

## **Review of recent industrial relations developments in Japan, 2004-05**

### **A. General developments in industrial relations**

Please give a brief overview of the main industrial relations developments in your country in the following areas:

- economic developments, including general information on the business climate (monetary conditions, investment prospects and consumer confidence);

The Japanese economy has been showing signs of modest recovery for the period of 2004-05, buoyed by private-sector demand on the back of steady private consumption and corporate investment. The favorable situation in the corporate sector — in a revival phase since 2002 — has had a positive effect on the household economy in terms of employment and wages. Actual GDP growth for fiscal 2004 was 1.9%, almost the same as that recorded the previous year (2.0%), but six years of deflation is a major factor in restraining growth. The 2004 GDP deflator of -1.1% did ease slightly from the -1.2% registered in 2003, but future prospects remain uncertain. However, the landslide victory of the Liberal Democratic Party (LDP) in the House of Representatives election held in September (to be touched upon later) has seen share prices continue to rise and there is growing expectation of continued economic recovery under stable political management.

Employment conditions are also slowly recovering, with the unemployment rate decreasing for two years (4.6% in fiscal 2004), and the active job openings ratio (2004 average at 8.6%) has recovered to a level surpassing that of 1993, the earlier stage of the decade long recession which began in 1991. According to the “Labour Force Survey Detailed Tabulation” carried out by the Ministry of Internal Affairs and Communications, the number of people employed in 2004 increased over the previous year by 350,000 people, for a total of 53,340,000. This increase was comprised of 340,000 additional regular employees, the first increase in seven years, and 90,000 more temporary employees. The number of day laborers decreased by 80,000. However, among “regular employees” includes “pseudo part-time workers” (although their work hours are basically a full-time load without a fixed-term employment contract, they are paid by the hour, and their contractual employment status is not a permanent employee), and while the number of part-time workers increased (15,470,000, an increase of 620,000 over the previous

year), the number of permanent employees (37,740,000 in 2004, down 390,000 over the previous year) continued to decrease.

Also, according to the Ministry of Health, Labour and Welfare's *Monthly Labour Survey*, for the fourth successive year the average monthly cash earnings decreased, down in 2004 by 0.7% from the previous year to 332,784 yen. The recovery is still not necessarily reflected in wages. A breakdown shows that while scheduled cash earnings decreased by 0.6%, non-scheduled cash earnings increased by 3.9%, which is in line with the 0.1% decrease and the 2.5% increase respectively in scheduled and non-scheduled work hours.

- political developments;

In its second term of office following the 2003 House of Representatives election, the Koizumi administration presented a bill for the privatization of the postal services to a regular Diet session in August 2005, in an attempt to realize its stated goal since its start. The bill was passed by a narrow majority in the House of Representatives but was voted down in the House of Councilors by a combination of opposition party and some LDP members. In response, Prime Minister Koizumi dissolved the House of Representatives in August and in the general election held in September, the LDP gained a working majority of votes, greatly increasing the number of government seats in the House of Representatives to two-thirds of the total. In contrast, the main opposition party, the Democratic Party, supported by the Japanese Trade Union Confederation (JTUC, Rengo), lost more than one-third of the seats it had held before the election. The postal services privatization bill was resubmitted in the special session of the Diet held directly after the election and was passed.

Furthermore, following the general election, Democratic Party chair Katsuya Okada stepped down and was replaced by Seiji Maehara, who has emphasized his desire to see administration reform, and so in this respect has made it clear that the party needs to rethink its relationship with labor unions, in particular those of the public service. The public sector accounts for a large portion of the unions under the Rengo umbrella, and it is possible that this will have an impact on the involvement of labor unions in politics.

- collective bargaining (including coverage, pay increases, working time, equality and other issues that have featured significantly in bargaining);

In Japan there is no national or industry-level system of collective bargaining to fix conditions of employment. Negotiations are basically carried out on the company level. For the period 2004 to 2005, statistics on this is not available. (Refer to the 2003 report for the results of the 2002 government survey.)

At the same time, in the 2005 spring wage offensive, Rengo again shelved its unified demand for across-the-board wage increases, and for the fourth consecutive year left wage and working condition-related issues to the individual industry based union federations to pursue. This can be attributed to the fact that in a stagnant economy, maintaining and securing employment is given priority and that achieving industry level unified wage demands is difficult when there are major differences in performance among companies in the same industry. Also the increasing individualization of wage packages in companies (for example performance-based wage system) makes it difficult to implement wage rises across the board. On the other hand, Rengo advocated rectification of the disparity in wage distribution at the macro level and, continuing from last year, focused mainly on calls for an improvement in employment conditions in small and medium-sized companies and equivalent treatment for part-time workers, suggesting target levels for wage increases.

In negotiations within individual companies, most labor unions in large companies did not demand a wage raise in the short term, but instead concentrate their efforts on securing periodic pay increases and lump-sum payments based upon the business performance of the company. However, Rengo express concern that the trend towards emphasizing lump-sum payments (avoidance of fixing personnel costs) may increase the gaps between companies.

With regard to demanded issues other than wage increases in the 2005 spring wage offensive, Rengo published a summary of the demands and settlements in August, according to which, 70% of the company based unions that submitted reports responded that they asked for a reduction in work hours, intra-company minimum wage agreements and continued employment for workers 60 years and older (20-40% reaching a settlement). In addition, a relatively large number of unions demanded a greater balance between work and life, involvement in the preparation of “corporate action plans” based on the Law Concerning Measures to Support the Fostering of Next Generation and

improvements in the wages and treatment of women. However, contrary to the wishes of the workers, realizing shorter working hours is actually very difficult, in particular among small and medium-sized companies. The incentive to strive towards achieving shorter hours is negated because some workers see overtime payment as a natural part of their income.

On the other hand, according to results of a survey carried out by Nippon Keidanren of its member companies (released August 2005) concerning the measures taken as a result of negotiations (multiple answers), almost 40% cited “increasing bonus and lump-sum payments as compared to just over 20% in 2004. Some 20% answered in the affirmative for “introduction of bonuses or lump-sum payments that are connected to company performance,” “a review of the system for periodic wage increases,” and also “a review of the retirement lump-sum payment system and pension system” (each answer received around 30% in 2004). While many companies mentioned reviewing existing wage systems, only a comparatively small number responded that they took measures related to shortening work hours and benefit packages.

- legislative developments;

The 2003 report introduced the amendments to the Law Concerning the Stabilization of Employment of the Older Persons and the Law Concerning the Welfare of Workers Who Take Care of Children or Other Family Members Including Child Care and Family Care Leave that went on to come into force in December 2004 and April 2005 respectively. The former makes it obligatory to put measures in place that ensure job security for people until they reach the age of 65 years and the latter upgrades and expands of the scope of coverage for workers on fixed-term employment contracts. In addition, the revised Trade Union Law that speeds up Labour Relations Commission procedures, came into effect on January 1, 2005.

At the same time, because of the dissolution of the House of Representatives referred to above, several bills have also been postponed to extraordinary Diet sessions together with the postal service privatization bill. One of these is the bill for the amendment of the Law Concerning Temporary Measures for the Promotion of Shorter Working Hours which allows for greater freedom to fix working hours between management and labor instead of striving for a numerical goal of 1,800 work hours per year.

In addition, amendments to or drafting the following laws is currently being considered:

- The Labour Policy Council of the Ministry of Health, Labour and Welfare is discussing amendments to the Law on Securing, Etc. of Equal Opportunity and Treatment between Men and Women in Employment. Twenty years have passed since it came into force in 1985, and there is discussion about including new wording in response to changes in society and in order to improve its effectiveness. This wording would cover such issues as “the prohibition of discrimination against both men and women,” “prohibiting unfavorable treatment of workers on the grounds of pregnancy and childbirth,” and “prohibiting indirect discrimination.”
- The Ministry of Health, Labour and Welfare is currently working to establish a Labour Contract Law. Japan has not had a separate law that determines and amends the conditions in an employment contract between management and workers, and this law is being considered to clarify the rules that should apply all through one’s working life from recruitment to retirement. Report issued by the Study Group on the enactment of this new law suggests that it would help secure rationality to the judgments of the labor-management committees that deal with working conditions or the fixing or amending the rules of employment. Also, with regard to disputes between workers and employers over dismissals, the Report propose that there should be facility for financial settlements, agreed upon by workers and employers and included in agreements and that a white-collar exemption should be included.

After due deliberation by the Labour Policy Council, this bill will be submitted to the Diet in 2007. However, workers and employers have expressed their opposition respectively to the Report, and difficulties are expected in its legislation.

- the organization and role of the social partners (including the membership and density of trade unions and employers’ organizations, mergers and restructuring);

According to the 2004 *Basic Survey on Labour Unions*, the estimated unionization rate dropped 0.4% points from that of the previous year to 19.2%. Trade union membership declined by 220,000 to 10,309,000, reflecting decreases in the

manufacturing industries (down 95,000) and the finance and insurance industries (down 44,000). The estimated organization rate among part-time workers increased 0.3% points to 3.3% (an increase of 31,000), in line with the modest growth in union membership in service industry including eating, drinking and lodging. (However, there has been a gradual membership decrease in the wholesale and retail industry). Industries such as agriculture, forestry, fisheries and mining, or electricity, gas, water and heat supply saw an increased organization rate due to large drops in the number of people employed. The ratios for all other industries are basically unchanged. By size of employment among private companies, the ratio decreased substantially in large companies (by 85,000), as was the case the previous year. If we look at the membership figures of the main national centers, we see that the Japanese Trade Union Confederation (Rengo) had 6,595,000 members (a decrease of 99,000 from the previous year), the National Confederation of Trade Unions had 745,000 members (a decrease of 19,000 from the previous year) and the National Trade Union Council had 154,000 (down 6,000 from the previous year).

As for employers' organisations, the employers' federation, Nippon Keidanren, as of June 2005, had 1,647 member organizations (24 more than 2004), comprising 1,329 companies, including 93 foreign affiliated companies, 130 national organizations representing major industries such as manufacturing or services, and 47 regional business groups.

- industrial action;

The trend towards fewer collective disputes is continuing. The number of collective disputes in 2003 decreased to 872 from 1,002 in 2002, and the number of those disputes that resulted in industrial action similarly decreased from 304 to 172 in the same years. This is the result of not only a reduced organization rate but also the current situation in which the role of the collective labor-management relationship is not as strong as in the past.

Meanwhile, against a backdrop of such factors as the downturn in employment conditions, the individualization of employment relations or personnel management, the diversification of employment patterns and decreasing unionization rate, labor disputes between the individual worker and his/her employer over dismissals or worsening working conditions are increasing. The number of civil cases (that did not involve violations of the law) of individual labor disputes lodged under the prefectural labor

bureau consultation system instituted in 2002 was approximately 160,000 in 2004, a 60% increase over 2002 and an increase of more than 10% over 2003. The main issues included dismissals (27%,) worsening of work conditions (16%,) bullying and harassment (8%).

- other relevant developments; and
- outlook (issues likely have an impact on industrial relations in the coming period).

In the medium to long term, there is concern about the impact of the population decrease caused by the declining birthrate and the ageing population. It is estimated that approximately seven million people of the baby-boomer generation will reach retirement age in 2007 and the next few years, and there are concerns about the impact of the workforce shortage, particularly of skilled workers. Also, some observe that the reduction in the savings rate due to the ageing population may restrain growth. With this in mind, the necessity to promote systems and cultivate an environment that allows women and older people to participate in the labor market, and also to utilize foreign workers — mainly those who possess specialized skills — is currently the focus of debate. The government is striving to create systems to extend the retirement age and to promote the reemployment of retired people in companies. As a counter-measure to the declining birthrate, it has implemented a series of measures connected to the Law Concerning Measures to Support the Fostering of the Next Generation, promoting child-care leaves in companies and seeking to encourage the implementation of incentives for having children, such as allowances for dependent children.

For several years the government has contemplated raising the consumption tax as a countermeasure to the growing budget deficit and the expected increases in the social welfare burden as pension and medical costs rise accompanying the declining birthrate and the ageing population. In addition, an advisory report on income taxes for individuals released in June 2005 by the prime minister's consultative body, the governmental Tax Commission, includes proposals for tax hikes centered on income tax increases for employed workers.

It is planned to abolish fixed-rate income tax cuts next year, and whether or not tax increases are implemented, and the timing of such moves, will depend upon the outcome of ongoing debate. On the other hand, with regard to the social welfare system itself including on the nature of its organizational structure, since last year's amendments

to the pension system there have been no further developments in the debate,.

At the beginning of 2005, the headlines were full of the cut and thrust surrounding takeovers of media companies by newly emerged IT service company. Because hostile buyouts were previously unheard of in Japan, the upgrading of relevant legislation had fallen behind, but this situation provided the spur to include provisions specifically covering preventive measures against hostile takeover bids in the amendments to the Company Law (passed in June 2005). Furthermore, with regard to mergers, Commercial Law as well as the Law Concerning the Succession of Labour Contracts, Etc. upon the Divisive Reorganization of Company requires the content of labor contracts or agreements in the company to be acquired should be comprehensively succeeded.

## **B. Relocation of production and industrial relations**

By relocation of production, we mean both:

- a) the downsizing or closure of existing sites to locate production of goods in a foreign country (outward relocation); and
- b) the transfer into a country of production activities which were formerly located abroad, by creating greenfield sites or significantly enlarging existing ones (inward relocation).

### *1. Overview of relocation processes*

Please provide a general overview of the processes of relocation in your country. You should essentially refer to the main cases and to existing analysis of academic or professional character, if available, or to your own assessment. No specific data are needed, but you may provide them if they are ready available.

Your answer should attempt to cover the following:

- **An assessment of the relevance of relocation processes in your country:** a) is it a significant phenomenon? b) Is it a prominent topic in the public debate on economic policies or industrial relations?

FDI (Foreign Direct Investment) of Japanese manufacturing companies had a rapid expansion in the second half of the 1980s, largely in order to counter the deterioration of the terms of trade caused by the appreciation of the yen following the



Plaza Accord. Since then, there has occasionally been debate over so-called “hollowing-out of industries” or “de-industrialization”, underpinned by the sense of crisis over the decline of domestic industry due to the weakening of production capacity and technological development, and the reduction in employment. It was soon joined by further concerns in the 1990’s such as the increase of cheap imported goods that may drive the domestic industries into decline, and more recently, overseas production leads to the outflow of the best domestic technology. However, despite the existence of such concerns, companies continued to be active in overseas investment centering on Asia. And as the movement involved both large and small to medium-sized companies, this has inevitably been changing the long-established structure by dissolving the ‘parent and subcontractor’ trade relationship between them, to a more open division of labor.

Also, on the policy level, there are moves to establish an East Asian Economic Grouping to counter the economic blocs being set up in the West, and to this end, Economic Partnership Agreements (EPA,) and Free Trade Agreements (FTA) are being pursued. In this context, how economic relations with overseas countries should be structured and managed — including the relocation of production bases or the promotion of trade — is of crucial importance for the Japanese economy.

At the same time, in comparison to the other advanced nations of the world, FDI into Japan’s manufacturing industries only contributes a small amount in terms of the domestic economy and employment, and it has not attracted a great deal of attention until recent years, possibly because its impact has been thought to be relatively limited. Out of a desire to boost employment and attract capital, as well as to help revitalize the economy through an inflow of new technologies and innovative management practices, the Japanese government stated in 2003 that it aims to double FDI within five years. A range of measures in an attempt to achieve the goal is being implemented, and while there has been a rapid increase in merger and acquisition (M&A) related direct investment in non-manufacturing industries, particularly by foreign finance and insurance companies, in 2004 investment in manufacturing industries dropped to its lowest level in 10 years. Local governments, spurred on by central government support measures, are also actively seeking to attract foreign capital, but this is not producing the desired effect, with regard to manufacturing industries. Almost all of the foreign investment in manufacturing industries occurs through M&As, and while it is unclear if this comes with the downsizing or reduction of their manufacturing operations in their own country, it is

suggested that in general most are motivated by research and development aims and therefore it is assumed that few cases involve the actual relocation of the manufacturing process to Japan.

For that reason, the following focuses upon the outward relocation of Japanese companies.

- **The recent trend in relocations:** a) have instances of relocations increased in the latest five years? b) Is the issue of relocations gaining importance in the public debate on economic policies or industrial relations?

According to the Ministry of Economy, Trade and Industry's Basic Survey of Overseas Business Activities, the number of companies in the manufacturing industry that set up incorporated operations overseas or made new investments in related companies has been declining since 1995 when it peaked at 667 companies. In particular, in 2003, only 154 companies did so, approximately half of the previous year's figure of 306, and the lowest level in the last 10 years. At the same time, the number of companies that are pulling their manufacturing operations out of foreign countries continues to rise. But even so, the foreign production ratio increased approximately 4% point in the five years to 2003, a modest but consistent increase to 15.5%, and also the overseas capital investment ratio (to total of domestic and foreign capital investment), though unstable, has shown increase of 2% point in the last five years (17.8% in 2003). Localization is also progressing, with the onshore procurement ratio of locally-incorporated companies increasing by 10% point in Asia and North America and even in Europe by approximately 5% point.

When asked whether they have closed or plan to close their domestic factory as a result of relocation to overseas, only 5% of respondent companies replied in the affirmative. In terms of industry categories, more than 10% in the textile industry and manufacturing of information and communication equipment, and in terms of invested regions, more planned to do so in Asia than North America or Europe. If we look at the Ministry of Economy, Trade and Industry's *Basic Survey of Japanese Business Structure and Activities*, while the number of business operations retained during this period by companies in the manufacturing industry decreased by 6,000 (just less than 10% decrease), there was an increase of approximately 200 overseas operations (approximately 10% increase).

The number of people working in Japanese manufacturing industry has decreased by more than 20% over the past 10 years and the number of people employed overseas has climbed to a level equivalent to one-quarter of the total employed in manufacturing in Japan. Also, the sales turnover for overseas operations is already larger than that exported from Japan, and the total figure for imports of goods produced by Japanese overseas operations is also increasing. Most of the analyses by the government and academics basically agree in recognizing, in the short-term, the negative impact of outward FDI on the domestic economy and employment. Little analysis has been carried out on the economic effects, but for example in the estimates for 1996 included in the *Basic Survey of Japanese Business Structure and Activities* mentioned above, there is reference to a decrease of approximately 7 trillion yen in domestic production (a drop of 226,000 in terms of employment), and estimates for 1998 using the same approach issued by the Institute for International Trade and Investment refer to a decrease of approximately 10 trillion yen and 370,000 decrease in employment. Also, with regard to employment, the *White Paper on the Labour Economy* in 2003 issued by the Ministry of Health, Labour and Welfare refers to a tentative estimate of a decrease of 600,000 people for 2000 (an increase of approximately 840,000 through the intermediate goods export-inducing effect, against a decrease of approximately 1,440,000 through the export substitution effect and the reimportation effect.) Fukao et al. (2001) estimated that there was a decrease in employment of 580,000 during the 1987-98 period resulting from the relocation to Asia. With regard to Fukao's findings, he maintains that relocation designed to secure markets and resources had a positive effect on domestic employment, and according to analysis carried out by Higuchi and Genda (1999) from the opposite aspect, an extremely high percentage of small and medium-sized companies made reductions in their blue-collar employment where their parent enterprise carried out outward relocation. Also, Horaguchi (2003) compared the numbers of workers employed by the main electronics manufacturers and the regions where their establishments are located, which found out that, while in the period between 1987 and 1993 the number of the employees of electronics manufacturers increased — mainly in the Tokyo metropolitan area —, there were both increases and decreases in the regions, but between 1993 and 2001, not only were there severe decreases in levels of employment of main manufacturers — again, centered in the Tokyo metropolitan area—, but also significant decreases in most of the regions.

Regarding the decrease in the number of workers employed in the manufacturing industry since the 1990s, it is difficult to separate the impact that changes in the economic environment — such as the sluggish economy, the high yen and the trend towards service economy — have had from the changes resulting from the overseas relocation of production bases. At least with respect to domestic production and employment, the negative impact (the lower employment levels and reduction in real earnings that occurs when there is a drop in domestic production resulting from fewer production bases, the export substitution effect and the re-importation effect) is larger than the real feedback effect (the increase in productivity gained through reduced labor costs, the intermediate goods export-inducing effect and the increased domestic production and employment resulting from market acquisition in the country to which the relocation has occurred). Be that as it may, the international division of labor resulting from outward relocation by Japanese companies is a trend that cannot be stopped and for this reason, as well as domestic companies looking to expand the range of their trades, including with overseas companies, they are also orienting themselves towards sophisticated technology and high value added products. Policies implemented to help existing industries become more sophisticated include both the public and private sector working with university research institutes to establish industry clusters around regional concentrations of existing companies, but at this stage there are no conspicuous results.

On the other hand, inward FDI from overseas in the manufacturing industry, which peaked in 1999 at 1 trillion yen in investment, rapidly decreased to approximately one-tenth in 2004, although the number of cases per year remained at around 200. Over the last five years, the average level of inward FDI in the manufacturing industry has occupied approximately 30% of total amount, small when compared with the amount outward FDI by the manufacturing industry. Also, as previously explained, while increased priority is being placed on policies that support FDI, companies in the manufacturing industry with foreign capital affiliation account for only 1% to 2% of employment, and it is estimated that they generate roughly the same percentage of domestic production. So, it is thought that there is relatively little interest in this area. In recent years, literature concerning foreign investment in Japan suggests that in addition to the real impact on employment, companies with foreign capital affiliation have a higher level of productivity than domestic companies and that they enhance productivity in the

companies that are the object of M&As (e.g. Fukao, 2004). It has also been suggested that they are superior in terms of conditions of employment such as wages, or in labor management and benefit packages. Some writers hope that foreign investment in Japan will help to counter-balance the hollowing-out of industries or regenerate the manufacturing industry and pull it up from a situation of low growth.

However, the people of Japan have the impression that companies with foreign capital affiliation tend to place priority on profit and that they carry out employment adjustments and pullouts with little concern of the impact on the host country. Also, as the environment improves for M&As due to amendments to the Company Law, concerns of hostile takeovers by foreign funds have been voiced in the media. Such negative images are cited as one reason why it is difficult for foreign companies to invest in Japan.

- **The prevalent direction of relocations:** a) outwards, to foreign countries (if possible, specify the destinations, even by broad areas); b) inwards, from foreign countries (if possible, specify the origins, even by broad areas).

According to the *Report on Inward and Outward Direct Investment* by the Ministry of Finance (based on applications from companies investing more than 100 million yen to overseas), for the five-year period prior to 2004, the average amount of new investment\* directed toward the United States, Asia and Europe was each around 30%, with the remaining 10% mainly going to Central and South America. While the level of investment in the U.S. is decreasing in the medium-term, and in recent years in Europe as well, investment to Asia has remained more or less at the same level and if anything, has increased slightly. If we focus on fiscal 2004, we see that the total investment figure has decreased overall, but in Asia there was an increase by around 40% over the previous year, of which, approximately two-thirds is directed to China. And while the level of investment in Thailand, Indonesia, Malaysia and Singapore, countries that had been the main investment destinations, continues to experience only sluggish growth, we can see a clear shift in focus in the past five years, with the figures for China having increased four times. However, in the context of an overall decline in the number of companies being newly established overseas (*Basic Survey of Overseas Business Activities*), since 1995 the number of new companies in Asia has also started to decline and the number of companies pulling out of the region is increasing. Since the ratio of small and medium-sized companies pulling out is relatively stable, it is mainly the large

companies that are carrying out adjustments among their overseas affiliates. The 2005 *Survey Report on Overseas Business Operations by Japanese Manufacturing Companies* by the Japan Bank For International Cooperation on approximately 900 companies with overseas affiliates suggests that of those companies that responded they are considering pulling out or downsizing, around 10% stated that this is “in order to return operations to Japan.” The remainder was spread evenly between “relocating at least partially to a third country” and “pulling out of the project altogether”. Media coverage in the last year has reported cases of manufacturing bases moving back to Japan — primarily in the electrical industry. This is said to reflect worsening sales performance in the local markets and, in the case of production for some digital home appliances for the Japanese market, the partial relocation of factories back to Japan due to concern over technology outflow. However, even with the revival in business activity in the last few years, the number of manufacturing operations within Japan is still decreasing, and the current movement back to Japan can be considered a flow back to Japan.

\* Furthermore, as far as FDI by Japanese companies is concerned, in addition to that from within Japan, there is a certain amount of reinvestment by overseas affiliates in the form of borrowing and retained earnings. Statistics generated within Japan do not give us an indication of the number of cases, or the scale, but the Japanese Electrical Electronic and Information Unions for instance estimates that through the 1990s, around the 50-60% of the investment in production facilities and equipments overseas are by reinvestment. Therefore, the number and scale of actual direct investment is larger than that observed in domestic statistics, and that the regional and industry composition may also differ to some extent.

It is generally said that Japanese companies involve themselves in greenfield investment than their counterparts in other advanced nations. The 1998 *Basic Survey of Overseas Business Activities* asked companies in what form of investment they have established overseas affiliates. Approximately 50% responded that they had set up a new operation, while 40% had newly established joint venture and around 6% each either by acquisition of an existing company or by capital participation. In terms of regions, in Europe and the United States, more than 60% had set up new operations, approximately 20% were joint ventures and 10% were acquisition, but in Asia, while setting up new operations and joint ventures were just above 30% and around 60% respectively, acquisition only accounted for 1.4% of the total. The regulations governing the entry of

foreign capital that applied until China joined the WTO in 2001 are thought to have been a major reason for the high percentage of new joint ventures in Asia.

If we compare the average outward investment and inward investment over the past five years, inward FDI is only at the level of 30 - 40% of outward FDI in terms of the number of cases and just less than 20% in terms of the total amount. Approximately 50% of that is made up of investment from Europe, North America and Japan (investment by companies in Japan that have a foreign capital affiliation), each account for around 20%. No new data exists, but according to the 1998 *Survey of Trends in Business Activities of Foreign Affiliates*, just under 60% of companies established in the manufacturing industry by companies with foreign capital affiliation were new, with less than 40% as joint ventures and less than 10% as acquisition.

- **The sectors mostly involved in relocations and possible sectoral specificities:** a) which are sectors mostly affected by relocations? b) Is there a predominant type of relocation depending on the sector?

If we look at the average figure for new investment over the last five years in the manufacturing industry, we see that the transport machinery (manufacture of automobiles consists the large part), electronics and chemicals sectors each account for 20 - 30%, with machinery making up just under 10%. Apart from chemicals, all three are leading export industries, and in terms of their overseas production ratios transport machinery carries out slightly more than 30% of its production offshore, and electronics and machinery 10% to 20%. For both transport machinery and electronics the foreign/domestic employment ratio is 1:1, but in terms of the decrease in domestic employment, as previously described, while the electronics industry has been particularly hard hit, this clearly differs from the transport machinery sector, in which the impact has been relatively gentle.

The ratio of investment in Asia by the transport machinery and electronics industries is increasing, and because most of this is aimed at a vertical division of labor, in theory they should be able to look forward to an intermediate goods export-inducing effect. However, most of the overseas affiliates in each industry — with the automobile industry at the fore — are looking to enhance operational efficiency by improving their local procurement ratio. Considering that in recent years there have been moves by third party countries within the region to replace the intermediate goods export from Japan, it is

difficult to be optimistic that this scenario will contribute to the domestic economy and employment situation.

- **The ownership of firms opting for relocations:** are they mostly foreign-owned firms or are national firms also significantly involved in relocations?

We were unable to find any surveys on ownership in terms of nationality of firms relocating overseas. However, according to a survey carried out by the Japan External Trade Organization (JETRO), there are around 700 foreign manufacturing companies in Japan providing employment for about 4% of all workers in the manufacturing industry, so it is difficult to imagine that foreign companies are significantly involved in the outward relocation from Japan. Therefore, it is reasonable to assume that the vast majority of relocations involve Japanese companies.

- **The reasons mostly alleged for relocations:** a) labour costs and labour market regulation; b) industrial relations and conflict; c) tax levels; d) explicit subsidies granted by public authorities; e) the availability of competencies and know-how in destination locations (of which kind?); f) the presence of valuable infrastructures in the destination locations (of which kind?); g) the proximity to suppliers; h) the proximity to final markets; i) other reasons, to be specified;

Japanese companies choose to invest overseas for one of the follow three reasons: cheap cost of labor, the size or potential of the market, and following a business client that has relocated. The relative extent to which these factors come into play differs depending on the region. According to the results of the Japan Bank for International Cooperation survey cited previously, the cost of labor is a negative factor with overseas investment to Europe and the United States, and the reason for investment can be found in the size of the local market and the decision to follow a business client that has relocated, or the existence of valuable infrastructure. Compared with the situation in China, in recent years relevant parties are aware of the relative increase of labor costs in the East Asian NIES (South Korea, Taiwan, Hong Kong and Singapore) and the ASEAN4 (Thailand, Malaysia, Indonesia and the Philippines), which had been the main focus of relocation within Asia. With regard to tax systems, rather than looking positively at tax breaks, more attention is given to problematic issues, such as systems being undeveloped or unstable. Other problems cited include fierce competition in the local market (between



local and other foreign companies), the lack of legal structures or non-transparency in their implementation (frequent changes, etc.), insufficient protection of intellectual property, instability in public safety in general, and labor problems in the destination country, including those between workers and management.

Examples of instability in China — such as the outbreak of SARS, the devaluation of the yuan, successive strikes, as well as anti-Japanese demonstrations — have produced a growing movement among companies already in China towards diversification of risk by avoiding an excessive concentration of operations in that country and establishing production bases in other locations (so-called “China-plus-one” policy). Also, even along the Chinese coastline — where investment is concentrated — soaring labor costs have exceeded those of the major ASEAN cities and the merits of manufacturing cost compression are said to be diminishing.

According to the *JETRO Survey on FDI in Japan*, the main reasons for direct inward investment are the importance of the market, the presence of infrastructure including that of IT-related areas and the ease of staff recruitment. However, because the factors mentioned previously cannot be expected to be as favorable in outlying regions as in urban areas, it is said that the direct inward investment tends to be concentrated more around Japan’s metropolitan areas.

## *2. Specific cases*

Please, provide a brief description of at least two significant cases of relocation in your country, focusing on the role of industrial relations. When choosing the cases, you should consider the items of question 1 above: i) sector involved; ii) ownership of the relocating firm (foreign or domestic); iii) size of the relocating firm; iv) direction of relocation; v) reasons for relocation.

Each brief case should include if possible:

- a) the name of the firm;
- b) the ownership of the firm;
- c) the sector and main product;
- d) the total number of employees (men and women) and the number of employees involved in the relocation process;
- e) the time span of the case (date of announcement, date of final decision on the relocation,

- expected date of completion of relocation - if relevant);
- f) the reasons for relocation declared by the firm;
- g) the description of the various phases (announcement, conflict - in case of outward relocation, collective bargaining, intervention of public authorities, etc.), with a special attention to the role of industrial relations;
- h) the final outcome in terms of effective relocation compared to what announced in the first phase (full, partial or no implementation); and
- i) the contents of the final collective agreements on relocation (if present) and the instruments used to handle, limit or avoid outward relocation or to provide incentives for inward investment (if any).

#### (1) Mitsumi Electric Co., Ltd.

Mitsumi Electric is a domestic electronics company that manufactures parts for computers, game machines and televisions. It was founded in 1954, and in 2005 it employed 2,700 people. Beginning in the 1970s, the company started to shift its manufacturing bases to Taiwan and other parts of Asia, reducing the size of domestic operation by closing its manufacturing bases in Japan. Now, almost all of its manufacturing is carried out overseas and its remaining domestic operations are concentrated on research and development activities.

Following its January 2001 announcement to close its Tsuruoka Plant in March that year, Mitsumi Electric attracted attention for the strikes that occur very rare for a large company —. At that time, the Tsuruoka Plant was already reducing half of its employment to about 160 people, and having most other operations relocated to Philippines, it was manufacturing magnetic heads for computers. And as its business performance deteriorated, the decision was made to close the Tsuruoka Plant, asked the employees to put in applications to transfer to other factories in the region. The Mitsumi Electric Co. trade union opposed this on the grounds that it was effectively a dismissal of staff, and the day following the January announcement, the union called a 24-hour strike that involved 3,000 workers in nine different factories around Japan. Also, in addition to refusing to work overtime and on holidays, the union threatened another strike, this time for 48 hours, at the end of the month. However, towards the end of the same month negotiations produced a resolution from management that, “We will carry out a shift in our operations and will continue to employ these workers,” thereby avoiding the second

strike. As a result, in April the plant was leased to the machinery manufacturer Tohshin Parts Ltd. on the basis of a promise to subcontract out work and supply technological support. The jobs of 80 workers were secured by transferring them to the Tohshin payroll, around 30 workers were transferred to other factories in the region, and just less than 70 people were let go.

Furthermore, in 2003 Mitsumi Electric Co. announced that 500 jobs would be lost due to operations being relocated to China and Malaysia. It is reported that over 700 people put their names forward for voluntary retirement at that time. (Nikkei Shimbun 16/01/01, 27/01/01, 05/04/01, 13/03/01)

### *3. Position of the social partners*

You should report the positions of trade unions and employers' associations on the issue of relocation, focusing in particular on:

- a) the relevance of relocation in their agenda;
- b) their view on relocation processes and the impact of relocations on their strategies and actions, focusing in particular on whether and how relocation can foster the emergence of cross-border industrial relations in terms of industrial action, collective bargaining or co-operation, especially among trade unions;
- c) the role that industrial relations and social dialogue have and should have in handling relocation processes;
- d) the role that public policies have and should have in dealing with the issues of relocation.

As explained previously, over the past 20 years the overseas investment of manufacturing companies has had such a major effect on Japan's industrial structure and employment situation that trade unions and employers' organizations can no longer refrain from commenting. However, the decision to invest overseas, as well as the accompanying business restructuring and issues of labor-management relations are thought to be the problem of individual companies, so the focus of comments from national or industry-based trade unions and employers' organizations seem to be limited to issues concerning the basic rules.

While JTUC Rengo shows understanding to overseas investment of the companies as inevitable trend of the globalization, it demands that the companies' operations overseas need to be in compliance with such norms as core labor standards and guideline for multi national enterprises, and in this regard, sees importance in the

collaboration between trade unions of the Japanese companies overseas and domestic trade unions of the corresponding company in Japan, although, apart from the fact that the Japanese establishments overseas are barely unionized, it seems that the improvement is yet to take any shape. As for domestic influences, Rengo is concerned that disparities will progress on the basis of region, industry, company size or in terms of employment or work arrangements, as specific regions and small to medium-sized companies bear the brunt of the economic and employment impact. It therefore advocates that industrial, employment or regional development policies be implemented to rectify this problem.

Nippon Keidanren, on the other hand, basically agrees with the formation of an East Asian Economic Zone and the establishment of systems to promote free trade within the region. It maintains that it is necessary for individual companies to relocate overseas to cut costs and thereby strengthen their international competitiveness, and that relocation is a form of international contribution through technology transfer and job creation that occurs as a result. However, at the same time, in its “Issues and Outlook for Strengthening Industry,” it states that, “We consider that some reduction in employment in the manufacturing industry is unavoidable, but in order to avoid a sudden hollowing-out of employment it is necessary to enhance industrial strength and secure domestic manufacturing bases within Japan.”

With regard to individual companies, the downsizing or complete closure of operations in conjunction with overseas investment and the sale of business operations to foreign companies either directly or indirectly impacts on employment levels or conditions. For this reason, a large number of trade unions within companies initiate labor-management consultation based upon employment agreements, but very little is made public about the process or results, and the lack of survey or information available makes it difficult to ascertain the true nature of the situation. But we are able to get a glimpse of discussions concerning business restructuring on a more general level from a survey carried out in 2003 by the Japanese Electrical Electronic and Information Unions aimed at its 500 member unions and relevant companies. Almost 300 responses were received, and with regard to more than 600 cases of restructuring that have occurred in the past, 80% to 90% of the respondents stated that labor-management consultation did when restructuring was carried out, and more than 90% stated that unofficial discussions occurred before a public announcement (Hisamoto, Japanese Electrical Electronic and

Information Unions Research Center, 2005).

However, regarding management plans to close factories or shift operations overseas, if we consider that in the past 10 years there has been almost no media coverage of cases in which such plans were cancelled or changed due to industrial action by unions or breakdowns in negotiations, the reality of the matter is that in most cases labor unions were obliged to accept such restructuring plans. The survey mentioned above asked if there were differences of opinion between management and labor during the discussions, and only about 10% responded that there were “large differences of opinion,” with more than 80% stating that there were not. Of course, this survey does not cover cases in which the company ceased to exist or the union faced dissolution as a result of the restructuring, and the possibility that labor-management relations were relatively good between the unions and companies that responded to the survey means that while we may not be able to generalize from these results they can be said to indicate a certain trend.

### **C. Minimum wages**

#### *1. Existence, historical background, and quantitative description*

- Does a system of protecting pay at the bottom of the labour market, either through some kind of statutory minimum wage or collectively agreed wages, exist in your country? Please give a short description and describe briefly the historical development of low-pay regulations (including their inception) and the main current legal provisions.

Under Japan’s minimum wage system, the central government fixes a statutory minimum wage and forbids employers from engaging workers for less than that amount. The Minimum Wage Law states that its purpose “is to improve the working conditions of low-paid workers by guaranteeing minimum amounts of wages in accordance with categories of industries, occupations or regions, and thereby to contribute to stabilizing workers’ lives, raising the quality of the labor force, and securing fair competition among businesses, as well as to promote the sound development of the national economy.” (Article 1)

The application of Japan’s minimum wage system has gradually expanded around the 1959 agreements made by employers, but the 1968 amendments to the Minimum Wage Law abolished the agreements based method, and the trend strengthened towards fixing

minimum wages according to industries or regions. In 1976, minimum wage levels were fixed for all prefectures, thereby covering all workers in Japan. Subsequently there have been changes centered on the operational issues, such as improvements to benchmark systems and the restructuring of industry-based minimum wages.

However, with regard to industry-based minimum wages, Central Minimum Wages Council reports have been calling for a review of the system, which is echoed in the “Three-Year Program for Promoting Regulatory Reform and Opening Up to the Private Sector.”

Also, the circumstances surrounding the minimum wage system suggest that the environment is changing. For example, the trends towards the service economy is changing the structure of industry and the increase in the number of part-time workers has caused greater diversity in employment patterns. In this context, the minimum wage system will play an even more important role as a safety net.

- At which level does a statutory or collectively agreed minimum wage exist (regional, sectoral, national)? What is the current level of (a) the national (b) sectoral and (c) regional gross minimum wages (first, in national currency; second, as compared with the average gross wage; third, as compared to the median gross wage, if available)? How have these figures developed since 1995 (give annual data, please)? If minimum wages are collectively agreed, please give figures for selected industries only: textiles and clothing production, retail, hotels and restaurants, and hairdressing.
- How is the statutory minimum wage set (hourly earnings, monthly pay etc)? Which kinds of variations exist for different groups of affected employees - part-time workers, young workers (ie age variations), older workers, disabled people, apprentices, the long-term unemployed, newly hired workers? What are the reasons for these different arrangements?

The types of minimum wages and the methods for fixing them are as follows:

#### 1) Minimum wages based upon the deliberations of Minimum Wages Councils

Minimum wages fixed by the Minister of Health, Labour and Welfare or the Chief of the Prefectural Labor Bureau. When they judge it necessary, they request Central or Regional Minimum Wages Councils to investigate and deliberate. After those Councils present their views Minimum wages can be fixed.

The methods for fixing minimum wages can be divided into three categories:

regional, business (industry) and job type, but at present only two are used: (a) regional minimum wages and (b) industry-based minimum wages.

(a) Regional Minimum Wages (47 cases, covers approximately 50,000,000 workers, weighted average 665 yen per hour)

Regional minimum wages are specifically designated for each prefecture. They do not refer to specific industries or types of job and as a rule they apply to all workers in a business and employers who employ more than one worker.

(b) Industry-Based Minimum Wages (249 cases, covers approximately 4,000,000 workers, weighted average 756 yen per hour )

Industry-based minimum wages are designated for a specific prefecture and industry, and almost all (248 cases) have been decided for specific industries within those prefectures, with only one being designated as a nationwide minimum wage for a certain industry.

Industry-based minimum wages are fixed, as mentioned in the Central Minimum Wages Council reports of July 29, 1981 and February 14, 1986, only when related workers and employers recognize the necessity of fixing minimum wages higher than that specified for the region from the viewpoint of: i) improving conditions of employment; or ii) ensuring fair competition (246 cases, New Industry-Based Minimum Wages). With the case of i), minimum wages are fixed in the cases where more than half of the core workers with similar types of job in an industry are covered by collective agreements including minimum wages and all employers and trade unions involved in such agreement accept the arrangement. These are referred to as “collective agreement cases”. With the case of ii), the minimum wage is fixed to ensure fair competition and to be proposed by all or some of the trade unions or employers in the industry to which this pertains. These are referred to as “fair competition cases.”

With regard to the previously used “old” industry-based minimum wage, apart from those that have changed to new industry-based minimum wages, it has been decided that no amendments will be made from 1989 and that minimum wages will be abolished as needed when they fall below the amount of regional minimum wages. At present only three remain.

2) Minimum Wages Based Upon the Expansion of Employment Agreements (2 cases,

covers approximately 500 workers, weighted average 868 yen per hour)

- In cases in which the majority (around 2/3) of the same kind of workers and their employers in a certain region are covered by collective agreements including provision of an amount for a minimum wage,
- and when there has been an application from the all trade unions and employers party to the collective agreement,

the Minister of Health, Labour and Welfare or the Chief of the Prefectural Labor Bureau requests the opinion of the Minimum Wages Council, and based upon the collective agreement in question, fixes a minimum wage applying to all workers and management, including those outsiders not party to the collective agreement.

The average hourly wage rate for regional and industry-based minimum wages, scheduled cash earnings and average hourly wage rates for part-time workers are set out below.

	1995	96	97	98	99	2000	01	02	03	04
Average hourly wage rate for regional minimum wages (A)	611	623	637	649	654	659	662	663	664	665
Average hourly amount of averaged scheduled cash earnings (B)	1,704	1,749	1,790	1,791	1,800	1,810	1,831	1,834	1,820	1,817
Average hourly rate for part-time workers	882	900	896	914	911	914	915	911	915	928
(A)/(B) (%)	35.9	35.6	35.6	36.2	36.3	36.4	36.2	36.2	36.5	36.6
Average hourly wage rate for industry-based minimum wages*	690	706	722	736	743	749	753	756	756	-

\*The average hourly wage rate for industry-based minimum wages was calculated by dividing the daily amount by 8 hours.

In order to ascertain the real effects of minimum wages, minimum wages are limited to basic monthly wages and those listed below fall outside this definition.

- (1) special purpose payments (e.g. marriage allowances)
- (2) wages paid at intervals exceeding one month (e.g. bonuses)
- (3) wages paid for work that exceeds the set hours of employment



- (4) wages paid for work on days beyond the set days of employment
- (5) the portion of wages paid for night work (10pm to 5am) that exceeds the amount that would be paid for working normal hours
- (6) wages specified to not be included in the minimum wages concerned (current minimum wages are determined not to include perfect attendance allowances, commuting allowances or dependent family allowance.)

- If a common national or collectively agreed statutory minimum gross wage exists, what is its level compared with the average gross wage in the following sectors: textiles and clothing production, retail, hotels and restaurants, hairdressing?

The industries for which minimum wages are set do not match the four industries mentioned above, so the nationwide average hourly rate for minimum wages and the national average for scheduled cash earnings are indicated for the textiles industry (not including clothing production) and various retail industries. (The minimum wages are as of January 2005, and the scheduled cash earnings are as of June 2004.)

	Textiles industry	Various retail industries	Inns and other accommodation	Eating and drinking places	Laundries, hairdressers and public baths
Industry-based average hourly rate for minimum wages	704	735	-	-	-
Industry-based average hourly rate for scheduled cash earnings	1,445	1,858	1,363	1,462	1,258

- Are there wage subsidies for employers employing people on the minimum wage (in particular reduced employers' contributions to social security insurance)? Please specify.

Independent of the minimum wage system, for example there is a subsidy system for use if certain set criteria are met when employing disabled people or older workers. However, there is no subsidy system directly connected to the minimum wage system.

## 2. *Beneficiaries*

- Who is covered by the statutory minimum wage: does it apply to all employees or to certain groups only? Please list the relevant groups and exemptions.

As a rule, the current minimum wage system applies to all workers – be they full-time, temporary or part-time employees – and to all employers, even if they only employ one worker.

At the same time, it is not necessarily appropriate to apply a minimum wage uniformly to include those people whose capacity for work differs from general workers, and the Chief of the Prefectural Labor Bureau may authorize special dispensation on an individual basis.

Workers who qualify such dispensation are as follows:

- (1) workers who have an extremely small capacity for work due to a mental or physical disability
- (2) workers in a probationary period
- (3) workers receiving vocational training subject to authorization referred to in the Human Resources Development Promotion Law
- (4) workers whose prescribed working hours are particularly short
- (5) workers carrying out particularly light and simple duties
- (6) workers involved in intermittent work

- Describe the coverage of employees affected by the statutory minimum wage as a percentage of all employees. Only if minimum wages are collectively agreed, please give figures on the coverage rates of the whole economy and the four sectors listed in question 1. If possible give these figures also for different sub-groups (for example part-timers, workers with low qualifications etc).

As explained above, the amount of the industry-based and regional minimum wage is determined at central or local government level, and fundamentally, the system applies to all workers. Because there are no surveys providing statistics on the amount of wages for all workers, the number of workers who are actually affected by the system is unclear. According to the Ministry of Health, Labour and Welfare's *Basic Survey of Minimum Wages* of companies with fewer than 30 employees (or manufacturers with fewer than 100 employees,) revisions in recent years have meant that in 2003, 1.6% of workers have required wage rises due to revisions in the minimum wage, or before the revision, were already only being paid an amount less than the minimum wage. The *Basic Survey of Wage Structure*, aimed at companies employing five or more people, also indicated that in 2003 the number of workers earning less than the minimum wage remained about 1% of

the total.

### *3. Enforcement*

- According to which criteria is the statutory or collectively agreed minimum wage increased? Do increases take place annually or irregularly? Is there an automatic mechanism (for example any type of indexation)?

The amount of the regional minimum wage is basically revised every year. The Central Minimum Wages Council, comprising members representing workers, employers and public interest, sets the standard amount of raising regional minimum wages taking into consideration the three factors of a.) the cost of living of workers, b.) wages of similar workers and, c.) the capacity of normal industries to pay wages. 47 Prefectures are ranked within four levels and the standard amount of raising regional minimum wages is set for each rank. Based upon this, the regional Minimum Wages Councils, similarly made up of members representing workers, employers and public interest, discuss the revised amount for each region, with the final decision being made by the Chief of the Prefectural Labor Bureau, (some: the industry-based minimum wages applied at national level, are decided by the Minister of Health, Labour and Welfare based upon the result of the deliberation of the Central Minimum Wages Council.) There are no automatic revision standards set to account for such things as price slide.

- How is the statutory minimum wage enforced?
- Please describe the way in which the implementation of the minimum wage is examined and describe the penalties in the case of non-compliance.

Minimum wages set centrally and in the regions are disseminated through the likes of prefectural labor bureau public relations offices, media organizations, municipal newsletters and organization-specific newspapers. Ensuring corporate compliance is carried out through the director in charge of labor standards in each prefecture's Labor Standards Inspection Office. Where violations are detected, the employer in question must pay a fine of up to 20,000 yen for each case of violation (per worker.) In addition, with regard to the labor contract between the worker and the employer covering the application of minimum wages, those that are judged not to reach the minimum wage have that portion of their contract invalidated and the worker affected has the right under civil law to claim the minimum wage.

- Do the enforcement measures ensure that employers affected by the statutory minimum wage pay it? If possible, please give figures on the degree of non-compliance with regard to employees who can claim the statutory minimum wage.

In 2004, 678 businesses, or 5.5% of the 12,337 businesses that were audited did not comply with minimum wage requirements, (with violations being particularly numerous regarding the parameters of dispensations from minimum wage regulations.) In the last decade, the number of violations peaked in 1998 at 10.4%, and since then the rate has decreased every year. In terms of the number of workers involved, 2,321 of the 178,757 workers in the businesses in question - or 1.3% - were earning less than the minimum wage. However, apart from the obvious violations, there are problems in the current system with minimum wages not being applied to workers who are not actually directly employed - such as temporary or contracted workers, or people from other regions – despite working within industries or regions in which minimum wages apply.

#### *4. Increases and involvement of the social partners*

- Is, or was, the statutory minimum wage set unilaterally by the government or is, or was, there a role for low pay commissions and/or employers' associations and trade unions? Please describe the role of low pay commissions and social partners.

As explained above, the fixing of revised minimum wage levels involves a process whereby Central and Regional Minimum Wages Councils made up of representatives of workers, employers and public interest groups deliberate and make proposals, which the Chief of the Prefectural Labor Bureau or the Minister of Health, Labour and Welfare refer to before making a final decision. In addition, with regard to industry-based minimum wages the Minimum Wages Council deliberates over the need for revision in response to approaches from either workers or employers, and as well as the Council seeking the opinion of relevant workers or employers, the workers or employers can raise objections to Council's verdict.

- What is the rationale of the statutory minimum wage according to the government and the social partners? How far is the statutory minimum wage regarded as an effective tool of redistribution? How do employers, employers' associations and trade unions assess the employment effects?

- How do social partners and the government evaluate the current practice of the implementation of the statutory or collectively agreed minimum wage (for example, regarding weekly or monthly gross incomes based on different working times)? Do the social partners consider the existing regulations to be sufficient or, possibly, as a case of over-regulation? What proposals, if any, exist for changes to current practice? If the minimum wage is collectively agreed, does a debate exist about setting a statutory minimum wage?

We can get an idea of the views of workers and employers on the current system in the brief summary of the discussion that took place in the Study Group on Minimum Wage System organized by the government for six months from September 2004. This Group was made up of government officials as well as representatives of the workers, employers and public interest groups.

Workers' representatives stated that in order to a) compensate for the lack of social impact (or of a wage market that covers regions and industries) of a system for determining working conditions in Japan based upon decisions and application made within the companies, and b) restrain wage differentials expanding with rising unemployment and increasing diversity in employment patterns, the minimum wage system should play an adequate role in boosting industry-based and regional wages. They also point out the low rate of influence of 1% under the current system (the level, in percentage terms of workers affected by the revision of the minimum wage,) and the large gap between the minimum wage and the average wage received by regular or part-time workers, and advocate the need to improve the level of the minimum wage and heighten the effectiveness of the system.

In response, the employers' side agree that guaranteeing a minimum wage as a price for labor contributes to the stability and sound growth of the national economy, and acknowledge the importance of communication and mutual understanding between the workers and management through a process of deliberation by workers, employers and public interest groups that takes into account the regional cost of living of workers, wages of similar workers and the capacity of normal industries to pay wages to decide minimum wages, but state that the industry-based system should be standardized within the regional system, and abolished on the grounds that it negatively impacts upon the competitiveness of industries. Also, with regard to the current regional system, they maintain that it is functioning effectively and that there is no use in debating the minimum wage level by

comparing it to the average wage of general workers and that there should not be a fixation on achieving a certain rate of influence.

This Study Group released its report in March 2005 in which it defined the role of the minimum wage as “a safety net to protect all workers from unreasonable wages, and stated that, “the fixing of fair wages” is “always a secondary and additional matter.” In specific terms, the Study Group proposed the following regarding the revision of the minimum wage: a) reevaluate standards and levels for fixing regional minimum wages, b) carry out a fundamental review of the industry-based minimum wage system that considers abolishing it altogether (abolishing it in cases of fair competition and in collective agreement cases fixing it for each type of job within broad groupings of industries, etc.) and c) the abolition of minimum wages through the expanded application of collective agreements. The Study Group also suggested that fines (currently 20,000 yen) should be increased, that for temporary workers, the regional or industry-based minimum wages of region in which they are working should be applied and that the unit for expressing wages should be standardized as one based upon hours worked. The Minimum Wages Council convened this June will deliberate on this further and present their report at the end of this year.

##### *5. Debate*

- Give a short overview of any independent evaluations of the impact of minimum wages on employment and wage structures and on gender equality.

Research to date on the minimum wage system has looked mainly at how it impacts upon wage fixing and there are numerous examples of how it has served to boost the wages of female part-time workers in regional areas, but the scale and depth of the influence of the minimum wage varies from one set of research findings to the next. At the same time, it appears that the impact of minimum wages on employment has not been examined to any great extent to date, but some reports do suggest that revisions of the minimum wage have had a slight effect of restraining employment.

In 2004, the JILPT sent out a nationwide questionnaire to 10,000 companies employing fewer than 30 people (5,000 companies to which minimum wages apply and 5,000 to which they do not apply) concerning such matters as awareness and handling of the minimum wage system. Responses were received from 2,434 companies (effective response rate,) (Hori, 2004.)

According to the survey, almost all of the companies surveyed (more than 95%) responded that they have not restrained employment because of regional or industry-based minimum wage revisions and more than half of the respondents stated that they “do not know” either the regional or industry-based minimum wage amount, and with regard to the usefulness of the system, as many as 3/4 of the respondents felt that minimum wages were either “of no use” or that they “could not give an opinion either way.” This matches the responses from more than 70% about regional minimum wages and 40% about industry-based minimum wages that this is because “the minimum wages are so low that they are of no relevance.” However, in response to the question on the impact on wage fixing (a multiple response question) just less than 30% of companies stated that regional minimum wage levels did affect the wage levels of part-time workers and just over 10% stated that they used it as a point of reference when deciding the wages of their full-time workers.

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*\* This review was provided by the Japan Institute for Labour Policy and Training. However, it is a personal paper by the author (Hideo Higuchi) and does not represent the organizational views of the Institute.*