

Role of Foreign Workers in Small and Medium-Sized Enterprises

Eiji Takeuchi

Lead Economist, Japan Finance Corporation Research Institute

Abstract

There is a misconception that small and medium-sized enterprises (SMEs) with poor working conditions cannot hire Japanese, and hence reluctantly resort to employing foreigners. According to a survey conducted by the Japan Finance Corporation Research Institute, when an enterprise recruits permanent and Non-Permanent employees, the wages offered tend to be higher at enterprises that employ foreigners than at enterprises that do not employ foreigners. In addition, the survey shows that the scheduled working hours tend to be shorter at enterprises that employ foreigners, and working conditions are better at enterprises that employ foreigners.

SMEs cannot reduce labor cost by employing foreigners. The primary reason for recruiting them is that internationalization, such as exports and foreign direct investment, has also been progressing in SMEs. The analysis shows that 35.9% enterprises stated that they employ foreigners only as permanent employees “Because we need the capabilities unique to foreigners.” This figure exceeded 12.1%, the share of enterprises with the response “Because we will be shorthanded if we employ only Japanese.” As far as the required capabilities for employment are concerned, it is understood that foreign workers can speak different languages. In addition, the abilities of foreign workers contribute toward overseas expansion. Results show that “Personal connections and networks in foreign countries” and “Being well versed in commercial and trade practices of foreign countries.”

Contrarily, the enterprises that employ foreigners only as Non-Permanent employees having the response “Because we will be shorthanded if we employ only Japanese” account for 44.2%. However, enterprises with the response “Because we need the capabilities unique to foreigners” are fewer at 13.3%. Thus, another reason for employing foreigners is attributed to labor shortage, which is chiefly a result of business expansion. Looking at the sales for the past 5 years, the percentage of enterprises that respond “Increasing” is larger at enterprises that employ foreigners than at enterprises that do not employ foreigners. The profitability for

this period is the same. While the labor force, especially young workers, decreases continually, foreign workers have been playing a supportive role in the growth of SMEs.

However, when it comes to technical intern trainees, there is a tendency that enterprises that cannot pay competitive wages hire foreigners. If the government of Japan will continue the Technical Intern Training Program, it is necessary to provide an incentive that made the enterprises employing trainees improve their productivity.

1. Introduction

Since the amendment of the “Immigration Control and Refugee Recognition Act” in 1989, the number of foreigners working in Japan has consistently increased with natives of China and Southeast Asia constituting the main groups thereof. There are no statistics providing an accurate number of foreign workers. However, an analysis of the trends in the number of foreign residents shows that the number of persons aiming to procure employment in fields such as “Engineer/Specialist in Humanities/International Services” has been increasing. The number of persons having “Position-based statuses of residence,” such as permanent resident, whereby they are permitted to work freely, shows the same tendency. The majority of these foreign workers work at SMEs.

There are two questions about employment of foreign workers in SMEs. In the mass media, there are frequent reports about the “foreigner workers who work with low wages.” In fact, there are enterprises that violate the Minimum Wage Act and other laws or regulations. These issues have led to the conception that SMEs that cannot employ Japanese and have poor working conditions employ foreigners at low wages.

However, is it true that enterprises that cannot hire Japanese employ foreigners? Even if hiring illegal immigrants at low wages may be possible, it is against the law. The majority of foreign workers has entered Japan legitimately and acquired a residential status that allows him/her to work. Therefore, from the very outset they probably do not take jobs at enterprises with poor working conditions. In case they take such jobs, they may switch to an enterprise with better working conditions. Many of SMEs expanding overseas concern about the low retention rates of local employees; this might be the scenario in Japan, as well.

Evidently, certain foreign workers are restricted to basic jobs due to their low Japanese proficiency, which makes SMEs low wages to these workers. However, there is a likelihood that such workers will search for enterprises that pay slightly higher wages. They might switch to enterprises with better working conditions when they attain fluency in Japanese.

Assuming that the enterprises must pay the same wages as those paid to Japanese workers, why would SMEs employ foreigners? The reason for this can be attributed to a labor shortage that emerges during a period of economic expansion when the labor supply and demand becomes tight. Inagami et al. (1992) pointed out that there were cases in which the wages of foreign workers exceeded those of Japanese. However, the survey was conducted was 1991, during the so-called “Bubble Economy”, and this period witnessed an unprecedented labor shortage. It is only natural that the enterprises suffering from a labor shortage would employ foreign workers to manage the workload.

However, after the bursting of the bubble economy, the number of foreign workers increased and this trend continued even during the period of economic stagnation: a period that is referred to as the “Lost 20 Years” or the “Employment Ice Age.” Can this trend be attributed to the fact that enterprises cannot hire Japanese, but there is a positive reason for enterprises to employ foreigners as they are establishing subsidiaries overseas?

In this paper, I answer the aforementioned questions, focusing on the results of the “Questionnaire about the Utilization of Foreign Talent” that was conducted by this Research Institute.

2. Foreign Workers as Viewed in Japanese Government Statistics

(1) Status of Residence and Nationality

In order for a foreigner to work in Japan, he or she must acquire a status of residence that corresponds to the contents of the work. As of December 2016, there are 23 kinds of status of residence, such as “Engineer/Specialist in Humanities/International Service”, “Technical Intern Training,” and “Intra-company Transferee” that allow the foreigners to work (see the reference table at the end of the article). A person with the “Student” or “Dependent (a dependent of resident foreigners)” statuses is not permitted to work. However, if the person obtains permission to engage in an activity other than that permitted under the status of residence, then he or she can work for 28 hours per week in maximum. Moreover, there are no restrictions on the job type, except for the adult entertainment business.

In addition to such “Activity-based status of residence,” there is another type of residential status named “Position-based status of residence”, such as “Permanent Resident,” “Spouse or Child of a Permanent Resident,” “Spouse or Child of a Japanese Person,” or “Long Term Resident.” Foreigners with these statuses do not face any work restrictions, and can take jobs they prefer like the Japanese. Furthermore, although “Special Permanent Residents” have a foreign nationality, they neither are the target of immigration control policies nor are included under the rubric of foreign workers in this paper.

The number of foreign residents was 978,000 at the end of 1998, but it had risen to 1,797,000 at the end of 2008 (Figure 1). After that, the number declined due to the effects of the global recession and the Great East Japan Earthquake, but it began to rise again from 2013 and reached 1,963,000 at the end of June 2016.

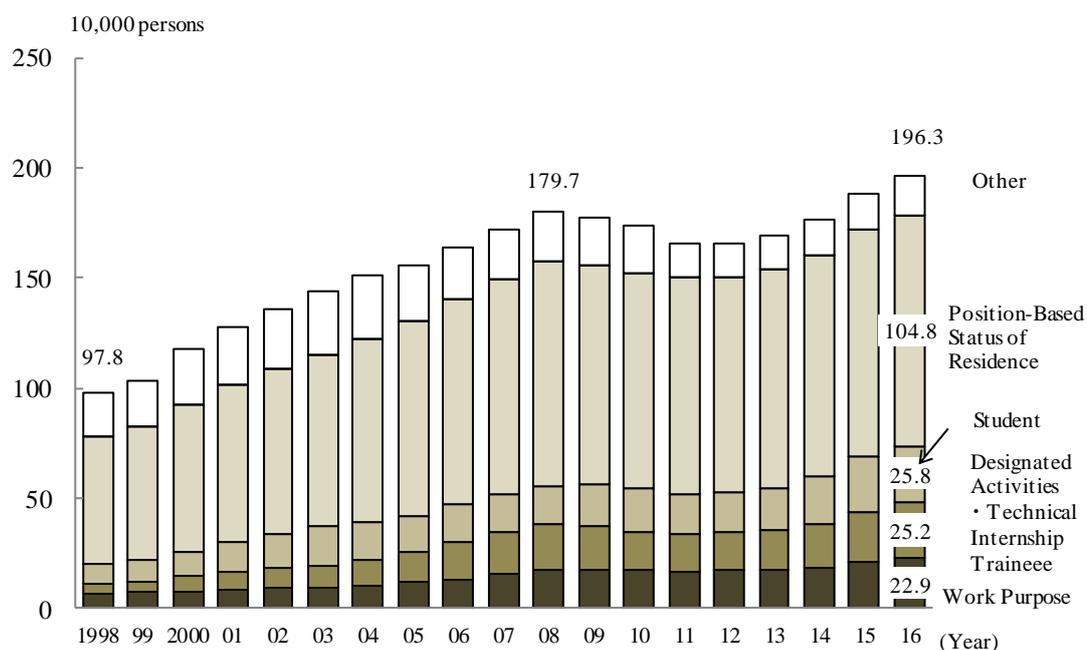
As of the end of June 2016, there were 1,048,000 persons with a “Position-based status of residence” who accounted for 53.4% of the total of the foreign resident. In this category, the number of foreigners with “Permanent Resident” was highest at 714,000 persons. It will be appropriate to conclude that people with no restrictions on their employment, such as “Permanent Resident,” “Spouse or Child of a Permanent Resident,” or “Spouse or Child of a Japanese National,” account for the majority of foreign workers.

In addition, in the “Activity-based status” category, “Employment Purpose,” which comprises “Business Manager,” “Engineer/Specialist in Humanities/International Services,” “Intra-company Transferee,” and “Skilled Labor” accounts for 229,000 persons. Holders of this status are permitted to work in Japan. In addition, it is conceived that many of these workers obtained such statuses while working at SMEs. Moreover, the number of people holding the statuses of “Designated Activities” or “Technical Intern Training” totals to 252,000. The number for “Student” is 258,000.

An evaluation of the nationality of the resident foreigners shows that 1,562,000 are Asian, with

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Figure 1 Trend in the Number of Foreign Residents by Status of Residence



Notes:

1. “Employment Purpose” focuses on all the fields, namely, “Business Manager” “Engineer/Specialist in Humanities/International Services,” “Intra-company Transferee” and “Skilled Labor.”
2. “Business Manager” was referred to as “Investor/Business Manager” up to 2014.
3. “Student” comprised both “College Student” and “Pre-college Student” (Japanese language school, etc.) up to 2010.
4. “Designated Activities and Technical Intern Training” comprised both “Designated Activities” and “Trainee” up to 2009.
5. The number of persons at the end of each year until 2015, and it is the end of June in 2016.

Sources: Ministry of Justice, “Statistics on the Registered Foreigners (to 2011),” “Statistics on Foreign Residents”

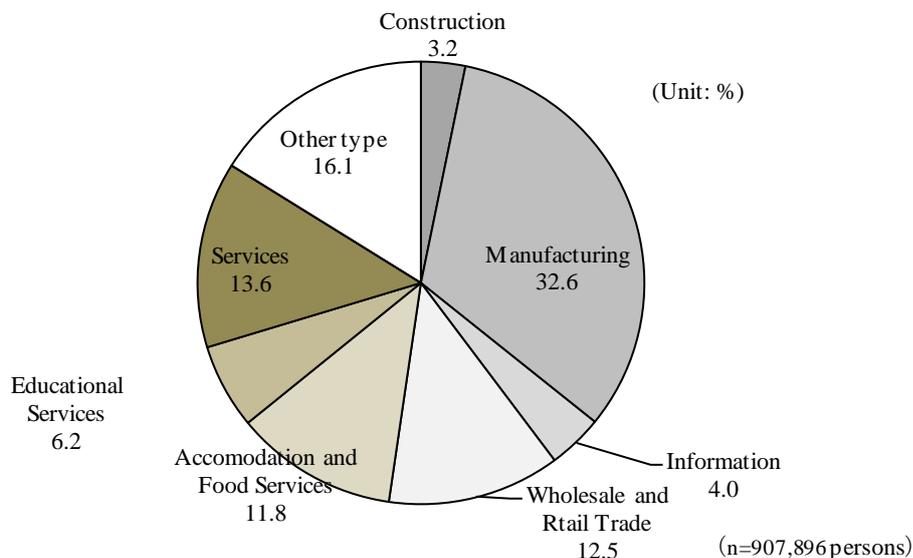
676,000 people from China and 237,000 people from the Philippines, and the Asians account for 80% of this population. In addition, 238,000 people are from South America, out of which 176,000 are Brazilian.

When I examine the status of residence by nationality, “Position-based status of residence” accounts for close to half in many instances, including China and Philippines. In particular, the “Position-based status of residence” represents 99.0% in the case of Brazil. This is because almost all of the foreigners and their family members of Brazilian nationality are of Japanese ancestry.

(2) Age

A major characteristic of foreign residents is that the proportion of young people is larger than that of Japanese. According to the Ministry of Internal Affairs and Communications, “Population Estimates (2014),” the proportion of “55 years old and over” was 36.3% for men and 41.7% for women among the population of residents in Japan including foreigners.

Figure 2 Constitution of Foreign Workers by Industry



Source: Ministry of Health, Labour and Welfare, “Notification Status of Foreign Workers’ Employment Status”
(End of October 2015)

However, according to the Ministry of Justice’s “Statistics on Foreign Residents (End of 2015),” this proportion comprised only 13.5% men and 15.7% women in the case of foreign residents (including special permanent residents). The number of foreign workers is increasing in such a manner that it compensates for the decrease in Japan’s young workers.

(3) Places of employment

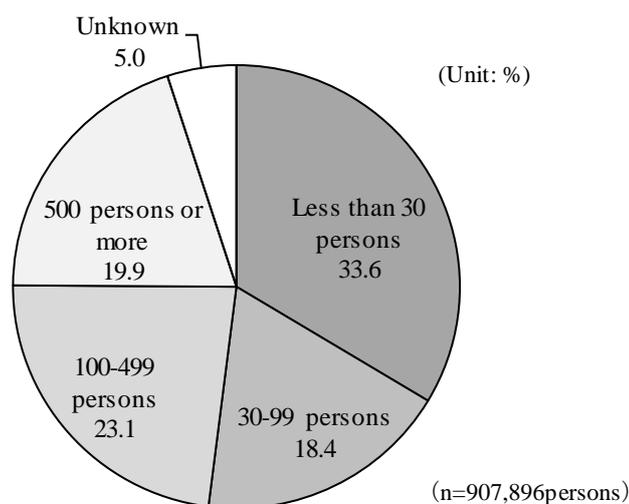
Except for special permanent residents, an employer must notify “Hello Work,” (Public Employment Security Offices) when a foreigner is hired or a foreign employee quits his or her job. According to the Ministry of Health, Labour and Welfare’s “Notification Status of Foreign Workers’ Employment Status,” the number of notified foreign workers was 908,000 as of the end of October 2015. It is less than half the number of foreign residents. This is because there might be many employers that are unaware of this system and hence fail to report the requisite information; despite they run the risk of being fined if they neglect to report this information.

According to this report, the highest number of foreign employees is working in the “Manufacturing” industry, accounting for 32.6% (Figure 2). However, there is a trend towards a decline in the proportion in manufacturing mainly owing to an increase of overseas production of Japanese manufacturers. After “Manufacturing,” the “Services” comes in second at 13.6%, followed by “Wholesale and Retail Trade,” and “Accommodation and Food Services” at 12.5% and 11.8%, respectively. Two-thirds of the foreign workers are working in the tertiary industry.

Subsequently, an evaluation of the employee scale of the businesses that has foreign workers shows

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Figure 3 Workforce Size of the office that foreigners are working



Source: Same as Figure 2

that the percentage of employees working at businesses employing “Less than 30 employees,” “30–99 employees,” and “100–499 employees” are 33.6%, 18.4%, and 23.1%, respectively (Figure 3). These figures do not necessarily match those of the enterprises because branch stores and branch offices are included in the businesses, but I can still conclude that the majority of foreign workers are working in SMEs.

3. Actual State of the Employment of Foreign Workers in SMEs

In this section, the actual state of the employment of foreigners in SMEs is examined based on the “Questionnaire about the Utilization of Foreign Workers” that was conducted by the Japan Finance Corporation Research Institute (JFCRI).

The questionnaires were sent to the customers of JFC Micro Business and Individual Unit and Small and Medium Enterprise Unit. Since the survey focused on collecting data about enterprises employing foreigners to the maximum extent possible, seven types of business were selected as subjects for the survey. One such kind was “Manufacturing,” where the proportion of businesses employing foreigners is large, based on the Ministry of Health, Labour and Welfare’s “Notification Status of Foreign Workers’ Employment Status.” Businesses in “Educational Services,” were excluded, although they employ many foreigners, because the majority of them are seemed to be conversation instructors¹.

In addition, the locations of the target businesses were limited to 16 prefectures, such as Tokyo and Osaka, where there are many foreign residents. According to the Ministry of Justice’s “Statistics on Foreign

¹ According to the “Notification Status of Foreign Workers’ Employment Status” (October 2015), of the foreigners working in “Educational Services,” 44.0% had nationalities in the G7/G8 countries, such as the United States, Australia, and New Zealand.

Outline of Survey Questionnaire about the Utilization of Foreign Workers

1	Survey period	August–September 2016
2	Survey subjects	A total of 15,970 companies meet the following criteria out of the borrower of JFC Micro Business and Individual Unit and Small and Medium Enterprise Unit. (1) Business type: Manufacturing, wholesaling, retailing, accomodation and food servicesand, information, and services (2) Location(Prefecture): Hokkaido, Ibaraki, Tochigi, Gunma, Saitama, Chiba, Tokyo, Kanagawa, Shizuoka. Aichi. Gifu, Kyoto, Osaka, Hyogo, Hiroshima, Fukuoka.
3	Survey methods	The questionnaire were sent and returned by regular mail. The questionnaire were filled out anonymously.
4	Number of responding enterprises	A total of 3,924 companies responded (response rate 24.6%), of which 523 enterprises are employing foreigners (13.3% of all responding enterprises).

Residents,” these 16 prefectures cover more than 80% of the population of foreign residents.

The survey response rate was 24.6%, and when broken down by business type of the responding enterprises, the response rates for “Manufacturing,” “Wholesale Trade,” “Retail Trade,” “Accommodation and Food Services,” “Information,” “Services,” and “Other Type” were 24.9%, 19.1%, 17.4%, 4.8%, 5.5%, 26.2%, and 2.1%, respectively.

(1) Percentage of enterprises employing foreigners

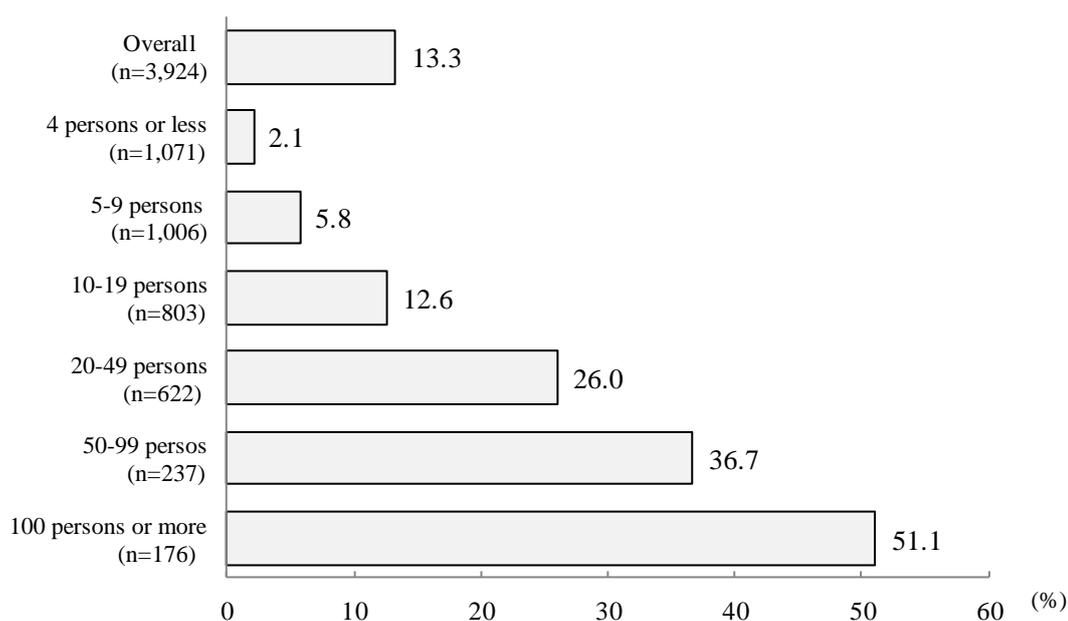
Of the respondents to the questionnaire, the percentage of enterprises that employ foreigners, including temporary employees, is 13.3%. A breakdown by type of business indicates that the “Accommodation and Food Services” and “Manufacturing” were at 25.5% and 24.3%, respectively, and these figures were close to double of the overall figure of the respondents. These businesses were followed by the “Information” at 13.8%, “Wholesale Trade” at 11.0%, the “Services” at 7.1%, and “Retail Trade” at 6.6%.

The larger the workforce size, the greater is the percentage of enterprises that employ foreigners. For example, this numbers in enterprises with “4 persons or less,” “50-99 persons,” and “100 persons or more” are 2.1%, 36.7%, and 51.1%, respectively. Additionally, in “Retail Trade,” where the percentage of enterprises employing foreigners is low, the numbers are 16.7% of enterprises having “50-99 persons” and 58.3% of “100 persons or more” employ foreigners, respectively. Conversely, even in “Manufacturing,” where the percentage of enterprises employing foreigners is high, the figure of “4 persons or less” is only 2.4% (Figure 4).

An evaluation of the distribution of the workforce size by type of business in enterprises employing

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Figure 4 Percentage of Enterprises Employing Foreigners (by workforce size)



Source: Questionnaire about the Utilization of Foreign Workers: the same shall apply hereinafter.

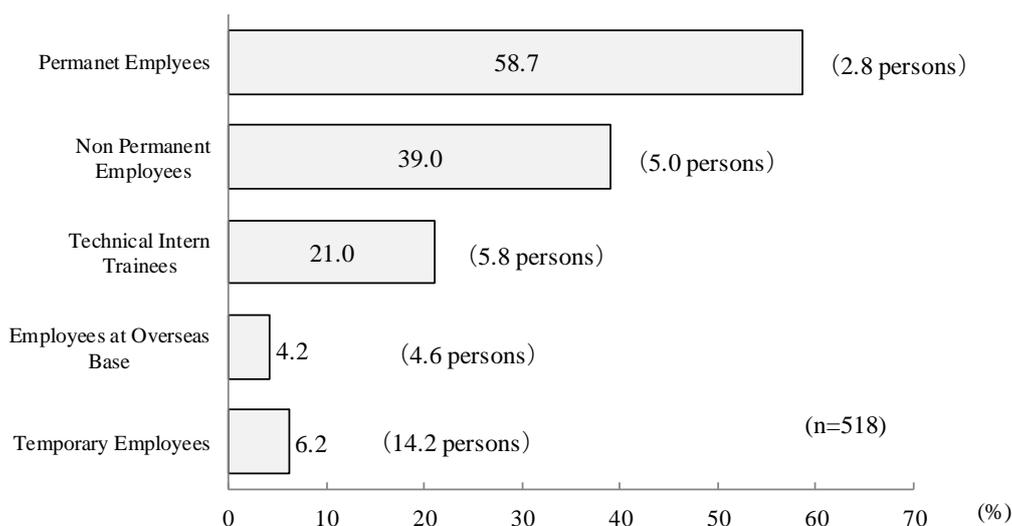
foreigners shows that the workforce size of enterprises in “Manufacturing” and “Accommodation and Food Services” are generally larger than other industries. For example, while the percentage of enterprises with “50-99 persons” is 6.1% in all industries, this percentage surges to 9.7% for “Manufacturing” and 7.6% for the “Accommodation and Food Services.” In addition, although the percentage of enterprises with “100 persons or more” is 4.5% in all industries, it is 10.3% for “Manufacturing” and 8.2% for the “Accommodation and Food Services.”

(2) Number of foreign employees and type of employment

An analysis of the number of foreign employees in enterprises employing foreigners shows that 73.6% of enterprises answer “4 persons or less,” with 38.6% of enterprises answering “one person.” The number of foreigners that SMEs employ is not so large. However, the percentage is 6.6% in enterprises with “20 persons or more,” and there are four enterprises where the number exceeds 100 persons among the respondents. An evaluation of the employment type of foreign employees shows that the percentage of enterprises with “Permanent Employees” is highest at 58.7%, and this percentage for enterprises with “Non-permanent Employees,” “Technical Intern Trainees,” “Employees at Overseas Bases,” and “Temporary Employees” is 39.0%, 21.0%, 4.2%, and 6.2%, respectively (Figure 5).

An analysis of the type of employment of foreign employees based on the type of business shows that the business types wherein a large percentage of enterprises have “Permanent Employees” are “Wholesale Trade” and “Information,” and the corresponding figures for these businesses are 79.7% and 78.6%, respectively. The business types with large percentages of enterprises with “Non-permanent Employees,” such

Figure 5 Type of Employment of Foreign Employees



Notes:

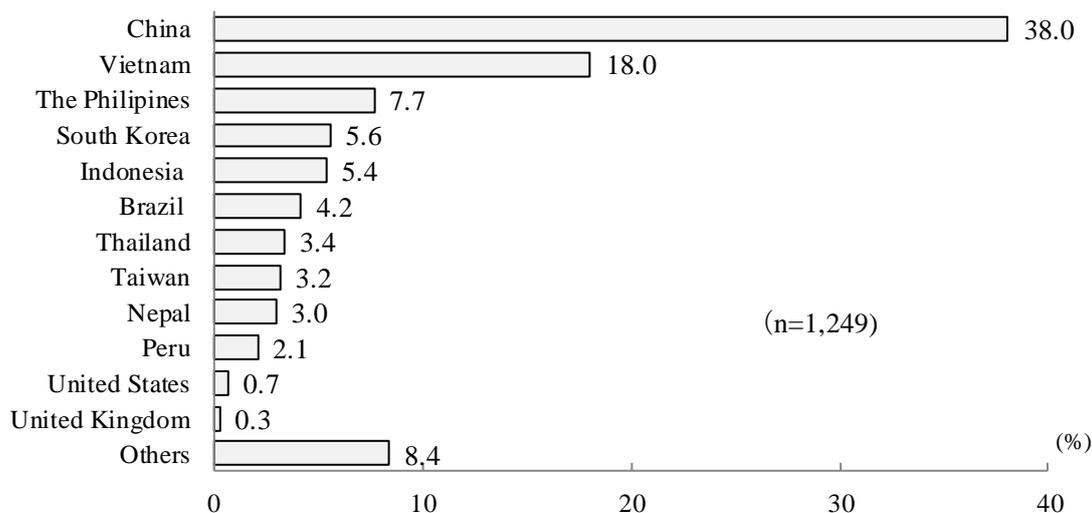
1. The percentage of enterprises with foreigners in each employment type, among the enterprises that are employing foreigners.
2. The figures in parentheses are the average number of relevant foreign employees for enterprises with foreign employees.

as part-time workers, are “Accommodation and Food Services” and “Retail Trade,” and the corresponding figures for these businesses are 78.7% and 65.1%, respectively. The percentage of enterprises with “Technical Intern Trainees,” for which the types of work are limited, is highest in “Manufacturing” at 37.1%. The figures for enterprises with “Employees at Overseas Bases” are only 6.6% for “Manufacturing” and 5.1% for “Wholesale Trade,” and there are only two companies in the other business types among the SMEs responded. There are 11.4% enterprises with “Temporary Employees” in “Manufacturing,” while the number of such enterprises that hire “Temporary Employees” is very small in other industries.

A breakdown by workforce size shows that there is no clear correlation between the percentage of enterprises with “Permanent Employees” and the size. Although it is high at 71.1% in enterprises with “100 persons or more,” the figure is 87.0% in enterprises with “4 persons or less” and 67.2 % in enterprises with “5-9 persons,” respectively. Contrarily, in general, the larger the workforce size, the higher is the percentage of enterprises that employ “Non-permanent Employees.” Specifically, the percentage of “Non-permanent Employees” in enterprises with “4 persons or less,” “50~99 persons,” and “100 persons or more” is 13.0%, 36.8%, and 45.6%, respectively.

The percentage of enterprises with “Technical Intern Trainees” is low at 4.3% in enterprises with “4 persons or less” and 8.6% in enterprises with “5-9 persons.” However, it is 20-30% for any workforce size in enterprises with 10 persons or more. The larger the employee scale, the higher is the percentage of enterprises employing both “Employees at Overseas Base” and “Temporary Employees.” Specifically, the figure for “Employees at Overseas Base” and “Temporary Employees” in enterprises with “100 persons or more” is 15.6% and 17.8%, respectively.

Figure 6 Nationality of Foreign Employees



(3) Attributes of Foreign Employees

The questionnaire contained questions on the nationality, age, difficulty of work, and so on.

The attributes of the foreign employees will be examined below based on the results of the questionnaire. An enterprise that has hired six or more foreigners was asked to provide data on five of its employees in the order the date when they joined the enterprise, starting with the earliest. Owing to this, the composition ratio and similar statistics are not necessarily accurate, but enterprises where the number of foreign employees is five persons or less account for 76.8%. Therefore, it can be stated that the pattern may be roughly reflective of the actual situation.

In addition, when calculating the percentages related to attributes of foreign employees, the denominator is not the number of enterprises but the total number of foreign employees reported on the questionnaire.

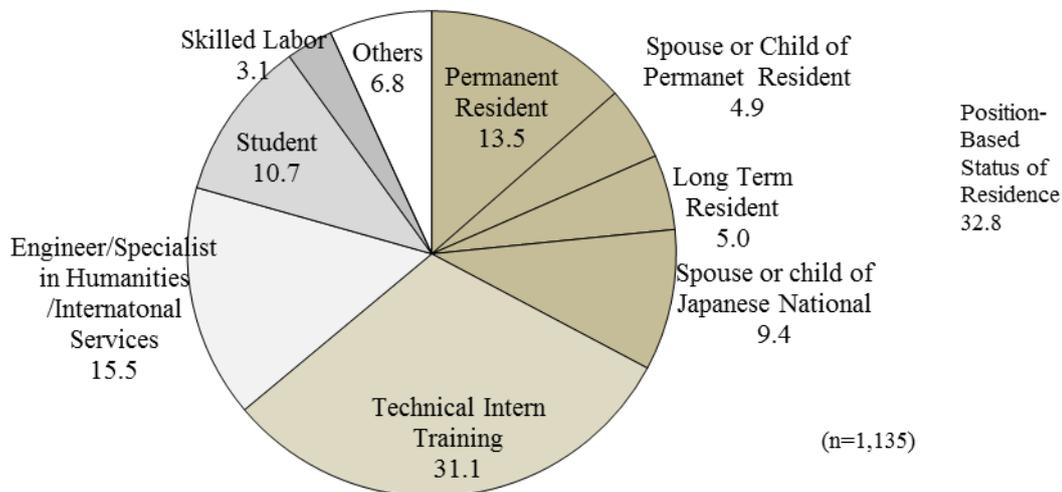
① Nationality

An examination of the nationality of the foreign employees shows that the percentage of foreign employees from “China” is the highest at 38.0%, followed by “Vietnam” at 18.0% and “the Philippines” at 7.7% (Figure 6). The total percentage of foreign employees from the European and North American countries like “the United States” and “the United Kingdom” is low at 2.0%, while the foreign employees from Asian countries account for 89.0%.

As also seen in the breakdown by employment type, the percentage of foreign employees from “China” is highest for “Permanent Employees,” “Non-permanent Employees,” “Technical Intern Trainees,” and “Employees at Overseas Bases,” but the percentage of “Temporary Employees” is highest in Brazil at 41.9%.

In 1989, when the Immigration Control and Refugee Recognition Act was amended and Brazilians of

Figure 7 Status of Residence of Foreign Employees



Japanese ancestry were accepted as “Long Term Residents,” many such Brazilians came to Japan as the temporary employees of staffing companies, and at present, many of them are still temp staff. For example, according to the 2010 “Population Census,” 45.6% of the male Brazilian employees and 43.5% of the female Brazilian employees, respectively, were temporary workers.

② Status of residence

Concerning the status of residence of foreign employees, the percentage for “Technical Intern Training” is highest at 31.1%, and the percentages of foreign employees with “Position-based status of residence,” such as “Permanent Resident” and “Spouse or Child of Japanese National,” total to 32.8% (Figure 7). In addition, the percentage is 15.5% for “Engineer/Specialist in Humanities/International Services.” This status focuses on people whose aim is to work in the fields, and who are basically graduates of colleges and universities or graduate schools.

In the case of “Permanent Employees,” the percentage of foreign employees with “Position-based status of residence” is highest at 42.9%, while the figure for such employees in “Engineer/Specialist in Humanities/International Services” also accounts for 37.9%. In the case of “Non-permanent Employees,” the percentage for “Position-based status of residence” is highest at 50.1%, followed by “Student” at 34.0%. If an overseas student procures permission, he or she can do “unskilled work” like working as a waiter in a food services or a salesclerk at a convenience store. Therefore, overseas students have become a valuable source of supply of labor for SMEs.

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Figure 8 Age of Foreign Employees

(Unit: %)

	24 and under	25-34	35-44	45 and older
Overall (n=1,169)	19.7	41.5	20.4	18.4
Permanent Employees (n=459)	4.4	42.9	28.3	24.4
Non-Permanent Employees (n=363)	24.2	31.4	20.9	23.4
Technical Intern Trainees (n=291)	39.9	50.2	8.6	1.4

③ Gender

An evaluation of the gender of foreign employees shows that men and women account for 56.4% and 43.6%, respectively. According to the Ministry of Internal Affairs and Communications' "Labor Force Survey (September 2016)," the gender of male and female employees, other than executives, is 54.3% and 45.7%, respectively. These figures are almost the same as the figures for Japanese workers.

The breakdown by employment type shows that the percentage of men among "Permanent Employees" is 61.1%, which is somewhat higher than that of women. On the other hand, the percentage of women among "Non-Permanent Employees" is 61.3%. Those tendencies do not show that the attribute of foreign workers, because such tendency also can be observed in the case of Japanese workers. In addition, the number of male employees as "Technical Intern Trainees," "Temporary Employees," and "Employees at Overseas Bases," is high accounting for 69.6%, 73.3%, and 62.5%, respectively.

④ Age

An evaluation of the age of foreign employees shows that 19.7% foreign employees are "24 years old and below", and 41.5% are "25-34 years old" (Figure 8). The percentage of employees in the middle-aged and elderly strata of "45 years and above" is low at 18.4%. According to the aforementioned "Labor Force Survey" which shows overall employees in Japan, other than executives, the employees that are "24 years old and below" and "25-34 years old," account for 9.5% and 19.5%, respectively. Additionally, employees that are "45 years old and above" account for almost half at 46.8%. Foreign employees are weighted toward young generation.

The breakdown by employment type for examining the age of foreign employees indicates that "Permanent Employees" are relatively old. Among "Permanent Employees", the percentage of "24 years old and below" is only 4.4%, whereas "45 years old and above" accounts for 24.4%. In the case of

Figure 9 Academic Background of Foreign Employees

(Unit: %)

	Other School in Japan	Overseas University or Grad School	Other Overseas School
Overall (n=994)	18.9	25.6	39.4
Permanent Employees (n=408)	32.1	12.5	36.5
Non-Permanent Employees (n=269)	18.2	21.9	30.9
Technical Intern Trainees (n=272)	8.1	8.8	80.9

“Non-Permanent Employees,” the percentage of “45 years old and above” is also high at 23.4%; however, the percentage of “24 years old and below” is almost the same at 24.2%. “Technical Intern Trainees” are extremely weighted toward young generation, wherein “24 years old and under” account for 39.9% and “25–34 years old” accounts for 50.2%. Although there is no upper limit on the ages for technical intern trainees, it has become a means for bringing in a young labor force.

⑤ Academic background

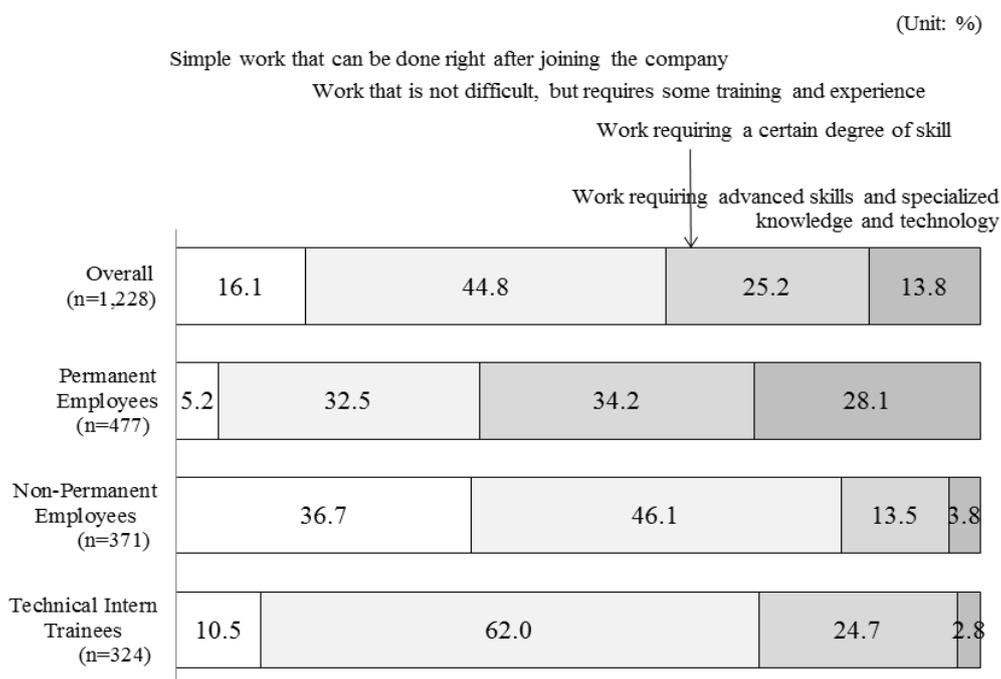
An analysis of the final academic background (an attending school in the case of overseas students) of foreign employees reveals that the percentage of foreign employees from “Other Overseas School” is the highest at 39.4%. On the other hand, the percentage of foreign employees from “University or Graduate School in Japan” is 18.9% and “Overseas University or Graduate School” is 25.6%, and the total percentage of persons with higher education accounts for 44.4% (Figure 9). Among “Permanent Employees,” many of them have high academic background. The proportion of persons who have university or higher degree account for 68.6%, which consists of 32.1% for “University or Graduate School in Japan” and 36.5% for “Overseas University or Graduate School”.

Also in the case of “Non-Permanent Employee”, persons who are university or higher level degree account for 40.1%, with the figure for “University or Graduate School in Japan” and “Overseas University or Graduate School” being 18.2% and 21.9%, respectively. However, compared to “Permanent Employees,” the percentage for “Other school in Japan” is higher at 29.0%.

The breakdown of “Other School in Japan” for examining the academic background of the “Non-Permanent Employees” shows that “Japanese Language School” accounts for 57.7%. Contrarily, “Other

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Figure 10 Difficulty of the Work of Foreign Employees



Overseas School” accounts for 80.9% for “Technical Intern Trainees,” and the number of such trainees who have graduated from a university or graduate school is small even when adding Japanese and overseas schools.

(4) Wages of Foreign Employees

① Difficulty of work

It is a common perception that the foreign workers coming to Japan from developing countries are cheap workers. However, what are the facts? It is not possible to determine whether the wages of foreigners are high or low simply by comparing their wages with that of the Japanese workers. It would be natural to assume that the average wage level of foreign workers is lower than that of Japanese when the foreign workers undertake simple work that anybody can do. Therefore, the difficulty of the work that foreign workers are in charge of should be analyzed firstly.

According to the questionnaire, the figure for foreign employees who are in charge of “Work that is not difficult but which requires some training and experience” is the highest and accounts for 44.8% (Figure 10). The figure for persons in charge of “Simple work that can be done right after joining the company” is 16.1%, and thus many of foreign workers handle work with a low degree of difficulty.

A breakdown by employment type shows that the percentage of “Non-Permanent Employees” doing “Work that is not difficult but requires some training and experience” is 46.1%, while those doing “Simple work that can be done right after joining the company” account for 36.7%. Since the percentage of simple workers

among Japanese part-timers is also high, it cannot be assumed that foreign non-permanent employees are particularly in charge of simple work.

As for “Technical Intern Trainees”, although percentage of workers who are doing “Simple work that can be done right after joining the company” is low at 10.5%, those doing “Work that is not difficult but which requires some training and experience” account for 62.0%. Institutionally, “Technical Intern Trainees” cannot engage in simple work. However, since their stay in Japan is limited to a period of three years at the longest², they are not entrusted with difficult work. From the standpoint of SMEs, they might consider that the technical intern trainees have the status of “Non-Permanent employees that will not quit for three years.”

Contrarily, the percentage of “Permanent Employees” that are in charge of “Work requiring advanced skills and specialized knowledge and technology” is 28.1%, while those doing “Work requiring a certain degree of skills” account for 34.2%. People that are doing “Work that can be done right after joining the company” account only for 5.2%. Therefore, as for “Permanent Employees”, it is not true that the foreign workers are unskilled workers.

② Monthly salaries and hourly wages of foreign employees

The wages of foreign employees are three kinds of pattern: monthly salaries, hourly wages, and daily wages. Since there are only 55 foreigners paid by the day in the sample, I will examine the monthly salaries and hourly wages here.

Firstly, concerning monthly salaries, “Permanent Employees” receiving “220,000 yen or more” account for 61.1%, while “Technical Intern Trainees” receiving “180,000 yen or less” account for 95.1%, and these figures contrast each other (Figure 11)

In the questionnaire, I asked the minimum amount of the monthly salary offered in recruitment of Japanese permanent employees. This result is as follows. In case of enterprises without “Technical Intern Trainees”, the percentage of enterprises offering “180,000 yen or less” and “220,000 yen or more” is 24.4% and 33.2%, respectively. The wages of foreign permanent employees compare favorably with those of newly hired Japanese workers.

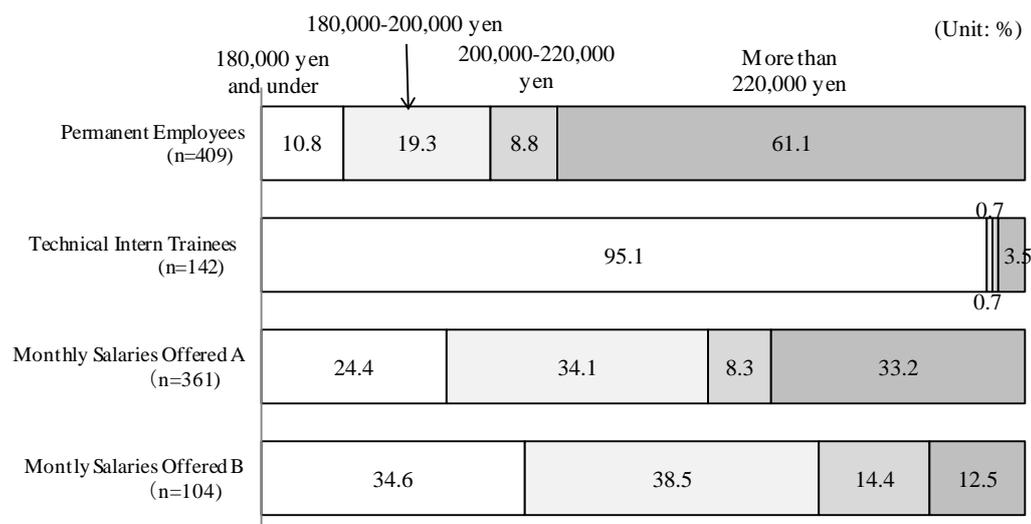
However, the monthly salaries of “Technical Intern Trainees” are lower than the monthly salary offered in recruitment of Japanese permanent employees. I may conclude that their wages match the contents of the work because, in most cases, the “Technical Intern Trainees” are in charge of work that has a lower degree of difficulty compared to “Permanent Employees.”

Secondly, an examination of the hourly wages shows that the percentage of “Non-Permanent Employees” receiving “901–1,000 yen” is highest at 40.9% and those receiving “1,001 yen or more” account

² A new law on technical intern training program was promulgated in November 2016. After the enforcement of this law scheduled in November 2017, the period of technical intern training will be extended for another 2 years.

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Figure 11 Monthly Salaries of Foreign Employees



Notes:

1. The n value is the number of employees for “Permanent Employees” and “Technical Intern Trainees,” but is the number of enterprises for “Monthly Salary Offered A and B”
2. Monthly Salaries Offered A= monthly salaries offered in recruitment of permanent employees by the enterprises without technical intern trainees. Monthly Salaries offered B=that by the enterprises with technical intern trainees.

for 14.8% (Figure 12). In the case of enterprises without “Technical Intern Trainees”, the distribution of hourly wages of “Non-Permanent Employees” is mostly the same as the distribution of hourly wages that are offered in recruitment of Japanese non-permanent employees. The Minimum Wages Act applies to foreign workers and the Employment Security Act prohibits recruiting only foreigners. Therefore, it is not possible to hire foreigners at lower wages than those paid to Japanese workers because of their nationalities. The wages of foreign non-permanent employees are also determined by the labor market as they are for Japanese.

Contrarily, the hourly wages of “technical intern trainees” are often lower than that of “Non-Permanent employees.” Moreover, the hourly wages paid to technical intern trainees in enterprises are weighted toward low ones, compared to the hourly wages offered when those enterprises recruit non-permanent employees.

Technical intern trainees cannot change their implementing organizations after arriving in Japan, unless those organizations go bankrupt or violate laws/rules. Though they find an enterprise where they can acquire the same skills and get higher wages, they cannot change their implementing organizations. Owing to this, the wages of the technical intern trainees tend to be the minimum wages.

In this manner, I can conclude that “Technical Intern Trainees” have a low level of both monthly salaries and hourly wages. However, from the standpoint of the total recruitment cost of technical intern trainees, they are not necessarily cheap labor. In terms of the proportion of enterprises that bear a part or all of foreign

Figure 12 Hourly Wages of Foreign Employees

(Unit: %)

	850 yen or less	851-900 yen	901-1,000 yen	1,001 yen or more
Npn-Permanent Employees (n=291)	28.5	15.8	40.9	14.8
Technical Intern Trainees (n=139)	48.9		31.7	15.8
Hourly Wages Offered A (n=368)	22.6	17.1	42.7	17.7
Hourly Wages Offered B (n=106)	39.6		24.5	31.1

Notes:

1. The n value is the number of employees for “Non-Permanent Employees” and “Technical Intern Trainees,” but is the number of enterprises for “Monthly Salary Offered A and B”
2. Hourly Wages Offered A = hourly wages offered in recruitment of permanent employees by the enterprises without “Technical Intern Trainees.” Hourly wages offered B—that by the enterprises with “Technical Intern Trainees.”

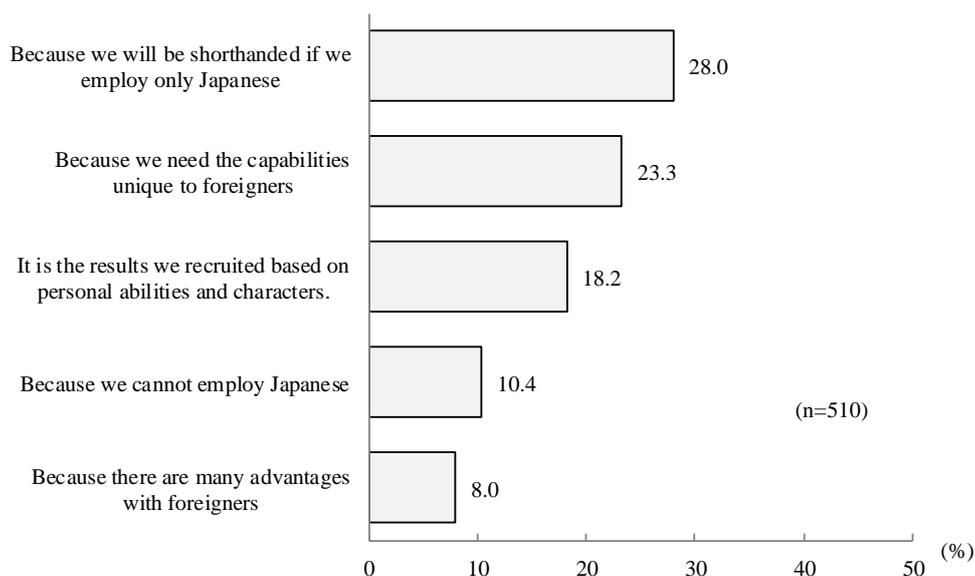
employees’ travel expenses moving to/from Japan, the figures show that enterprises with only “Permanent Employees” and only “Non-Permanent Employees” that bear the money account for 11.2% and 8.0%, respectively, whereas enterprises with only “Technical Intern Trainees” comprise 87.3%.

In addition, when it comes to the percentages of enterprises that provide housing or housing allowance to foreign employees, the figures are 44.5% for enterprises with only “Permanent Employees” and 14.5% for enterprises with only “Non-Permanent Employees”, but it accounts for 96.9% in enterprises with only “Technical Intern Trainees.”

The enterprises with “Technical Intern Trainees” often offer lower wages in recruitment of permanent or non-permanent employees than those offered by the enterprises without technical intern trainees. Hashimoto (2010) also pointed out that the wages offered by enterprises employing technical intern trainees were lower than those offered by enterprises, which did not employ technical intern trainees, based on wage information collected from the job advertisement at Public Employment Security Offices.

There is a possibility that most of enterprises employing technical intern trainees are lower productivity and hence can pay lower wages than those of enterprises, which do not employ them. Conversely, there is also a possibility that they do not want to pay high wages since they can hire technical intern trainees.

Figure 13 Reasons for Employing Foreigners



Note: The five items in descending order of responses.

(5) Why Do SMEs Employ Foreigners?

① Reasons for Employing Foreigners

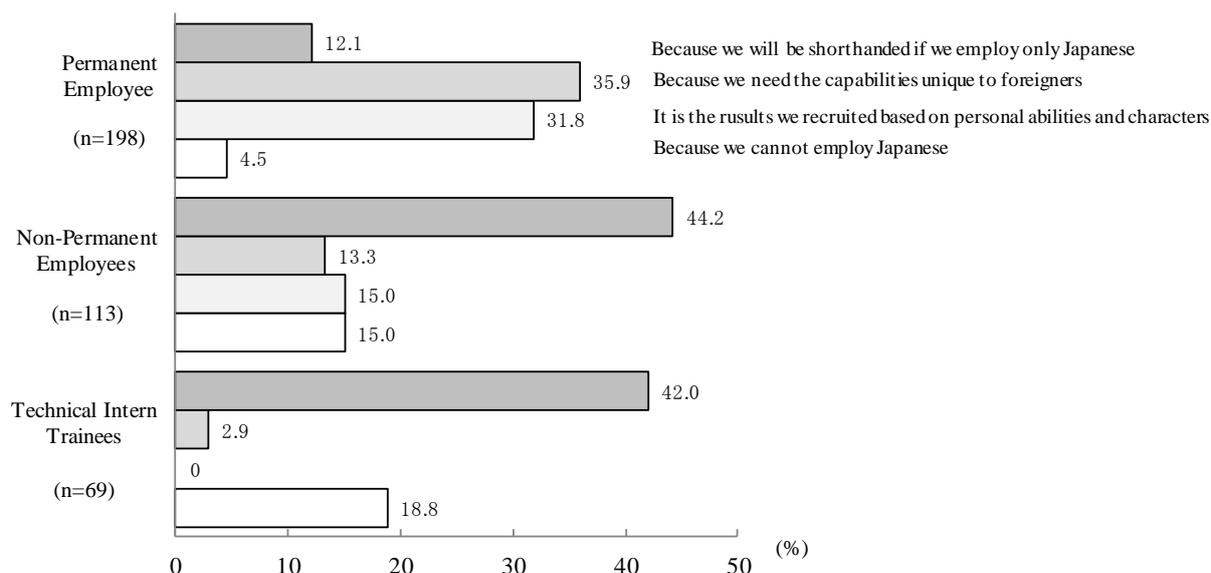
An analysis of the reasons for employing foreigners shows that the most common response is “Because we will be shorthanded if we employ only Japanese”, and 28.0% of enterprises employing foreigners answered it. As 10.4% of enterprises employing foreigners responded “Because we cannot employ Japanese,” enterprises that attributed the reason for hiring foreigners to labor shortage account for 38.4% (Figure 13).

However, the reason for employing foreigners differs depending on the type in which the foreigners are employed. For example, the percentage of enterprises that respond “Because we will be shorthanded if we employ only Japanese” is 44.2% among “Enterprises that employ only non-permanent employees” and 42.0% among “Enterprises that employ only technical intern trainees”, while it is only 12.1% for “Enterprises that employ only permanent employees” (Figure 14).

In addition, an analysis of the percentage of enterprises that responded “Because we cannot employ Japanese” shows that the percentage of “Enterprises that employ only non-permanent employees” and “Enterprises that employ only technical intern trainees” is 15.0% and 18.8%, respectively. Contrarily, “Enterprises that employ only permanent employees” account for only 4.5%.

In the case of “Enterprises that employ only permanent employees,” the most common response for employing foreigners is “Because we need the capabilities unique to foreigners,” and it accounts for 35.9%. This percentage is small at 13.3% in “Enterprises that employ only non-permanent employees,” and only 2.9% in “Enterprises that employ only technical intern trainees.” In addition, in case of “Enterprises that employ only permanent employees,” 31.8% of those enterprises responded “It is the results we recruited based on personal

Figure 14 Reasons for Employing Foreigners (Breakdown by Employment Type)



Note: The figures are calculated for enterprises with only those foreign employees for whom the respective employment types are applicable.

abilities and characters.” This percentage is naturally zero in “Enterprises that employ only technical intern trainees” and only 15.0% in “Enterprises that employ only non-permanent employees.”

As noted above, labor shortage is the main reason for employing foreigners as non-permanent employees and technical intern trainees, but not necessarily the reason for employing foreigners as permanent employees. SMEs employ foreigners because they need the qualities and capabilities possessed by individual foreigners, as well. It is only natural that the wages of foreign permanent employees compare favorably with those of Japanese employees.

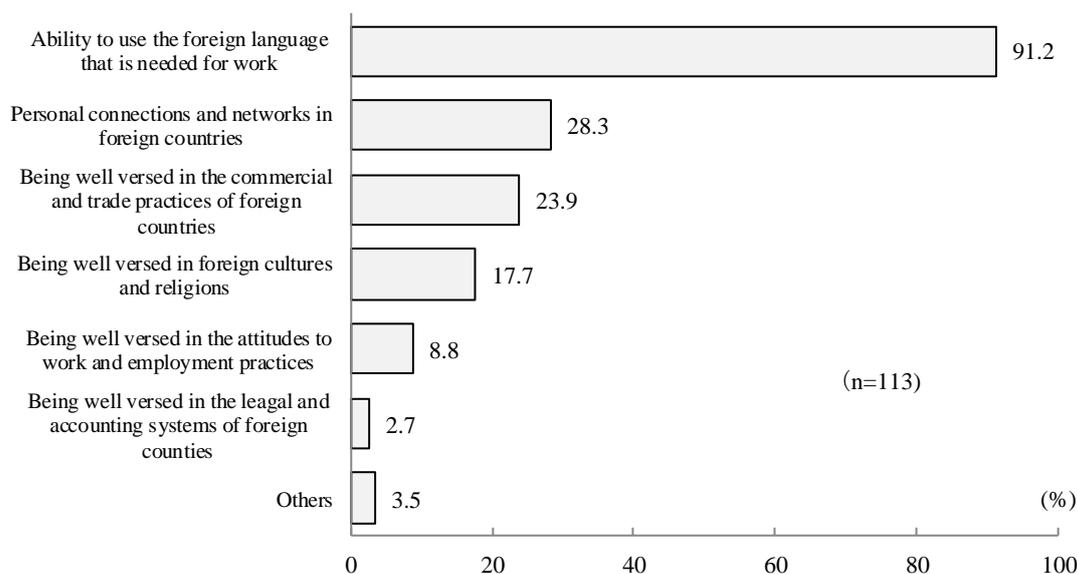
② Required Capabilities Unique to Foreigners

Among enterprises that answered “Because we need the capabilities unique to foreigners” for the question in Figure 13, an analysis of the kind of capabilities needed uniquely to foreigners shows that the most enterprises answered “Ability to use the foreign language that is needed for work,” and this figure stands at 91.2% (Figure 15). As the internationalization has advanced in SMEs, such like overseas expansion and reception of foreign tourists (inbound tourists), the demand for employees who can use foreign languages has increased.

Followed by the language ability, the capabilities that enterprises needs are “Personal connections and networks in foreign countries,” “Being well versed in commercial and trade practices of foreign countries,” and “Being well versed in foreign cultures and religions” account for 28.3%, 23.9%, and 17.7%, respectively. These abilities are hard to expect from Japanese. Therefore, these abilities also indicate the internationalization of SMEs. If enterprises want to export their products, it would be better that they have human resources with

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Figure 15 Required Capabilities Unique to Foreigners



Note: Multiple responses.

personal connections in the export countries. If enterprises start production or sale products outside Japan, they need human resources that are well versed in the trading and employment practices of the target countries.

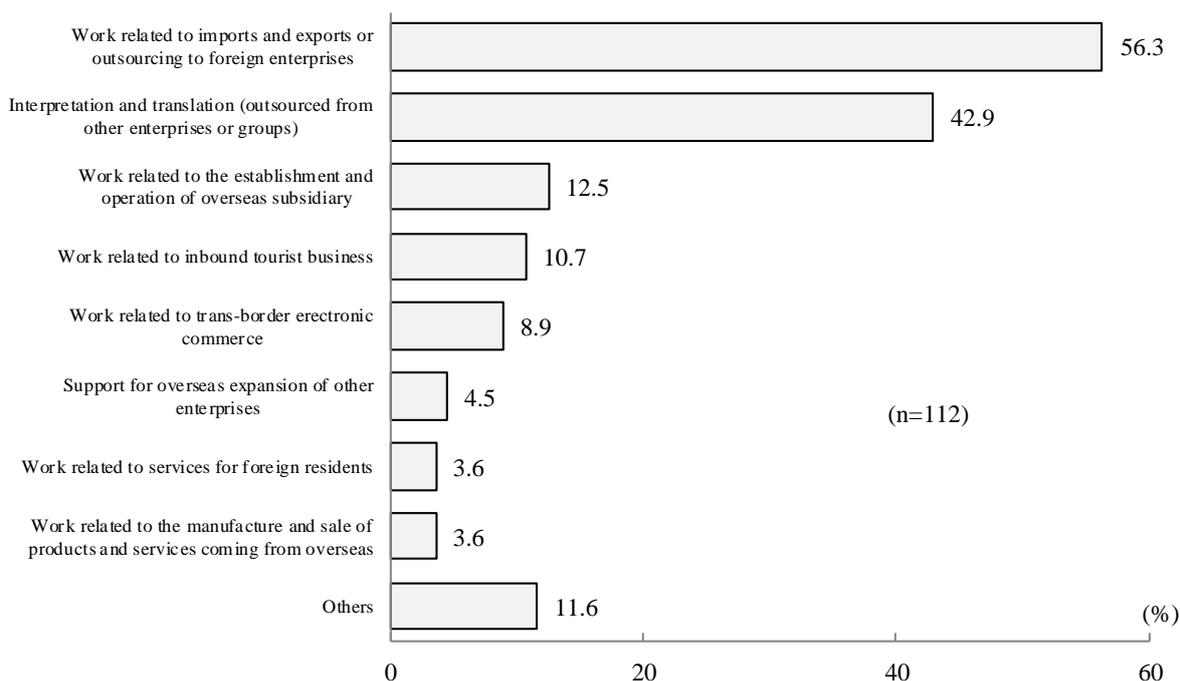
Subsequently, among enterprises that answered “Because we need the capabilities unique to foreigners”, many of foreign employees are in charge of works related to internationalization. The percentage responding “Work related to imports and exports or outsourcing to foreign enterprises” is at 56.3% and the percentage with the response “Work related to the establishment and operation of overseas subsidiary” is at 12.5% (Figure 16).

Concerning the employment of foreigners as permanent employees in SMEs, the reason why SMEs employ foreigners has been changing from labor shortage to need of management strategies.

(6) Differences between enterprises that employ foreigners and enterprises that do not employ foreigners

There is little doubt that internationalization has contributed primarily toward the employment of foreigners in SMEs. However, not all the enterprises that employ foreigners are expanding their business overseas or accepting inbound tourists. Why do SMEs employ foreigners when they are not concerned in internationalization? Could it be because their working conditions are poor and they cannot hire Japanese? In order to check this matter, let me compare enterprises that are employing foreigners (Employing Enterprises) and enterprises that are not employing foreigners (Non-Employing Enterprises).

Figure 16: Work Entrusted to Foreigners



Note: Multiple responses.

① Employment conditions

First, an evaluation of the employment conditions about permanent employees shows that the percentage of enterprises which respond “Shortage” is 31.7% for “Non-Employing Enterprises”, while it is 48.9% for “Employing Enterprises” (Figure 17). They are similar numbers for non-permanent employees. The percentage of enterprises that answered “Shortage” is 26.4% for “Non-Employing Enterprises”, while it is almost double at 45.6% for “Employing Enterprises.”

In addition, for another question concerning the employment conditions about employees under the age of 30, the percentage of enterprises giving the “Shortage” response is 46.5% for “Non-Employing Enterprises,” but it is even higher at 65.1% for “Employing Enterprises” (Figure 18). As noted above, most of foreign workers are younger than Japanese ones. Apparently, there exist SMEs that are making up for the shortage of a young labor force with foreign workers.

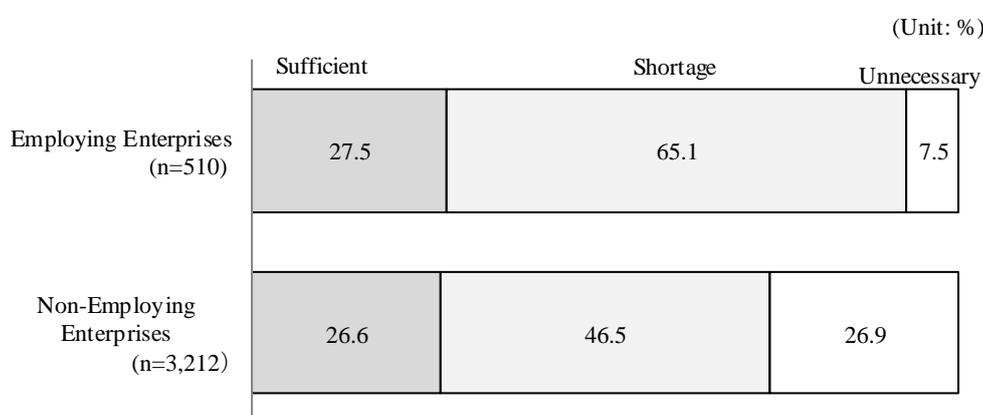
In the case of “Non-Employing Enterprises,” the percentage of enterprises that respond that permanent employees are “Unnecessary,” non-permanent employees are “Unnecessary,” and employees under the age of 30 are “Unnecessary” is 14.9%, 34.2%, and 26.9%, respectively. The smaller the employee size, the lower the percentage of enterprises that employ foreigners is (see the previously Figure 4). Among the sample of “Non-Employing Enterprises,” the proportion of small enterprises account for 79.5%, which consists of 30.9% for “4 persons and below,” 27.9% for “5–9 persons and below,” and 20.7% for “10–19 persons.” Contrarily, in the case of “Employing Enterprises,” enterprises with 20 persons or more account for 65.1%. The proportion of

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Figure 17 Employment Conditions of Permanent Employees



Figure 18 Employment Conditions of Employees under the Age of 30



enterprises with small labor demand may be more in “Non-Employing Enterprises” than in “Employing Enterprises”

② Competitiveness in securing human resources

“Employing Enterprises” pay wages that compare favorably with the wages that they offer to new hires, for both permanent and non-permanent employees. Therefore, these wages are not low for those enterprises. However, are these wages offered in recruitment of employees higher than that of “Non-Employing Enterprises?” Or, are they lower?

First, an evaluation of the monthly salaries offered in recruitment of permanent employees shows that the percentage of “180,000 yen or less” is 36.6% at “Non-Employing Enterprises” and is higher than that of “Employing Enterprises.” However, in other wage groups of “180,000 yen and over”, any proportion of respondents is higher in “Employing Enterprises” than in “Non-Employing Enterprises” (Figure 19).

The pattern for hourly wages of non-permanent employees is as same as that seen in the case of monthly salaries of permanent employees. For example, “Non-Employing Enterprises” offering 900 yen and

Figure 19 Monthly Salaries Offered in Recruitment of Permanent Employees

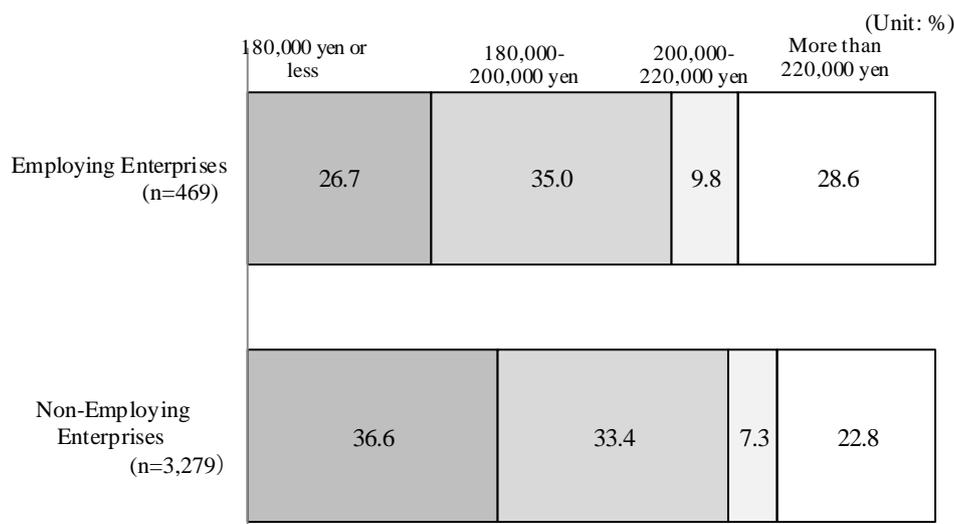
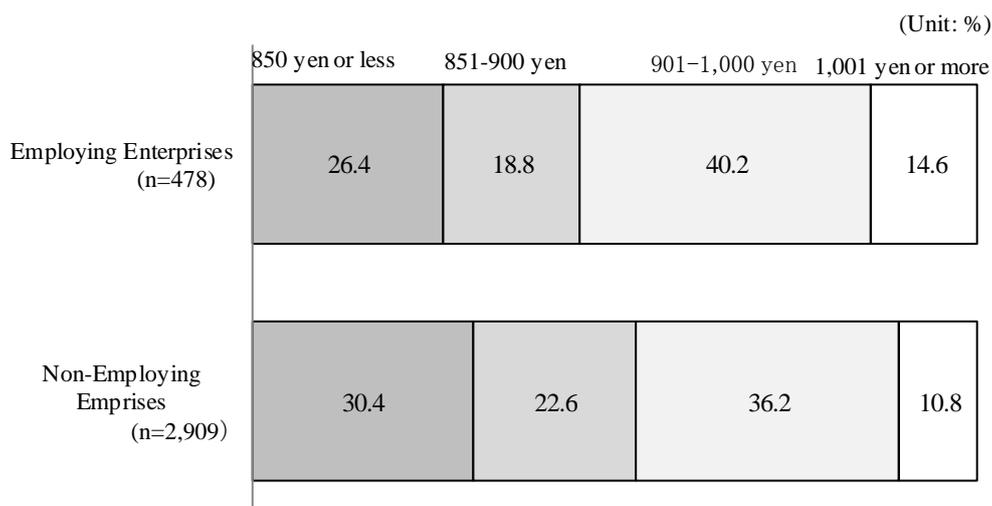


Figure 20 Hourly Wages Offered in Recruitment of Non-Permanent Employees



below account for 53.0% and “Employing Enterprises” offering 901 yen or above account for 54.8% (Figure 20).

However, the fact that there is a tendency for the wages offered at the time of new recruitment to be higher at “Employing Enterprises” than at “Non-Employing Enterprises” may be due to the fact that there are more large-scale enterprises among the “Employing Enterprises”.

Accordingly, if the enterprises are divided in those whose number of employees is 19 and under and those where it is 20 and above, in both cases the wages that are offered by “Employing Enterprises” at the time of new recruitment are distributed towards the higher end than the wages offered by “Non-Employing Enterprises”. This is particularly clear at enterprises with 19 persons or less. While the percentage of enterprises where the

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monthly salaries offered to permanent employees is “220,000 yen or more” is 30.1% at “Employing Enterprises,” that proportion is 21.7% at “Non-Employing Enterprises.” Conversely, while the percentage of “180,000 yen or less” is 29.4% at “Employing Enterprises,” it accounts for 38.7% at “Non-Employing Enterprises.” Tendency of the wages offered in recruitment of non-permanent employees is also similar.

Certainly, in many cases, the wages that SMEs can pay are lower than those that large enterprises can. But the wages that enterprises employing foreigners can pay are not particularly low among SMEs. On the contrary, the proportion of enterprises that cannot offer high wages and hence cannot hire employees is larger at “Non-Employing Enterprises than at “Employing Enterprises.”

However, in most cases the wages offered in recruitment by the enterprises employing technical intern trainees, particularly the enterprises that employ only foreign employees as technical intern trainees, are low. For example, in the case of enterprises with only technical intern trainees, the monthly salaries of “180,000 yen or less” offered in recruitment of permanent employees account for 41.5% and salaries “More than 220,000 yen” account for only 9.2%. Concerning the hourly wages offered in recruitment of non-permanent employees, hourly wages of “850 yen or less” and “1,001 yen or more” account for 43.9% and 3.0%, respectively. It is highly likely that SMEs that cannot pay competitive wages employ technical intern trainees.

Besides wages, working hours also affect competitiveness in ensuring human resources. Accordingly, an examination of the scheduled working hours shows that there is almost no difference between “Employing Enterprises” and “Non-Employing Enterprises.” The reason is that the law limits scheduled working hours: the scheduled working hours shall not exceed 44 hours per week in case of small-scale retailers and food services, and 40 hours in other industries. According to the questionnaire, the percentage of enterprises whose employees’ scheduled working hours exceed 40 hours per week in the case of “Non-Employing Enterprises” is 24.4%, and this surpasses the corresponding figure of 14.3% for “Employing Enterprises.” This is because there are many small enterprises among the “Non-Employing Enterprises.” Though I examine the number of non-working days per week, the percentage of “Non-Employing Enterprises” wherein the number of working days is 6 days per week is 12.1%. While this figure slightly exceeds the percentage of 7.4% in “Employing Enterprises,” there is almost no difference between “Non-Employing Enterprises” and “Employing Enterprises.”

However, there is a difference in the overtime work. An examination of the monthly overtime hours at most in “Non-Employing Enterprises” shows the figures are 18.5% for “0 hours” and 47.9% for “20 hours or less.” However, in “Employing Enterprises,” the figures are 35.2% for “21–45 hours” and 20.3% for “46 hours or more” (Figure 21).

In addition, the figure of the monthly overtime hours at least is “0 hours” for 54.6% in “Non-Employing Enterprises,” whereas the percentage for “0 hours” is somewhat lower at 46.3% in “Employing Enterprises.” Longer overtime works are commonly observed in “Employing Enterprises.”

Excessive overtime work is undesirable in terms of the working conditions. However, some employees might prefer overtime as their income increases. Therefore, I cannot necessarily conclude that this is a disadvantage when it comes to competing for obtaining human resources. I might well be able to conclude

Figure 21 Overtime Hours in One Month at Most

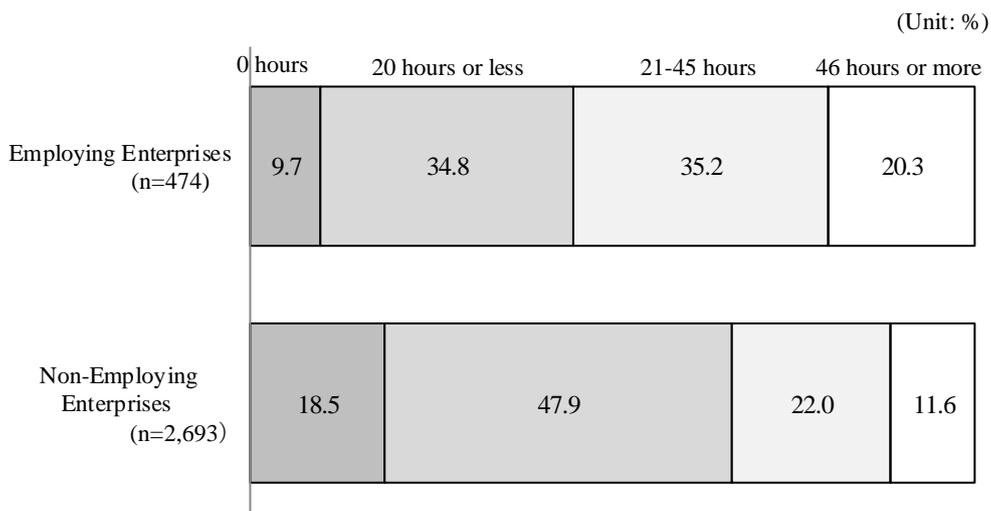
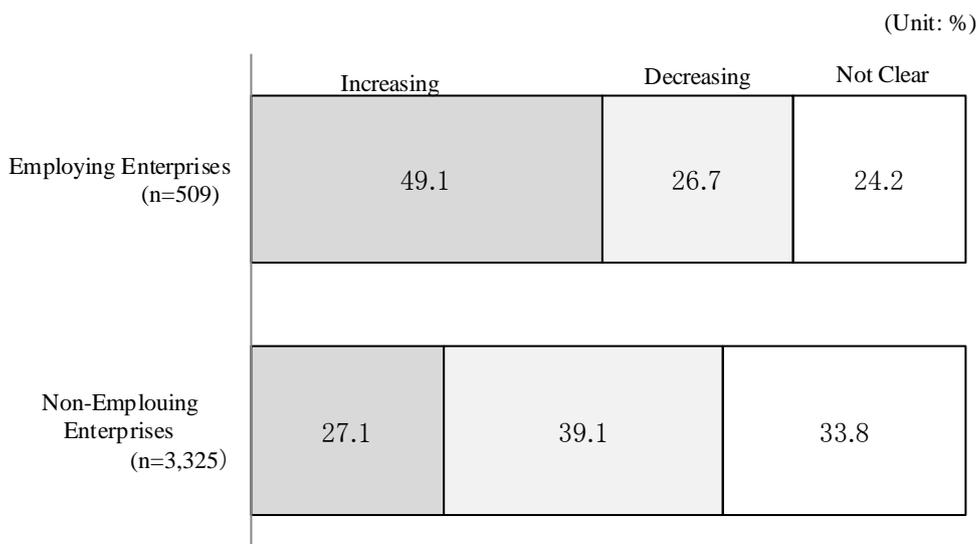


Figure 22 Trends of the Sales in the Past 5 Years



that a preferable workplace for employees is one that allows a moderate amount of overtime, whether they are foreigners or not.

③ Business Results

Looking at the trends of the sales in the past 5 years, the percentage of enterprises that respond “Increasing” is 27.1% for “Non-Employing Enterprises,” but the percentage for “Employing Enterprises” is almost half at 49.1% (Figure 22). Conversely, the percentage of enterprises that respond “Decreasing” is 39.1% for “Non-Employing Enterprises,” whereas that proportion is at 26.7% for “Employing Enterprises.”

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Similarly, an evaluation of the trends of the profitability in the past 5-years shows that the percentage of enterprises that respond “Getting better” is 43.2% and the percentage of enterprises that respond “Getting worse” is 25.0% for “Employing Enterprises.” Contrarily, for “Non-Employing Enterprises,” the percentage of enterprises that respond “Getting better” is 29.2% and the percentage of enterprises that respond “Getting worse” is 32.7%.³

According to “Quarterly Survey of SME Trends” by the JFCRI, in the case of micro and individual enterprises, starting from the first quarter in 1992, the percentage of enterprises whose sales decreased comparing with the same period in the preceding year surpassed the percentage of enterprises whose sales increased over the same period in the preceding year. For the past 5 years, the percentage of enterprises that responded that sales decreased over the same period in the preceding year trended at around 60%. Although the results of survey cannot be simply compared as the questions are different, there tend to exist more enterprises with good results among the “Employing Enterprises”.

④ International Transactions

The preceding section indicates the internationalization of SMEs, such as foreign direct investment, as one of the reasons for employing foreigners. Here, I will confirm the internationalization of SMEs again.

In “Non-Employing Enterprises,” the percentage of enterprises that are engaged in transactions with overseas enterprises and consumers (not including inbound tourists) is 24.1%, but it exceeds more than half at 55.3% in “Employing Enterprises”. An examination of the specific transaction contents shows that the “Non-Employing Enterprises” surpass “Employing Enterprises” when it respond “Importing from overseas businesses” (Figure 23). On the other hand, “Employing Enterprises” surpass “Non-Employing Enterprises” when it comes to responses about other transactions such as “Exporting to overseas businesses” and “Having subsidiaries that is engaged in production or sales overseas”. Thus, the internationalization of business is one of the factors for employing foreigners.

An evaluation of the relation between internationalization and trends of sales in the past 5 years shows that the percentage for “Increasing” is 41.2% and “Decreasing” is 29.1% in enterprises that have transactions with overseas enterprises or consumers. However, the percentage for “Increasing” is 26.4% and “Decreasing” is 39.9% in enterprises that do not have transactions with overseas enterprises. The profitability for the past 5 years also shows the same tendency. There are more enterprises with good business results among internationalized enterprises than among non-internationalized ones.

* * *

Here, I organize what I have analyzed in this section. When “Employing Enterprises” are compared with “Non-Employing Enterprises,” the level of a labor shortage is high in the former. Therefore, I may conclude that labor shortage is the main reason for employing foreigners. However, the labor shortage is not

³ In addition, the percentages of enterprises that responded “Not Clearly” are 31.8% for “Employing Enterprises” and 38.2% for “Non-Employing Enterprises.”

Figure 23 Contents of the Transactions with Overseas Enterprises and Consumers



Notes:

1 Multiple responses

2 The five items in descending order of responses.

because their working conditions are inferior to those at other SMEs, but because the hiring of employees does not match the expansion of the business.

(7) Employment of Foreigners in the Future

An evaluation of the thoughts of employing foreigners in the future shows that the percentage of “Employing Enterprises” with the response “We want to decrease the number from its present level” is only 5.0%. On the other hand, “We want to increase the number above its present level” is 19.7%, and “We want to keep the number at the current level” is 36.4%. Apparently, some enterprises are satisfied with their foreign employees (Figure 24).

However, the percentage of enterprises that responded “We do not consider whether or not the person is a foreigner” is the highest at 39.0%. Particularly, concerning the “Enterprises that only employ permanent employees” and “Enterprises that only employ non-permanent employees,” the percentages of enterprises with the response “We do not consider whether or not the person is a foreigner” is 47.9% and 45.6%, respectively. More enterprises employ foreigners based on their personal character and abilities, though their attitude about hiring foreigners is positive.

Contrarily, for “Non-Employing Enterprises,” an examination of whether enterprises want to employ foreigners in the future shows that percentage of enterprises with the response “We have no intention to employ foreigners” accounts for 48.0%. In addition, the percentage of enterprises with response “We will

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Figure 24: Employment of Foreigners in the Future (“Employing Enterprises”)

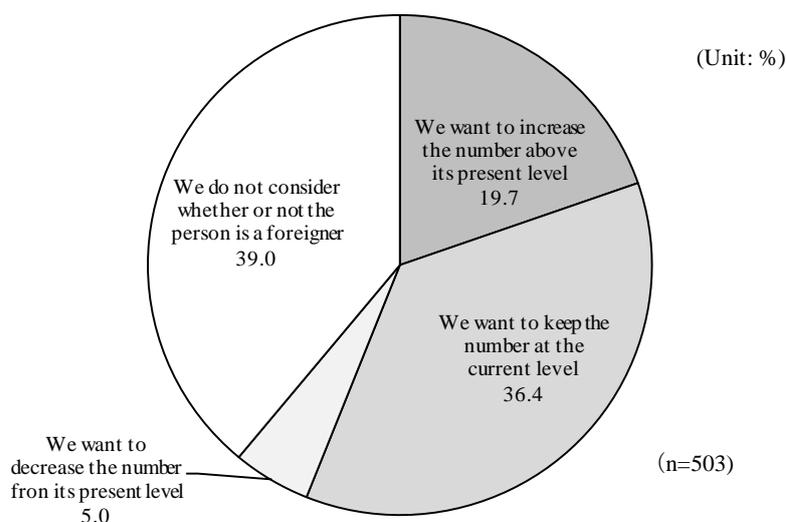


Figure 25 Employment of Foreigners in the Future
(Non-Employing Enterprises, Broken Down by the Trend in Sales in the Past 5 Years)

	If we have a good applicant, it is acceptable to hire him/her			
	We definitely want to try employing foreigners	We will hire foreigners if there is no alternative	We have no intention to hire foreigners	
Increasing (n=883)	22.1	39.1	4.2	34.7
Decreasing (n=1,235)	13.7	26.6	4.9	54.8
Not Clearly (n=1,083)	13.9	30.9	4.9	50.2

employ if there is no alternative” accounts for 4.6%. Therefore, about half of enterprises that do not employ foreigners have negative attitude to employing foreigners or do not need them.

The “Non-Employing Enterprises” with the response “We definitely want to try employing foreigners” account for an overall 15.9% and enterprises with the response “If we have a good applicant, it is acceptable to hire him/her” account for 31.4%. However, a breakdown by the trend of sales in the past 5 years shows that the former percentage is 22.1% and the latter percentage is 39.1% in enterprises responding “Increasing,” and thus more enterprises have a positive attitude to the employment of foreigners (Figure 25). Even when an enterprise is not employing any foreigners at present, I believe that employing foreigners has become an attractive option for enterprises whose business is expanding.

4. Conclusions

In this paper, I presented two questions: “Is the reason why SMEs employ foreigners that they cannot hire Japanese workers because of their poor working conditions?” and “If foreign workers are not cheap labor, why do SMEs employ foreigners?” The responses to each of these questions are as follows.

First, far from being worse, the working conditions in the enterprises that employ foreigners are superior in most instances. In the first place, it is not possible to employ foreign workers at conditions that are inferior to those of Japanese workers, because the Minimum Wages Act and Labor Standards Act apply to not only Japanese employees but also foreign employees. Moreover, the majority of foreign workers can freely choose their place of work. Regardless of whether their purpose of working in Japan is earning income or the acquisition of skills, it is likely that they will want to work in workplaces with good conditions. SMEs with poor working conditions cannot employ foreigners.

The response to the second question is that these enterprises face the issue of insufficient labor and human resources, owing to the expansion of business. Although the working conditions of the enterprises that employ foreigners are better than those that do not employ foreigners, they are inferior to those at large enterprises in many cases. In addition, as it is a long time that young Japanese people are moving away from the manufacturing industry, mismatches due to occupation types and ages also exist.

Owing to this, even in aspect when the labor force supply and demand balance is eased, it is difficult for SMEs to secure enough personnel. Especially enterprises in rapid growth tend to be short of hands. When it comes to human resources having capabilities to help management, it is very difficult for SMEs to secure them as desired. Accordingly, an enterprise with better performance is more likely to employ foreign workers. In addition, foreign workers are likely to expect higher wages from enterprise having better business results.

Moreover, I can point out the fact that the internationalization of SMEs has been advancing. When SMEs develop new export destinations and establish factories and stores overseas, they need human resources that are skilled in the local languages and commercial practices. However, in many cases, foreigners are found to be more well suited than Japanese for executing such roles. For example, a worker can work in the direct investment country without a work visa if he/she has a nationality of the country. However, a Japanese citizen needs to have a work visa, and he/she may not be allowed to work depending on the type of work.

In addition, there are Japanese who are well versed with the overseas business. However, many enterprises, primarily large enterprises, require such human resources. Therefore, it is difficult for SMEs to ensure them. Accordingly, these enterprises employ foreigners in order to achieve overseas expansion.

However, the above response does not apply when it comes to technical intern trainees. Several enterprises that employ technical intern trainees cannot offer competitive wages. Although the situation is not the case with every enterprise that employs technical intern trainees, it is a common perception that such enterprises have inferior working conditions and hence they employ technical intern trainees in place of

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Japanese.

With respect to an acceptance of foreign workers, some researchers point out that SMEs may neglect their efforts toward improving working conditions if the government allows for SMEs to employ foreigners easily because of a labor shortage. Indeed, this may be true in case of the technical intern trainees. If the Japanese government continues Technical Intern Training Program in the future as well, the government must encourage SMEs to prove their working conditions, such as higher wages, and not to preserve inefficient enterprises.

Finally, it is important to mention that the responses to previous two questions may not necessarily remain unchanged in the future.

If I limit myself to looking at the results of the questionnaire, they do not indicate that foreign cheap labor are stealing jobs from Japanese workers. Although the wages of technical intern trainees are low, they take jobs that Japanese workers do not want to take in most cases. Therefore, it is inappropriate to conclude that foreign workers are depriving Japanese workers of job opportunities. Though the number of foreign workers has increased, it comprises less than 2% of the entire labor force. If the number of foreign employees continues to increase and reaches a share of 5% to 10%, and if the economy again suffers from a severe recession, I might not be able to conclude that such workers are not taking work away from Japan's native workers. It might imply that since the foreigners are borrowing money to come to Japan and remitting money to their families in their native countries, their will to work would be stronger than that of Japanese, and hence they may work even when the conditions are poor. However, this may be groundless fear because if Japan experiences a recession, then foreign workers will probably move to other advanced countries. Japan is not the only country that needs foreign workers.

The contention between Japanese and foreign workers may occur not in unskilled labor market but also in knowledge intensive and technology intensive work market. An evaluation of the reasons for employing foreigners shows that 18.2% of enterprises responded, "It is the results we recruited based on personal abilities and characters." In addition, an examination of the policies about hiring of foreigners in the future shows that 39.0% of enterprises that employ foreigners say, "We do not consider whether or not the person is a foreigner." Contrarily, 31.4% of the enterprises that do not employ foreigners, "If we have a good applicant, it is acceptable to hire him or her."

The number of enterprises that are indifferent toward an employee's nationality as long as the employee is competent may continue to increase in the future, as the working population decreases. Therefore, outstanding foreign workers may capture excellent employment opportunities from Japanese workers. Additionally, we must consider both the advantages and potential risks of accepting foreign workers.

[Reference Table] Status of Residence of Foreigners and Permitted or Not Permitted to Work

Activity-Based Status	Examples	Work
Diplomat	Ambassador, minister, their families	○
Official	Employee of an embassy, their families	○
Professor	College professor	○
Artist	Composer, artist	○
Religious Activities	Missionary assigned by a foreign religious organization	○
Journalist	Reporter of foreign press	○
Highly Skilled Professional	Highly-skilled human resources in accordance with the points' system	○
Business Manager	Manager or administrator of a company	○
Legal/Accounting Services	Attorney or certified public accountant	○
Medical Services	Physician, registered nurse	○
Researcher	Researcher at a government-related institution or company	○
Instructor	Language instructor at a junior high school or senior high school	○
Engineer/Specialist in	Engineer, language instructor at a private company	○
Intra-company Transferee	Transferee from an office abroad	○
Entertainer	Actor, professional athlete	○
Skilled Labor	Chef of foreign cuisine, aircraft pilot	○
Technical Intern Training	Technical Interns	○
Cultural Activities	Researcher of Japanese culture	
Temporary Visitor	Tourist, visitor to relatives	×
Student	Student of university student, pupil of a Japanese language school	×
Trainee	Trainee of a public organization	×
Dependent	Dependent of residing foreign national	×
Designated Activities	Working holiday, domestic staff of a diplomat	○
Position-Based Status	Examples	Work
Permanent Resident	Individual who is permitted permanent residence by the Minister of	◎
Spouse or Child of Japanese National		◎
Spouse or Child of Permanent Resident		◎
Long Term Resident	Japanese relative, refugees accepted for third-country resettlement	◎

Notes: The keys depicting permission to “Work” are explained below:

◎: It denotes that the person has no restrictions on activities (he or she is permitted to work freely)

○: It denotes that the person is not permitted to undertake any activity, except the activities for which he or she has obtained permission. Multiple activities are possible in the case of Highly Skilled Professional.

×: It denotes that the person cannot work.

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