

3 Trends in Regional Employment

Regional Disparities

If we compare large urban areas with provincial areas in terms of employment, we can see that the disparity between the two is growing. Until the 1990s, rather than growing, regional disparities in Japan remained unchanged, supported by government spending focused primarily on public works projects implemented in provincial areas. However, since 2000, as a result of major reductions in public works projects due to fiscal restructuring, construction industry in provincial areas has fallen into decline and the gap between these areas and large urban areas with regard to the economy and employment has been growing.

The buildup of industry and employment has been markedly concentrated in the large cities of Tokyo, Nagoya, Osaka and Fukuoka and their surrounding areas. The accumulation has been most pronounced in the South Kanto region, which is centered on Tokyo, accounting for 29.1% (18.29 million people) of all employees throughout Japan (62.86 million people). In particular, the number of employees in Tokyo is 9.52 million people, accounting for 15.1% of the figure for the country as a whole.

After South Kanto, the area where the biggest buildup of employment has taken place is the Kinki region, centered on Osaka, where there are 10.20 million employees, accounting for 16.2% of the national total. The Tokai region, centered on Nagoya, has 7.83 million employees, accounting for 12.5% of the national total, and the Kyushu region, centered on Fukuoka, has 6.63 million employees, accounting for 10.6% of the national total.

In contrast to these regions, which encompass multiple large cities, in provincial regions such as Hokkaido, Tohoku, Hokuriku, Chugoku and Shikoku, there has been a significant decrease in the population and progressive aging of the population as a result of the exodus of young people, and the number of employees has dropped quite considerably, reflecting the dearth of employment opportunities (Figure

II-10).

Such disparities are basically brought about by differences between regions in terms of their industrial structures. In ratios of employees by industry in each region, the ratio of “other services” and “information and communications” in South Kanto (centered on Tokyo) is higher than in other regions, revealing a progressive shift to a service and information economy. The proportion accounted for by the manufacturing industry is quite high in both the Tokai region, which is centered on Nagoya, and the North Kanto – Koshin region, which surrounds Tokyo, being in excess of 20% in both regions.

In contrast to this, in the case of provincial areas where there is only a weak buildup of industry and employment, the proportion accounted for by “construction industry” and “medical, healthcare and welfare” is quite high; in particular, the proportion accounted for by the latter is much higher than in large urban areas. In Shikoku and Kyushu, which have the highest figures, the proportion accounted for by medical, healthcare and welfare is as high as 13.5% (Table II-11).

Thus, the employment structure is quite different in large urban areas, where the accumulation of industry and employment are progressing, and in provincial areas, where depopulation and the aging of the population are progressing. With regard to the situation in large urban areas, in the South Kanto region, the buildup of the information and communications industry and the service industry is progressing; in the Tokai region, the buildup of the manufacturing industry is progressing, centering on the automotive industry; and in the North Kanto – Koshin region, the buildup of the manufacturing industry is progressing, centering on the electrical appliance and automotive industries, with large-scale employment creation taking place as a result.

In contrast, in provincial areas with no major cities, the proportion accounted for by industries that are influenced to a great degree by financial support

from the government, namely the construction industry and the medical, healthcare and welfare sector, is high. Due to the massive deficit accumulated in government finances, however, large fiscal outlays to provincial areas are not as easy as they once were. This gives the construction industry less room to increase employment, and there is an ongoing trend toward shrinkage. On the other hand, in provincial areas, where one sees no buildup of the manufacturing industry, the medical, healthcare and welfare sector, which is supported by the nursing-care insurance system, is a growth industry with the most pronounced expansion in employment, partly because market needs are growing as a result of the progressive aging of the population.

Accumulation of the Manufacturing Industry

Excluding the South Kanto region, which is centered on Tokyo, where the buildup of the service sector and the information and communications sector is progressing remarkably, the factor that has a major impact on disparities between other regions is the degree to which the manufacturing industry has accumulated in a region. If it is possible to attract export-oriented industries in the form of the automotive or electrical appliance industries, a region can expect a significant employment creation effect. Consequently, local governments have striven to attract companies by preparing land, developing infrastructure, such as roads, and formulating preferential measures, such as subsidies and tax reductions.

From 2003, when the impact of the various reforms implemented under the Koizumi administration came to a head, until the autumn of 2008, when the Lehman Shock flared up, the Japanese economy achieved sustained economic growth. What drove this growth was export-oriented industries, namely the automotive and electrical appliance sectors; it intensified domestic investment and promoted the construction of new plants, as well as the augmentation of existing plants. Prior to this, there had been a progressive transfer of plants to locations overseas, as a result of the strong yen, and it was feared that domestic industry would become

hollowed-out, but in the process of economic recovery from 2003 onwards, the tendency to relocate the manufacturing industry back within Japan strengthened.

The number of cases of new manufacturing sites being established within Japan was 9,101 across Japan during the six years from 2003 to 2008. If we compare this to the 6,732 cases during the period 1997-2002, when the country was beset by a recession, we can see that the number of cases increased by 1.35 times. Moreover, the number of people employed as a result of these new manufacturing sites was 312,312 during the period 2003-2008, in excess of the figure for 1997-2002, which was 258,726.

If we look at the situation by region in a little more detail, we can see that the highest figure was in the Inland Kanto region surrounding Tokyo, followed by the Tokai region. Behind these regions of accumulated manufacturing industry in 3rd place was South Tohoku. Here, manufacturing industries had not accumulated so much, but there was increasing activity in new plant location by the export-oriented automotive and electronics industries (Figure II-12).

During the economic boom from 2003 onwards, the labor shortage centering on large urban areas escalated, so a succession of companies established new plants in provincial areas, which had a comparatively abundant supply of labor. The regions where these moves were particularly pronounced were the Inland Kanto and South Tohoku regions.

Viewing the number of plants established in Inland Kanto and South Tohoku by prefecture, in 2003-2008 the prefecture attracting most new plants was Gumma Prefecture in Inland Kanto (517 cases), comfortably ahead of Ibaraki Prefecture (376) and Tochigi Prefecture (309) in the same region, with the South Tohoku prefectures of Miyagi (250) and Fukushima (244) following after these.

The Impact of the Great East Japan Earthquake

In March 2011, the Tohoku region was suddenly hit by a major earthquake and tsunami. Together with the ensuing explosion at the Fukushima nuclear power plant, these delivered a devastating blow to

local communities. The areas suffering the most catastrophic damage from the earthquake, tsunami and nuclear power accident were coastal areas of Iwate Prefecture, Miyagi Prefecture, Fukushima Prefecture, Ibaraki Prefecture and elsewhere; the worst hit industries were fisheries and marine product processing. The majority of fishing boats and aquaculture facilities were washed away, processing plants also suffered disastrous damage, agriculture was affected by salt damage and others from the tsunami, and the regional economy was badly affected.

Besides these impacts on agriculture, fisheries and marine product processing, extensive damage was also suffered by manufacturing industries, which had been increasingly accumulating in the region. The effects of this were not only felt in Japan but even extended overseas. Plants manufacturing components and materials for export-oriented industries, namely the automotive and electrical appliance sectors, had accumulated in the stricken region, and the majority has been forced to shut down, halting the supply of components and materials, so the supply chain has ceased to function.

As a result, manufacturers of finished products have been forced to cut output significantly, so they have suffered serious damage to their business performance. What is more, the places to which these components and materials were supplied were not only plants within Japan, but also plants owned by Japanese companies that have expanded overseas and even foreign manufacturers, so this major earthquake has had a serious impact on the manufacturing industry across the globe.

The shutdown resulting from the earthquake has had such a big impact because the share of a number of crucial components and materials accounted for by Japanese manufacturers is extremely high and, moreover, their production was concentrated in specific plants within Japan. The problem being faced is that these plants have very highly-skilled employees and many of them have built production systems reliant on those skills, so the technologies and production cannot easily be transferred to other plants. One could say that the strength of Japanese companies has become a bottleneck.

However, the reconstruction of damaged factories proceeded at a quicker pace than expected. The Indices of Industrial Production (seasonally adjusted) of the three prefectures, which fell sharply immediately after the disaster (March 2011), had recovered to around 80 by December 2011 (Iwate 67.5 → 80.6, Miyagi 46.7 → 77.9, Fukushima 59.5 → 82.6).

Behind this rapid reconstruction lies the fact that many disaster-affected companies used the employment adjustment subsidy to retain their skilled engineers. This is a system whereby the government subsidizes the cost of training and the wages of temporarily laid-off workers.

Economic Recovery under “Abenomics”

Soon after it was formed in December 2012, the Abe Cabinet launched a bold economic policy known as “Abenomics”, in a bid to break away from a low-growth economy caused by deflation. To break free of deflation and currency appreciation and raise the growth potential of the Japanese economy, it embarked on a three-pronged approach of bold monetary policy, flexible fiscal policy and a growth strategy that encourages private investment. The effects of this approach first appeared on foreign exchange markets, where the yen has depreciated sharply, but the rate of economic growth is gradually picking up as well.

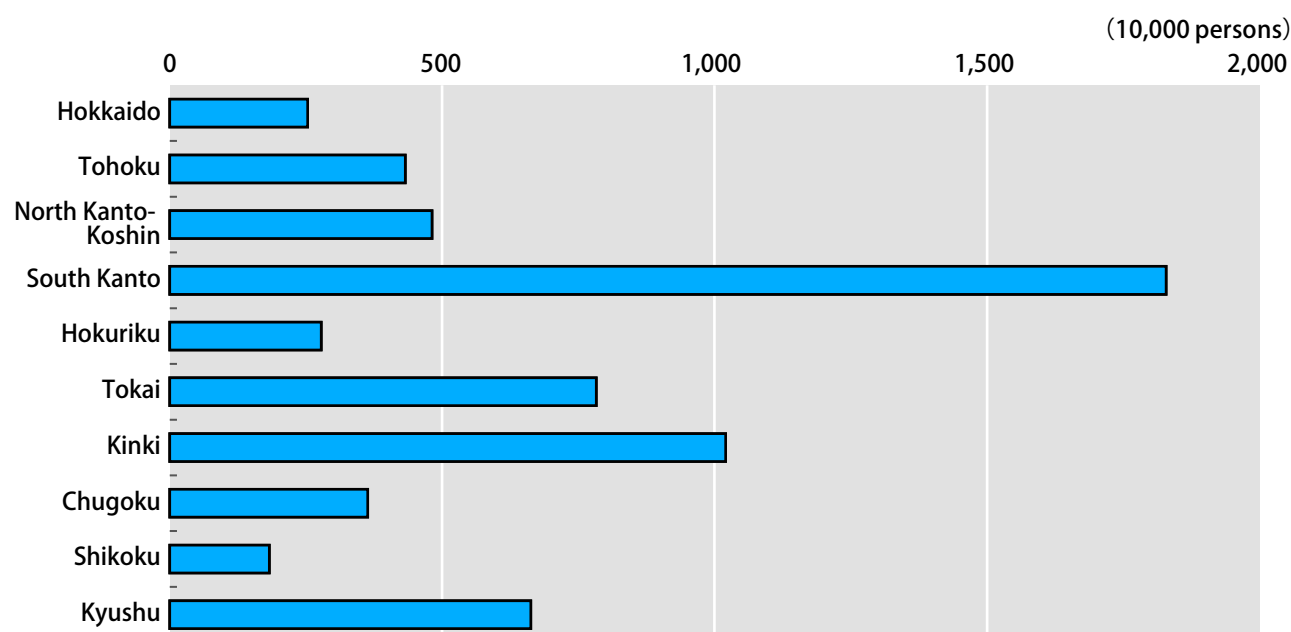
The effects of currency depreciation have also pushed up profits in the automotive and other export-oriented industries, accompanied by an upturn in the employment situation. Compared to April-June 2011, immediately after the disaster, the seasonally adjusted unemployment rate by region (except Chugoku and Shikoku) in the same quarter of 2013 had fallen significantly. Particularly in Tohoku, where the unemployment rate rose to 6.0% straight after the disaster, it has fallen back 2.1 points to 3.9%, partly because reconstruction demand has started to take full effect (Figure II-13).

The new policies launched by the Abe Cabinet are to be fleshed out in full from now on, but it is still unknown how far they can meet the policy targets of breaking free of deflation and currency appreciation, and raising the growth potential of the Japanese

economy. In particular, government debt has swollen to beyond 1,000 trillion yen, and the difficult task of reconciling fiscal restructuring with economic growth still looms large. Since the regional economy (excluding large urban areas) is closely linked to

fiscal support from the central government, the future of regional employment is strongly tied to macro-economic trends in the form of reconciling fiscal restructuring with economic growth.

Figure II-10 Number of Employees by Region



Source: Ministry of Internal Affairs and Communications, *Economic Census 2009*

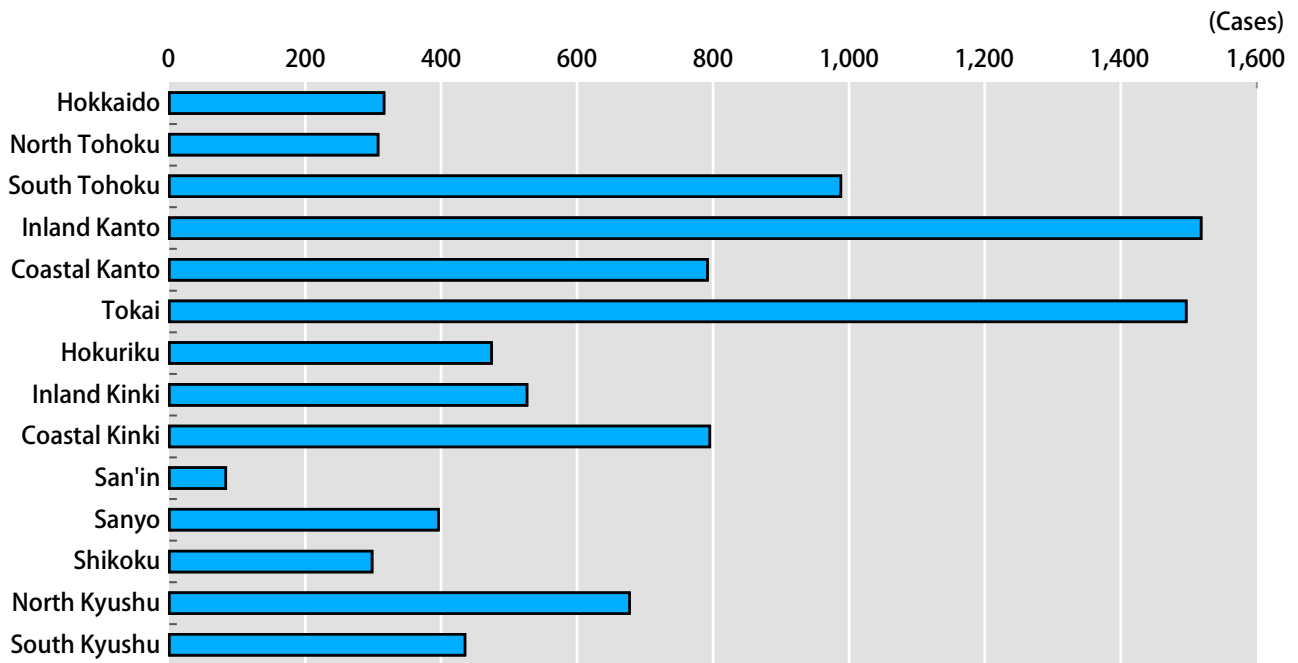
Table II-11 Proportion of Employees by Industry as Seen in Each Region

(%)

	Construction	Manufacturing	Information and communications	Transport & Postal Activities	Wholesale and retail trade	Accommodations, eating and drinking services	Medical, health care and welfare	Compound services
Hokkaido	8.6	8.1	1.7	6.4	20.6	9.4	11.7	21.6
Tohoku	8.8	15.3	1.3	5.4	20.8	8.1	10.8	19.5
South Kanto	6.1	12.1	5.6	6.2	20.0	9.5	8.4	22.4
North Kanto - Koshin	7.3	21.5	1.2	5.1	19.0	8.8	9.5	19.5
Hokuriku	9.0	19.4	1.3	4.9	19.7	8.2	10.3	18.6
Tokai	6.6	23.8	1.5	5.5	19.3	9.0	8.5	18.6
Kinki	5.6	16.6	2.1	5.7	21.0	9.7	10.7	20.2
Chugoku	7.6	16.6	1.3	6.0	20.2	8.0	12.0	19.2
Shikoku	7.6	14.3	1.3	5.4	20.6	8.5	13.5	19.1
Kyushu	7.8	11.3	1.6	5.5	21.0	9.3	13.5	20.0

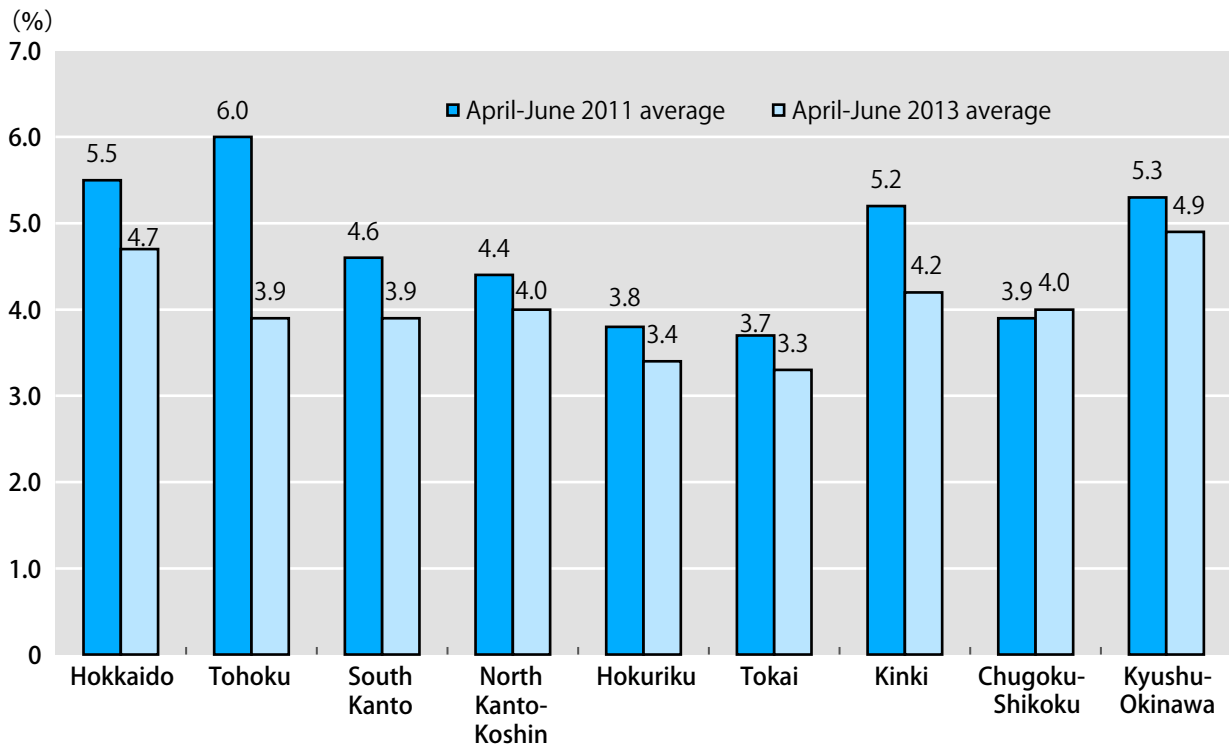
Source: Ministry of Internal Affairs and Communications, *Economic Census 2009*

Figure II-12 Number of Cases of New Plant Sites by Region (2003-2008)



Source: Ministry of Economy, Trade and Industry, *Survey of Factory Location Trends*

Figure II-13 Unemployment Rate by Region (Seasonally Adjusted)



Source: Ministry of Internal Affairs and Communications, *Labour Force Survey*