

Wave of retiring workers could force big changes

By Paul Wiseman, USA TODAY 5/2/2006

TOYOHASHI, Japan — No one knows spindles like Katsuya Hyodo.

For more than three decades, the diminutive factory worker, armed with only a junior high school education, has studied and designed the whirring cylinders at the heart of automotive machine tools. “I like spindles,” Hyodo says. “There are so many different kinds.”

His expertise and passion are priceless to a small company like his employer, machine tool manufacturer Nishijimax (annual revenue: \$30 million). Just one problem: Katsuya is 72 years old. That’s why he spends Sunday afternoons at home transcribing everything he knows about spindles into his computer. He wants to make sure his wisdom reaches the next generation. “I am not just doing it for myself,” he says.

All over Japan, companies are bracing for a demographic wave that will wash away many of their most experienced employees. The Japanese call it their “2007 problem.” Beginning next year, members of what Japan considers its baby boom generation will start hitting 60 and dropping out of the workforce. Some might postpone retirement, but they can’t work forever. Plunging birth rates mean there won’t be nearly enough young people to replace them.

“We face a big problem,” says Shigeyoshi Yoshida, executive director of the Japan Aging Research Center. “Over the next three or four years, 10 million people will retire.”

Japan is starting to lose workers just when it needs them most. After more than a decade of stagnation, the Japanese economy is growing again. The unemployment rate was at an eight-year low of 4.1% in March. Employers began complaining about a labor shortage early last year, the Bank of Japan says, and it’s bound to get worse. Japan’s population fell in 2005 for the first time, to 126.1 million, and is expected to shrink by nearly 38 million by 2050.

Japanese companies have already shipped more than 40% of their production capacity overseas, according to Jesper Koll of Merrill Lynch; but they can’t outsource everything. The labor squeeze is forcing Japan to consider social changes that once were unthinkable:

- Pushing the official retirement age from 60 to 65.
- Encouraging more women to work.
- Admitting more foreign workers — controversial in a country with a deep distrust of outsiders.

Nowhere is the labor market tighter than here in central Japan’s Aichi Prefecture (state), a magnet for

auto suppliers drawn to the area around Toyota City. In February, there were 1.72 job offers for every job seeker in Aichi — the highest ratio in Japan, according to the Ministry of Health, Labor and Welfare.

The problem isn’t just a shortage of bodies, notes Jesper Koll, chief economist at Merrill Lynch Japan Securities: It’s also a mismatch between what employers need — engineers, nurses, retail clerks and skilled factory hands — and the workers that are available, particularly construction workers idle since the government started cutting pork-barrel public works spending several years ago. For the first time, Koll says, fiftysomething Japanese men, including ex-construction workers, are working behind cash registers, ringing up sales in convenience stores — service jobs that would once have been considered beneath their dignity.

Skilled labor is in especially short supply. Already, the country needs 170,000 software engineers, says Shiro Kaizuka, CEO of the Tokyo job-placement firm Fullcast Technology. Companies are snapping up new college grads — in fields such as engineering and finance — as fast as they can. “You want to be reborn as a 22- or 23-year-old Japanese,” Koll says.

Seeking female workers

The school year started this month at Keio University in Tokyo. The seniors are conspicuous on campus; They’re the ones dressed somewhat awkwardly in suits for job interviews.

Maiko Umehara, 22, already has two offers — from a Japanese bank and a technology company. The English major, who also speaks Chinese, plans to reject them both: She’s holding out for a chance to work overseas. “We have a lot of opportunities,” she says. “Things are changing.”

Umehara represents one of Japan’s great untapped resources: its women. Only 48% of working-age women have jobs, one of the lowest rates in the developed world, the International Labor Organization says. Japan would gain more than 6 million workers if it matched the USA’s 60% rate.

Japanese companies are slowly beginning to welcome women, traditionally stuck in “office lady” jobs — pouring tea, bowing a lot and being expected to drop their careers as soon as they marry. Companies are starting to offer them challenging jobs, day care benefits and more flexible work schedules. “They’re being treated much better,” says Yoshida at the Aging Research Center.

Japan still has a long way to go: The World Economic Forum found last year that Japan ranked well

below average — 38th out of 58 countries — in providing economic opportunities for women.

Retaining old-timers

In Toyohashi, Nishijimax is fending off the labor shortage by keeping old-timers on the payroll. Like most small and midsize Japanese companies, Nishijimax doesn't offer retirement benefits to supplement government pensions. And there's not much to do in the Aichi countryside, a quiet place of neatly clipped persimmon and pear orchards. So a lot of Nishijimax workers skip retirement. Fifteen of the firm's 150 workers are over 60; the oldest is 78.

"I will work as long as I can," says spindle expert Katsuya Hyodo. He believes work keeps him healthy. Company President Tokushi Nishijima says an experienced workforce gives Nishijimax an edge.

The Nishijimax approach might be hard to duplicate nationwide. Government pensions are generous in Japan, and older Japanese are reluctant to jeopardize them by returning to work, Yoshida says. He cites the case of an elderly man whose monthly pension is more than \$2,500: When he learned his grandchildren had jobs paying half as much, he lost interest in going back to work.

More immigration

Japan is just beginning to wrestle with a more controversial solution to the labor shortage: opening the floodgates to immigration.

Foreign workers account for just 1% of Japan's labor force, vs. about 15% in the USA. Japan relaxes visa requirements for engineers and other specialized workers. But it is reluctant to let less-skilled workers into the country, limiting them to two- or three-year "training" contracts if it admits them at all.

"Sooner or later, we will need more people," says Hidenori Sakanaka, retired head of the national immigration bureau office in Tokyo. "This is the time to create a new immigration policy."

Kiyohito Okuda, president of a family-owned auto parts company in Toyota City, visits Vietnam twice a year to recruit factory workers. The Ho Chi Minh City government provides candidates six months of Japanese language training, and Japan lets them stay for two or three years on training visas. Okuda now employs 11 Vietnamese at his factory in Toyota City in addition to 120 Japanese. He pays the Vietnamese about \$1,020 a month, vs. \$1,275 for new

Japanese workers. "Compared to Japanese youth today, the Vietnamese have a hungry spirit," he says.

On the 13th floor of a skyscraper in Tokyo's Shibuya district, 30 Chinese engineering grads sit at three tables, poring over textbooks and laptop computers. They've been brought to Japan by Fullcast Technology, which hires them and ships them out to work on contracts at companies across Japan.

They've already undergone several months of Japanese language instruction at Fullcast Technology training centers in Shanghai and Dalian, China. The firm runs similar centers in Silicon Valley; Brisbane, Australia; and Hanoi; it is opening two more in the Philippines and Indonesia.

Chen Wei, 23, graduated from Shanghai University last summer with an engineering degree. He taught himself Japanese in high school and was drawn to Japan by its prowess in his field: semiconductors. Plus, the pay isn't bad: Fullcast Technology offers subsidized housing and a starting salary of nearly \$1,800 a month, plus bonuses — several times what he would make in China.

Fullcast Technology doesn't have any legal problems importing Chinese engineers: Skilled workers can get visas. But CEO Kaizuka says Japanese immigration officials don't seem thrilled: "We still feel they don't like to let people in."

Indeed, Yusuke Takeuchi, a Labor Ministry official responsible for dealing with foreign workers, insists that Japan can solve its labor shortages without looking overseas. Put women and the elderly to work instead, he says. Takeuchi admits, though, that businesses have been demanding more leeway to recruit foreigners. "We tell them we must be very cautious," he says. What if the workers lose their jobs? he frets. Who will be responsible for unemployed foreigners stranded in Japan?

Sakanaka, the former immigration official, says Japanese bureaucrats are in denial. After retiring from his government job, he set up the Japan Immigration Policy Institute to advocate more liberal policies. He made what he admits is a utopian proposal: Admit 20 million foreigners in the next 50 years, up from less than 2 million now.

"Look at the speed of the decline in population. It's unbelievable. Thirty million people will disappear," he says. "There are two ways to go: Shrunken Japan — and learning to live with it; and Big Japan — we accept foreigners."

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