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GR JAPAN INDUSTRY INSIGHT

CLOSE UP: TRANSPORTATION

Ridesharing finally arrives in Japan – with a twist

Key Takeaways

Main factors behind the push to allow ridesharing in Japan	• Ageing and fewer drivers has led to shortage of supply • Strong rebound in "inbound" tourism • Inadequate transportation services in rural Japan limiting mobility
Arguments from opposing forces	• Safety (traffic and passengers) • Labour issues: employment status of drivers • Preserving the world-class quality of the Japanese taxi industry

Japan's transportation challenges: Ridesharing as a solution?

Ridesharing, where private vehicles driven by regular people transport passengers for a fee, has long been banned in Japan, except under special circumstances allowed by the Road Transportation Act. The Japanese taxi industry, renowned for its safety and quality, has effectively used its political clout to keep ride-hailing giants like Uber at bay. Note that the distinction between the two terms ridesharing and ride-hailing is unclear in Japan, where every similar service is referred to as "ridesharing" in the public discourse.

Regulatory changes in Japan are often spurred by crises. The taxi industry has been going through an upheaval due to the ageing and shrinking workforce. Its problems and challenges were not obvious during the Covid pandemic, where the movement of the public was curbed and the country was basically sealed off to foreign visitors, except for the visible fact that most taxi drivers are elderly men. Today, the median age of taxi drivers is over 60 and driver numbers have fallen dramatically from 376,399 in 2009 to 231,938 in 2023, marking an almost 40% decline. One important factor behind this trend is that in a highly educated yet shrinking society like Japan becoming a taxi driver is no longer an attractive profession.

Japan's reopening to tourists has led to a surge in visitors, with a record of over 3 million foreign tourists arriving in March 2024. This influx has highlighted the urgent need for more transportation options, especially in popular tourist spots and rural areas where public transport is limited.

Starting on 1 April, Japan introduced a new form of ridesharing, dubbed "Japan-style ridesharing", which allows private drivers

to be hailed via popular apps like Uber or Didi, but only during times and in areas identified by the Ministry of Land, Infrastructure, Transport and Tourism (MLIT) as having a taxi shortage.

Drivers must apply through taxi companies and undergo training. Moreover, drivers must be employed by taxi companies, which is the opposite of the global model, where drivers are independent contractors, further limiting the scope of the newly introduced service, which is restricted to the supervising taxi companies' areas. This has led many to view the Japan-style ridesharing as a victory for the taxi industry over Transport Network Companies (TNCs), including Uber.

Currently, ridesharing is permitted in cities like Tokyo, Yokohama, and Kyoto, with over 12,000 rides reported in the first month since being launched. Industry stakeholders, however, are pushing for further deregulation to allow unrestricted ridesharing services, enabling passengers to choose freely between taxis and ridesharing services.

A new legislation was expected by the end of 2024, but politicians and the government have conflicting views over the timing. Some political stakeholders, including the ruling Liberal Democratic Party (LDP) heavyweights, are calling for a complete deregulation, while the MLIT minister responsible for traffic and transportation regulations has taken a more cautious stance, proposing a study on how ridesharing works under the present framework and not setting any deadline for a new draft legislation.

Circumstances pushing for a wider and more inclusive regulatory framework, most importantly the shortage of drivers, will only become more severe with time, making a strong case for a new law. This will provide an opportunity for advocacy to shape future regulations.

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