

Labor Shortage Gnawing Japanese Firms – Accepting Foreign Workers: Solution? –

By Okabe Hiroshi

Photo: Kyodo News

Japanese companies are facing a keen labor shortage. Until a few years ago, many Japanese companies were busy cutting down on their workforce as part of their restructuring efforts. However, with the population shrinking and the baby boomer generation retiring in large numbers, many companies are suddenly finding themselves understaffed. The competition to hire young people is thus heating up. To resolve the labor shortage from a long-term perspective, companies will obviously need to fully utilize the potential of female workers. Recruiting foreign workers is also another option likely to draw attention.

According to a quarterly survey on labor and economic trends compiled in February by the Ministry of Health, Labor and Welfare, an indicator of labor shortage hit a 15-year high. The indicator, known as the diffusion index of labor shortage and surplus, subtracts the percentage of companies saying they have excessive staff from the percentage of companies with insufficient staff. The survey found the index at its highest level since May 1992. With the economy expanding and a large number of aging employees reaching the mandatory retirement age, companies are aggressively hiring. Commenting on the report, a ministry official said, "Companies are failing to hire the number of people they hope to get, and there is an increasing perception that labor is getting scarce."

A recent survey by Recruit Co., the publisher of employment information magazines, showed job offers for students graduating next year stand at the highest level in about 25 years. In fiscal 2006, the number of mid-career hirings in the private sector rose roughly 30% from the preceding year. It is clear that the biggest challenge facing companies today is how to maintain a sufficient level of employees.

Many personnel managers are racking their brain devising strategies to keep

their employees. Nissan Motor Co. has introduced a system whereby women can take maternity leave as soon as they know about their pregnancy. Kobe Steel Ltd. has improved its leave system for employees so that they may nurse and look after family members in need. Supermarket operator Ito Yokado has intro-

duced a system giving part-time employees preferential treatment such as better pay. Casual fashion chain store Uniqlo is changing the status of up to 5,000 of the 6,000 contract employees to regular staff.

The current labor shortage, however, is not purely the result of a strong economy, which is cyclical in nature; it is also caused by the structural problem of a shrinking workforce. In the labor ministry's latest long-term demographic projection, Japan's productive population aged 15 to 64 is likely to fall from 84.42 million in 2005 to 67.40 million in 2030 and to below 50 million in 2050. If the productive population shrinks at this pace, a sharp decline in the size of the workforce will become inevitable.

Against this backdrop, Okuda Hiroshi, the former chairman of Nippon Keidanren, has emphasized that increased hiring of women and elderly people and the exploitation of information technology alone will not be enough to make up for the decline in the workforce. As they find it difficult to hire people in Japan, many companies now feel they may have to rely on foreign workers, an option few Japanese have been willing to discuss.

At present, the Japanese government is wary of expanding foreign labor on grounds that it could lead to a rise in illegal workers and other issues. The Labor



Students listen to a corporate personnel official explain about working conditions as the job-hunting season gets into full swing in Japan amid a growing labor shortage.

Policy Council, an advisory body to the labor minister on the revision of labor law, is also holding on to its basic stance that Japan should not accept unskilled foreign workers. Accepting foreign workers will have a big impact on the Japanese society and regional communities, and this issue requires extensive national debate.

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Japan Eases Merger Rules

– Better Climate for M&A –

Changes in the legal system are under way that will facilitate M&A of Japanese companies. The Japan Fair Trade Commission (JFTC) plans to ease restrictions under its merger guidelines, aiming at strengthening the international competitiveness of Japanese companies. Besides, the antimonopoly watchdog will lift a ban on cross-border “triangular mergers” in May, allowing foreign companies to acquire Japanese firms more easily by using their own shares instead of cash to finance takeovers and mergers. Japanese corporations face a tough choice – whether they should aggressively seek mega-mergers in Japan or whether they would be swamped by a wave of global reorganizations.

The JFTC has so far put emphasis on

combined domestic market share of companies applying for a merger as the thresholds for scrutinizing its conformity with the Antimonopoly Law. But the commission will instead screen merger applications on the basis of global market share. Even a merger case in which its post-merger domestic market share will be a dominant 100%, but its global market share will be less than 50%, is likely to be approved. For example, a mega-merger that has been difficult such as between Toyota Motor Corp. and Nissan Motor Co. will be feasible, compliant with the Antimonopoly Law.

Meanwhile, with the ban on a triangular merger by foreign companies lifted, a major foreign firm will be able to make a target Japanese company a subsidiary by

issuing its own shares to shareholders in the Japanese company. It will become easier for a foreign company with a large market capitalization to absorb a Japanese firm.

For fear of hostile takeovers by foreign businesses, the lifting of the ban has been deferred for a year. But the government has decided to remove the ban from the viewpoint of promoting investment in Japan.

Many Japanese corporations are concerned over a decline in the domestic market because of the shrinking population. One countermeasure to cope with a dwindling market is M&A. The series of institutional revisions may pave the way for the beginning of a sweeping realignment of Japanese industry.

Japanese Version of NSC Set for Launch

A Japanese version of the White House’s National Security Council, envisaged to play a commanding role in diplomacy and national security, will be inaugurated. The setting up of the council was proposed in a report compiled in February by a key government panel chaired by Prime Minister Abe Shinzo. The government will present related bills shortly with an eye to launching it in April next year.

The Japanese version of the NSC is expected to have two key functions.

The first is to work out a “long-term strategy concerning national security.” Japan at present faces various diplomatic and security challenges that will influence its future security environment. How to maintain its alliance with the United States, the superpower in anguish over the hopeless mess in Iraq and the Iranian nuclear issue? How to incarnate a “mutually beneficial relationship based on common strategic interests” with China

as that country continues to achieve high economic growth and strengthens its international presence? How to draw up a road map to remove North Korea’s nuclear threat and normalize diplomatic relations with that country by resolving the abduction issue? To deal with these and other questions, the Japanese version of the NSC is expected to work out a comprehensive diplomatic strategy.

The other key function is to enable the government to swiftly cope with national emergencies. If crises such as North Korean missile and nuclear tests or violations of territorial waters break out, it is a fight against time. At such times, the NSC would be convened with the prime minister, the chief cabinet secretary, the foreign minister and the defense minister as the core of its members for quick decision-making.

It will be an organization that drastically changes the Japanese-style policy-



Photo: PANA

Prime Minister Abe Shinzo (second from right) addresses a meeting designed to explore ways of enhancing the performance of his office concerning national security.

making system in which policies are worked out by accumulating input from relevant ministries and agencies. To what extent the NSC can actually exercise its functions will thus depend on the prime minister’s leadership.

Okabe Hiroshi is a business news editor at Kyodo News.