

# JAPAN ECONOMIC CURRENTS

A COMMENTARY ON ECONOMIC AND BUSINESS TRENDS

## Recommendations for Diversifying Japan's Workforce

by Hiroshi Inoue, Nippon Keidanren

**N**ippon Keidanren's vision piece, *"Japan 2025: Envisioning a Vibrant, Attractive Nation in the 21st Century,"* set forth our recommendations aimed at restoring socioeconomic vitality to Japan. Especially in light of Japan's aging population, an important key to achieving this vitality is to increase the number of non-Japanese workers in the labor force; doing so will create a catalyst for greater creativity and innovation.

### Policy Recommendations

A uniform approach by the relevant ministries and local governments on issues involving non-Japanese nationals is clearly needed, but there is no system currently in place for these agencies to routinely share information, coordinate measures and collaborate in resolving immigration-related problems. Instead, local governments in areas where non-Japanese reside and work are forced to devise patchy solutions to these problems on their own.

The central government must take a proactive role in fostering an acceptance of foreigners in Japan. To this end, Nippon Keidanren recommends that an Office of Foreign Worker Acceptance (provisional title) should be established within the prime minister's cabinet to integrate immigration policy for all relevant ministries. The creation of a new government agency, such as an Agency for Non-Japanese Residents or an Agency for Multiculturalism (also provisional titles), should be studied as a forum in which to establish this policy uniform.

Social factors, including global competition, play a role. Japanese companies have begun to de-emphasize the traditional seniority system and to introduce performance-based job assessments. Increasingly, there will be greater diversity in the forms of employment available in Japan and naturally, foreign workers will want choices in their career paths. But if Japanese companies are to successfully blend their unique corporate culture with diversity to achieve transcultural synergy, they must change their corporate mindset and systems.

### Challenges

Under the current immigration system, foreign nationals of Japanese descent are granted visas specific to their ethnicity and status as a spouse or child of a Japanese national (mainly second generation Japanese) or Permanent Resident (mainly third generation). Such visas are not contingent on employment contracts, as is the case with visas for foreigners not of Japanese descent.

But too often, foreign nationals of Japanese descent enter the country without a job offer and without being fully prepared for life in Japan. Nippon Keidanren believes that changes to the current visa system – possibly by stipulating that foreign nationals of Japanese descent be required to have a signed employment contract and that visas be granted only to applicants who can demonstrate sources of steady income in Japan – would help.

Foreigners of Japanese descent who have already entered and are residing in Japan should be required to verify that they have passed the Japanese Language Proficiency Test, are covered by insurance, and have enrolled their children in school when they apply for visa renewals.

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**Bringing Industrial Tariffs to Zero**  
by Maureen Smith,  
Zero Tariff Coalition

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## Recommendations for Diversifying Japan's Workforce

### Improving Living Standards of Non-Japanese

Local districts with large concentrations of non-Japanese must now cover the expenses involved with accommodating immigrants' needs. But national subsidies should be made available to these local governments in order to better assist them teach foreigners Japanese, educate their children, and better negotiate day-to-day life and customs.

Compulsory education is not always enforced among non-Japanese, which has created a problem of low school attendance rates, particularly the children of parents of Japanese descent. To address school truancy (which becomes more pronounced as students reach junior and senior high school), Keidanren recommends foreigners be required to specify which educational institution their children will attend when they apply for visas and that those applying for visa renewal show evidence of regular school attendance.

But the most immediate problem facing non-Japanese is finding a place to live. While those employed by companies that provide corporate housing or act as agent and guarantor for private housing do not face major difficulties, foreigners who try

to secure housing on their own frequently encounter difficulties and are sometimes refused private rentals.

To help, local governments must often establish a guarantee system to assist non-Japanese who are unable to find a guarantor on their own by vouchsafing for any loss or damage to the rental property. This guarantee system should be expanded nationwide.

Designed specifically to meet the retirement needs of workers who spend their careers with a single employer, the Japanese social insurance system does not accommodate foreigners who do not plan to make Japan their permanent residence. The pension system was restructured to allow non-Japanese who have paid into the system for at least six months and subsequently terminate their residence in Japan, to receive a lump-sum reimbursement if a claim is filed within two years of withdrawing from the national pension system. But subscribers who have paid into the pension system for at least 36 months end up paying more in pension premiums than they receive in reimbursement, since sum to be paid has a ceiling. Moreover, many non-Japanese workers repeatedly move from one short-term job to another. Not surprisingly, then,

foreigners who work in Japan are often dissatisfied with medical, pension and other types of social insurance. In fact, a little less than half of non-Japanese residents have no health insurance coverage at all. Unfortunately, reforms to the pension and medical care systems currently under consideration do not focus on accepting non-Japanese.

### Public Services

Local governments of cities with large concentrations of foreign residents typically provide Japanese language classes and other services. The Kawasaki City Representative Assembly for Foreign Residents (established in December 1996), for example, has increased the welfare allowance for non-Japanese elderly and sent cross-cultural communication teachers to public schools. Local governments throughout Japan must learn from these progressive measures and take steps to involve non-Japanese in local administration. National financial assistance to local governments should cover these expenses.

### Security Concerns

As of January 1, 2003, some 220,000 foreigners residing in Japan (many of them the 700,000 job-seekers) were illegally overstaying their visas. Further, some 8,400 (more than 50 percent) of the

more than 16,000 non-Japanese arrested in 2002 were found to be illegal residents as a result of visa overstay.

Efforts should be taken up to simultaneously help immigrants and implement stronger security measures to prevent illegal entry into Japan. There should be more police officers, Immigration Bureau, Coast Guard, and prison staff, and expanding capacity at such security-related facilities as detention cells, prisons, and immigration control facilities, and more immigration officers.

### **How to Expand and Facilitate Acceptance**

Fourteen professions are allowable under the specialist and technology visas (professor, artist, preachers, journalist, investor/entrepreneurs, lawyer/ accountant, doctor/ dentist, researcher, instructor, engineer, humanities/ international services specialist, intra-company transferee, entertainer, and skilled labor). In the face of global competition for securing the most advanced workers, the need for human resources in 13 of the 14 categories (excluding entertainers) is mounting, especially for those companies engaged in international business. But the total number of people entering Japan with visas authorizing them to

engage in these 13 professions is a mere 0.02% of the total foreign resident population (21,775 persons in 2002), and even this number has been falling. This situation is decisively disadvantageous for Japan.

The government should implement six reforms:

- (1) Expand eligibility for several categories of visa status and accept a much wider range of applicants to practice in fields for which certification specific to Japan is required (lawyers, certified public accountants, doctors and dentists);
- (2) Extend the maximum period of stay in Japan from the current level of three to five years;
- (3) Provide greater clarity in explaining why an applicant was rejected;
- (4) Simplify and accelerate visa issuance procedures;
- (5) Promptly conclude bilateral Social Security Agreements;
- (6) Study the possibility of a system to promote the long-term residency of highly skilled workers.

Japan is moving forward with accepting foreign students based on its 1983 "National Plan to Accept 100,000 Foreign Students." Over the past four years, the number of foreign students in Japan, primarily

from China and other Asian countries, has doubled and the 2003 targets were met. But the percentage of foreign students studying at Japanese institutions of higher education is still dramatically lower than in other industrialized countries.

Continued expansion in the "quantity" of foreign students must in the future be balanced with ensuring the "quality" of those students. The rising number of non-Japanese entering the country ostensibly as students, but in reality to find jobs and the fact that certain segments of this group engage in work not permitted by their visa status or become involved in crime, has become a social issue. An increasing number of foreign students, motivated by the desire to diversify their work experience, are also seeking employment opportunities at Japanese companies. In response to these trends, the central government is moving proactively to grant permission for a change of visa status for foreign students from student to work visas. However, the actual number of approved visa status changes is 3,209 applications out of a total of 3,600 (against the 95,550 total number of foreign students in FY2002).

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### Recommendations for Universities

(1) Conduct follow-up surveys about what course foreign students take upon returning to their home countries;

(2) Offer university programs that are internationally competitive, in terms of quality and appeal. Universities must also strive to attract faculties who are distinguished in both national and international circles and expand the scope of lectures given in English. At the same time, universities should apply stricter standards at the time students are accepted and thoroughly account for the registration of students who have been admitted;

(3) Offer more public and private institutional scholarships, especially those granted by the Japanese government. But the qualifications should be revised so that assistance for students with poor academic records would be terminated, and students who fail to improve their grades after being warned about their poor performance would be deported.

(4) Facilitate the smooth implementation of visa status changes between study and work.

### Recommendations for Worker Training Programs

Some 63,000 trainees took advantage of the one-year Japan International Training Cooperation Organization (JITCO) training and subsequent two-year technical intern training programs in 2002 (about 40,000 trainees and 23,000 applicants transfer into the technical intern program). Over the past ten years, the number of JITCO trainees and interns has increased ten-fold.

The increasing numbers of trainees accepted and hired, particularly by manufacturers, demonstrate these programs' value. The ability to secure unskilled labor at low wages, however, is one reason that this program is being utilized by most companies, as is the risk that trainees and interns may not find jobs using their acquired skills once they return to their home countries. Additional problems have emerged in connection with training allowances and wages, as well as the disappearance of trainees. And some argue bringing in trainees and interns at low wages deprives Japanese nationals of employment opportunities.

But it cannot be ignored that domestic advertisements for positions targeting Japanese workers do not attract applicants, leaving many small and medium-sized

companies unable to operate without trainees and technical interns. The acceptance of foreign trainees and technical interns does not deprive Japanese workers of employment opportunities. Instead, bringing in foreign trainees helps keep these companies in business, which in turn protects the jobs of Japanese workers

### Recommendations for Job Training

(1) Extend the maximum period of stay for the Training Program and TITP to five years, with certain conditions;

(2) Clarify and systematize the standards applied in the granting of permission for retraining;

(3) Put in place a system in which training is discontinued or the intern or trainee can be deported for inappropriate behavior.;

(4) Absolutely no "occupation involving contact with the human body," such as nursing, beauticians, or barbers, is authorized under this system. The majority of the 62 occupations and 113 selective jobs that are officially approved for the technical intern training program (TTTP) involve the manufacturing sector.

That said, in addition to the need of many foreign countries to send trainees to acquire skills in nursing

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# Bringing Industrial Tariffs to Zero

by Maureen Smith, Zero Tariff Coalition

Sector-by-sector tariff elimination has its roots in the so-called “zero-for-zero” approach first proposed by the United States during the late stages of the GATT Uruguay Round. Since then, efforts to gradually reduce tariffs to zero were attempted first in APEC and then in the World Trade Organization (WTO).

One of the most successful multilateral sectoral tariff-elimination exercises was the 1996 Information Technology Agreement (ITA). That agreement, signed by nations representing 93 percent of the world market in IT products, brought tariffs to zero on computers, software, semiconductors, telecommunications products, and scientific equipment.

The Uruguay Round Agreements Act of 1994 mandates that USTR pursue the complete elimination of tariffs in a number of specific sectors: beer, paper products, wood products, toys, chemicals (harmonization), construction equipment, distilled spirits, soda ash, pharmaceuticals, medical devices and steel products. And the recently-passed Trade Promotion Authority directs USTR to regard sectoral zero for zero agreements as its “Principal Negotiating Objective.”

The current WTO round (the Doha Development Agenda)

includes zero-for-zero as one of its four pillars.

## The Zero Tariff Coalition

The Zero Tariff Coalition (ZTC) is a group of about 25 US industries or sectors – organized under the National Association of Manufacturers (NAM) – that is aimed at bringing tariffs to zero in a wide range of industrial sectors. Collectively, the ZTC member companies accounted for more than \$280 billion in US merchandise exports in 2001. The Coalition actively seeks to convince other governments and industries to join them in eliminating tariffs on a sectoral basis.

Other US organizations – including the National Foreign Trade Council and the Business Roundtable – also support the elimination of tariffs on all industrial goods. The ZTC supports this objective but is focused on a specific sectoral negotiating approach as a way to achieve zero tariffs in specific products as quickly as possible.

The ZTC proposal is relatively straightforward: countries comprising a “critical mass” – which can be defined by each sector – would agree to eliminate and bind tariffs in candidate sectors at the earliest feasible time. Countries would be free

to participate in whatever sectoral arrangements they favor, although the resultant zero tariffs would be applied to all countries on a most favored nation (MFN) basis. By requiring only a critical mass of countries in each sector, the ZTC allows for sufficient flexibility to exempt least developed countries as well as others that want to be excluded, while ensuring that the agreement is commercially meaningful.

Flexibility is key. Product coverage in any given sector can be determined by the participating countries. Longer transition periods for some countries and for certain sensitive products are also a possibility.

ZTC’s list of sectors is open and still growing. There are several other sectors (such as oil seeds and distilled spirits) that would like to see the zero for zero approach applied in the agriculture negotiations as well.

Timing is important. The ZTC would like countries to begin work on sectoral agreements as soon as industrial tariff modalities are agreed and to implement these agreements as soon as feasible, even before the Round itself is completed. (Early implementation is explicitly recognized as an option in

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the Doha Ministerial declaration.) Credit for such tariff cuts would, of course, be applied in the final balancing of benefits/concessions at the end of the Round.

### The Time has Come

The ZTC believes that there is no better time than now for sectoral tariff elimination:

- First, it reflects the competitive realities in a globalizing world economy. Most businesses today operate as part of a global supply chain. One of the best ways to cut costs throughout the system and to capture global efficiencies is to eliminate tariffs at all points in the chain.
- Second, it may be the only way to achieve meaningful market access improvements. While tariffs in developed countries have largely been eliminated in the successive GATT rounds of trade negotiations, tariffs in developing countries are typically high. Worse, the disparity between bound and applied rates is particularly significant, which means that the traditional formulas and other methodologies (which use bound rates as a starting point) tend to leave existing disparities in market access intact and may

actually do little to lower current tariffs.

- Third, it supports the development dimension in the Doha mandate. The sectoral tariff elimination approach can help integrate developing countries into the global economy, not just as marginal players but as principal competitors in their areas of strength. Developing countries have a significant stake in expanding South-South trade in products in which they are competitive.

Since being established in November 2001, the ZTC has worked closely with US trade officials and Members of Congress. The initial US proposal on industrial tariffs was very similar to the ZTC approach – specifically identifying nearly 20 sectors as “highly traded” goods, accounting for 60 percent of US industrial exports, for which the US would seek tariff elimination. Included are all of the Uruguay Round zero for zero sectors, as well as a number of other ZTC sectors.

### Industry-to-Industry

One of the real strengths of the Zero Tariff Coalition is its proven ability to tap into the growing web of industry-to-industry networks around the world to mobilize private sector support in other countries. Some industries have decided to

take charge of their own futures based on experience in past rounds, where interests in their sector were “traded” for benefits in another sector, or where the end result fell short of industry ambitions.

Given global manufacturing practices today, virtually all ZTC members have some form of dialogue with industry colleagues in other countries. Industry associations representing international producers of chemicals, wines and spirits, toys, and jewelry have developed a common international position supporting the zero tariff approach in their sector.

Forest products industry members of the ZTC, working with their colleagues in Canada and New Zealand, hosted a meeting of trade officials at the WTO Ministerial in Cancun, Mexico in September. The meeting was attended by industry representatives in countries as diverse as South Africa, Chile, Argentina, Malaysia, Indonesia, Papua New Guinea and Gabon.

The National Association of Manufacturers has been working to win the support of other broad based organizations such as Nippon Keidanren, the Canadian Manufacturers and Exporters (CME), the European UNICE, and the Confederation of Indian Industries (CII).

### Japan and the Sectoral Approach

Japan participated in the zero for zero agreement on several products in the Uruguay Round. In its submission to the WTO on Non Agricultural Market Access modalities earlier this year, the Japanese government supported tariff elimination in a number of sectors, including consumer electronics, office equipment, motor vehicles, textiles, clothing watches, bicycles, paper and pulp, and an expansion of product coverage of the ITA.

Moreover, a Nippon Keidanren delegation met with the Zero Tariff Coalition in Cancun in September. Japanese industry may be interested in further exploration of the zero for zero approach in sectors such as paper and autos, as well as some products that could be added to the Information Technology Agreement.

### Cancun and Beyond

The principal objective for the ZTC in the lead-up to Cancun was to have the sectoral negotiating approach endorsed as a negotiating modality so that negotiations could begin on tariff elimination in specific sectors. Medical devices, toys, and jewelry, in particular, are areas where there appears to be sufficient support to launch talks.

In May 2003, NAMA Chairman Pierre Girard of Switzerland released a proposal that offered

two approaches to sectoral tariff elimination:

- All countries would agree to eliminate tariffs on a group of seven sectors of special interest to developing countries (textiles and apparel, fish, gems and jewelry, footwear, leather goods, auto parts and electronics and electrical goods.) For these products, tariff elimination would be accomplished in three stages (timing not specified), with developed countries going to zero immediately and developing countries two stages later.
- Countries could agree to eliminate tariffs on other sectors on a “critical mass” basis.

In August, the US, the EU and Canada co-authored a paper that included the sectoral approach “as an integral part of the modalities applying to all members.” Only two sectors (textiles and apparel and environmental goods and services) were specifically identified, but the door was left open for sectors of particular interest to developing countries. This was essentially the text in the draft Ministerial declaration taken up by the WTO delegates in Cancun.

In Cancun, the sectoral approach – and particularly the suggestion

that participation should be “mandatory” – drew much criticism, but it was still included in the second round of text (the so-called Derbez draft) when the Ministerial Conference adjourned in failure. Among the changes introduced in the text in Cancun were several of concern to the ZTC because they may give advanced developing countries, such as Brazil, India and, most importantly, China, the basis for opting out of any real trade liberalization.

While it remains to be seen how and when the WTO’s Doha Development Agenda will be resumed, the Zero Tariff Coalition sees the WTO as the priority forum for achieving the global tariff elimination that is the basis of zero tariff economics. ■

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and other sectors not authorized for the TITP, demographic forecasts also indicate that these sectors will suffer from shortages of Japanese workers in the future. For these reasons, the review of these training programs should push reforms toward a broader range of occupations that trainees are able to engage in. ■

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