

EDITORIAL

Migration and competitiveness: Japan and the United States

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Abstract

Japan and the United States, the world's largest economies for most of the past half century, have very different immigration policies. Japan is the G7 economy most closed to immigrants, while the United States is the large economy most open to immigrants. Both Japan and the United States are debating how immigrants are and can contribute to the competitiveness of their economies in the 21st centuries. The papers in this special issue review the employment of and impacts of immigrants in some of the key sectors of the Japanese and US economies, including agriculture, health care, science and engineering, and construction and manufacturing. For example, in Japanese agriculture migrant trainees are a fixed cost to farmers during the three years they are in Japan, while US farmers who hire mostly unauthorized migrants hire and lay off workers as needed, making labour a variable cost.

Keywords: Immigration, migrant workers, labour migration, labour markets

Introduction

For the past half century, Japan and the United States have been the world's largest economies. Each country had a period during which it appeared economically dominant, the US in the 1960s and Japan in the 1980s. A key perceived strength of the United States is its openness to immigrants who bring fresh blood and innovative ideas, while a key perceived strength of Japan is relative closure that bolsters homogeneity and supports consensus.

Japan and the United States are engaged in a quest for the keys to economic competitiveness in the globalizing world of the 21st century. There are many differences between Japan and the United States, from demography and geography to human resource policies and labour market structures. For example, Japan has a shrinking population, while the US population expands by three million a year. The US is far larger than Japan, which has an area smaller than California, and Japan is more urbanized, with the world's largest metro area around Tokyo.¹ Labour markets differ as well. Japan has crafted a part-time young labour force with little job security unto an older labour force that expects to stay with one firm for a lifetime, while private-sector US workers of all ages routinely shift from job to job and place to place.

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¹ Metro Tokyo has about 32 million residents, followed by 20 million each in Seoul, Mexico City, New York, and Mumbai.



Migration is another major difference between Japan and the United States. Japan is an island relatively closed to outsiders, while the United States is a nation of immigrants, with 20 per cent of the world's 214 million international migrants in 2010. Both Japan and the United States have welcome-the-skilled and regulate-the-unskilled foreign worker policies, but the United States has far more high- and low-skilled foreign-born workers than Japan, and far more guest and unauthorized workers.

Japan and the United States are considering changes to their labour migration policies. Less than two per cent of Japanese workers and almost 16 per cent of US workers were born outside the country. Japan is debating proposals to open doors wider to foreign students and professionals as well as low-skilled migrant workers, while the US is debating an easier path from foreign student and worker to immigrant as well as proposals to deal with an estimated 11 million unauthorized foreigners, including eight million in the work force, which makes a third of the 24 million foreign-born workers in the US unauthorized.

These papers examine the impacts of migrants on particular economic sectors, viz, agriculture, construction, manufacturing, health care, and science and engineering (S&E). Migrants are already employed in these sectors in Japan and the United States, and employers are requesting more migrants in both countries. The authors explore the impacts of migrants on the competitiveness of these key economic sectors and evaluate the trade offs that arise from more and fewer migrants.

Immigration patterns and policies

The number of registered foreign residents in Japan gradually increased between 2000 and 2008, from 1.7 million to over 2.2 million, but fell with the global recession of 2008-09 and the March 11, 2011 earthquake and tsunami. Foreigners who left after the tsunami began to return to Japan in summer and fall 2011, but lagging economic growth due in part to the sluggish global economy and the high value of the yen may slow immigration and accelerate the restructuring of the Japanese economy in ways that encourage even smaller Japanese firms to move jobs abroad, that is, the number of foreign-born residents is not expected to increase significantly.

Japan's economic bubble burst in the early 1990s, and the two decades since have been marked by economic stagnation and deflation. Declining prices have, in turn, led to pressure on firms to reduce labour costs. Japan's "lifetime employment" system is changing to offer fewer secure jobs with one firm, but many company personnel systems are still oriented to slow and steady progression within a firm, which can be frustrating for young Japanese and foreigners seeking more rapid mobility. Despite shrinking cohorts of new labour force entrants, many employers shun the long-term unemployed, meaning that a worker who loses a "good" job may have difficulty finding another.

Two major factors link migration and competitiveness in Japan. First, the almost one million foreign workers in Japan play important complementary roles in the Japanese labour market. Ethnic Japanese Brazilians and Chinese trainees fill many jobs in small- and medium-sized manufacturing firms, while southeast Asian migrants are concentrated in construction and services. The Japanese Brazilians are free to change employers, while the Chinese trainees are tied to a single Japanese employer during their three-year stay.

Japanese high-school graduates in small towns often leave to obtain university education in major cities (over half of Japanese high-school graduates go to college). The resulting labour force vacuum in areas that often have shrinking populations and labour forces opens doors for migrants. Japanese Brazilians are employed in areas with relatively more Japanese women and elderly in the work force, reflecting the fact that both respond to opportunity, that is, Japanese women and elderly are less likely to work if they live in areas with few jobs. By contrast, trainees are often employed in areas with low and declining labour force participation, suggesting that they prop up declining sectors such as agriculture.

Second, despite restrictive national immigration policies, including departure bonuses for Japanese Brazilians who left Japan, local governments in Japan often aim to integrate foreign residents and their children to maintain the population and economy of small towns and rural areas. The Council on Regulatory Reform recommended that Japan adopt European-style integration policies that offer language and culture classes, adding another dimension to Japan's current "control-oriented" migration policy.

The US has 40 million foreign born residents, meaning that 13 per cent of the 310 million US residents are immigrants. Two-thirds of the 1.1 million immigrants a year are admitted or given immigrant visas because family members in the US sponsor their admission, and two-thirds of US immigrants are already in the US when they are "admitted." Immigration to the US most often means that foreigners already in the country change or adjust their status from temporary or unauthorized resident to immigrant. The fact that so many foreigners are already in the US when they are "admitted" as immigrants shifts the focus of how foreigners arrive from front-door immigration to side-door temporary visitor and back-door unauthorized migration.

Side- and back-door migration have different impacts on competitiveness. Most side-door migrants are foreign students or temporary workers with university degrees or more, and many find jobs in high-wage "sunrise" industries that range from medicine to high-tech. Most back-door unauthorized migrants, by contrast, have not completed secondary school, and many are employed in industries and sectors that are sheltered from global competition, from construction to food preparation and janitorial services, or are protected by policy, as with some agricultural commodities.

Agriculture

Agriculture was once the largest industry in all societies, and today contributes less than two per cent to GDP in both Japan and the US. About four per cent of Japan's labour force is employed in agriculture and fishing, compared with less than two per cent of the US labour force. In Japan, which is a major importer of food, government support for agriculture is equivalent to about half of farm sales, while the US, one of the largest food exporters, provides support to agriculture equivalent to less than 10 per cent of farm sales.

Most Japanese farms are small and most Japanese farmers are elderly, so that farming is usually a part-time or hobby operation. There were about 350,000 "core" Japanese farmers under 65 in 2009, and these core farmers often rent additional land from elderly farmers who no longer farm. A combination of farm operator labour, year-round and seasonal Japanese workers, foreign trainees mostly from China, and foreigners who take second jobs (often illegally) keeps labour-intensive agriculture viable, especially near major Japanese cities.

There were about 18,000 foreign trainees in Japanese agriculture in 2005, a seventh of the 135,000 full-time hired farm workers. Trainees are fixed costs for farm employers for the three years they are in Japan; farmers pay them 140,000 yen (\$1,165) a month whether there is work available or not, which means that most trainees are on farms that have both open fields and greenhouses to offer year-round work. In most cases, non-corporate farmers are limited to a maximum two first-year foreign trainees and a total of six foreign trainees, while corporate farms can have three first-year trainees and a total of nine. During years two and three, trainees are considered workers and entitled to the Japanese minimum wage.

The availability of foreign trainees clearly helps younger core farmers to operate larger farms. What is less clear is whether the foreign trainee program is a short-run tool to stave off imports of labour-intensive commodities or the opening wedge for a low-skill guest worker program that can allow younger farmers to assemble larger operations and supply an expanding share of Japanese-consumed fruits and vegetables. Most foreign trainees were not farmers at home, but many are from rural areas of China. Most work on Japanese farms to earn higher wages rather than to acquire farming skills to be used at home, making the trainee system effectively a low-skilled guest worker program.

Over half of the work on US farms is done by hired workers, mostly young men born in Mexico who are not authorized to work in the US. Large farms that specialize in producing fruits and nuts, vegetables and melons, and horticultural specialties (FVH) such as flowers, nursery plants, and mushrooms resemble factories in the field, sometimes hiring hundreds or thousands of workers for the most labour-intensive tasks that include harvesting. Many immigrant workers are brought to farms by labour contractors and other intermediaries who absorb much of the risk of fines for the widespread

violations of immigration and other laws that aim to regulate employment in US agriculture.

Fresh fruits and vegetables produced in the US are competitive in part because workers are available at relatively low cost. Hired farm workers earn about \$10 an hour, half the \$20 average in the US. Most work about half the year, so that their annual earnings are only a fourth of the \$40,000 average earnings of a full-time worker. When interruptions in the supply of labour raise farm labour costs, as in the mid-1960s, there has been a wave of labour-saving mechanization, as with the processing tomato harvester.

Farmers who want workers to be available when they are needed, and do not want to take responsibility for them when there is no farm work, believe that a seasonal guest worker program would be the optimal policy to maintain their competitiveness in a globalizing world. However, the legacies of slavery and of Mexican Bracero guest workers make it hard for farmers to achieve the easy-to-use guest worker program they want. If unauthorized workers are legalized as farm worker advocates prefer, newly legalized workers tend to quickly move into the nonfarm labour force, introducing new migrants to agriculture's revolving door labour market.

Health care

The health care industry is large and growing in all societies, but especially in aging industrial societies such as Japan and the US. Health care is a peculiar industry because government heavily influences both the supply of health care services via subsidized training, certification of health care providers, and immigration policy. Government also influences the demand for health care services via direct provision or the funding of services to special groups, including children, the elderly, and the poor and the tax treatment of health insurance.

Health care affects competitiveness in the general sense that healthy workers are more productive, but most increases in health-care costs arise from aging populations that require more health-care services. Health-care is a labour-intensive industry because it defies easy standardization, forcing allocative mechanisms to ration health care that range from queuing to ability to pay. Rationing health care services is contentious because many believe that access to health care should be an individual "right."

Japan spends about half as much on health care as the US, eight per cent of GDP versus 16 per cent, but Japanese health care spending is rising rapidly. A quarter of Japanese are 65 or older, and there are growing numbers of so-called -old over 80 or 85. Less than one per cent of doctors, dentists and pharmacists in Japan are foreigners, and many of these are third and fourth generation Koreans still classified as foreigners.

Finding additional health care workers as the labour force shrinks is a looming challenge. The Ministry of Health, Labour and Welfare (MHLW)

believes that internal reforms rather than immigration will provide workers for Japan's expanding health care workforce. Language is very important in providing health care, which is one reason why the MHLW prefers more Japanese health-care workers. The MHLW notes that there are up to a half million Japanese nurses who are not working as nurses.

The one exception to Japan's generally closed doors to foreign health care workers highlights the challenges of adding health-care staff via immigration. Since 2008 from Indonesia, and since 2009 from the Philippines, foreign nurses and caregivers have arrived in Japan under Economic Partnership Agreements. However, fewer than five per cent have been able to pass the mandatory Japanese exams required to be fully certified Japanese health-care workers. Health care institutions must bear the full cost of training foreign nurses and caregivers, including paying them equal wages as they work as aides until they pass Japanese exams, which makes foreigners more expensive than similar Japanese workers.

About 17 per cent of US workers in health-care occupations were foreign-born in 2010, about the same as the 16 per cent foreign-born share of all US workers. The share of foreign-born workers in health care occupations is larger at the extremes of the earnings ladder, among doctors at the top and among personal care aides at the bottom; between 25 and 30 per cent of each group are foreign born.

Nursing presents special challenges. The US had 2.7 million registered nurses in 2010, and is projected to have 3.4 million in 2020, making RNs the US occupation expected to add the most workers over the next decade. Currently, the share of foreign-born RNs is below the average one-sixth for all US workers, but their share is expected to rise because of constraints on training additional RNs in the US, perhaps due to a lack of instructors in nursing schools and because many RNs are women who do not return to nursing after having children.

Foreign-born workers employed in US health care are different from other immigrants. They are more likely to be employed in central cities, where housing costs are higher, and about two-thirds are naturalized US citizens, versus 45 per cent of all US immigrants. Foreign-born RNs earn more, on average, than similar US-born RNs, \$1,400 a week versus \$1,200 a week in 2009, which may reflect the fact that so many are in high-cost central cities and that they work longer hours than US-born RNs, 39 versus 37 hours a week. Personal care workers earn far less, about \$400 a week whether they are US- or foreign-born, and many work less than 35 hours a week.

Is there a shortage of nurses? There are far more Americans who have earned RN licenses than who are employed as nurses, suggesting that more could be drawn into the nursing labour force if wages and working conditions improved. However, wages for nurses have not increased significantly over the past decade, which is one explanation for why RNs who leave the occupation to have children do not return. The US graduates about 150,000 RNs a

year, and adds 10 per cent more from RNs who were educated abroad and passed US nursing exams. There is clearly interest among US residents in nursing, and there are often long lists of applicants applying to US nursing schools.

Science and engineering

Science and engineering (S&E) occupations are often considered keys to economic competitiveness in the knowledge-based economies of the 21st century. Many students in developing countries consider S&E degrees from universities in more developed countries, or S&E degrees from universities at home, as tickets to developed countries and upward mobility.

There is a contrast in Japan between government and employer attitudes toward foreign S&E graduates. The Japanese government aims to increase the number of foreigners earning S&E degrees from Japanese universities and the number of foreign scientists and engineers employed in Japan. However, Japanese employers are sceptical of foreigners, so that S&E student and worker numbers remain well below government goals. The US government, by contrast, does not have an announced goal to increase S&E foreign students and workers. Nonetheless, universities and employers urge the federal government to relax regulations that limit entry for work, such as caps on the number of H-1B visas available.

Japan has welcomed highly skilled foreigners since 1988 but attracted few, less than 200,000 in 2010. Despite the absence of labour market tests or quotas, fewer than five per cent of the 1.03 million IT engineers in Japan were born outside the country, and most are Chinese employed in the greater Tokyo area. Migrants are a higher share of the engineering workforce than foreigners are of the Japanese workforce, about two per cent, but many Japanese employers reluctant to hire them.

Many Japanese firms shun foreigners because they worry about the ability of skilled foreigners, even those who graduated from Japanese universities, to communicate in Japanese; they also cite potentially high turnover and difficulties assessing foreigners. Half of Japanese corporations report that they have never hired a foreigner. Almost half of the foreigners earning PhDs from Japanese universities plan to leave after graduation, citing reasons that range from perceived difficulties their children may have in Japanese schools to the need to contribute at least 25 years to the Japanese social security system in order to earn benefits.

Japanese multinationals with operations abroad hire local S&E workers in their foreign operations. The difficulty of employing foreign S&E professionals in Japan has prompted Japanese firms to move some of their R&D operations abroad. The Japanese government, fearful of an acceleration of a hollowing out process, would like Japanese firms to become more “globalized,” including more open to hiring skilled foreigners.

Employers in the US are eager to hire foreign S&E graduates, whether they earned degrees in the US or abroad. President Barack Obama and Republican challenger Mitt Romney disagreed about most immigration-related issues during the 2012 campaign, but both support allowing foreign students who earn S&E degrees from US universities to stay and work. Both also promise to make it easier for US firms to hire foreigners who earned S&E degrees abroad as temporary workers.

Critics of the push by especially high-tech employers to hire foreigners with S&E credentials assert that the reason employers prefer foreigners is simple, to save money. They point out that foreigners are generally younger than US workers, and thus receive lower salaries and impose fewer benefit costs on their employers. Employers often specify minimum requirements for jobs offering entry-level wages, but add that additional skills are a plus, enabling some to hire foreigners with additional skills for the wage that must be paid to workers with fewer skills.

Temporary workers are often “loyal” to employers they expect to sponsor them for immigrant visas. Even though employers could sponsor foreigners for immigrant visas even before they are hired, most employers hire foreign workers on temporary visas and expect them to remain employees for the usual six-year maximum duration of an H-1B visa. The irony of the US employer immigrant visa sponsorship process is that immigrant visas are issued because to foreigner deemed best suited to fill particular jobs, but as soon as foreigners receive their immigrant visas, they can and many do leave the employer who sponsored them.

Some employers say that they must hire foreign S&E professionals because too few Americans focus on math and science in secondary school, giving them inadequate preparation for often “hard” college-level S&E courses. Employer-provided data on the foreigners that they sponsor for immigrant visas show that most do not consider the foreigners they sponsor to be the “best and brightest.” There are more entry-level workers, according to employer-provided data, than advanced and proficient workers sponsored for immigrant visas.

Moreover, most studies suggest that many capable US students are interested in S&E, but there is significant “leakage” between earning and S&E degree, working in an S&E occupation, and remaining in an S&E occupation. Some emphasize that the reason why Americans shift away from S&E, the so-called internal brain drain, are straightforward. The cyclical engineering labour market lays off workers during busts, when it is hard to find another engineering job, and employers prefer to hire fresh graduates in the next boom. Those earning PhDs in S&E fields often face years of low-wage post-doc work before getting a “real job” in academia or research.

Manufacturing and construction

Employment in manufacturing has shrunk as knowledge-based economies open to trade have shifted to the production of services. However, manufacturing remains a core element of the economies of both Japan and the US, and some sub sectors have become more reliant on migrant workers over the past two decades. Like manufacturing, construction has several sub sectors, and migrants are most often employed by smaller contractors in residential building and remodelling.

When small- and medium-sized factories faced labour shortages during the bubble economy of the late 1980s, the Japanese government modified its immigration laws in 1990 to allow the descendants of earlier Japanese emigrants to South America to return and work. With Latin American economies stagnant, many ethnic Japanese Brazilians and Peruvians moved to Japan and found jobs in factories that supplied major auto and other manufacturers. Latin American *nikkeijin* were especially noticeable in cities such as Hamamatsu, home to almost 20 per cent of the ethnic Japanese in Japan.

The number of *nikkeijin* peaked at 380,000 in 2008, and then fell as the unemployment rate rose. The Japanese government offered return bonuses of 300,000 yen (~\$3,000) for each adult who left and promised not to return. Simultaneously, the government provided funds for Japanese language and vocational training for ethnic Japanese who stayed, and many local governments supplemented these federal funds in an effort to retain Latin Americans and maintain their populations and workforces.

Foreigners continue to play important roles in low-wage Japanese manufacturing, including food and seafood processing and garments. Many of Japan's foreign workers in manufacturing are Chinese trainees tied to the sponsoring employer for the three years that they are in Japan. There are many calls for Japan to follow Korea and convert the foreign trainees who enter Japan each year into the foreign guest workers entitled to the minimum wage. However, cost pressures encourage small- and medium-sized Japanese factories to assert that they need to continue paying trainees a lower-than-minimum-wage "training allowance" for their first year in Japan, followed by two years of minimum wage work.

US manufacturing employment fell from 20 million in 1979 to about 11 million in 2012 due to rising productivity and increased imports. As in Japan, the migrant share of US manufacturing workers is highest in non-durables, including food processing and garments, where competition holds down wages.

Meatpacking provides an example of the complexities involved in assessing the links between migration and competitiveness. On the one hand, the US has a comparative advantage in meat production because of its ability to produce corn and other feedstuffs cheaply in the Midwestern states. On the other hand, the movement of meatpacking firms from cities with plenty of

workers to small towns near animals with few workers required meatpackers to recruit newcomers, most of whom were migrants. Meatpacking plants may employ several thousand workers in towns with fewer than 10,000 residents, so that a single meatpacker's hiring decisions can quickly affect the demography and culture of an entire town.

Construction has been "deskilled" in the US, so that many workers with less than secondary school educations are employed in the industry, especially in residential construction and remodeling. During the US housing boom fueled by low-interest rates and subprime mortgages between 2002 and 2007, large numbers of newly arrived migrants found jobs with contractors and subcontractors, and migrants soon dominated roofing, dry walling, and similar types of jobs. By contrast, publicly funded infrastructure such as highways and bridges, as well as major installations such as factories and high-rise buildings in cities, continue to hire mostly US-born and often unionized workers. Low wages combined with low interest rates and subprime mortgage lending helped to spur home building during the boom, but left many US and migrant construction workers jobless during the continuing bust. Meanwhile restrictive work rules and high wages are criticized for adding to the cost of major construction projects.

In this issue, along with the special issue articles, we have also two regular research papers on the Spanish citizenship regime by Claudia Finotelli and MariaCaterina La Barbera, and on poverty measurement for a binational population by Anita Alves Pena.

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