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KEY-POINT:

As Part of Growth Strategy, Devise Human Resources Strategy Utilizing Foreign Workers



Author Kazumasa Oguro

By Kazumasa OGURO

3 Key-points for Weathering Declining Birthrate & Aging Population

Japan's economy and public finances stagnated after the collapse of the economic bubble in 1990 and have continued to worsen with globalization and the combination of a declining birthrate and an aging population. The nation's public debt is now rapidly approaching 200% of GDP. The Great East Japan Earthquake of March 11 of this year has also dealt a serious blow to the country's public finances and economy.

Rebuilding in the wake of the disaster is important, but Japan must also simultaneously undertake reforms in two areas in order to solve the medium- and long-term issues facing the country. The first is a growth strategy for increasing the Japanese economy's potential growth rate. The second is remedying intergenerational disparities through reforms in public finance and social security.

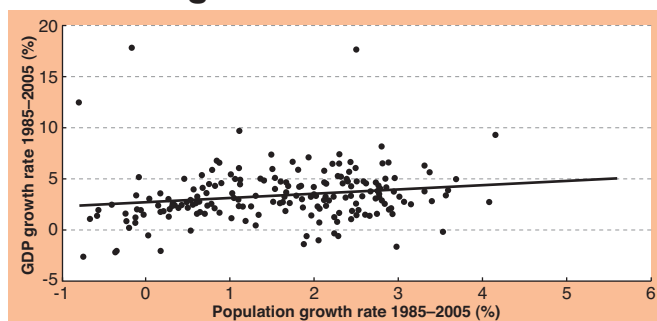
Given that the government and ruling parties are now moving forward in debating integrated tax and social security reform, this paper addresses the issue of growth strategy.

In doing so, let us look first at the relationship between population and economic growth. As shown in *Chart 1*, which plots the average growth rates for population and GDP in various countries for the period 1985-2005, the two measurements are positively correlated. In other words, while an economy with a rising population can be expected to increase, a declining population may apply downward pressure on economic growth. Given that Japan's population is expected to continue declining through 2100, therefore, it will be a challenge to raise the country's GDP growth rate to rapid expansion levels comparable to those experienced during the post-war period.

So what is to be done? While there are no clear answers to the question of what policies should be adopted, there are three key-points that seem germane: attracting external demand, strengthening supply through quality and integration, and drawing factors of production from overseas.

CHART 1

Relationship between population & economic growth



Source: Adapted from World Development Indicators (The World Bank, 2008)

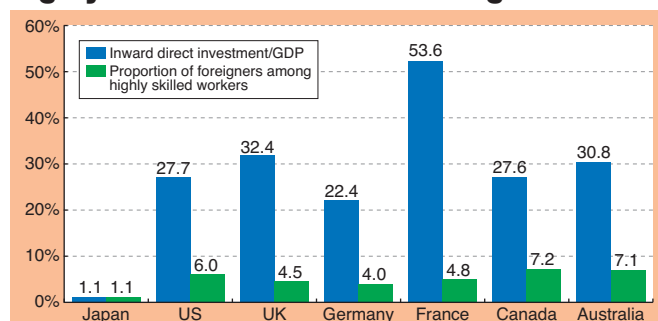
The first - attracting external demand - means to cultivate demand in Western and emerging Asian markets. The current administration is pursuing a growth strategy that includes attracting external demand not only from the West as in the past but also from China, India, and other emerging Asian markets expected to grow rapidly. It is important that the Japanese economy, with domestic demand contracting as population declines, adopt a stance of looking beyond its borders to seize business opportunities and demand in emerging Asian markets; on this point the administration's direction is fundamentally sound.

The second - strengthening supply through quality and integration - means improving the quality of the factors of production (human resources, physical resources, investment, and information) and promoting their integration. Looking ahead, issues such as 1) the development of cutting-edge science and technology in areas like environment and energy; 2) strengthening productivity in fields like medical treatment, nursing, and elderly support, tourism and urban renewal, and agriculture; 3) industrial consolidation; and 4) improving human capital through education are likely to grow in importance; for each it will be critical to improve quality and to promote the integration of information and people, and of service and production networks.

Industrial consolidation is also an important issue. Because domestic markets gradually contract in an economy with a declining population, all industries will be susceptible to lapsing into excessive competition that renders them incapable of coping with international competition. For Japan to survive - to distinguish itself from emerging nations such as China, the world's factory, and India, the world's IT center - it is essential that industry grows strong enough to take a long-term perspective in investing boldly in high-risk projects and technology development while also increasing the quality of core personnel. To do so, it will be necessary to work to consolidate domestic corporations, which are exhausting management resources by excessive domestic competition, through business streamlining and cooperation.

CHART 2

Comparison of inward direct investment & highly-skilled workers in leading countries



Source: Adapted from International Financial Statistics (International Monetary Fund, 2002) and International Mobility of the Highly-Skilled (Organization for Economic Co-operation and Development, 2001)

CHART 3

Changing interest in hiring foreign students

Furthermore, because the harmful effects of monopoly are diluted by international competition, and economies of scale function as in the international aviation business, it will also be important to reexamine Japan's Antimonopoly Law as applied to globally-active industries.

There are, however, certain preconditions. Specifically, it is vital to stimulate international competition by abolishing Japan's international barriers as much as possible while pursuing comprehensive economic partnership agreements (EPAs), covering human resources, physical resources, investment, and information, with emerging Asian countries and the countries of the West.

The mature countries of Europe, stimulated by the entrance of one low-wage country after another into the European Union, have regained their productivity. In the same way, it will be essential for Japan to increase its productivity by abolishing as much as possible its restrictions on imports and support for export industries, and moving forward with EPAs and free trade agreements (FTAs).

In terms of strengthening supply through quality, the future of the Japanese economy over the medium and long term rests on the creativity of the current generation of young people, the country's greatest asset. The most important thing to do to increase this generation's human capital is to make qualitative improvements to education. India and China now pour more energy into education than Japan, and Singapore's top schools are pushing forward with education that fully utilizes IT. Given the great strides already made with data terminals such as PCs and mobile phones (such as the iPhone) today, the environment is ripe for dramatic improvements in the way subjects like science, history, and language are taught; there is no time to lose in applying IT to education. (For example, many history textbooks in the US have adopted the format of the business school case study in seeking to distill useful strategies and ways of thinking about the future political economy based on historical context and patterns, and make the greatest possible use of videos and other Internet material to deepen an understanding of history.) Efforts to increase human capital nationally by conveying higher-level content to capable students are also important, and to do so it may be time to consider lifting the ban on skipping grades during compulsory education.

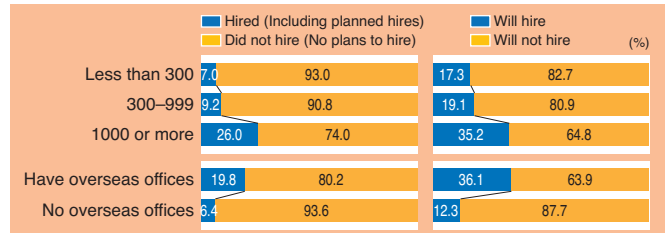
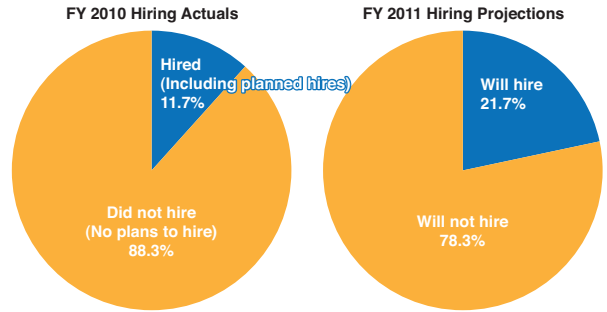
The third key-point is drawing factors of production from overseas. With a declining birthrate and an aging population, it is evident that both workforce and capital will become insufficient to sustain the economic growth of Japan going forward. It is important not only to shift attention from Japan to overseas in attracting external demand from emerging Asian markets, but also to attempt to draw human resources and investment from overseas into Japan.

Compared to the proportion of foreigners among highly-skilled workers in leading developed countries - 6% in the US, 4.5% in the UK, 7.1% in Australia - Japan has only 1.1%. Furthermore, while inward direct investment as a share of GDP is 27.7% in the US, 32.4% in the UK, and 53.6% in France, the figure is only 1.1% in Japan. (Chart 2)

However, global competition to secure talented personnel who will shoulder future growth - students, researchers, and engineers - is growing ever more intense. For Japan to secure the highly-skilled personnel it needs, it must improve the quality of its promotion to overseas while building a framework for a comprehensive personnel acquisition strategy that considers foreign nationals while they are studying at Japanese universities.

Growing Corporate Interest in Hiring Foreign Students

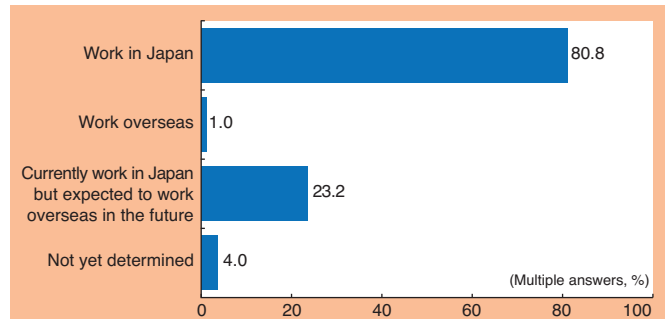
The three key-points of attracting external demand, strengthening supply through quality and integration, and drawing factors of



Source: Gaikokujin ryugakusei no saiyo ni kansuru chosa [A Survey Concerning the Hiring of Foreign Students] (Disco Inc., August 2010)

CHART 4

Where foreign students are assigned



Source: Gaikokujin ryugakusei no saiyo ni kansuru chosa [A Survey Concerning the Hiring of Foreign Students] (Disco Inc., August 2010)

production from overseas were explained above. There are some interesting research findings related to the last issue of a personnel acquisition strategy: specifically, a survey conducted by Disco Inc. about the hiring of foreign students that found corporate interest in hiring foreign students to have doubled over the last year.

Major corporations like Rakuten, Uniqlo, and Lawson have now established special quotas for hiring foreign students. When asked about their FY 2010 actual hiring and FY 2011 hiring projections, 21.7% of corporations responded that they intended to hire foreign students in FY 2011, roughly double the 11.7% that reported actual hiring for FY 2010. (Chart 3)

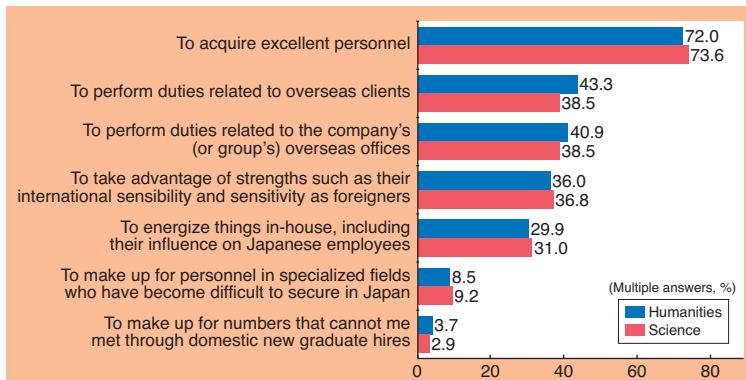
Looking at the results by whether or not a corporation has overseas offices, the proportion of "will hire" responses increased from 19.8% in FY 2010 to 36.1% in FY 2011 for those with overseas offices and from 6.4% to 12.3% for those without, clearly indicating a growing interest in hiring foreign students.

As shown in Chart 4, 80.8% of corporations indicated that foreign students hired as new graduates in FY 2010 were assigned to work in Japan, while 23.2% indicated that such recruits were currently assigned to work in Japan but were expected to work overseas in the future. On the other hand, only 1.0% indicated that such recruits were assigned to work overseas, showing that the majority of corporations intends to assign new graduates to work in Japan.

Corporations that indicated they intended to hire foreign students in FY 2011 were also asked about their objectives in doing so for both

CHART 5

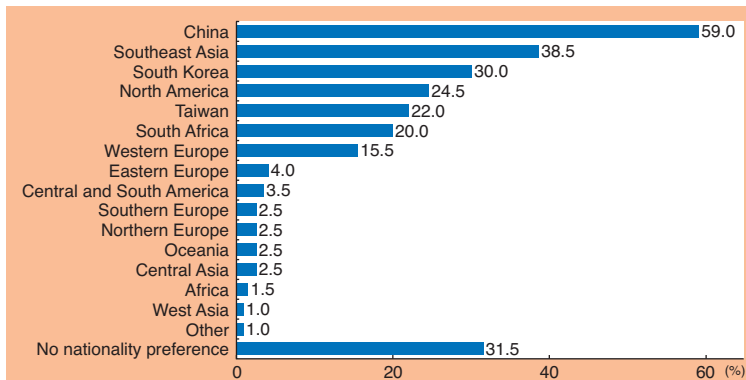
Objectives in hiring foreign students



Source: Gaikokujin ryugakusei no saiyo ni kansuru chosa [A Survey Concerning the Hiring of Foreign Students] (Disco Inc., August 2010)

CHART 6

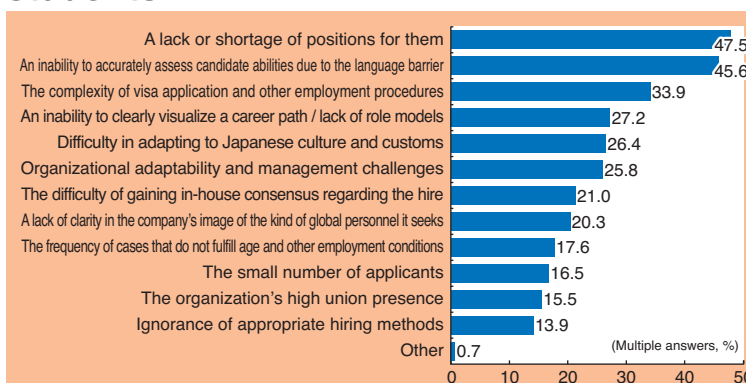
Native country or region of foreign students corporations seek to hire (Choose up to 5)



Source: Gaikokujin ryugakusei no saiyo ni kansuru chosa [A Survey Concerning the Hiring of Foreign Students] (Disco Inc., August 2010)

CHART 7

Issues seen as barriers to hiring of foreign students



Source: Gaikokujin ryugakusei no saiyo ni kansuru chosa [A Survey Concerning the Hiring of Foreign Students] (Disco Inc., August 2010)

humanities-related and science-related positions. For both categories, the most frequent response by far, at over 70%, was acquisition of excellent personnel. (Chart 5)

Next, the country or region from which corporations most frequently sought to hire foreign students was China, followed by Southeast Asia and South Korea. This suggests that many corporations are conscious of expanding their businesses into the emerging nations of Asia. However, more than 30% indicated no nationality preference. (Chart 6)

Roughly 90% of corporations indicated that they felt there were barriers to the hiring of foreign students. Chief among the reasons cited were a lack or shortage of positions for them (47.5%), an inability to accurately assess candidate abilities due to the language barrier (45.6%), the complexity of visa application and other employment procedures (33.9%), and an inability to clearly visualize a career path or lack of role models (27.2%). (Chart 7)

Devise HR Strategy for Utilizing Foreign Workers

As described above, the interest of corporations in hiring foreign students is rising rapidly with the advance of globalization and the combination of a declining birthrate and an aging population. The lack of positions and unclear career path for foreign students, however, mean that corporations may not be making full use of outstanding foreign students.

Left alone, this situation could lead to Japan's defeat in the global competition to secure personnel. Indeed, acquiring foreign workers is an important element of all three growth strategy key-points: 1) attracting external demand, 2) strengthening supply through quality and integration, and 3) drawing factors of production from overseas.

For example, with respect to key-point 1 (attracting external demand), personnel who thoroughly understand local trends are indispensable when opening up new markets or marketing in Asian economies that are expected to see high growth in the near future. With key-point 2 (strengthening supply through quality and integration), corporations have begun to seek more diversity in their core personnel, including not only Japanese but also foreign workers, in order to overcome fierce global competition. As for key-point 3 (drawing factors of production from overseas), it is essential that Japan acquire not only investment but also the highly-skilled personnel it needs, and this will require considering foreign nationals while they are studying at Japanese universities.

To bring this about first requires clearly defining a human resources strategy for utilizing foreign workers in Japanese corporations (career path, short-term or medium- to long-term employment); preparing systems for hiring (shift from hiring only new graduates to hiring year-round), compensation, and in-house training; and then promoting the strategy's track record overseas with actual examples. Meanwhile, the government will need to discuss in earnest how to provide policy support for foreign worker utilization (conditions for obtaining citizenship, education and welfare for foreign workers and their families).

The Great East Japan Earthquake dealt a serious blow to the Japanese economy, but Japan has not lost its potential power in global competition. To promote the Japanese economy's future growth, now is the time for the government and the private sector to unite in promoting genuine measures for the utilization of foreign workers. JS

Kazumasa Oguro is associate professor, Institute of Economic Research, Hitotsubashi University, Tokyo, and consulting fellow, Research Institute of Economy, Trade & Industry, Ministry of Economy, Trade & Industry.