difficulties getting an education.

There is another opportunity for foreigners to be legally employed in unskilled jobs. It is a trainee system which commenced in 1993. An earlier trainee system began in 1981 for learning technology and training at Japanese factories. Under that scheme a trainee could stay only for one year. In 1993, the period was extended to three years: one year as a trainee and two years as a worker in the training process. From that time, the number of trainees began to increase. The majority of trainees are Chinese. Their wages are extremely low: on average 60 thousand yen per month for a trainee and around 150

Figure 5 The Number of Foreigners registered in Aichi



thousand yen for a worker with training.

Furthermore, some have complained that foreigners visiting Japan under this system have a tendency to be illegal workers, because this system allows trainees to work for three years at most. Korea used to have the same trainee system as Japan does now, but they abolished it in 2007 and introduced a new labour contract system, because of an increase in the number of illegal workers.

Currently, cheap labour is officially supplied by Japanese Brazilians and trainees, mainly Chinese, and additionally by students and illegal workers.

Japanese manufacturing companies prefer young foreigners to Japanese females or the Japanese elderly. However, is it possible to continue to do this in the future ? Section 4 discusses the relationship between the standard of living and labour mobility.

#### 4. Wage Inequality and Labour Mobility

As I have mentioned in the previous Sections, Japan is one of the biggest international immigrant countries, if an immigrant is defined as those who stay in a country other than that of their birth for one year and over. This is the definition used by International Organisation for Immigrants.

To be perfectly frank, the current Japanese government and Japanese employers exploit foreign workers as cheap labour, and they don't care about their future or their children's future. It is known that many Japanese Brazilians are not able to understand Japanese, and so they have a lot of problems with their working conditions including wages, job stability, promotion, and so on. Their children are also at a disadvantage due to their poor command of Japanese.

The majority of current immigrants to Japan are from Brazil and China. The question then arises : if their countries become prosperous, will they continue to work in Japan ?

Figure 6 presents movement in the GDP differential between Japan and Brazil, and between Japan and China. Both Brazil and China belong to the so-called BRICs, however, these two countries are very different in terms of their GDP per capita. According to the United Nations Statistics Division, GDP per capita in 2005 is US\$ 35,644 for Japan, US\$ 1,766 for China, and US\$ 4,260 for Brazil. The difference between Japan and Brazil has been relatively stable, a factor of between 6 and 12. On the other hand, the difference between Japan and China has decreased year by year. Japan's GDP per capita was some 90 times that of China in 1990, but has reduced to some 20 times in 2005.

Figure 7 suggests what will happen if Brazil and China become wealthy. The relationship between economic inequality and the increase in the number of registered foreigner workers is positive, at least for both China and Brazil. It suggests that the number of foreigners working in Japan will continue to increase as long as the wealth difference remains, Japanese companies have a demand for them, and the Japanese government permits economic immigrants. If the difference in wealth disappears, however, the supply of cheap labour is also likely to disappear.



Figure 6 GDP Gap (par capita) : Japan/Brazil and Japan/China

source : the United Nations

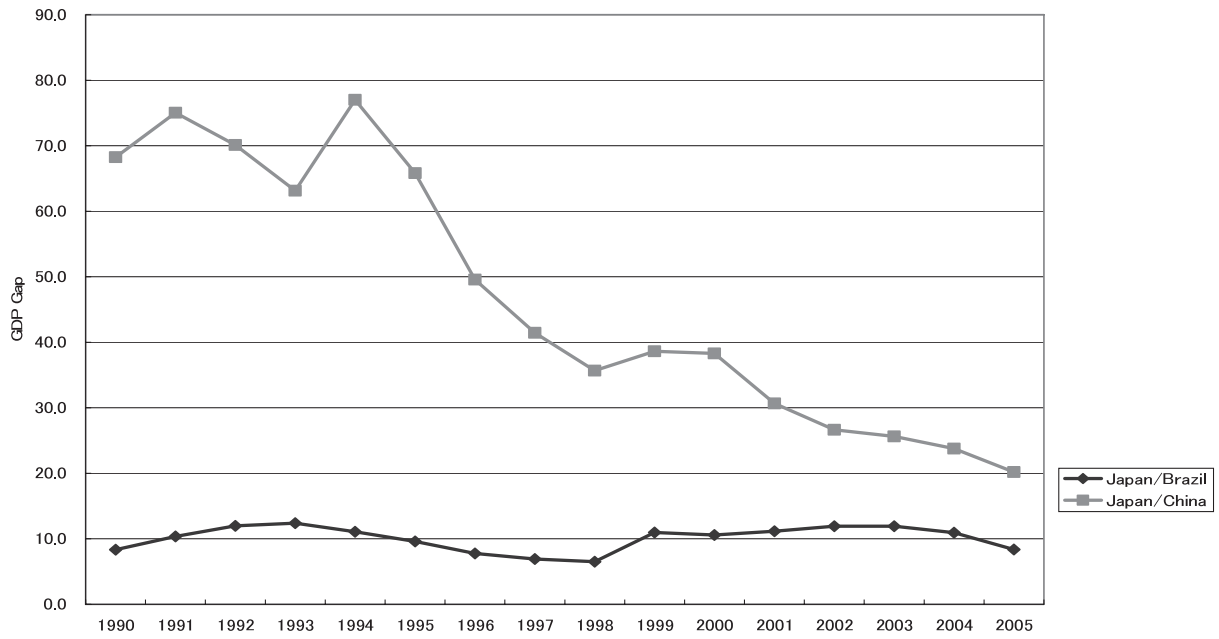


Figure 7 (1) Brazil : The Relationship between Economic Inequality and Increases in the number of Registered Foreign Workers

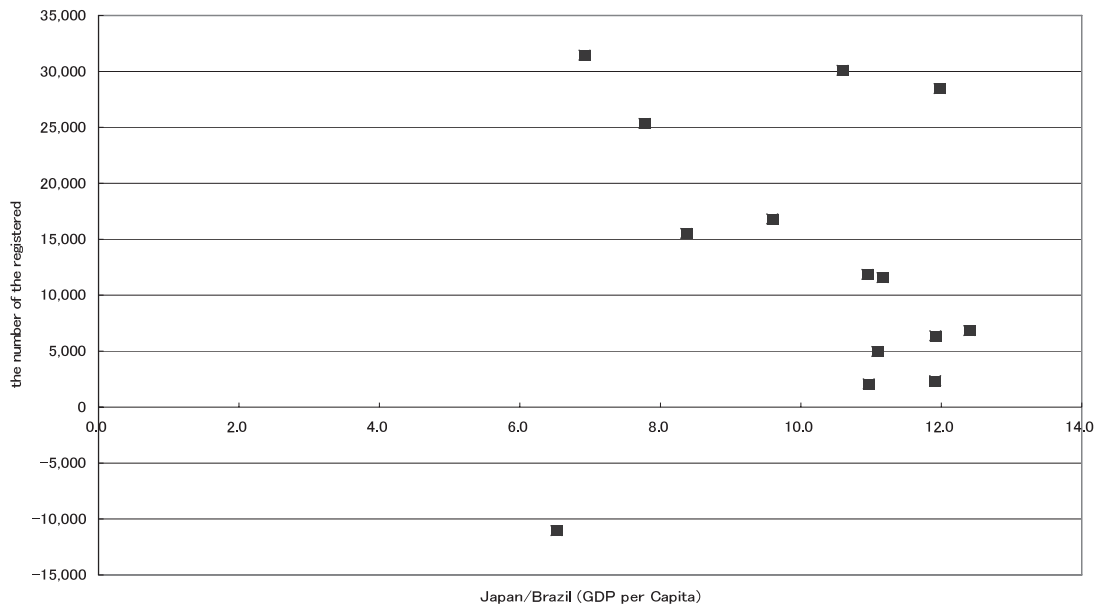
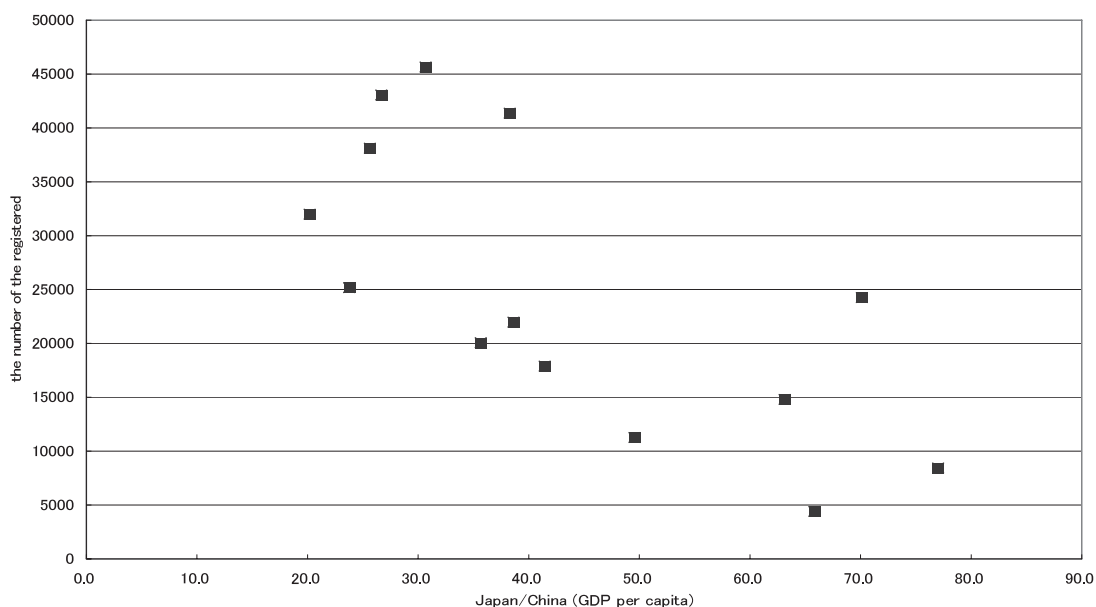


Figure 7 (2) China: The Relationship between Economic Inequality and Increases in the Number of Registered Foreign Workers



## 5. Conclusion

First, I pointed out in this paper that a future labour shortage in Japan is not inevitable, because of a lot of women, especially educated women, currently do not work. If the labour market participation rate for women increases to 60 percent from the current 50 percent, a decrease in the number of young workers could be compensated for by an increase in the number of female workers.

Long working hours are a major reason why women cannot currently continue to work. The ineffective Japanese unions have accepted such long working hours. They have negotiated only a 25 per cent loading for overtime, unlike the 50 per cent common in other developed countries. Long working hours force working women to quit their job when having a baby. They re-enter the labour market only to work as “part-timers” at small factories, supermarkets and small shops. These are unskilled jobs, unattractive to educated women. If the Japanese government would like to bring more women into the workforce it is essential to shorten working hours.

Second, Japan has already allowed foreigners to work at unskilled jobs, although it has officially insisted that only skilled workers can be accepted. Japanese Brazilians and Chinese are the main sources of cheap labour. Most Japanese Brazilians are working at small manufacturing companies, especially car parts factories in the Tokai area. Chinese are mainly working at small factories and at small shops, including restaurants and convenience stores.

The substitution of foreign workers for Japanese women in the workforce of small companies leads, theoretically, to a negative impact on the Japanese economy. The consequence is that 50% of women do

not work, do not pay tax, and do not contribute social security payments. Japan might not have accepted unskilled workers with such readiness if these consequences had been considered adequately.

Third, current foreign workers have visited Japan because of economic reasons. This being the case, they will continue to increase in number, as long as there is a strong demand for them in Japan and an economic gap remains (see Figure 6 and Figure 7).

I argued in this paper that the perception of a labour shortage is invalid, because a lot of Japanese do not work — mainly educated women. Japan, however, has already accepted a lot of unskilled workers from Brazil, China and so on. This means that the Japanese government should take responsibility for them. It needs to allocate money to teach the Japanese language to Japanese Brazilians and their children, because they are permanent residents. Japan should also pass legislation protecting the rights of immigrant workers, affording them the same protections enjoyed by other Japanese workers.

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