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General Survey

LDP Setback in Upper House Election Results in New Cabinet with Rengo Backing the DPJ

In the middle of the continuing recession, voters cast their ballots in the 18th Upper House election on July 12. The Liberal Democratic Party (LDP) suffered a major setback, failing to win a majority. The Democratic Party of Japan (DPJ) and the Japanese Communist Party (JCP), however, gaining considerably more seats in the election.

Voter turnout for the Upper House election was 58.8 percent, up from 44.5 percent in the 1995 election. Analysts interpreted the exceedingly high voter turnout as a clear rejection of the LDP's economic policies by the so-called non-party voters. Their protest votes went to the DPJ and the JCP. Taking responsibility for the party's defeat, Prime Minister Ryutaro Hashimoto announced his resignation. The LDP then elected Keizo Obuchi to succeed Hashimoto as president of the ruling party, thereby ensuring his election as prime minister in the Lower House of the Diet. In the Upper House, the opposition parties banded together to support the DPJ's leader, Naoto Kan, as their candidate for prime ministership while the Lower House, in which the LDP has a strong majority, elected Obuchi to that position on July 31. Akira Amari became the labor minister in the new Obuchi Cabinet. Born in 1949, Amari graduated from Keio University and worked for Sony Corp. before becoming secretary for his father (Tadashi Amari) who was an Upper House member. In 1983, he was elected to the first of five terms in the Upper House. In 1996, he was elected under the new proportional representation system from the Minami-Kanto District. He has served as the chief of the LDP's Commerce and Industry Panel, as chairman of the LDP Policy Research Council and as the LDP's deputy secretary general.



Rengo (the Japanese Trade Union Confederation), has come to recognize the newly formed DPJ as an axis of political strength that will enable a change in power. It fully backed DPJ candidates in the proportional representation districts. In specific election districts it supported non-LDP and anti-JCP candidates under the banner of the "unified opposition." Rengo supported 10 candidates under the proportional representation system and 38 in election districts. Seven of the former group and 23 of the latter group won seats.

The Democratic Socialist Party (DSP) was created by a split of the Japan Socialist Party

(JSP) in 1960. Thereafter, the relationship between labor unions and the political parties was characterized by the on-going confrontation between two blocs, with the Sohyo (General Council of Trade Unions of Japan)-JSP bloc and the Domei (Japanese Confederation of Labour)-DSP bloc.

The formation of Rengo in 1989 brought together many of the unions in Sohyo and Domei. As a result, the two national centers were dissolved. However, that did not lead to unification on the political front. Rather, it brought strife between the political parties in Rengo. In the July 1993 general election, the LDP lost its majority in the Lower House. That led to the formation of the Hosokawa coalition government. Although Rengo played a major role in creating the coalition, it soon saw the political parties backed by its affiliated labor unions divided into two opposing camps, those in the ruling coalition and those in opposition. The dissolution of the new parties and the resulting creation of the DPJ at the end of 1997 prompted Rengo to support the DPJ. Major gains made by the DPJ in the July 12 election may strengthen Rengo's influence in the political arena.

What kind of relationship will Rengo establish with the DPJ in the future? With a growing number of non-party voters and the pluralized consciousness of many in the labor force, Rengo is now faced with new challenges.

The 1998 White Paper on National Public Servants

On May 25, the National Personnel Authority (NPA) submitted its 1998 White Paper on National Public Servants to the Diet and the Cabinet. Reflecting on the bribery scandals involving senior officials, the white paper points to the need to change the current practice under which only those expected to be senior officials - those who are dubbed "career officials" (and have passed the First-Class Test) - can be promoted to elite positions in the government's central ministries and agencies. It calls for flexible personnel policies that would allow other officials to be promoted to elite positions. To implement such policies, the white paper notes four steps being taken by the NPA.

First, to secure the services of people with highly specialized abilities and diverse experience, the NPA will actively recruit mid-career people from private firms and will drastically revise its system of classification in an attempt to relax its rigid examination approach to allocating personnel to specific job or career tracks. The second step is to add flexibility to the way staff can be assigned to specific tasks and to streamline administrative procedures. A new pay scheme is to be introduced for those doing highly sophisticated work. A

range of work schedules, including a short-time work scheme for child-care and nursing care, also needs to be introduced. Third, the paper also mentions the multiple-track promotion system based on ability and adaptability. The NPA will establish a means by which employees in the first group of jobs may work in staff jobs or may work for extended periods in the same division. It will study ways of speeding up the promotion of those initially hired in the second or third group of jobs so as to enhance their chances of being promoted to senior positions. Under the multiple-track promotion system, those initially hired in the first group of jobs will not be trained only in line jobs. Finally, the paper turns to the question of retirement. Considering the ageing of society and opportunities for re-employment following compulsory retirement, the report indicates that the NPA will respond by extending the retirement age.

Starting in 1997, the NPA has hired in people in mid-career in some areas in order to secure their highly specialized skills and diverse range of experience, attributes that are difficult to develop inside the organization. Since then it has hired 27 such people, including researchers and financial experts.

Economic Survey of Japan for 1998

On July 17, the 1998 Economic Survey of Japan was submitted to the Cabinet for approval. Subtitled "Laying the Groundwork for Innovative Development," it provided a much harsher outlook than did the 1997 survey, which had optimistically suggested the economy would move into recovery. However, this year's survey concludes that the nation's economy has failed to recover. It provides three reasons for current economic stagnation.

First is the April 1997 increase in the consumption tax and the end of a special tax cut. Both undercut consumer spending. Second is the continuing fallout from the years of the "bubble economy." One effect has been the declining trust in the nation's financial system owing to the large amount of non-performing loans. Third is the Asian currency crisis. The survey also attaches significance to the large-scale bankruptcies of firms and financial institutions in the fall of 1997. Those failures led to households having a dim view of the future and deciding to limit their expenditures. The survey predicts that factors supporting growth - such as special cuts in income and residential taxes - and factors slowing growth - such as the rising unemployment rate - will offset each other.

In view of the current situation, the survey predicts that the economy will contract by about two percent. It stresses the need to overhaul the nation's economic structure and the need to stimulate the economy from the supply side by cutting corporate taxes, promoting

deregulation and dealing adequately with non-performing loans.

Finally, it points to the failure of a series of measures to stimulate the economy in the 1990s. It highlights the further deterioration of the government's finances and concerns over the heavier economic burden that future tax increases will impose on households, thereby constricting their willingness to spend more on consumer goods. The survey stresses the need to reduce financial deficits as provided for by the Fiscal Structural Reform Act.

Working Conditions and the Labor Market

An Analysis of Wage Hikes Using the Laspeyres Wage Index

Increases in wages are generally measured by comparing the average wage rate at two points in time. However, shifts in the composition of the workforce over-time also influence the wage rate. The increases in the average wage rate result both from a change in what workers do and from more being paid to workers for doing the same amount of work. To obtain a better view of what is happening to wages as their rate of increase declines, the Japan Institute of Labour has used data from the Ministry of Labour's Basic Survey on Wage Structure to estimate net movement in wage rates. It also attempted to measure the net wage disparity between industries and firms using the Laspeyres Wage Index that controls for changes in the composition of the labor force.

Using the Laspeyres Wage Index, the annual increase in the wage rate for 1997 was 0.3 percent. The increase since 1995 was below 0.5 percent. With the Laspeyres Wage Index set at 100 for 1995, the index for 1997 by industry was 99.7 in construction and 100 in finance and insurance. By firm size, the wage increase for large firms was considerable in each year beginning with 1995. For small and medium-size firms, it was large until 1995 but then dropped off considerably in subsequent years.

The Laspeyres Wage Index, on the other hand, was highest at 115.6 in finance and insurance, and lowest at 94.4 in manufacturing, with the total for all industries in 1997 set at 100. However, the value of the index for finance and insurance was lower in 1997 than in 1990. The Laspeyres index by firm size was 100 for firms with 1,000 or more employees, 92.6 for firms with 100-999 employees and 90.7 for those with 10-99 employees. This shows that differences in the composition of the labor force between large and small firms greatly affected wage levels, and that removal of this effect resulted in sharply narrowed wage differentials between firms of different sizes.

Human Resources Management

Managers' Work and Changes in Roles

On July 9, the Japan Institute of Labour (JIL) released the results of a survey on changes in the organization and work of white-collar employees. The JIL mailed questionnaires to 2,178 managers at 24 major firms in order to clarify ways in which their organizations were changing. It focused on changes in the role of managers in the workplace. Replies were received from 1,604 of the 2,178 managers.

According to the survey, managers reported their jobs were undergoing major changes and that they found themselves busier than before. They also reported that the necessary knowledge and skills, the scope and volume of their work, and their responsibilities had sharply increased. At the same time, management was more demanding and that the time spent together with their families was sharply decreasing. This situation made it difficult to reassign personnel in order to develop human resources and meant that many managers were now not able to give time to mentoring subordinates in their workplace.

Of the managers surveyed, 69.5 percent replied that the personnel evaluation system in their company had problems. Only 23.2 percent answered that their system was not problematic. The problems cited by managers included "the absence of standardized measures, a facet that created unfairness among divisions," "the vagueness of yardsticks for assessing performance that results in work evaluation outcomes that are unclear to subordinates," and "the averaging of evaluations." Managers also commented that evaluations tend to vary from one assessor to another.

The survey used a five-point scale to ask about the extent to which evaluations varied from one task to another. Only 4.2 percent said the evaluations did not undergo any changes; 58.6 percent of the respondents felt that the evaluations varied by one category and 32.8 percent saw it varying across three categories. The survey indicated that managers felt that employees did not place much stock in their own evaluation because the evaluations were not all done in a standardized fashion.

Special Topic

Challenges for Foreign Traineeship Programs in Japan - The Growing Importance of the Technical Intern Traineeship Program -

Yasushi Iguchi
Faculty of Economics
Kwansei Gakuin University



1.0 Introduction

Traineeship programs for foreigners in Japan have with the Technical Intern Traineeship Program played an important role in injecting technology and skills into the process of economic development elsewhere in Asia. However, the changing economic situation in Asia is creating new challenges for those in charge of Japan's foreign traineeship programs. Since July 1997, the economic situation in many Asian countries has deteriorated and the currency crisis has not come to an end. While the labor market for foreign workers in host countries is becoming more volatile, the pressure to send such workers is growing in their home countries in Asia (Iguchi 1998a, OECD 1998).

To highlight aspects of Japan's foreign traineeship programs, comparisons are made with similar programs in other OECD countries. The discussion then shifts to the functioning of Japan's traineeship programs, considering conventional programs run through Japanese multinationals and programs run through Japan's small and medium-size enterprises. Based on these considerations, the tasks facing the Technical Intern Traineeship Program are mentioned, and the effects of the economic crisis in Asia upon the traineeship programs are examined. In the final discussion, the summary turns to some policy implications.

2.0 An International Comparison of Foreign Trainee Programs

The definition of foreign trainees varies from country to country, and comparisons are difficult. Moreover, the availability of data on trainees is very limited, and immigration and work permit statistics must also be consulted. However, the available statistics on the acceptance of foreign trainees in OECD countries indicate that Japan seems to have accepted the largest number of foreign trainees in the first half of the 1990s (OECD 1997).

According to the available information, Japan has been accepting more than 40,000 foreign trainees per year, including 10,000 trainees funded by the government and 30,000

funded on a private basis. The Technical Intern Trainees are permitted to work and the number has grown to more than 6,000 in 1997.

Although Germany is famous for its acceptance of trainees, it is very difficult to take the data on those trainees. Estimates are that Germany accepts about 20,000 such trainees. Under the *Gastarbeitnehmer's* Scheme, Germany accepts another 4,000 skilled workers for training, but that number is declining (Kuptch and Oishi 1995). In the United Kingdom, trainees are not permitted to work and the number is about 4,000 recently. In the United States, the number of those who have been granted an industrial trainee visa is about 3,000. In France, the number is about 2,000, but that is just for those under exchange programs between French and foreign enterprises or under a bilateral agreement. Rough estimates are given in Table 1. In general, there is some similarity in definition among the Anglo Saxon countries and among countries of Continental Europe. The Japanese definition of conventional foreign trainees follows the Anglo Saxon tradition and is quite different from that used throughout much of Continental Europe. The Immigration Control and Refugees Recognition Act in Japan is said to have been influenced by the Immigration Law in the United States (Iguchi 1998a).

Table 1: International Comparisons of the Flow of Foreign Trainees and Foreign Workers for Training Purposes

Country/category	1992	1993	1994	1995	1996
Japan trainee total / 1	43,627	39,795	36,612	40,581	45,536
Technical intern / 2	—	160	1,861	2,291	3,751
Germany trainee / 3	21,200	23,000	21,500	20,000*	20,000*
Gastarbeitnehmer / 4	5,057	5,771	5,529	5,478	4,300
United Kingdom / 5	3,407	3,469	3,791	4,405	N.A.
United States / 6	3,352	3,126	3,075	2,787	2,988
Switzerland / 7	1,609	972	907	355	N.A.
France / 8	965	905	590	438	N.A.

- Notes: (1) "Foreign trainees" are those who have newly entered Japan with residence trainee visas.
(2) "Technical intern" refers to foreign trainees in Japan who have changed their status to become a technical intern trainee after taking an official skill evaluation.
(3) "Trainee" means those who have been accepted into programs under the Federal Ministry of Economic Cooperation. *estimate
(4) "*Gastarbeitnehmer*" means those foreign skilled workers who are recruited into Germany to grade up skills under bilateral agreements.
(5) These are workers who enter under the Training and Work Experience Scheme (TWES).
(6) These are workers who enter as industrial trainees with the visa H-3.
(7) These are foreign workers who are recruited under bilateral agreements according to their professional experience.
(8) There are foreign trainees who benefit from having a provisional work permit.

Sources: OECD, Japanese Ministry of Justice, Japan International Training Cooperation Organization, Bundesanstalt für Arbeit, U.S. Department of Justice

In the United States and in the United Kingdom, trainees are not regarded as productive and are expected to master additional skills from which they would benefit after returning to their countries of origin. They should not carry out the same tasks as ordinary workers and should not get wages, but may enjoy some allowances. Age limits exist for those who are work-experience trainees in the United Kingdom (OECD 1997). The figures for the United Kingdom and the United States are not classified into practical and non-practical training categories (Japan Institute of Labour 1994). In Germany, the so-called *gastarbeitnehmer* who is admitted under bilateral agreements should have completed vocational training in their home country and should aim to improve their vocational and linguistic (German language) skills. They should be aged between 18 and 40 in principle, conclude a temporary employment contract and enjoy the same conditions as national workers (Iguchi 1998b). In France, trainees are accepted under an exchange program between French and foreign enterprises or under bilateral government-to-government agreements. In France, trainees are able to earn wages and enjoy the same conditions as national workers. Under bilateral agreements they must be aged between 18 and 30 or 35. In Germany and France, labor market testing (i.e., advertising to verify that vacant posts cannot be filled by nationals) is waived for such trainees. In France and Switzerland, family reunification is not allowed, but it is possible for

the spouse and children under 18 years old, to join the trainee in the United Kingdom. In most countries, trainees should leave the host country after completion of the training and may not apply for another traineeship for a certain period (OECD 1997).

In Japan, under conventional traineeship programs trainees should not accept wages or salaries but a training allowance is permitted as is the case in Anglo Saxon countries. However, trainees can participate in practical (on-the-job) training for up to two-thirds of the total training period. They should take off-the-job training (mainly for the Japanese-language) for at least one-third of the total training period. In some cases, the time required for off-the-job training may be reduced when trainees have participated in Japanese-language courses before coming to Japan.

The Minister of Justice has set the age of trainees to be not less than 18 years old. It is not possible for trainees to be accompanied by their families. Enterprises should provide housing, lecture rooms and insurance, and should have designated people responsible for providing guidance to the trainees.

In the case of the Technical Intern Traineeship Program (TITP), which was introduced in 1993, trainees who have passed a skill test are able to change their status of residence from "trainee" to "designated activities" so as to be employed in the same enterprise to improve their skills for a total of up to two years (or three years in the case of some occupations). The TITP is somewhat similar to the traineeship programs found on the Continent in Europe, while the requirements for official skill evaluations are unique to Japan (Iguchi 1998b).

The government-sponsored traineeship programs are run by several semi government bodies. These include the Japan International Cooperation Association (JICA), the Association for Overseas Technical Scholarship (AOTS), the ILO Association and the Japan Vocational Ability Development Association (JAVADA). Government-sponsored traineeship programs have expanded with the growth of official development assistance. They now account for nearly one-quarter of all trainees accepted in Japan. In this regard, the number of all government-sponsored trainees peaked in 1994, and has since declined as the Japanese government has come to consolidate its various programs (JITCO 1998).

In addition, there are two types of private sponsorship by which foreign trainees come into Japan: schemes run by Japanese multinationals and those run by small and medium-size enterprises that are administered mainly through intermediary organizations.

3.0 Foreign Trainees and Transferred within Japanese Multinationals

Since the 1960s, Japanese companies have arranged for foreign employees in their foreign affiliates or joint-venture companies overseas to come to Japan for special training. With the increase in foreign direct investment from Japan, this kind of training has been expanded.

Japanese companies invest primarily in three regions: North America, Asia and Europe. However, the flow of trainees comes primarily from Asia. The number of trainees from North America and Europe is minimal. Why, then, is the flow of trainees to Japan from Asia so large while that from Europe and North America so small?

In this regard, the benefits of traineeship programs for Japanese multinationals operating in Southeast Asia and China were investigated. According to the results, four different benefits appeared in case studies of Japanese MNEs in transport machinery, electronic machinery, electric machinery and textiles (JITCO 1998).

The first effect of the training program is to compensate for the lack of basic education and the generally low level of skills among local employees. When a new factory is set up, a basic knowledge of industrial production and a certain mental discipline are needed. To some extent this kind of necessary training can be provided through a regional training center.

A second function of training in Japan is to pass on knowledge on specific products and specific production processes that are peculiar to the company in question. In this case, it is usually necessary for the trainee to visit the R&D center or the parent firm's factory in Japan. The transfer of such knowledge is done on an individual basis and cannot be easily accomplished through regional training centers.

A third role of the trainee program in Japan is to encourage the long-term commitment of employees to the company. Such training is one way of showing appreciation to those who have been working for the company for a long time. However, the number of local employees who can be rewarded in this way is very limited and the effectiveness of training under these auspices is uncertain, because it is often seen only as a reward for a loyal employee with high performance.

Fourth is a relatively new effect. As many mass-production sites in Japan were relocated to Asia during the period of high yen values, the R&D center (in Japan) and the main factory (in Asia) are now very far apart. The merit of "co-engineering", namely close cooperation between the R&D division and the production division, cannot be maintained without close

linkages between them. The trainee program helps to maintain that linkage.

The nature of training employees in Japanese firms in Asia is changing. The first effect (i.e., the transfer of basic knowledge or skill) and the third effect (i.e., reward for high performance of employees) may now be less important as they come to be performed by other mechanisms. Third-country training and other personnel management practices have become more common as traineeship programs in Japan have become relatively more costly over time. The fourth role may be more dominant as the relocation of Japanese industry in Asia proceeds. The second function is now increasingly being performed in every region when technology transfer occurs. This is particularly true with high technology (JITCO 1998).

4.0 Traineeship Programs in Small and Medium-Size Enterprises

September 1990 saw the deregulation of arrangements for traineeship programs in small and medium-size enterprises that do not have any affiliates or joint ventures overseas. It is now possible for them to accept foreign trainees through intermediary bodies such as chambers of commerce, local employers' associations and certain legally recognized non-profit organizations. The number of trainees such firms can have is up to five percent of the number of regular employees the enterprise hires.

Unlike Japan's multinationals, the intermediary organizations that feed foreign trainees to small and medium-size enterprises cannot guarantee employment to trainees upon their return home. There seems to be no consistency within the system in terms of the transfer of technologies. Some foreign trainees might become "disguised" workers able to earn more than the training allowances currently paid in Japan. Some Japanese companies accept trainees simply to secure a workforce in occupations Japanese people are not willing to do (Japan Institute of Labour 1997a; Hanami and Kuwahara 1995; Kajita 1993; and Tezuka and Komai 1992).

These kinds of problems have been countered to some extent. For example, some Chinese state enterprises select workers with high performance to be trainees and send them to Japan through intermediary organizations. After finishing their training in Japan, these trainees return to the same state enterprise without fail, and they sometimes receive promotions and become team leaders within those enterprises.

However, when a state enterprise in China sends a trainee overseas, the enterprise itself has to cover certain administrative costs and pay some allowances to the trainee's family members in China. It does this by collecting some money from the training allowances (or wages). This might lead to some friction between the trainee and the state enterprise, or to a

violation of the Labor Standard Law in Japan, which provides for the total payment of wages directly to each worker (Japan Institute of Labour 1995).

The cost of accepting foreign trainees through intermediary organizations is not insignificant. According to a study by the Japan International Training Cooperation Organization (JITCO), the initial cost of accepting a foreign trainee is ¥510,000. About 80 percent of this initial cost is to cover accommodations and expenses involved with sending their mission to Asia. The on-going cost of having a foreign trainee for one year is ¥1.79 million. That figure includes ¥1.08 million for the training allowance, about ¥70,000 for travel to Japan, ¥60,000 for utilities and ¥20,000 for off-the-job training. On the average, individual companies pay ¥1.27 million and the intermediary body pays ¥520,000 (JITCO 1997b).

It is still not clear whether these kinds of problems, which are inherent in the conventional foreign traineeship program in small and medium-size enterprises, will be resolved as a result of the new Technical Intern Traineeship Program (TITP) being introduced (Shimada 1993).

5.0 The Technical Intern Traineeship Program: Successful or Unsuccessful?

The TITP is not totally distinct from the conventional traineeship program. Foreign trainees are able to become Technical Intern Trainees when their skill level is verified through an official skill test after a certain period of training. If they pass the examination, they can conclude an employment contract with the same employer and acquire technology or skill through their working experiences over a maximum of two years (or three years in some occupations where an official skill test of the third degree is in place). That period includes the training period. The skill test was in place for 59 occupations in June 1998. The testing and reclassification process from traineeship to TITP is controlled and supported by the JITCO.

The TITP was established following the Second Report of the Provisional Committee on Administrative Reform in December 1992. It proposed that the government introduce the TITP to accomplish two things.

First, the report emphasized the importance of international cooperation through an effective human resources development program utilizing the expertise within Japanese enterprises. Second, it recognized the need to combat illegal work arrangements as nearly 300,000 illegal foreign workers were in Japan at that time.

Although considerable debate focuses on whether Japan should change its basic policy

concerning foreign workers, the report itself took the policy as a given. In other words, priority was given to limiting the entry of unskilled foreign workers while pursuing ways to facilitate the entry of foreigners with technology and knowledge.

The introduction of the TITP was thus conceived as an alternative means of widening legal channels for accepting foreign workers while tightening the controls on illegal workers.

In reality, the number of Technical Intern Trainees had been much lower than initially expected. However, the number has grown remarkably in recent years. In 1997, more than 6,000 foreign trainees changed their status to become Technical Intern Trainees even though the Japanese economy suffered from a severe recession with growing instability in the financial sector and stagnating domestic demand.

Technical Intern Trainees are concentrated in some occupations like dressmaking, form work construction, tailoring, welding, concrete placer operation, machining, plumbing and metal pressing. These occupations are not necessarily those in which skill testing occurs. Some countries like China and Indonesia send large numbers of trainees while other countries do not send many (Table 2). According to estimates by the Ministry of Justice, the number of illegal over stayers is declining. However, the ministry estimated that some 270,000 illegal workers were in Japan at the beginning of 1998.

Table 2: Foreign Trainees Who Have Become Technical Intern Trainees by Country of Origin

	1993	1994	1995	1996	1997	Total
China	82	1,156	1,498	2,218	3,677	8,624
Indonesia	31	579	652	957	1,970	4,189
Vietnam	16	14	31	301	407	769
Philippines	10	82	101	219	223	640
Thailand	21	15	28	43	25	32
Sri Lanka	0	0	0	15	14	29
Others	0	15	8	3	18	44
Total	160	1,861	2,296	3,751	6,339	14,407

Source: Japan International Training Co-operation Organization

Enterprises accept Technical Intern Trainees for several reasons. One is that Technical Intern Trainees can give guidance and instructions to trainees. Another is that enterprises can be assured of having a workforce in jobs for which Japanese workers cannot be found. A third is that Technical Intern Trainees are able to acquire higher skills or technology (JITCO 1997c).

The wage level of the Technical Intern Trainee is considerably above the training allowance. Most enterprises pay ¥130,000 to ¥140,000 per month in the case of Technical Intern Trainees accepted through intermediary organizations. In three-quarters of the

enterprises with Technical Intern Trainees accepted through intermediary organizations, the Technical Intern Trainees are working overtime (JITCO 1997c).

More than 80 percent of the enterprises accepting Technical Intern Trainees evaluate the program positively. At the same time, the burden of cost, complicated formalities, and the need to look after the trainees properly are often noted (JITCO 1997c). On the other side of the equation, two-thirds of the Technical Intern Trainees evaluate the program positively (JITCO 1997a).

6.0 The Changing Role of Traineeship Programs in a Changing International Context

The financial crisis began in Thailand in July 1997. It soon spread to neighboring ASEAN countries by the end of October. One result was a sharp decline in equity prices in Hong Kong. The decline led to the increasing volatility of financial markets in several developed countries. Despite the international assistance given by the International Monetary Fund (IMF) and the developed countries to Thailand, Indonesia and South Korea, the economic slowdown in East Asia has been much bigger than expected. Moreover, the economic crisis in Asia is gradually affecting the economic situation in North America and Europe.

With the economic slowdown in ASEAN countries, pressures for the restructuring of enterprises and unemployment (or underemployment) are increasing. The rapid change accompanying these developments could fuel growing social unrest. More than two million foreign workers in Southeast Asia have been encouraged to return home. At the same time, as unemployment increases at home, the number of people who would like to work abroad is increasing (OECD, 1998).

In China, the government declared that the Chinese currency should not be devalued against the dollar even though ASEAN currencies have been drastically devalued. This has undercut high economic growth because of a slowdown in exports. Some estimates suggest there are more than 300 million surplus workers in the Chinese economy (Iguchi 1998a).

Some Japanese enterprises in Asia that have experienced a drop in production have continued to employ some skilled workers by sending them to the main factory in Japan as foreign trainees. This is not simply a measure to keep their skilled workforce locally within the company, but also an attempt to establish more flexible sales and production systems in Southeast Asia (JITCO 1998).

The management of foreign traineeship programs is more difficult, because it will take

time for the economic crisis in Asia to end, and it is difficult to maintain surplus labor through such programs. In accepting large numbers of trainees in small and medium-size enterprises, there is a danger that the intermediary organizations that facilitate such programs will increasingly become beholden to the high sending pressures in many of the Asian countries. In addition, it is likely that there will be more "runaway trainees" who will illegally look for better paid work.

7.0 Concluding Remarks

The ODA budget in developed countries has been declining. Accordingly, the number of trainees who can be supported by governments should be limited by budgetary constraints. However, the possibilities for having trainees on a private basis is considerable and will be enhanced further as the schemes improve, and there is more encouragement from the government.

For this reason, the trainee programs run by Japan's multinationals are also undergoing a change as they seek to transfer technology more effectively and to develop more flexible networks in Asia and elsewhere. Trainee programs in small and medium-size enterprises are also expanding. However, the problems continue to be the matter of employment upon returning home, fewer opportunities to utilize the skills acquired in Japan after returning home, the costs borne by enterprises when their trainees run away to work and stay illegally, and frustration trainees feel when they are simply used as cheap labor. The TITP provided a more effective means to transfer technology, but it provides only a partial solution to the problems experienced by small and medium-size enterprises.

Given the great pressures in many countries to send trainees to Japan for short-term economic gain, especially since the financial and economic crisis in Asia, it is critical that the government authorities take steps to reduce the likelihood that the traineeship programs will be misused in ways that will encourage illegal work arrangements in Japan. While it is possible to put tighter controls on traineeship programs, there may exist other ways to reduce the incentives that lead to such misuse. For example, it is worth considering ways to give trainees who have acquired a certain level of vocational and language skill through the TITP better access to the Japanese labor market after they have completed their lawful stay, and then returned to their home countries.

The foreign traineeship programs, should allow Japan to develop closer relations with many of the Asian countries. The TITP, in particular, offers Japan a marvelous opportunity to realize a mutually beneficial migration policy and the more effective transfer of technology in Asia.

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Statistical Aspects

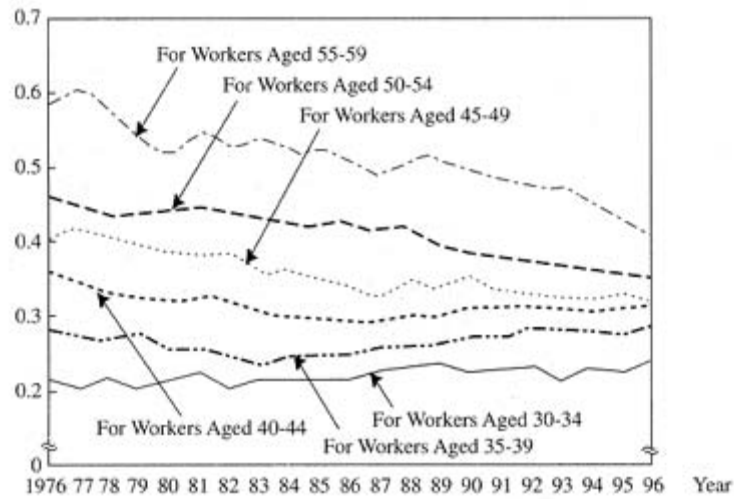
Recent Labor Economy Indices

	July 1998	June 1998	Change from previous year
Labor force	6,847 (10 thousand)	6,892 (10 thousand)	26 (10 thousand)
Employed	6,577	6,608	72
Employees	5,371	5,391	55
Unemployed	270	284	46
Unemployment rate	3.9%	4.1%	0.6
Active opening rate	0.50	0.51	0.01
Total hours worked	161.0 (hours)	163.0 (hours)	1.3
Total wages of regular employees	(¥thousand) 270.4	(¥thousand) 272.2	0.0

Note: *denotes annual percent change.

Source: Management and Coordination Agency, Ministry of Labour.

Trends in Coefficients of Dispersion between Income Deciles for Regular Earnings
of White-collar Workers: 1976-1996



Source: Ministry of Labour, *Basic Survey of the Wage Structure (Chingin Kōzō Kihon Chōsa)*.

Notes: (1) The Coefficient of Dispersion between Deciles is obtained with the following formula. Larger coefficients mean greater variation.

$$\frac{\text{value of the 9th decile} - \text{1st decile}}{2 \times \text{the value of the median}}$$

(2) The figures are for male employees in enterprises with 1,000 or more employees, including (i) white-collar workers in managerial, clerical and technical jobs, and (ii) blue-collar workers in production jobs.