

The Japanese economy: topic of the month

Tasks over the medium-term for Japan to attract more foreign workers

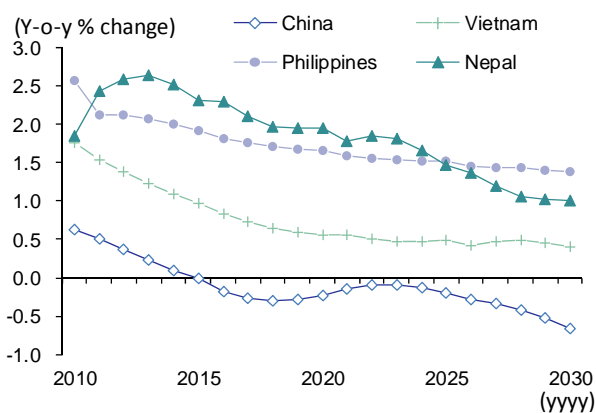
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The Japanese government has made a major policy shift in opening its doors toward more foreign workers.

The decision to increase the acceptance of foreign workers is a trump card in Japan’s quest to secure young workers. Given Japanese youth-age (aged 25 to 34) labor participation rate which is already a high 87%, there is scant room for this rate to rise further. In labor intensive industries which have limited scope to fill the manpower shortage through automation, an acute sense of labor shortage has already led to the utilization of youth-age foreign workers. In fact, foreign workers have been increasing at an annual rate of approximately 160 thousand workers during the past three years.

There are high expectations toward foreign workers as a new source of manpower instead of Japanese workers. However, it should be noted that approximately half of the foreign workers who are increasing in Japan are Vietnamese and Chinese, and that the working age population (aged 15 to 64) of both countries is projected to stall in the future (**Chart 1**). The labor shortage is already a looming issue in China, leading to a race to secure workers among Chinese firms. Over the medium term, it will be necessary to avoid depending solely upon these two countries and to attract workers from other countries such as the Philippines and Nepal where the working age population is expected to increase more.

[Chart 1: Forecast on working age population]



Note: Readings up to 2015 are actual results
 Source: Made by MHRI based upon United Nations Department of Economic and Social Affairs, Population Division, *World Population Prospects; The 2017 Revision*

[Chart 2: Best places to work (world ranking)]

IMD	Inter Nations	HSBC
“World Talent Report”	“Expat Insider”	“Expat Explorer”
51st (among 63 countries)	55th (among 65 countries)	29th (among 46 countries)

Note: 1. IMD: ranking among “foreign highly-skilled personnel”
 2. Inter Nations: ranking on “Working Abroad”
 3. HSBC: ranking on “Expat Explorer overall”
 Source: Made by MHRI based upon various surveys

Furthermore, it will be necessary to attract more highly-skilled foreign workers from the perspective of raising Japan's productivity. In order to do so, Japan will need to enhance its attractiveness as a place to work. However, global surveys reveal that Japan ranks low as a popular destination to work (**Chart 2**). East Asia is home to many countries, such as South Korea and Singapore, which are similar to Japan in terms of the limited prospects of the expansion of the working age population, thus leading to an inevitable rise of competition to attract highly-skilled foreign workers. Japan faces an important task of evolving into a popular destination to work for foreign workers through establishing legal and institutional environment as a host country and work style reforms by private companies.

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