Section 2
Foreign Workers in Kansai Region: Current Status and Outlook

INADA, Yoshihisa: MATSUBAYASHI, Yoichi; NOMURA, Ryosuke; LUONG Anh Dung; QUAN, Ming; INOUE, Kenji; WARABINO, Maki; YOSHIDA, Shigekazu; KOYAMA, Kenta

Introduction

Section 1 identified labor supply-demand gaps in Kansai's three major industries through 2050. Significant gaps exist across all three sectors, making the question of how to address the labor shortages necessary for industrial growth a key issue. Section 2 will focus on foreign workers in Kansai and outline their characteristics.

Furthermore, examining the net change in Japan's total population (Figure 4-2-1), since 2022, social increase has offset natural decrease, somewhat mitigating the net decline. Social change represents the total difference between the number of Japanese and foreign nationals entering and leaving the country and those changing nationality. In recent years, the surplus of foreign nationals entering the country has accounted for most of the social increase (Table 4-2-1).

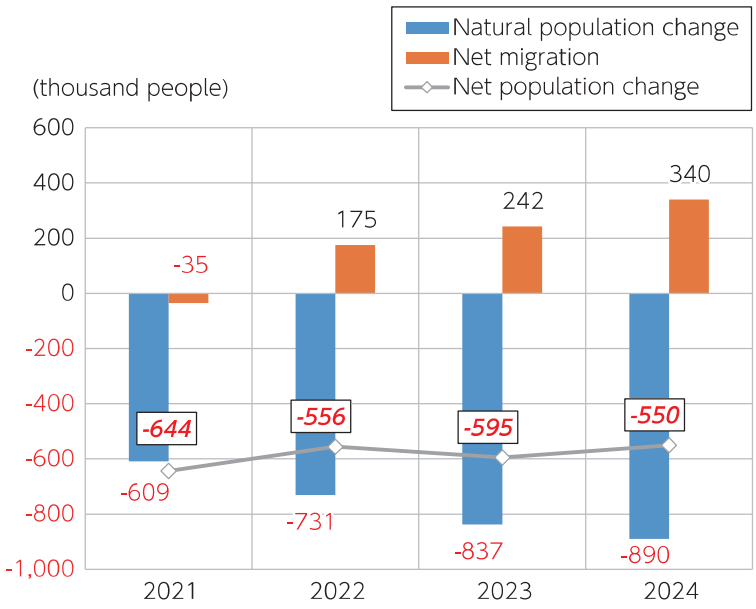

Figure 4-2-1 Net Change in Japan's Total Population and Natural and Net migration Changes: 2021–2024

Source: Statistics Bureau, Ministry of Internal Affairs and Communications "Population Estimates"

Table 4-2-1 Breakdown of Population Change Units: Persons

		2021	2022	2023	2024
Japanese	Migration change	-6,707	-15,550	1,926	-2,341
	Change of nationality	7,308	4,932	7,951	7,538
Foreigners	Migration change	-28,481	**190,665**	**240,205**	**342,184**
	Change of nationality	-7,308	-4,932	-7,951	-7,538
Net migration		-35,188	175,115	242,131	339,843

Source: Statistics Bureau, Ministry of Internal Affairs and Communications "Population Estimates"

1. Organization and Comparison of Basic Statistics on Foreign Residents

Basic statistics on foreign nationals in Japan are primarily derived from the 'Population Census[1)]', 'Statistics on Foreign Residents[2)] (formerly Statistics on Registered Foreign Nationals)', and 'Reporting Status of Foreign Worker Employment[3)]'. Here, we will organize these basic statistics to confirm the current status of foreign residents and foreign workers.

(1) Population Census

The Population Census covers foreign nationals permanently residing in Japan, with some exceptions[4)]. Let us examine the characteristics of the Kansai region based on the time-series change from 2010, 2015, and the current 2020 census. Note that the term "foreign employees" used here refers to foreign workers excluding business owners and executives.

Figure 4-2-2 shows that while the number of foreign nationals, employed persons, and employees all decreased slightly from 2010 to 2015, they increased from 2015 to 2020. The number of foreign nationals increased by 29.1% compared to 2015 (2015: 310,000; 2020: 390,000), and the number of foreign employees increased by 34.0% (2015: 98,000; 2020: 130,000).

Looking at the change in the breakdown of Foreign Nationals by Employment Status in Kansai (Table 4-2-2), while the share of employed persons has been declining, the share of employers has been expanding.

1) Statistics Bureau, Ministry of Internal Affairs and Communications
2) Immigration Services Agency, Ministry of Justice
3) Employment Security Bureau, Ministry of Health, Labour and Welfare
4) (1) Members of foreign diplomatic missions and consular agencies (including accompanying persons) and their families, (2) Military personnel and civilian employees of foreign armed forces and their families

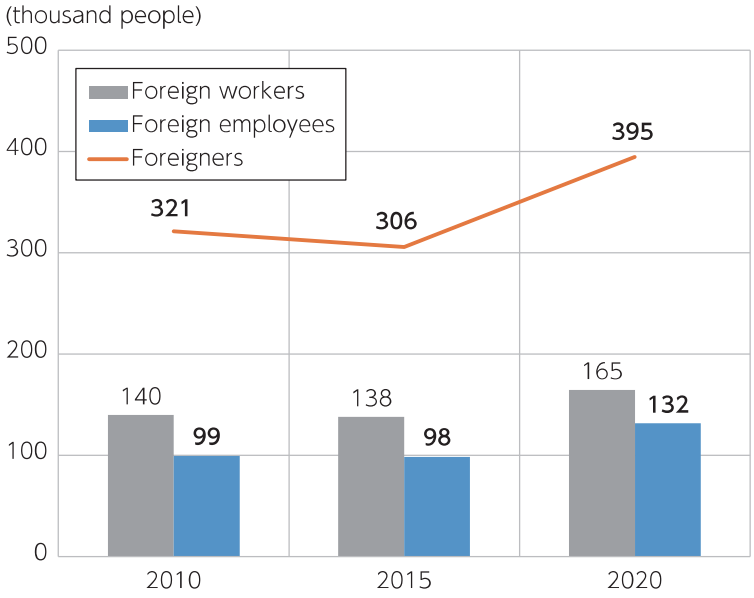

Figure 4-2-2 Changes in the Number of Foreign Nationals, Foreign Workers, and Foreign Employees: Kansai Region

Source: Statistics Bureau, Ministry of Internal Affairs and Communications "Population Census"

Table 4-2-2 Breakdown of Foreign Nationals by Employment Status in Kansai

(%)

Kansai	Foreign workers	Foreign employees
2010	43.6	30.9
2015	45.1	32.2
2020	41.7	33.4

Source: Statistics Bureau, Ministry of Internal Affairs and Communications "Population Census"

(2) Statistics on Foreign Residents

The Foreign Residents Statistics survey covers mid- to long-term residents[5] and foreigners holding "Special Permanent Resident" status. We examine the characteristics of foreign residents from the end of 2010 to the end of 2023.

5) Foreign nationals residing in Japan with a status of residence under the Immigration Control and Refugee Recognition Act who do not fall under any of the following categories (1) through (6).
(1) Persons whose period of stay is determined to be "3 months or less"
(2) Persons whose status of residence is determined as "Short-term Visitor"
(3) Persons granted "Diplomatic" or "Official" status of residence
(4) Persons specified by Ministry of Justice ordinance as equivalent to (1) through (3) (persons granted the "Designated Activities" status, staff of the Taiwan-Japan Relations Association's Japan office or the General Delegation of Palestine in Japan, or their family members)
(5) Special Permanent Residents
(6) Persons without a status of residence

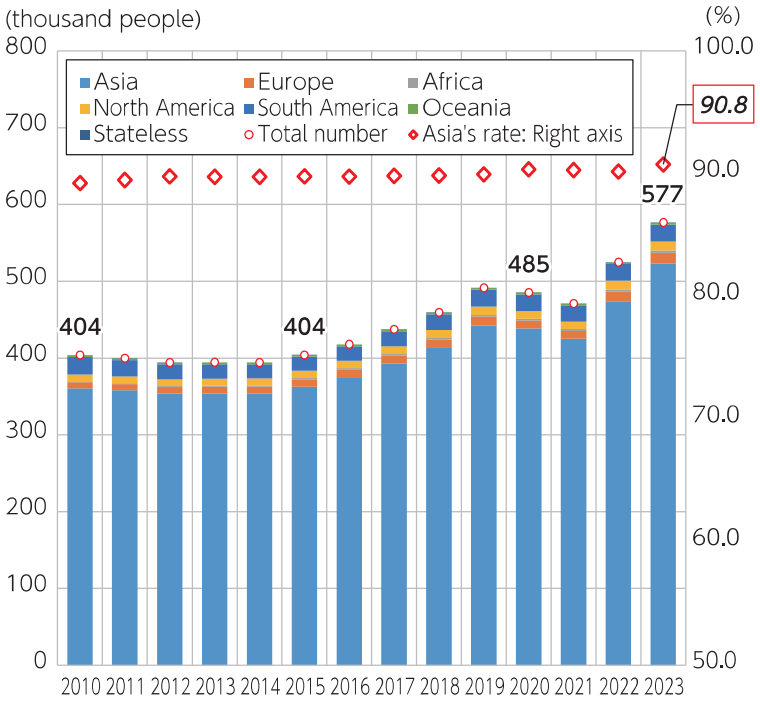

Figure 4-2-3 Change in Foreign Residents by Country/Region and Asia's Share: 2010-2023: Kansai

Source: Immigration Services Agency "Statistics on Foreign Residents"

Figure 4-2-3 shows the change in the number of foreign residents by country/region. Excluding the COVID-19 pandemic years of 2020 and 2021, the number of foreign residents has been steadily increasing.

By nationality, Asians account for the vast majority, with the Kansai region notably having a high proportion of 90.8% in 2023.

Box. Foreign Workers: Current Status and Challenges, with a Focus on ASEAN

(1) ASEAN Foreign Residents in Kansai

The rate of foreign residents from Asia in the Kansai region has remained unchanged over time, standing at 90.8% in 2023, higher than the national average (85.4%). Focusing on ASEAN within Asia, both the rate and share have shown a steady upward trend since 2010, expanding to 30.6% of the total in 2023 (Figure 4-2-4).

Next, examining the change in the share of ASEAN foreign residents in Kansai by country and region (Figure 4-2-5) reveals that there have been contrasting movements between the Philippines and Vietnam. Specifically, in 2010, the Philippines held a 46.1% share and Vietnam 27.0%, while in 2023, the Philippines' share had dropped to 14.6% and Vietnam had surged to 61.8%. Since the total number of foreign residents has increased for both countries, this indicates the rapid growth of Vietnamese residents is the primary cause. Comparing

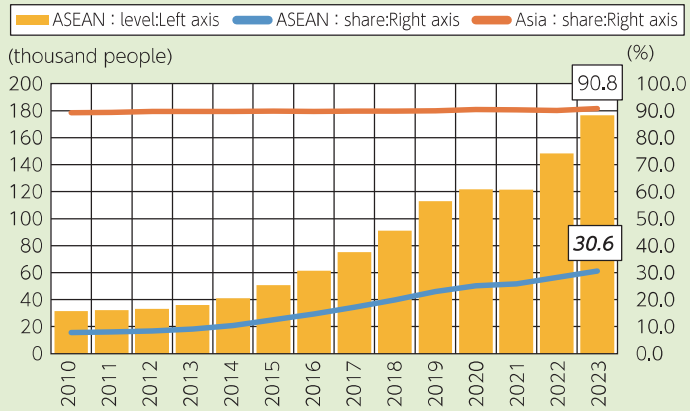

Figure 4-2-4 Changes in the Share of Asians and ASEAN Nationals Among Foreign Residents in Kansai: 2010-2023

Source: Immigration Services Agency "Statistics on Foreign Residents"

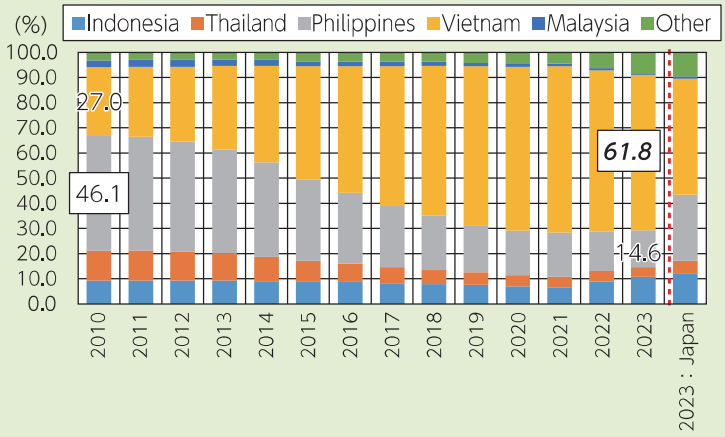

Figure 4-2-5 Changes in the Share of ASEAN Countries and Regions Among Foreign Residents in Kansai: 2010-2023

Source: Immigration Services Agency "Statistics on Foreign Residents"

this to the 2023 national share by ASEAN country and region, Vietnam's share in Kansai is notably higher than the national average, making it a distinctive feature.

(2) Future Challenges in Light of Survey Findings on the Japanese Language Proficiency of Vietnamese Residents

Regarding the Japanese language proficiency of Vietnamese nationals undergoing technical training or working in Japan, survey results targeting foreign residents (Table 4-2-3) indicate that proficiency in all three skills—"speaking," "reading," and "writing"—is distributed at a lower level compared to the overall population. While basic communication is possible for "students" and "technical intern" visa holders if they can use everyday expressions and introduce themselves, further improvement in Japanese language ability is essential for employment and long-term settlement in Japan. To address this, it is necessary to enhance learning programs at technical intern training sites, create systems

Table 4-2-3 Survey Results on Japanese Language Proficiency (Speaking, Reading, Writing): Overall and Vietnam

%

Speaking		Regardless of the topic, I can adapt my conversation appropriately to the person and situation.	Able to converse fluently and naturally	Can handle everyday conversations	Enables basic information exchange in familiar settings	Can use common greetings and everyday expressions.	Can't do it at all
All	n=7,291	17.6	17.5	33.3	13.1	16.1	2.4
Vietnam	n=1,439	7.9	7.5	39.9	21.2	21.3	2.3
Reading		**Any type of text can be read easily**	**Can read newspaper articles and other materials based on a particular viewpoint.**	**Can read emails and other texts written in everyday language.**	**Can read simple, short sentences about familiar topics**	**Can read familiar names and words on notices and posters.**	**Can't read it at all**
All	n=7,291	13.6	12.6	20.6	29.1	13.3	10.7
Vietnam	n=1,439	3.2	5.7	22.0	44.4	12.4	12.3
Writing		**Can write clear, fluent sentences in an appropriate style.**	**Can write detailed explanatory texts on a wide range of topics.**	**Can write emails about experiences and impressions in daily life.**	**Can write short notes or messages.**	**Can write your name, address, etc.**	**Can't write at all.**
All	n=7,291	8.1	8.8	21.9	30.3	22.7	8.1
Vietnam	n=1,439	2.4	4.2	17.0	44.3	29.4	2.6

Source: Immigration Services Agency "FY2024 Basic Survey of Foreign Residents"

that facilitate learning for trainees, and provide Japanese language learning support before entry into Japan. Improving communication skills will enable foreign residents to engage in training and work with greater peace of mind and safety, ultimately contributing to their settlement in Japan.

(3) Reporting Status of Foreign Worker Employment

The Foreign Worker Employment Status Reporting System requires all employers to submit reports to the Ministry of Health, Labour and Welfare. The reporting obligation applies to foreign workers employed by the employer[6]. We examine the characteristics of foreign workers in the Kansai region based on the time-series change from 2008, when data became available, to the present year 2024[7].

Figure 4-2-6 shows the change in the number of foreign workers and Kansai's share of the national total from 2008 to the current year, 2024. The change in the number of foreign workers shows a steady increase, excluding the COVID-19 pandemic year of 2021. Looking at the share, it has expanded since 2015, excluding the pandemic year, and as of the current year 2024, the number of foreign workers stands at 316,000, representing a share of 13.7%.

Comparing the three statistical data sets above reveals slight discrepancies in identical items (such as the number of foreign nationals or foreign workers). Below, we will examine these differences item by item and consider the reasons for these discrepancies.

6) Excludes special permanent residents and those with "Diplomatic" or "Official" residence status

7) Note that since this statistic is based on reports per workplace, a single foreign worker employed by multiple workplaces may be counted twice.

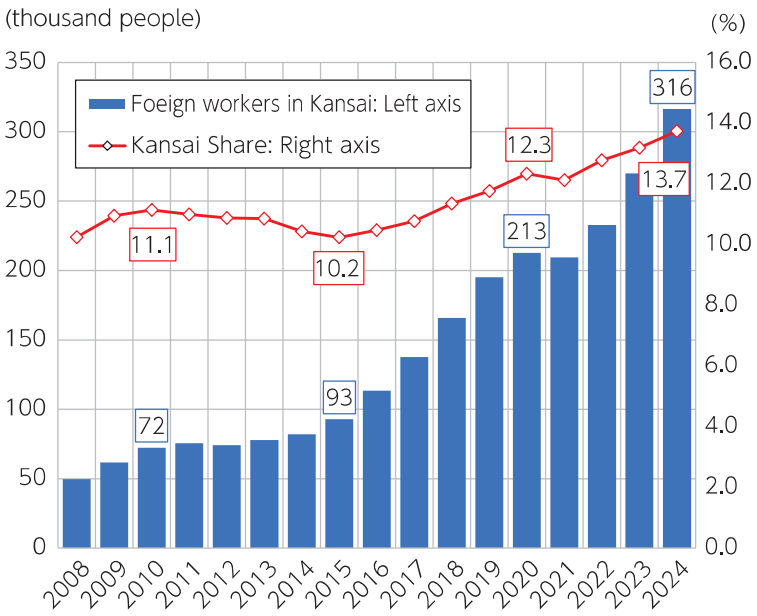

Figure 4-2-6 Change in Foreign Worker Numbers and Kansai Share: 2008-2024: Kansai

Source: Ministry of Health, Labour and Welfare: "Status of Reports on 'Employment of Foreign Nationals'"

(4) Changes in the Number and Share of Foreign Workers by Industry

Here, we examine the characteristics of foreign workers by industry, organizing their numbers and shares over time using data from reports on the employment status of foreign nationals.

Figure 4-2-7 shows the number of foreign workers by industry (2009-2024), while Figure 4-2-8 shows the time-series changes in their share by industry. Looking at "Manufacturing," the number of foreign workers has shown a steady upward trend since 2009 (2009: 25,000; 2024: 85,000). However, the share has decreased by 13.0 percentage points, from 39.9% in 2009 to 26.9% in 2024. The construction industry has changed gradually over time, with a gradual upward trend in both the number of workers and market share since 2015, when data became available (2015: 3,000 workers, 3.1%; 2024: 23,000 workers, 7.3%). Looking at the "Accommodation, eating and drinking services," the number of workers has been on an upward trend, showing significant growth since 2023 due in part to recovery from the COVID-19 pandemic (2009: 7,000 workers; 2024: 41,000 workers). Meanwhile, its share has generally shown a slight change, remaining around 11% since 2009 and rising slightly to 13.0% in the current year of 2024. The "Healthcare and Welfare" sector has shown steady changes since 2018, when data became available, even during the COVID-19 pandemic (2018: 4,000 workers; 2024: 22,000 workers). Furthermore, its market share has also been expanding, reaching 6.9% in the current year of 2024.

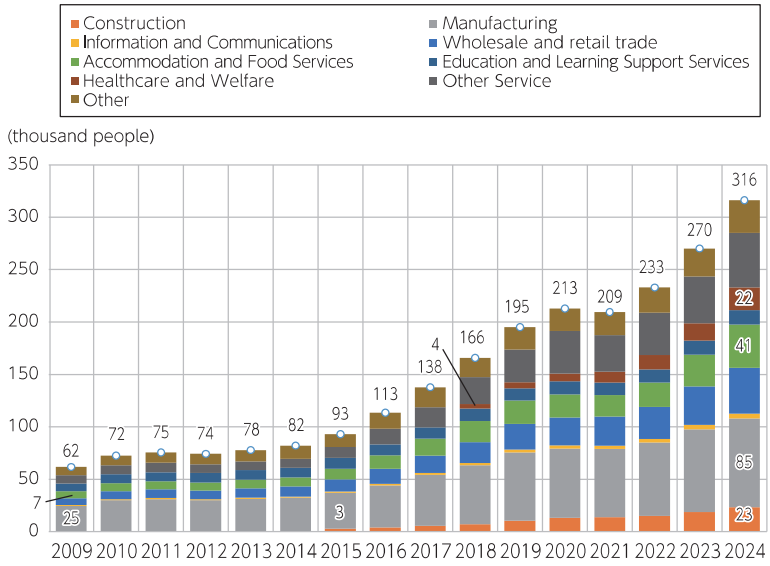

Figure 4-2-7 Change in the Number of Foreign Workers by Industry: 2009-2024: Kansai

Source: Ministry of Health, Labour and Welfare: "Status of Reports on 'Employment of Foreign Nationals'"

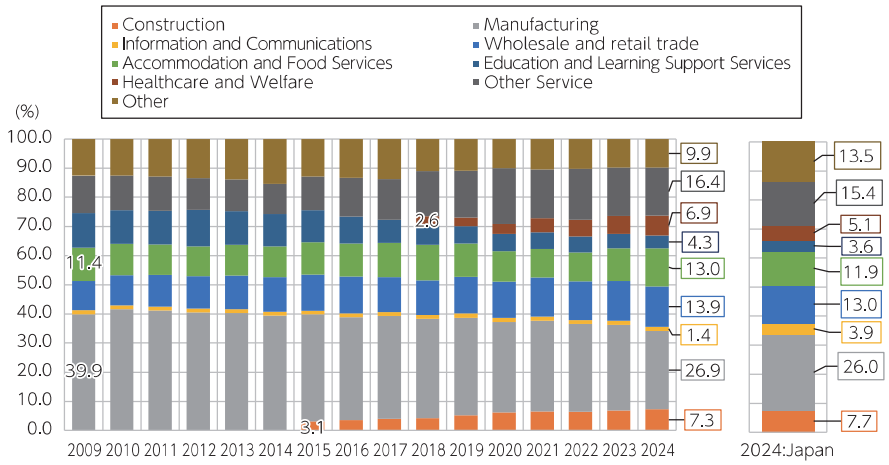

Figure 4-2-8 Changes in the Share of Foreign Workers by Industry: 2009-2024: Kansai

Source: Ministry of Health, Labour and Welfare: "Status of Reports on 'Employment of Foreign Nationals'"

Finally, we compare the 2024 industry shares in the Kansai region with the national figures. The industries where Kansai has a higher share than the national average are: "Healthcare and Welfare" (Kansai: 6.9%, Japan: 5.1%), "Accommodation, eating and drinking services" (Kansai: 13.0%, Japan: 11.9%), "Miscellaneous Services" (Kansai: 16.4%, Japan: 15.4%), "Wholesale and Retail Trade" (Kansai: 13.9%, Japan: 13.0%), 'Manufacturing' (Kansai: 26.9%, Japan: 26.0%), and "Education and Learning Support Services" (Kansai: 4.3%, Japan: 3.6%). On the other hand, the industries with a lower share in Kansai compared to the national average are "Information and Communications" (Kansai: 1.4%, Japan: 3.9%) and "Construction" (Kansai: 7.3%, Japan: 7.7%).

2. Future Projections for Foreign Workers in Kansai

Section1.1 examined the current status and characteristics of foreign workers in the Kansai region. In recent years, the net inflow of foreigners has partially supported Japan's declining population. Furthermore, foreign workers have contributed to alleviating labor shortages in industries facing supply constraints. Section 2.2 will project future foreign worker numbers in the Kansai region based on data from NIPSSR's "Future Population Projections" and the Ministry of Health, Labour and Welfare's "Reported Status of Foreign Worker Employment Conditions." It will examine the extent to which the labor supply-demand gap identified in Section 1 can be reduced. The procedure for estimating the number of foreign workers is shown in Figure 4-2-9.

1) Obtain future population estimates for foreign nationals nationwide
2) Estimate the future foreign population in Kansai by multiplying the future population estimates obtained in 1) by Kansai's total population share relative to the national total
3) Obtain the number of foreign workers as of 2020 from the Ministry of Health, Labour and Welfare's 'Reported Status of Foreign Worker Employment'. Divide this by the foreign population for the same year to calculate the foreign employment rate (62.8%)
4) Estimate the future number of foreign workers (supply side) by applying the employment rate calculated in 3) to the foreign population obtained in 2) (Base Case).

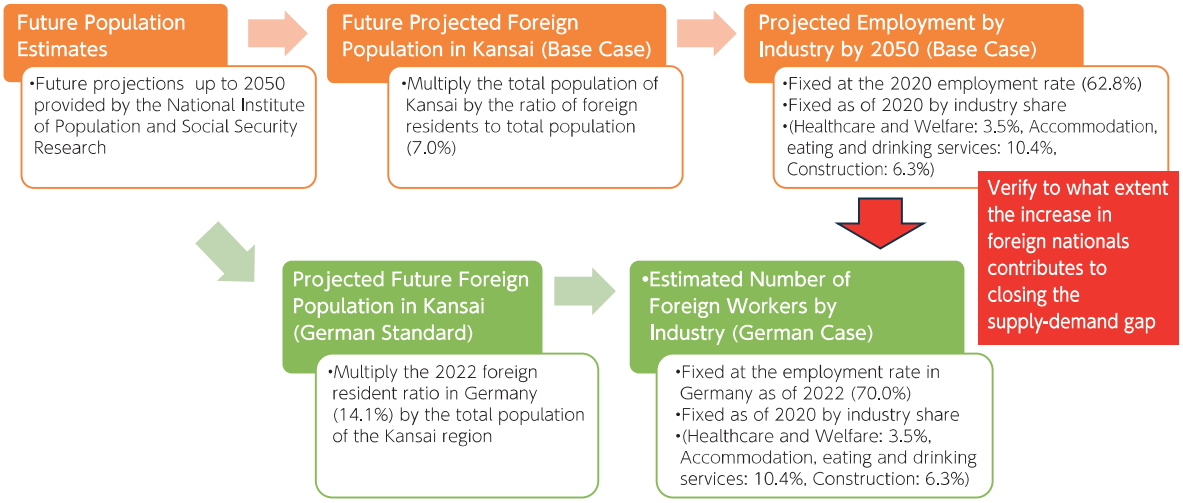

Figure 4-2-9 Estimated Flow Chart of Foreign Workers in Kansai

Source: Prepared by the authors

5) Additionally, estimate the future number of foreign workers with the foreign ratio raised to the German level compared to the Base Case (German Level Base). In this case, the foreign employment rate was estimated at 70.0% based on the German example.

Let us examine the gap between the number of employed persons (labor supply), including estimated foreign workers, and the number of employed persons (labor demand) required to maintain the growth rate observed in Section 1, separately for the "Construction Industry," "Accommodation, eating and drinking services," and "Healthcare and Welfare" sectors.

(1) Construction

The supply-demand gap in the construction industry between the required number of employed persons and the number of employed persons considering foreign labor (base case) is estimated to be 135,000 in 2030, 325,000 in 2040, and 547,000 in 2050. On the other hand, in a scenario where the foreign worker ratio is raised to German levels, the supply-demand gap is projected to be 116,000 in 2030, 284,000 in 2040, and 482,000 in 2050. Compared to the base case, this represents reductions of 19,000, 41,000, and 65,000 respectively (Figure 4-2-10).

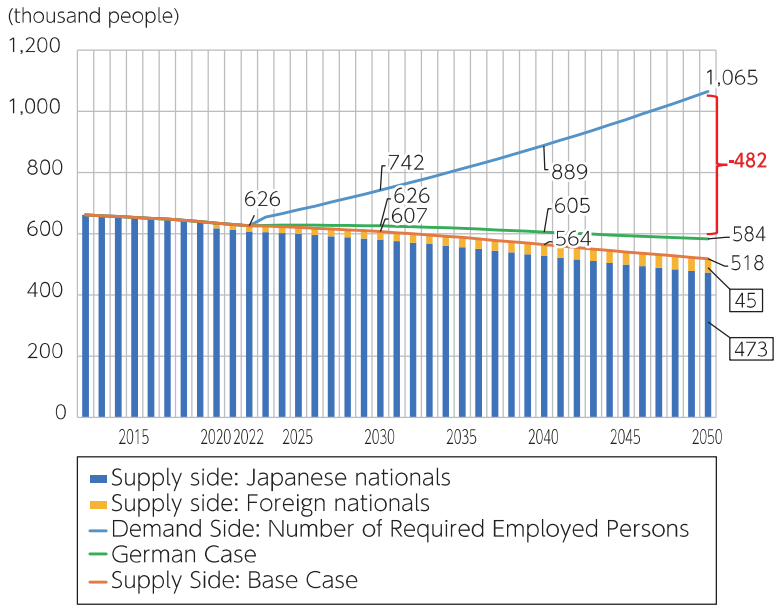

Figure 4-2-10 Future Projections of Foreign Workers by Industry: Kansai Region: "Construction"

Source: Statistics Bureau, Ministry of Internal Affairs and Communications "Employment Status Survey", Cabinet Office "Prefectural Accounts", Ministry of Health, Labour and Welfare "Status of Reports on 'Employment of Foreign Nationals'"

(2) Accommodation, eating and drinking services

Looking at the supply-demand gap for "Accommodation, eating and drinking services," this is estimated to be 333,000 in 2030, 925,000 in 2040, and 1,831,000 in 2050. On the other hand, in a scenario where the foreign worker ratio is raised to German levels, the supply-demand gap is projected to be 302,000 in 2030, 857,000 in 2040, and 1,722,000 in 2050. This represents reductions of 31,000, 68,000, and 109,000 respectively compared to the base case (Figure 4-2-11). However, unlike the aforementioned construction industry, even with active acceptance of foreign workers, a significant gap remains. To close this gap, it is considered necessary not only to accept foreign workers but also to enhance productivity by promoting digital transformation (DX).

(3) Healthcare and Welfare

The supply-demand gap in "Healthcare and Welfare" is projected to be 410,000 in 2030, 1,081,000 in 2040, and 1,921,000 in 2050. On the other hand, in a scenario where the foreign worker ratio is raised to German levels, the supply-demand gap is projected to be 401,000 in 2030, 1,058,000 in 2040, and 1,891,000 in 2050. This represents reductions of 10,000, 23,000, and 37,000 respectively compared to the base case (Figure 4-2-12). Similar to the "Accommodation, eating and drinking services," even with the active acceptance of foreign workers, a significant gap would still remain.

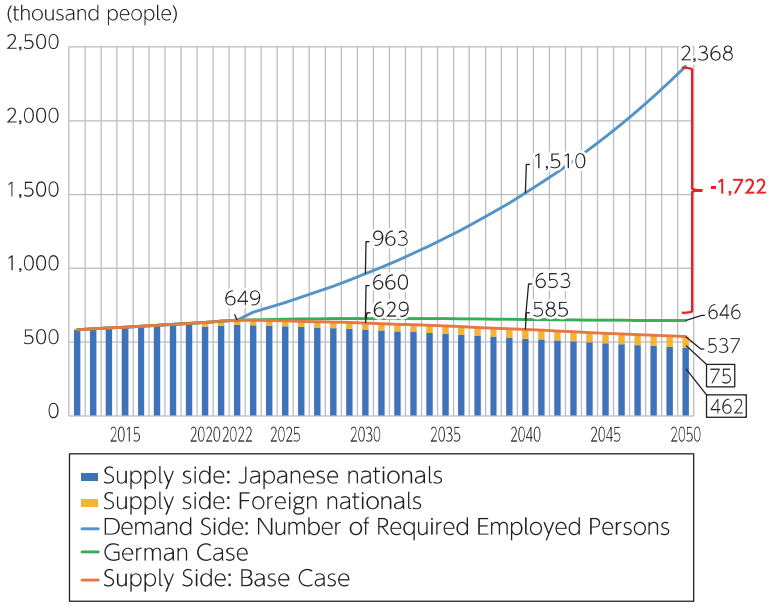

Figure 4-2-11 Future Projections of Foreign Workers by Industry: Kansai Region: "Accommodation, eating and drinking services"

Source: Statistics Bureau, Ministry of Internal Affairs and Communications "Employment Status Survey", Cabinet Office "Prefectural Accounts", Ministry of Health, Labour and Welfare "Status of Reports on 'Employment of Foreign Nationals'"

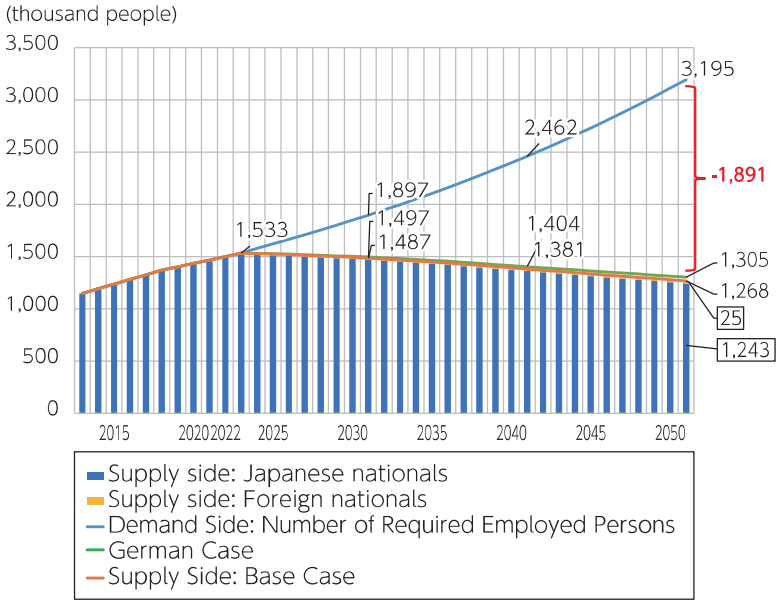

Figure 4-2-12 Future Projections of Foreign Workers by Industry: Kansai Region: "Healthcare and Welfare"

Source: Statistics Bureau, Ministry of Internal Affairs and Communications "Employment Status Survey", Cabinet Office "Prefectural Accounts", Ministry of Health, Labour and Welfare "Status of Reports on 'Employment of Foreign Nationals'"

3. Productivity Improvements Needed to Bridge the Supply-Demand Gap

Section 2.2 examined the extent to which accepting foreign workers narrows the supply-demand gap. Section 2.3 analyzes the extent to which accepting foreign workers increases productivity per worker. Note that the procedure for calculating per capita GRP by industry is shown in Figure 4-2-13.

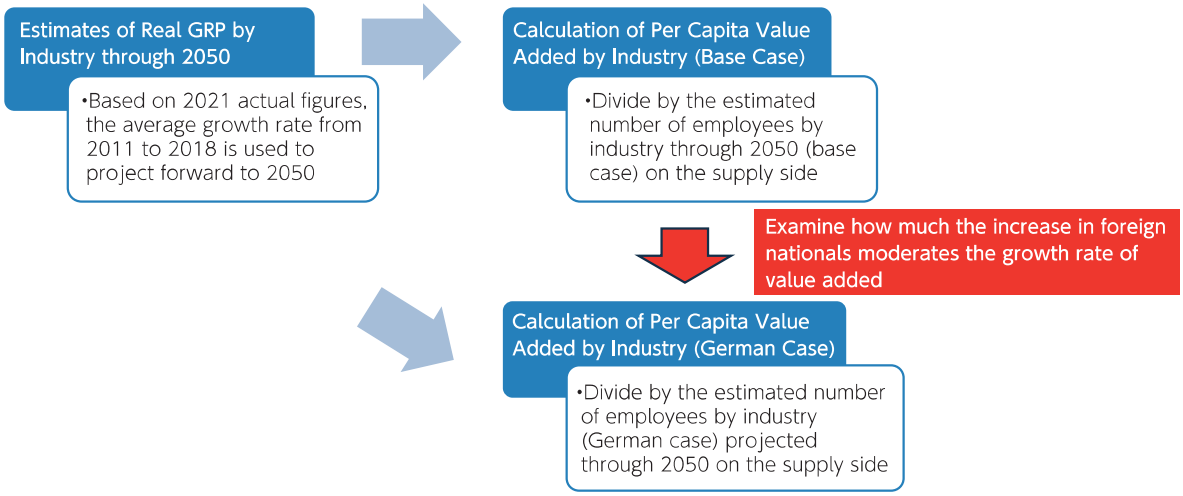

Figure 4-2-13 Flowchart for Estimating Per Capita GRP in Kansai

Source: Prepared by the authors

1) Divide the industry-specific real GRP estimated on the demand side through 2050 by the number of employed persons estimated in the base case.
2) Divide the industry-specific real GRP estimated on the demand side through 2050 by the number of employed persons estimated in the German level case.
3) Compare 1) and 2) to determine the extent to which the average annual growth rate of GRP per capita is moderated.

Figure 4-2-14 shows the change in productivity per capita (GRP/employed person), calculated by dividing the extended estimate of real GRP (based on the average growth rates for each industry shown in Section 1) by the estimated number of employed persons (base case)[8].

To achieve the 2050 target values, the following average annual growth rates will be required starting in 2022: 2.5% for "Construction," 3.3% for "Healthcare and Welfare," and 5.3% for "Accommodation, eating and drinking services" (see Table 4-2-4 below). Without further promoting automation and ICT utilization across these industries, achieving these targets will be challenging. Below, we examine how much productivity improvement would be required to achieve the 2050 targets if foreign workers were accepted at levels comparable to Germany.

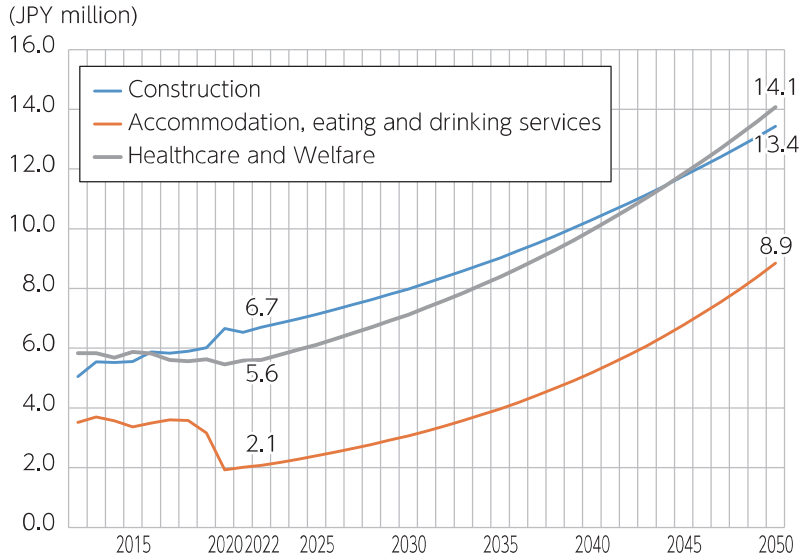

Figure 4-2-14 Per-Person Productivity Improvement Target: Kansai: Base Case

Source: Statistics Bureau, Ministry of Internal Affairs and Communications "Employment Status Survey", Cabinet Office "Prefectural Accounts"

8) Here, productivity refers to GRP per capita.

Figure 4-2-15 shows the change in productivity per employed person, calculated by dividing the real GRP of each industry by the estimated number of employed persons in the German-level case. Compared to the base case (Figure 4-2-14), the required productivity decreases by 1.51 million yen (-11.2%) for "Construction," 1.49 million yen (-16.8%) for "Accommodation, eating and drinking services," and 390,000 yen (-2.8%) for "Healthcare and Welfare." Furthermore, the average annual growth rates are 2.1% for "Construction," 4.6% for "Accommodation, eating and drinking services," and 3.2% for "Healthcare and Welfare" (Table 4-2-4). The "Construction Industry" has the potential to achieve its 2050 target if it can sustainably improve productivity. However, even with the active acceptance of foreign workers, the scope for productivity improvement in "Accommodation, eating and drinking

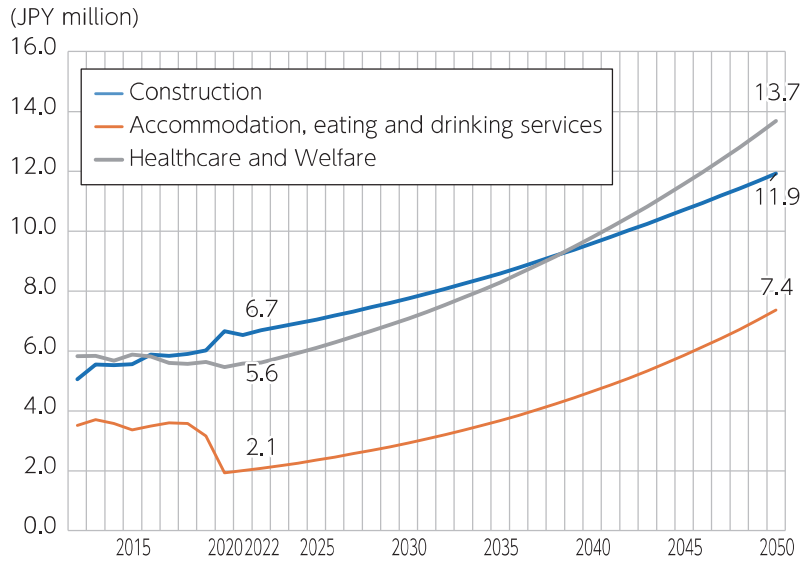

Figure 4-2-15 Per-Person Productivity Improvement Target: Kansai: Garman Case

Source: Statistics Bureau, Ministry of Internal Affairs and Communications "Employment Status Survey", Cabinet Office "Prefectural Accounts"

Table 4-2-4 Comparison of Annual Average Growth Rates for Each Scenario: 2030–2050

(%)

	2023-2050 German case	2023-2050 Base case	2012-2022 Annual growth rate
Construction	2.1	2.5	2.9
Accommodation, eating and drinking services	4.6	5.3	0.3
Healthcare and Welfare	3.2	3.3	-0.5

Source: Statistics Bureau, Ministry of Internal Affairs and Communications "Employment Status Survey", Cabinet Office "Prefectural Accounts", National Institute of Population and Social Security Research "Future Population Estimates"

services" and "Healthcare and Welfare" remains limited, and achieving their target values remains challenging.

Even if the ratio of foreign workers were increased to German levels, productivity would improve to a certain extent, but it would not be sufficient to eliminate the supply-demand gap. The challenge lies in how to enhance productivity while accepting foreign workers, and promoting DX is crucial for achieving this.

Conclusion

Section 2 estimated the extent of the labor supply-demand gap in the Kansai region using basic statistics, focusing on the "Construction," "Accommodation, eating and drinking services," and "Healthcare and Welfare" sectors. The results show that for all three sectors, labor supply will fail to keep pace with the labor demand required to maintain average growth rates through 2050, creating significant gaps. As population decline intensifies supply constraints, how to meet the labor demand necessary for growth in each industry is an urgent challenge. To address this, it is essential to seriously consider the extent to which foreign workers should be accepted going forward. However, as shown in Section 2, even if Japan were to actively accept foreign workers at the same level as Germany, it would only marginally reduce the labor supply gap in each industry. Therefore, it is necessary not only to accept foreign workers but also to improve productivity per worker by promoting DX.