Labor Reform in Japan and the Prospects for J-K Cooperation

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Outline

- 5 years of "Abenomics": The sequence for labor reform
- Finally, *the productivity matters*
- Some implications for Japan-Korea cooperation

The sequences for labor reform

- "Abenomics" 1: Changing inflation expectation
- QQE, Yen depreciation, Fiscal expansion, Growth strategies…

→ Best records in corporate sector revenues

→ Better investment

→ Limited asset effects (Equity market only)

→ Unexpectedly slow pace in wage hikes (Flattered Phillips Curve)

→ Stagnant consumption → Sticky deflationary expectation

The sequences for labor reform (2)

- "Abenomics"2: Increasing labor input and Total Factor Productivity (TFP)
- Industrial policies (Regulatory reform, Integration, Labor policies, Social security reform

→ Industry 4.0, Society 5.0…

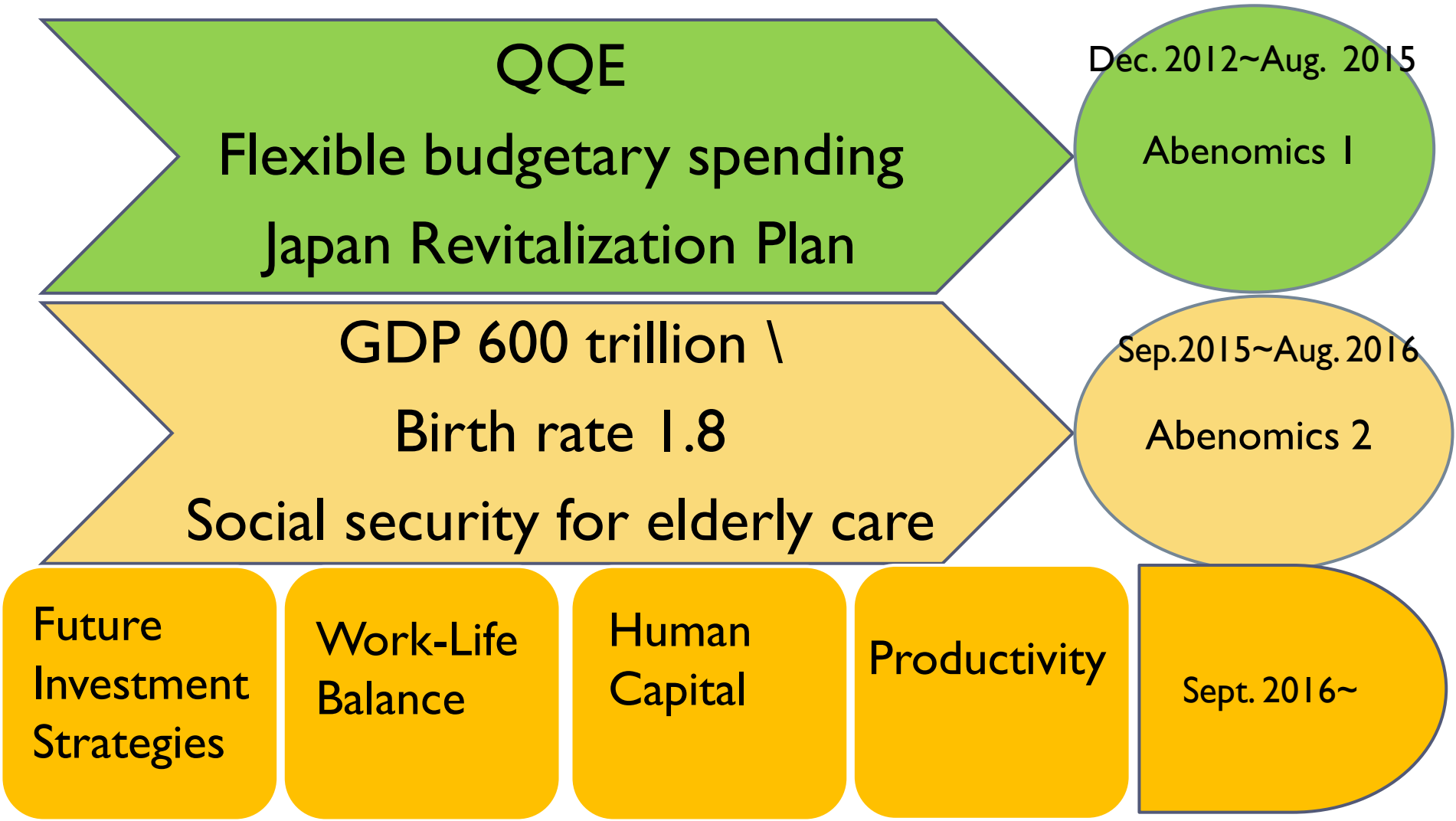
→ J-EU FTA, TPP, RCEP….

→ Record low unemployment rate, Highest labor participation (Women, Senior, Disabled….)

→ Increased demand for nursery

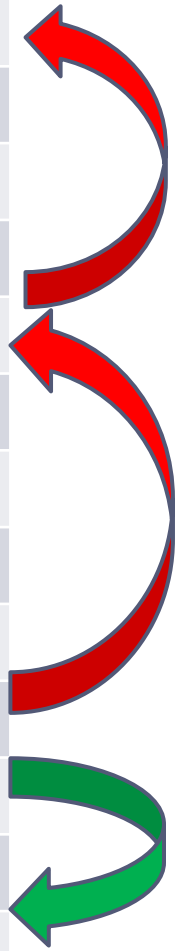
→ Labor productivity and human capital investment

5 years of "Abenomics: The Policies



5 years of "Abenomics": The Results

	2012	2013-16	2017
Real GDP	0.8	1.2	1.7
Real Consumption	1.6	0.3	1.1
Real Investment	2.4	3.4	3.6
Real Employee Compensation	▲0.5	0.1	1.5
Number of Employed	0.3	1.1	1.1
Nominal Wage	▲1.0	0.2	0.7
Real Wage	▲0.9	▲1.3	▲0.2
Unemployment	4.3	3.4	2.8
Land Price (3 city areas)	▲1.6	0.5	1.1
Core-Core CPI	▲0.6	0.4	0.4
Ordinary Revenue (trillion ¥)	12.4	17.1	20.8
Tax Revenue (trillion ¥)	43.9	53.2	57.7
Nikkei Average (¥)	10080	17426	20892
Household Financial Assets (trillion ¥)	1607	1739	1845



Shifting policies

		JRS	JRS 2014	JRS 2015	JRS 2016	FIS 2017	NEPP
Industry focus	Healthcare/ Nursery	○	○	○	◎	◎	
	Industry 4.0		○	○	◎	◎	
	Telecom/ Logistics				○	◎	
	Fintech			○	○	◎	
	Next generation SC				○	◎	
	Energy/ Environment	○	○	○	○	○	
	Sharing economy					○	
Sectors	SME	○	○	○	○	○	○
	Agriculture	○	○	○	○	○	
	Inbound tourism	○	○	○	○	○	
Integration	FTA/EPA	○	○	○	○	○	
	Inbound FDI	○	○	○	○	○	
	Infrastructure/ Content export	○	○	○	○	○	
Infrastructure	PPP/ PFI	○	○	○	○	○	
	Digitalization/ Cyber security	○	○	○	◎	◎	
	Innovation/ Venture system	○	○	○	○	○	○
Regulation reform	Strategic zones/ Sand box system	◎	◎	○	○	○	○
	Corporate tax reduction	◎	◎	◎			
	Corporate governance reform	○	◎	◎	◎	○	○
	GPIF reform	○	○	○	○	○	
	Electricity system reform	○	○	○	○	○	
Human capital	Women empowerment	○	◎	◎	◎	○	○
	Working style reform	○	○	◎	◎	◎	◎
	Education reform					◎	◎

Why the wage doesn't go up?

- Common trends for mature economies since 1990s: Falling wage increase

← Falling labor share

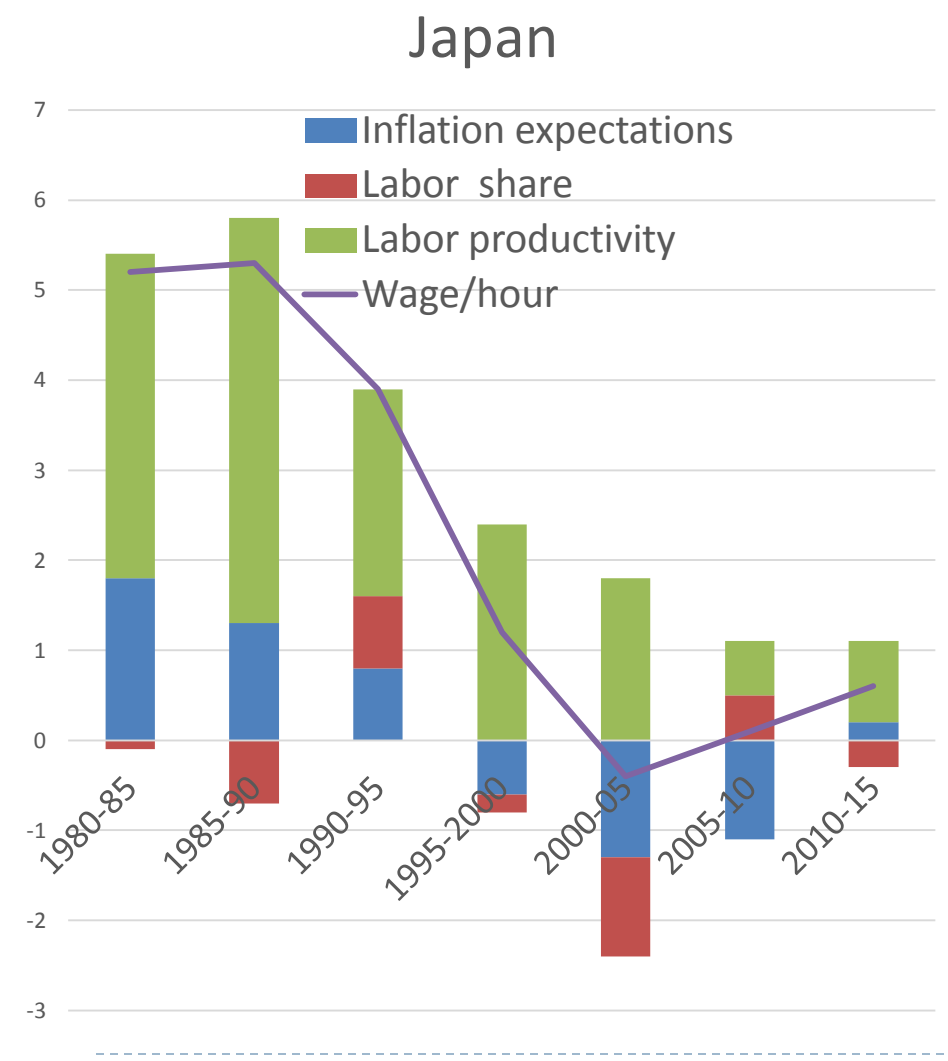
← Stagnated labor productivity

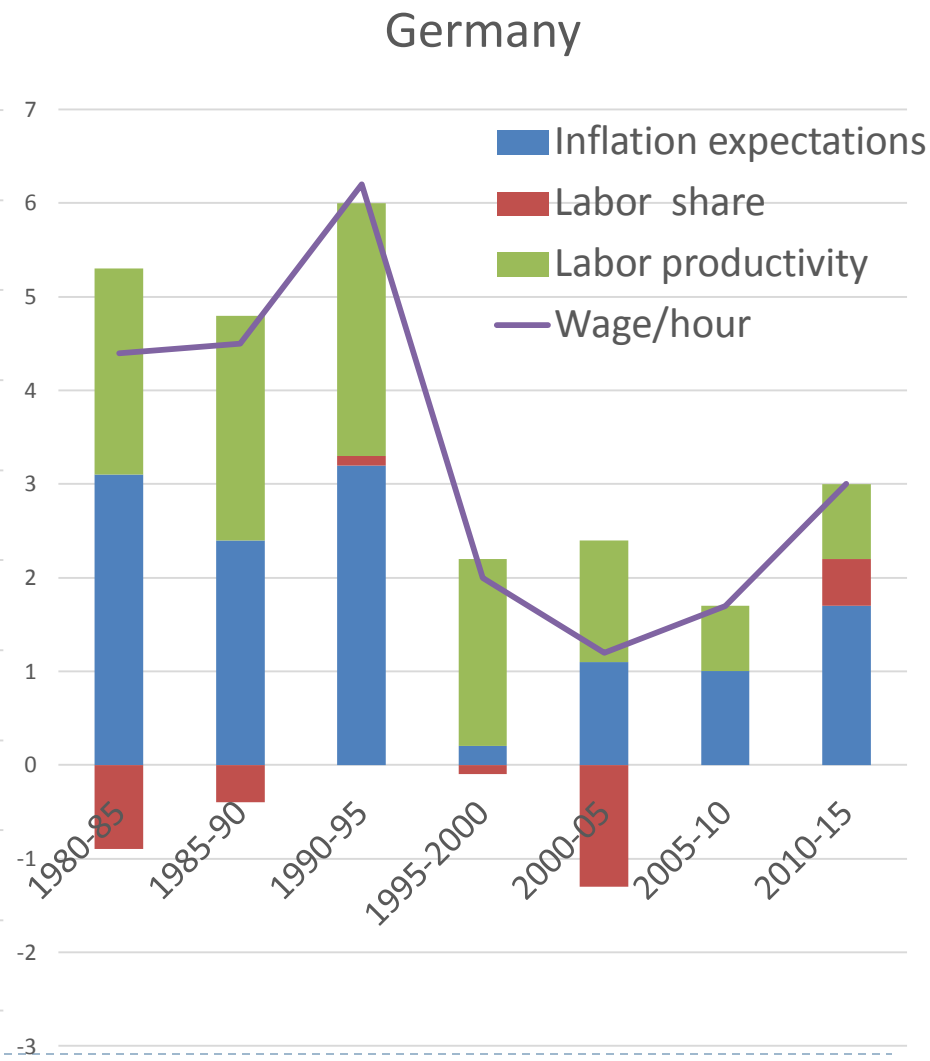
← Shrinking inflation expectations

(Japan): Bubble collapse followed by restructuring → Large negative impact of inflation expectations

(Germany): Unification and labor cost increase

Contribution for Wage

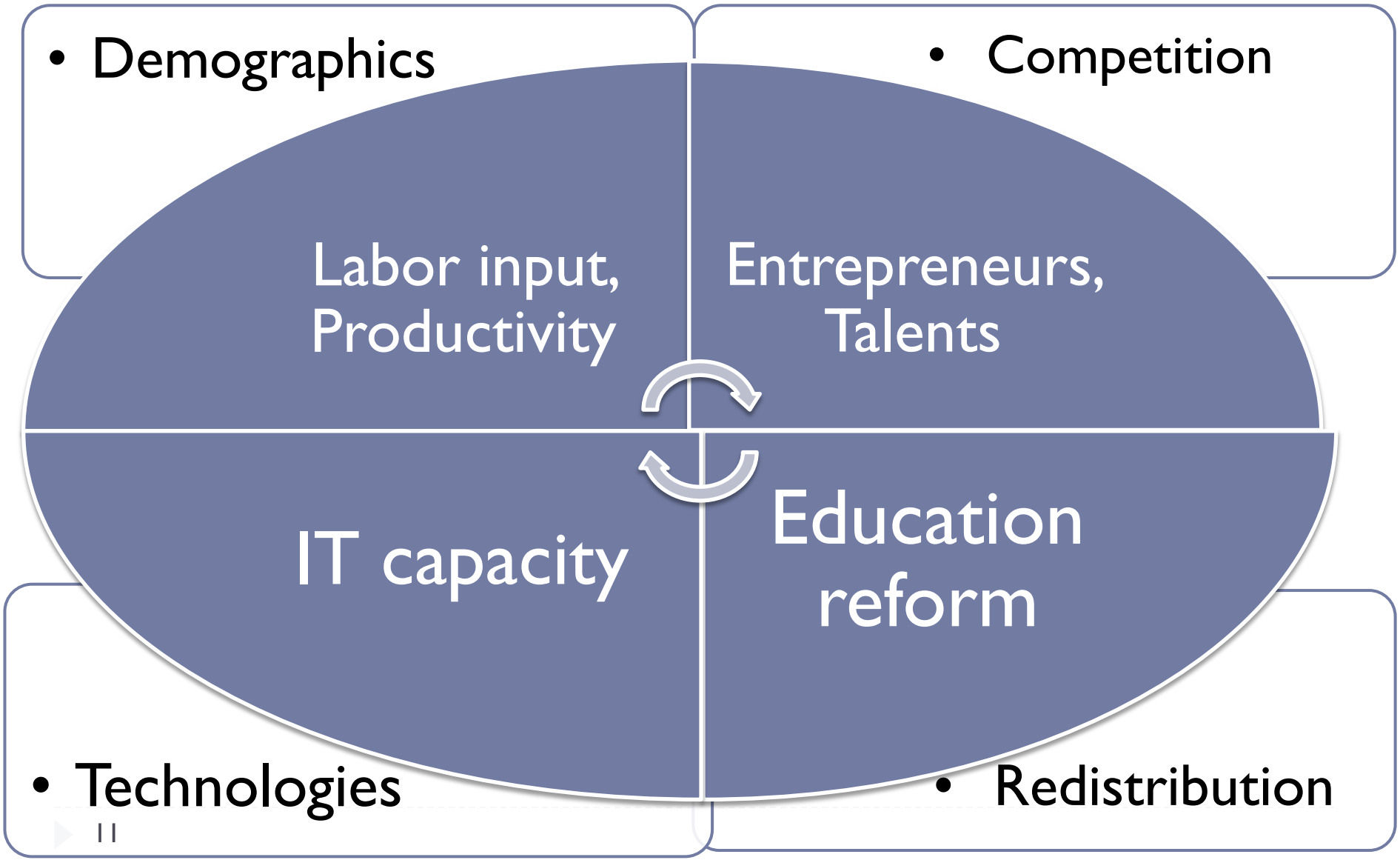




How to push up the wage?

- × Change the inflation expectation→ "Abenomics" 1, but is there any other options?
- △Change the labor share → Still the catching up process for the equity holder based governance
- △Retained profit for labor share → Limited rooms for future uncertainty
- × Technology change → Labor substituting technologies, Gig economies, Globalization
- ◎ Labor productivity → Only option for sustainability

Conclusion: Labor productivity and Human capital



The Japan-specific backgrounds

(1) Low labor mobility/ Long-term employment: Weaker motivation to increase wage to maintain workers

(2) Well-developed intra-firm labor market

(3) Upward rigidity of wage

(4) Sticky deflationary mind

(5) Institutional constraints: Tax disincentives

(6) Irregular workers, Part-timers, and Foreign workers

(7) Retirement at 65 → Lowered wage curves in late 30s to early 40s

(8) No rooms for wage increase in labor shortage sector (Nursery, Education….)

Labor reforms in Japan

- Pushed by the market pressure (≠ Politics)
  →Consensus for the reform
- Comprehensive approach (Labor + Human capital investment)

(1) Overtime work regulations (max. 45 hours/ months, 360 hours/ year)

(2) Discretionary working system for professionals

(3) Equal pay for Equal work (Regular/ Irregular workers)

(4) Social security: Mental care and nursery services

(5) Education reform: Education subsidies for high schools/ University

Labor reforms in Japan (2): However

- Reforms need time: How far and fast?
  - ← Job-based ≠ Membership employment (Changes for "diversity management")
  - ← Role of in-house training?
  - ← Vested interests groups
- Reforms need money: How sustainable?
  - ← Who pays for the subsidies?: Narrower tax basis, Disincentives for motivation
  - ← Silver democracy: Present g. vs. Future g.

Foreign workers/ Immigrants

- Basic principles of "Skilled-workers" only, but very distorted practice
- Lucky technology changes (AI, robots, IoT…)
- Lessons from Europe, even the U.S.
- Intra-firm market solution: ex. Retails

→ Complacency now, postponing the decision

- Gradual approach starting from inbound tourism?

J-K labor mobility as cooperation?

- More than 20,000 graduates have found jobs in Japan
- Changed values for Korean younger generation: Promotion vs. Job security
- The different interface with education: Experience matters, neither exam skills or "spec" (Problems for standardized thinking)
- Danger of myopic cooperation *without* own reforms (How to achieve flexicurity in Korea?)

J-K cooperation for sharing growth

- Positive policy competition and bi-lateral pressures for reforms/ deregulations
- Geoeconomy: Inbound tourism, contents, local culture and community, social innovation
- Strategic human capital exchange: Entrepreneurs,

  Ventures, IT professionals/ skilled workers,

  Education and Healthcare services, Civitech designers….

Society 5.0 (1) Healthy Life Expectancy

- Goals: Disease prevention, Health promotion, Efficient nursery services
- Strategies:

(1) Data integration and opening: Personal history, Treatment-outcome analysis, Incentives in insurance

(2) AI based treatment: Image diagnosis, Operation supports, Drug development, Regeneration medicine, Nursery and Dementia

(3) Robots and sensor for nursery care and self-reliance support

Society 5.0 (2) Transportation

- Goals: Autonomous drive, Drone logistics
- Strategies:

(1) Experiments: 2020 Autonomous drive on public road, 2022 platooning truck on highway)

(2) Combining 5G ICT until 2020, Accident data collection and sharing

(3) Proposing globally competitive rules and institutions

Experiments are all going on…

Society 5.0 (3) Next generation supply chain system

- Goals: Customized, innovative products, Lean supply chains, Safe and efficient production)
- Strategies:

(1) Experiments: Establishing the common format for data among firms, IoT for SME supports

(2) Data sharing guidelines and security system

(3) Deregulation incentives for "smart maintenance" to prevent accidents in factories

Society 5.0 (4) Infrastructure

- Goals: Integrated construction (3 dimension survey by drone, Data based design, Autonomous operation of machines, inspection),

  Preventing accident, Resilience against disasters
- Strategies:

(1) i-Construction, Robots and drone use

(2) Open and sharing data

Society 5.0 (5) Civitech

- Goals: Smart city, smart wellness, smart agriculture, smart grid
- Strategies:

(1) Experiment: Transportation data by sensor, Participation by citizens

(2) Digital data infrastructure

(3) Accumulation of data scientists

(4) Multiple stakeholders: University, Business, Administration, Citizens' bodies…