

What Must Be Done to Maintain a Population of 100 Million in Japan? (Nov. 7, 2023)

By the Working Group for Japan's Population Challenges

1. The Current State & Challenges of Our Country's Declining Population

(1) Current situation

The decline of birth rates and the aging of the population in Japan have been particularly prominent compared to that of other countries. This has resulted in projections of a drastic population decrease in the years to come. As of 2022, Japan's population was 124.95 million, according to projections by the National Institute of Population and Social Security Research and the Ministry of Internal Affairs and Communications. However, the population is forecast to drop to 105.1 million in 2055, fall below 100 million in 2056, and further drop to 87 million by 2070. In 1970, the birth rate was over 2.1, but by 2022 it had fallen to 1.25. Not only did the actual birth rate decline, the number of children that people desire to have also dropped from 1.83 in 2010 to 1.55 in 2020. In tandem with the overall population decline, the working-age population (15-64 years old), which is currently around 75 million, is expected to fall below 50 million in the early 2050s. Similar declines are projected in the working-age population and labor force participation rate (Chart 1).

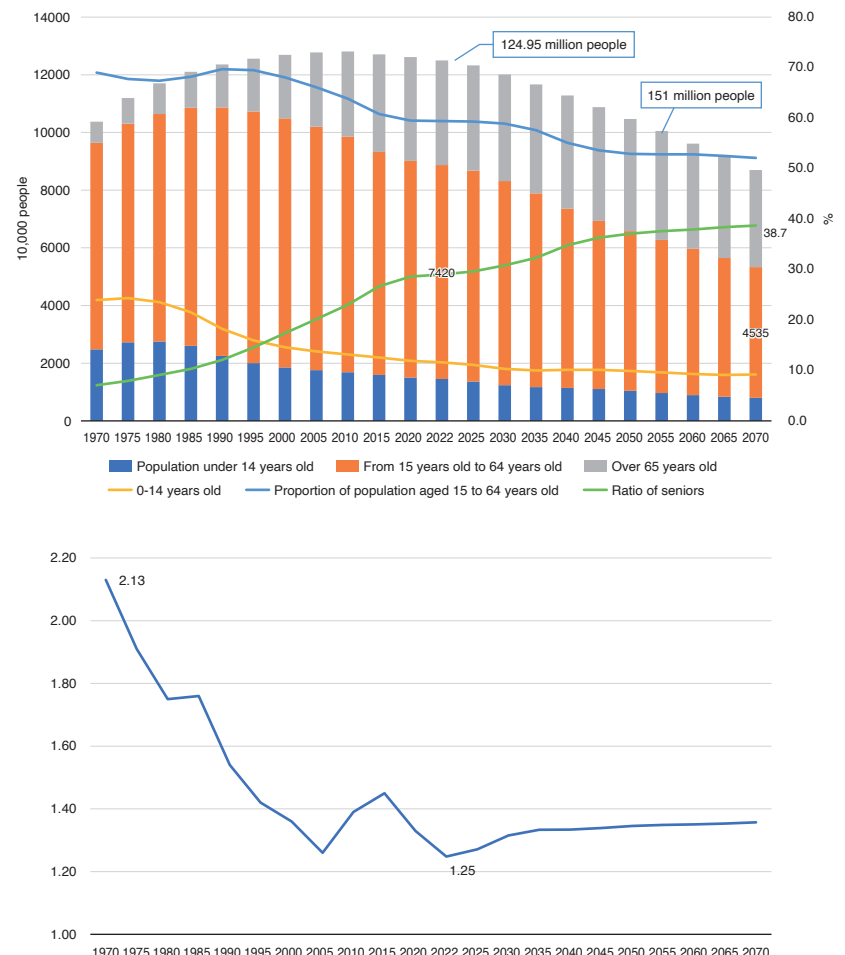
The underlying context is that a significant portion of the population choose not to get married. The 2022 edition of the Gender Equality White Paper by the Cabinet Office indicates that 40% of men and 50% of women opt out of marriage because they want freedom and independence. At the same time, there are worsening economic and employment landscapes symbolized by economic uncertainty and stagnant wages. Yet, despite these economic pressures, educational costs, including expenses beyond school tuition (such as cram schools on top of regular school fees), continue to rise. In addition, the rigid work culture places a premium on the number of

hours spent in the workplace. This presents an obstacle for balancing work and childrearing responsibilities.

With the restriction on time and income, an increasing number of households want children but either cannot have them or have fewer than they want. Japan is a notable case study in this dynamic. Many young people migrate to major metropolitan areas like Tokyo. They leave behind a rural economy that struggles in the wake of urban

CHART 1

Japan's population trend, total fertility rate



Source: Created by research group members using statistics from the National Institute of Population and Social Security Research, Ministry of Internal Affairs and Communications, and United Nations

concentration and economic stagnation. The resulting decline in rural vitality has become a major issue. This manifests itself as a crisis in the form of severe strains on local finances.

Furthermore, Japanese society as a whole lacks the collective spirit of nurturing and watching over children. It is essential for the nation to cultivate such a consciousness on the national level.

(2) Challenge

The biggest adverse impact of the population decline lies in the stunting of economic development due to the shrinking labor force. That, in turn, leads to a loss of vitality in society, deteriorating social security foundations, and other issues. Additionally, the reduction of domestic consumption will manifest as a shrinking domestic market.

This trend is likely to negatively affect corporate capital investments. Although it may seem desirable to relocate business operations overseas, there are limits given the current rise in geopolitical risks.

Japan is also a global frontrunner in aging. According to UN projections, the proportion of the population aged 65 and above will be around 38% in 2065, placing Japan second after South Korea (*Chart 1*).

a) Decline in national power and economic strength

Supply side economic growth is driven by three forces: capital, labor, and technological progress. A useful method to analyze these factors is “growth accounting”, which reveals how much technology (total factor productivity), capital, and labor each contributes to economic growth. It is clear that with a reduced workforce due to an aging society and population decline, supply-side growth will be negatively impacted.

Opinions differ on how population decline will affect aggregate demand, and there is no clear-cut answer. However, surveys show the elderly tend to spend less than working-age families, possibly leading to a drop in overall demand for goods. This decrease in consumption could signify a contraction in domestic demand for producers, which in turn could dampen demand for capital investments by companies. Corporations then would have reduced financial leeway to innovate technologically, potentially leading to a negative impact on total factor productivity.

On the flip side, an aging demographic might actually fuel demand in sectors like health care, nursing care, and medical services. Moreover, a surge in investments from businesses has the potential to drive technological advancements. This could be spurred by a growing global interest in Japanese products, a rise in tourism, and more women entering the job market, all of which could offset the dip in consumer spending typically associated with an older population.

As more seniors remain active, there could be a growing demand for robots that assist them at work. This need may spur the development of new technologies and escalate investments aimed at supporting older workers, fueling economic expansion. If Japan can thrive in the senior care technology and export their expertise to other rapidly aging countries, it might mitigate any decline in Japan’s national power.

b) Increased fiscal burden

Increases in fiscal expenditures, such as growing social security costs that arise from an older population, will pose significant challenges (*Chart 2*). If technological innovation fails to progress and international competitiveness remains low, the current account balance will fall into the red from a decline in earning power. Coupled with fiscal deficits arising from an increased financial burden, this could result in twin deficits, potentially reducing the creditworthiness of Japanese government bonds. This, in turn, could trigger a plunge in bond prices, and national bankruptcy could become an imminent reality.

Some research also suggests that aging affects the efficacy of fiscal and monetary policies. In the DSGE model where two groups of working and elderly people coexist, it is pointed out that as the proportion of the elderly increases, the effectiveness of monetary and fiscal policy decreases (Naoyuki Yoshino and Hiroaki Miyamoto, “Declined Effectiveness of Fiscal and Monetary Policies Faced with Aging Population in Japan”, *Japan and the World Economy*, Vol. 42, 2017). The intuitive reasoning is explained as follows:

In the realm of monetary policy, reducing interest rates typically encourages corporate investment, which in turn can boost company revenues. This often leads to higher wages for employees, who then have more to spend, further propelling consumption and aiding economic recovery. However, in an aging society where retirees do not directly benefit from wage increases, the stimulative impact of low interest rates may be diminished.

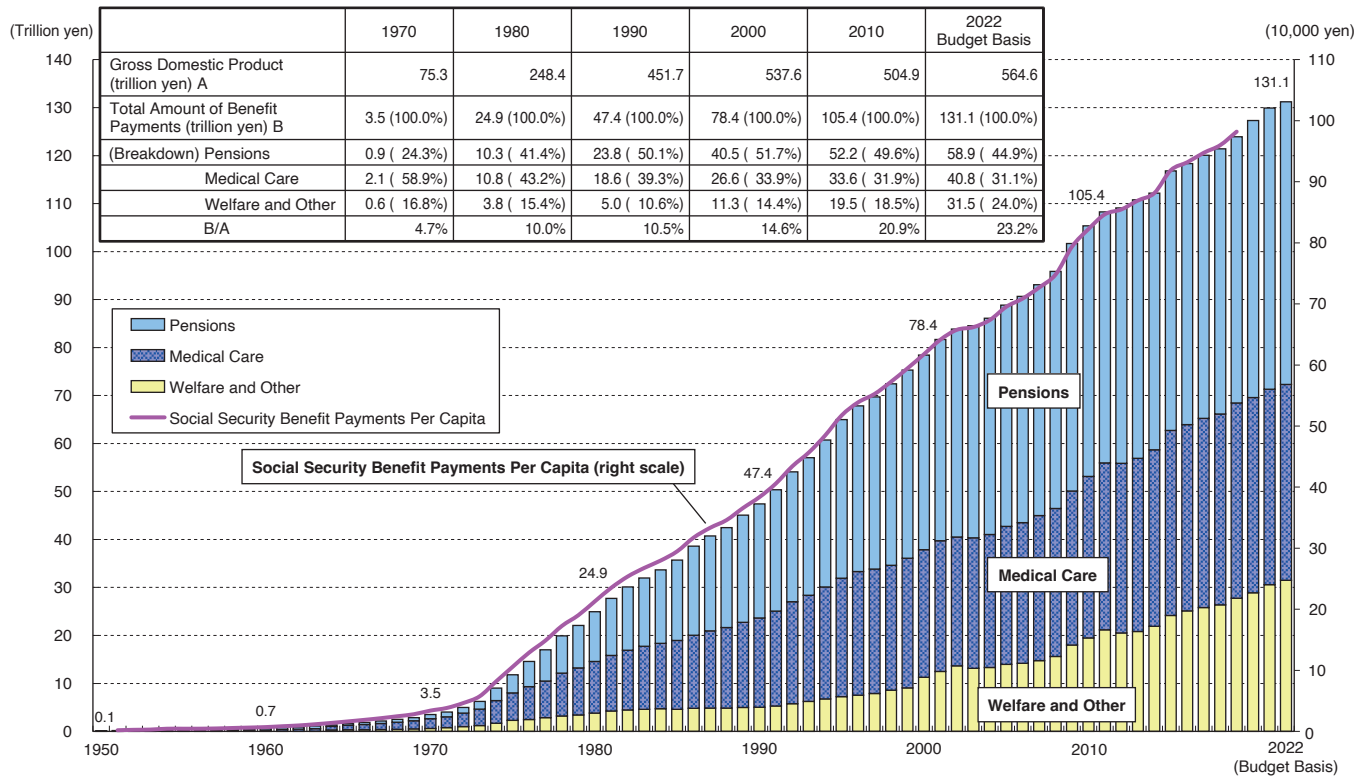
Fiscal policy is also less effective in an aging society. Keynesian fiscal policy argues that increased income through the promotion of employment leads to a recovery in total consumption, which, through the multiplier effect, leads to economic recovery.

However, as the number of retirees increases, fewer people will be looking for new employment opportunities, thus reducing the policy’s effectiveness (Hiroaki Miyamoto and Naoyuki Yoshino, “Effectiveness of Fiscal Policy in Aging Economies”, *Policy Research Institute, Ministry of Finance, Japan Public Policy Review*, Vol. 17, 2021).

In summary, the prospect of sustaining economic growth in the face of an aging and declining population hinges on technological innovation that nurtures emerging senior-focused markets.

CHART 2

Trends in social security benefit payments



Note: The numerical values in the figure represent social security benefit payments (trillion yen) for the fiscal years 1950, 1960, 1970, 1980, 1990, 2000 and 2010 as well as FY2022 (budget basis).

Source: Ministry of Health, Labor and Welfare estimates for FY2020 – FY2022 social security benefit payments (budget basis) based on the “FY2019 Social Security Cost Statistics” from the National Institute of Population and Social Security Research; FY2022 GDP is according to the “Economic Outlook and Basic Stance for Economic and Fiscal Management for FY2022” (Cabinet Decision on Jan. 17, 2022)

Additionally, it relies on establishing social systems and norms that encourage the ongoing engagement of seniors in society and promote an “active life expectancy”.

c) Security implications

Japan is experiencing a population decline driven by fewer births and an aging population. The consequent decrease in GDP can alter power dynamics in international politics and affect national security. Countries with smaller economic power and fewer resources need to boost their diplomatic efforts to secure their influence and impact on international discourse and security. In particular, they must strengthen their alliances to enhance their deterrence capabilities. To offset the shrinking pool of young men who traditionally underpin military strength, it is vital to invest in new military technology.

Japan had historically leveraged its technological and economic advantages to attract top international students from across Asia and

beyond. Many of these students attained prominent positions once they returned to their respective countries. Their strong educational ties to Japan enhanced economic and diplomatic relationships with their countries. However, with the waning of Japan’s national power, international students are choosing other destinations, such as Europe, the United States, and China. Regrettably, this trend erodes the strength of Japan’s foreign policy. The weaker yen has also diminished Japan’s status as a “high-wage” country, which results in a smaller number of aspiring nurses immigrating from other parts of Asia. Japan’s image as a hub for talented professionals from Asia is undergoing major changes.

We must mitigate Japan’s national security risks in Asia that arise from a population decline and shrinking economy. The following are some considerations we must bear in mind.

In 2005, Japan became the first “super-aged society” with over 20.2% of the population aged over 65. More than 20% of the

population are now classified as seniors. South Korea and Taiwan are not too far behind, with China and Russia close on their heels. By 2035, these nations are projected to have average ages ranging from the mid-40s to mid-50s. In contrast, countries like India, Indonesia, the Philippines, Vietnam, and Malaysia anticipate a growing youth population with average ages expected to remain below 40.

This shift in demographics could mean a reduction in Japan's Self-Defense Forces. They may well face serious problems in recruiting personnel. However, Japan's defense spending is actually increasing. The administration of Prime Minister Fumio Kishida aims to raise it to 2% of GDP by 2027. Japan's fiscal deficit is already the largest among developed countries created by an imbalance between the tax burden on citizens and government expenditure. Increased defense spending could exacerbate this trend.

In the context of Asian regional security, Japan faces not only longstanding threats but also newer ones. These include cyber-attacks, space security, pandemics, and climate change. China's growing military assertiveness and potential conflicts over Taiwan are issues as well. There are also territorial disputes in the East and South China Seas, North Korea's nuclear ambitions, the divided Korean Peninsula, damage from piracy, and the proliferation of weapons. These diverse threats mean that we must closely examine how demographic challenges may influence the strategic perceptions and reactions of the countries involved.

For cyber countermeasures, we must also address how Article 21, Section 2 of Japan's Constitution severely limits intelligence gathering and reconnaissance. This constrains information sharing between Japan and the US. Among developed nations, the US stands out in its resilience to the impact of population decline. It will no doubt remain a central player in the regional security policies of its Asian allies.

Furthermore, when evaluating security frameworks, it is increasingly important to factor in shifting population trends in regions like Africa. As there are changes in the economic scale of the US and China, it is critical to take into account the international situation in regions outside of Asia.

2. Policy Direction & Measures to Sustain a Population of 100 Million

The combined forces of a falling birth rate and an aging population are expected to have a severe negative impact on economic vitality. A contraction of the domestic market is likely, and as a result, consumption and investment may stagnate. This could then diminish international competitiveness, potentially leading to a current account deficit.

Concurrently, in an era of meager economic growth, the fiscal

burden heightened by an aging population may lead to chronic fiscal deficits. Such circumstances could precipitate a situation known as "twin deficits". Prices of government bonds plummet and trigger the flight of capital, which then endangers fiscal management. In the face of such a crisis, sustaining the social security system will pose an increasing challenge. As the population continues to age, ensuring equitable distribution will become increasingly complicated. Moreover, there will be significant difficulties in averting the downturn of local economies.

Within the international arena, this shrinking of economic scale will result in diminished clout. In the current climate of escalating geopolitical challenges, such a contraction poses significant security risks.

Some take the view that as long as per capita GDP does not decrease, it will feel as if the economy is prospering. But the fact of the matter is that as the work force shrinks, the working-age population will bear an increasingly heavier social security burden for their elders. This brings to surface the inequality between generations. Therefore, per capita GDP divided across the total population is no longer a significant way to gauge the nation's prosperity.

When you take these factors into consideration, the national goal that the Cabinet of late Prime Minister Shinzo Abe put forth in June 2014 seems appropriate. His administration formulated a basic policy (also known as the "Grand Design") for economic and fiscal management reform. Projecting 50 years into the future, the aim was to sustain a population of approximately 100 million people in the 2060s. To achieve this goal, this policy needs to be carried out across different areas.

(1) Policies to increase birth rate

It is not enough to simply implement economic strategies to boost the birth rate. It requires cultivation of a national mindset that recognizes children as treasures of society. The government should strive to foster this perspective beyond merely providing family allowances. To address the root cause of low birth rates, the underlying economic structure that leads to static wages must be targeted. To enable the younger demographic to earn more, we must at least implement the policies enumerated below.

a) Review of Japanese employment practices and policies to increase labor market flexibility

The labor market should increase its flexibility so that individuals can work in a way that suits their lifestyle, while also increasing their productivity.

In a dynamic labor market where jobs, workers, and resources can

move more easily in response to market demands, workers are more likely to be matched with jobs that suit them well. That should increase individual productivity. Also, as the industrial structure changes, labor is redistributed smoothly. This leads to a vibrant and dynamic economy that fosters high labor productivity, resulting in higher wages.

At the same time, Japan should shift away from its traditional lifetime employment and seniority-based systems. We should instead adopt a system where employment is based on job roles coupled with objective performance evaluations, thereby enabling a performance-based pay structure. Currently, there is a significant wage gap between regular and non-regular employees, which is a key factor in Japan's low wages. To rectify this issue, Japan needs to enforce the principle of equal pay for equal work.

In concrete terms, this means overhauling the evaluation systems across the public and private sectors. This entails transitioning away from wages based on seniority rather than performance. It is crucial to abolish mandatory retirement. In point of fact, discrimination based on age is not allowed in the US. For example, it is not unusual to see academics actively contributing well into their 80s.

Furthermore, it is important to establish severance packages for employees who have been dismissed. We must also reevaluate the "income wall" which effectively reduces a family's yearly income if the housewife obtains part-time work. Under current law, a homemaker earning part-time income could increase the family tax burden because her wages are excluded from her husband's income tax deduction for spouses.

The government is currently considering a temporary system that will allow the homemaker to be covered under her husband's social insurance without having to pay for her own even if her annual part-time wages exceed 1.3 million yen. This is meant to be a provisional measure in place for about three years. More effective solutions are being considered. For example, the government might provide subsidies to companies that give their employees bonuses to increase their income or help with their insurance costs.

Developing personal skills is a vital task. It is important to support this by introducing tax incentives. A "self-development preferential tax system" would allow individuals to deduct some of their self-development expenses from their income taxes. This could replace the "Special Deductions for Learning and Relearning Expenses Provisions" that are currently in effect. Right now, the employer has to provide proof of such expenses. Under the new system, a certification from a career counselor would be enough to qualify for the tax deduction.

Skill development seminars can be very costly. It is essential to expand remote education opportunities not only for students but for working adults as well so that anyone can tap into the expertise of

Japan's top instructors at any time, from anywhere, 24 hours a day, throughout the year.

The current system and policies that disadvantage labor mobility must be phased out. These include the Retirement Allowance Preferential Tax System and Employment Adjustment Subsidies, which hinder labor mobility. The tax incentive for retirement allowances works to keep lifetime employment in place, while employment adjustment subsidies are meant to offset the costs companies have to bear when employees have to take time off or require training. Because of these subsidies, employees' wages often remain unchanged, which can lead to less motivation to work. At the same time, companies become more dependent on these subsidies.

Finally, to ensure equal pay for equal work, the Ministry of Health, Labor, and Welfare is expanding coverage for employees' pensions by making it easier for part-time and other short-time workers to qualify. These policies are vital for enhancing labor market flexibility.

b) Creating attractive employment opportunities in rural areas

The population is concentrated in major metropolitan areas. While rural regions face a larger decline in residents, their abundant tourist resources give them a great potential for growth. It is therefore crucial to create attractive employment opportunities, such as in the tourism industry. Innovative approaches to shore up the tourism sector are gaining attention. These include eco-tourism initiatives that blend agricultural experiences, tours of renewable energy industries, and educational programs to inform tourists about environmental issues. Focusing on these approaches and actualizing potential growth industries like tourism can help generate appealing job prospects and increase the rural population.

Before the Covid-19 pandemic, tourism was a major source of foreign income for Japan, second only to the automobile industry. (In 2019, tourist spending came in second only to car exports.) Looking to the future, international tourism is expected to rebound. It is vital to promote travel across Japan's diverse regions. The government is actively working to stimulate tourism in these areas by providing incentives for foreign tourists to spend two nights in more remote districts. Support is also being channeled into new infrastructure like hotels and transportation networks. The government will also back training programs for local tour guides and service staff, which include English language lessons. In addition, it is crucial to enhance productivity in service sectors beyond tourism, such as restaurants and hospitals. This effort should extend to constructing universities that appeal to young people, like Ritsumeikan Asia Pacific University in Oita Prefecture and Kochi University of Technology in Kochi Prefecture.

Creating enticing employment prospects in the countryside will

give youth the financial means to raise children. Life away from the urban rush will also give them more personal time. These factors should encourage young people, particularly those living in Tokyo, to migrate to rural regions, potentially leading to a rise in birth rates.

It has been noted that lower birth rates tend to correspond with higher population densities, where it is also typically more expensive to raise children. Thus, if more young adults choose to settle in less populated regions, it could lead to an increase in fertility rates.

The population decline in rural areas not only reduces resident tax revenues, but it could also trigger a drop in property tax revenue through falling land prices, which are affected by both the decreasing working age population and long-term diminished expectations. With social security costs expected to surge, alleviating the strain on local finances becomes crucial. It is therefore extremely important to create attractive employment opportunities in these regions.

As the trend of retiring to rural areas grows and remote work becomes more popular, it is likely that an increasing number of people will be living in two locations. This raises the possibility of a mismatch between where residents receive government services and where they pay taxes. It is therefore essential to develop a tax system that supports such a dual-region living arrangement to fortify local finances.

c) Enhancing remote learning and work

Expanding remote learning and integrating EdTech (Educational Technology, a system that uses technology to support education) more efficiently will provide people in rural communities, regardless of their income levels, access to top-tier knowledge and hone their skills. This is expected to boost productivity and, as a result, increase earnings. Teachers can then offer individual guidance in person only on sections that students find difficult to understand just from online lessons.

EdTech allows each student to learn at his or her own pace and level and creates personalized education accessible from anywhere, anytime, according to the individual's interests and proficiency. By harnessing EdTech, we can cut the cost of meeting various educational needs and ease the burden of on-site teachers.

For example, as pilot programs for proof of concept, we could initially consider programming, where there is a severe shortage of specialized teachers, and Japanese language lessons for children of foreign descent who experience considerable regional discrepancies in the accessibility and quality of language education. Yet another benefit is that introducing individualized instruction through remote learning and EdTech could prevent the downsizing of traditional educational institutes in rural areas.

Incidentally, to avert a feared escalation in educational inequalities in the era of widespread remote learning, it is critical to quickly tackle

the digital divide (information disparity) among educators. This situation came to light at the time of the Covid outbreak.

During this pandemic, touch screens were given to all children in Japan. This meant that no matter where in Japan the children lived, they had access to education that enhanced their motivation to learn through remote means. It is believed that when taught by the best instructors in their fields, the lessons are easier to understand, and students' comprehension increases accordingly. If students can access these videos on demand any time, there will be no need to attend cram schools. The hope is that this will eliminate the impact of income disparities on education.

If remote work, which expanded during the Covid-19 pandemic, becomes more entrenched, people will have more options for where to live, commuting times will be cut, leisure time expanded, and a greater variety of lifestyles possible. Single people will have more opportunities to meet others, and married people more time at home. These changes, it is hoped, will result in a higher birth rate. Long commuting times were one of the major barriers to employment and full-time work for working parents. Remote work could make better work-life balance possible. Relocating away from city centers can help individuals avoid soaring housing costs and encounter shorter waiting lists for childcare and afterschool services.

The pandemic made remote work possible for many jobs. In traditional Japanese work culture, there was a perception that being seen at the office was equivalent to being productive. But if we promote remote work and switch to a system that measures each individual's actual productivity rather than time put in at the office, people could move to rural areas. They could commute only a few times a month to their workplaces in the city. This cultural shift could act as the catalyst for enhancing the skills of the workforce in rural regions.

During the pandemic, it became apparent that, even doing remote work, women bore a larger share of domestic duties and child care. It is vital that we move away from the male approach to work centering around the number of hours spent. The focus should instead be on performance. Also critical is proper education to modernize outdated gender norms.

d) Policies for reducing educational disparities

Public schooling alone cannot ensure that students master basic academic skills. Currently, higher-income families spend three times as much on education compared to lower-earning ones, causing an educational disparity. To tackle this issue, one idea is to give families "education vouchers". These are coupons that can only be used for educational expenses. Another point Japan must recognize is that because its education has been too uniform, it has failed to unleash individual talent through innovative education. Every effort should be

made to shape creative thinkers who can tackle new technologies like generative AI.

As stated earlier, remote education allows students, no matter where in the country they live, to attend classes at no cost, and to listen to lectures taught by the top instructors. Students are also free to review any materials as many times as they want to clarify concepts they personally struggle with.

Touchscreen rollout during the pandemic enabled nationwide access for students. The advantage of remote education is that it provides access to websites for different subjects that any student can listen to any day of the year, regardless of income differences. Another benefit of remote education is that students can revisit challenging topics as often as needed.

e) Policies to change gender norms by correcting women's underrepresentation in politics

The scarcity of women in electoral races can lead to the neglect of concerns such as falling birth rates. Male politicians aren't typically faulted for overlooking issues like shrinking family sizes. However, there is an expectation for female politicians to have a stronger grasp on matters related to family demographics.

Women make up half of the population, yet they account for only about 15% of Japan's parliament members. It is crucial that we increase the percentage of women in politics. To do so, we can introduce quota systems and use proportional representation. At the same time, local politics should establish systems that encourage the recruiting of female candidates, thus removing psychological barriers to women becoming politicians. These should reform systems that keep birth rates stalled, and in particular change gender norms.

(2) Policies to increase the workforce

Innovations centered around digitization should enable greater labor productivity. This is critical for support of all willing workers, including women and the elderly, so that they can achieve their potential.

The fact is that some seniors feel pressured because the age at which they can draw a pension has been raised. Women, for their part, feel that they are forced to work while juggling the triple burden of child care, housework, and employment. To relieve such individuals from their pressures, allow them to fully realize their potential, and achieve fulfillment in work, the following measures should be expanded:

a) Policies to encourage the elderly to stay active for life

We should move towards eliminating mandatory retirement and seniority-based pay systems, shifting instead to a pay system based

on productivity. This would encourage older people to continue working as long as possible. Since Japan's pension payout duration exceeds that of other countries by an average of five to 10 years, raising the starting age could be considered. Incidentally, the US has been working to eliminate age-based employment discrimination. It is important to create workplaces that fully utilize the abilities of older workers. For instance, the tourism industry in Japan's regional cities has a high growth potential. They are expecting an increase in inbound tourism, where we hope that the experience and knowledge of retired managers from large corporations can be utilized.

b) Promoting women in the workforce

Changing the gender norms mentioned earlier will empower women to participate more fully in society. There must be new standards so that both men and women can balance work and child-rearing. The "income wall" previously discussed must be also reviewed in terms of promoting women's participation in the workforce.

The deep-rooted assumption in Japan is that the woman handles housework, childrearing, and caregiving. This societal expectation effectively limits job opportunities for women, who are unable to use their skills and abilities fully. Fundamental changes are crucial in this situation. In general, women who aim for managerial positions find the prospect of overseas transfer a significant obstacle to their corporate ambitions. While it's common practice for a wife to accompany her husband when he is transferred abroad, the reverse situation is not met with a similar understanding. Instead, the wife may be forced to resign or change jobs. Adopting more flexible work practices where both spouses continue to work, the family chooses a place to live together, and partners are able to adjust their workstyles, would make it easier for people to have and raise children. This could contribute to solving the issue of declining birth rates.

c) The active participation of foreign workers: introducing a points-based system

The active participation of more foreign workers can compensate for a shrinking population and lead to greater diversification of the workforce. This diversity is the key to making Japan more competitive in the era of globalization.

The direct investment in Japan (Invest Japan) policy that the Japanese government has been implementing up to now sought to bring in more skilled workers from abroad by making it easier for international companies to set up branches, factories, sales offices, and research and development centers in Japan. Moreover, boosting tourism was expected to raise Japan's profile, potentially leading to a surge in international business activities within the country.

This raised a question, would adding foreign workers offset the drop in population?

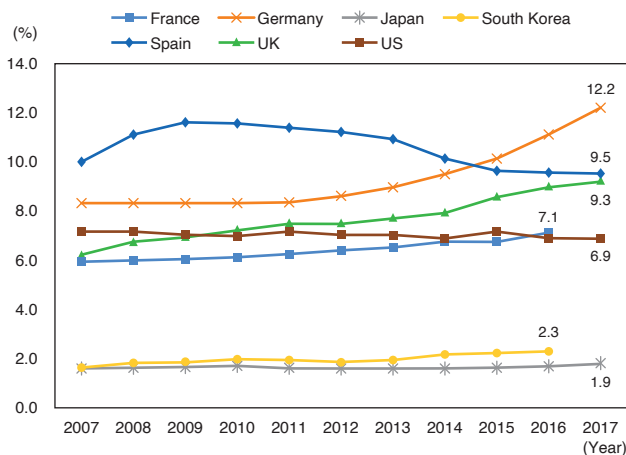
Foreign workers have a more significant presence now. Across all industries, the number of workers from other countries rose from 1.17% in 2010 to 3% in 2020. The National Institute of Population and Social Security Research forecasts that by 2070, foreigners will make up 10.8%, or 8.8 million, of Japan's total population. (The estimated average is based on the net number of foreign workers entering Japan from 2016 to 2019, with the assumption that this trend will continue. Because of the impact of Covid-19, the year 2020 was excluded from the calculation.) This figure is relatively high in comparison to Germany's data. According to Eurostat, from 2014 to 2019, Germany's foreign-born residents comprised 16.2% of the population, the largest share in Europe. It is important therefore to have a system that accepts foreign workers and helps them integrate (Chart 3 & Table 1).

Some problems have been associated with the existing Technical Intern Training Program, which was created so that "foreign technical intern trainees in Japan could enter into an employment

CHART 3

Ratio of resident foreigners to total population in major countries

Refer to JETRO HP General Overview: "The Reality and Significance of Accepting Foreign Talent as Seen Through Data, March 2, 2019".



Note: No data for the year 2017 for France and South Korea.
Source: Created from (OECD) "International Migration Outlook 2018"

TABLE 1

Foreign population stock

Refer to the website of the Independent Administrative Institution of Labor Policies Research and Training Organization. Data Book: International Labor Comparison 2022 (PDF) 2 Population Labor Force Population P. 089 Tables 2-14 Foreign Population (Stock)

	2005	2010	2015	2016	2017	2018	2019	2020
Per 1,000, % (lower row, ratio to population)								
Japan	1,974	2,185	2,122	2,232	2,383	2,562	2,731	2,933
	1.6	1.7	1.7	1.7	1.9	2.0	2.2	—
US	19,858	21,641	22,263	22,426	22,415	—	22,519	—
	6.7	7.0	6.9	7.0	—	—	—	—
Canada	—	—	—	2,405	—	—	—	—
	—	—	—	6.6	—	—	—	—
UK	2,857	4,524	5,592	5,951	6,137	5,991	6,227	—
	4.7	7.2	8.6	9.0	9.3	9.0	—	—
Germany	6,717	6,695	8,153	9,108	10,039	10,624	10,915	11,228
	8.3	8.3	10.1	11.1	12.2	12.9	13.1	—
France	—	3,821	4,335	4,542	4,704	4,617	4,763	—
	—	6.1	6.7	6.8	7.0	7.1	7.3	—
Italy	2,402	3,648	5,014	5,027	5,047	5,144	4,996	5,040
	4.1	6.1	8.4	8.5	8.5	8.7	8.7	—
The Netherlands	699	735	847	901	972	1,041	1,111	1,192
	4.3	4.4	5.0	5.3	5.7	6.1	6.5	—
Sweden	481	603	739	783	852	897	932	941
	5.3	6.4	7.6	8.0	8.6	9.0	9.3	—
South Korea	491	921	1,092	1,143	1,162	1,172	1,951	2,025
	1.1	2.0	2.3	2.3	2.3	2.3	2.4	—

Note: Persons with foreign nationality. Precise definitions vary by country (see OECD database for details).
Source: OECD International Migration Database (<http://stats.oecd.org/>) (as of February 2022)

relationship with their trainers for the purpose of acquiring, utilizing, and mastering skills and knowledge that are difficult to obtain in their home countries.” But the unintended consequence was that the program was at times used to fill jobs with low-waged foreign labor, as well as create a dependency on that labor. It has also been linked with human rights abuses and missing trainees. Therefore, the decision was made to transition to a system focused on securing and developing human resources. Under the new system, workers will be allowed to transfer to a different employer, where before they were, in principle, forbidden to do so. More jobs from different industries would also be added to the program. The new rules and regulations will be reviewed by the fall of 2023. We hope to have as flexible a system as possible.

More than ever, Japanese companies are searching for foreign experts with specialized skills and knowledge. A new system now allows foreigners with a master’s degree and an annual income of over 20 million yen to acquire the residence status of Highly Skilled Professionals (Type 2). They can acquire this after just one year of stay, with no renewal requirements. Thus, Japan is transitioning from a country that merely accepts “foreigners” to more actively and strategically attracting them. We need to push this agenda further.

It is important to consider adopting a “points-based system” similar to what the United Kingdom and other countries use. Because the UK system has only been introduced recently, we need to see how it unfolds. But it seems to be well-suited for giving priority to highly skilled foreign talent. Under the system, points would be assigned and calculated for skill level, Japanese proficiency, and possession of specialized knowledge. Workers with high scores are prioritized. We would like to make this our working group’s basic recommendation for promoting the introduction of foreign workers. Furthermore, we need to recognize that Japan’s employment environment and acceptance of workers’ families do not compare favorably to other OECD countries.

These are the reasons why Japan is a challenging place for skilled foreign professionals to settle: (1) career advancement is difficult; (2) Japan has certain unique employment practices, such as the mass hiring of new graduates; (3) integration and assimilation into the workplace is difficult; (4) schools are not multicultural; (5) there is no work-life balance; (6) salary level may be inadequate; (7) need for high proficiency in Japanese.

There is an urgent need to correct these issues and build an economic and social system that does not discriminate against foreigners.

To make settling into Japan easier for foreign nationals, it is important to create and promote policies that: (1) support the family (unite the family and educate children) (2) improve the work environment (ban discrimination, ensure transparency in career

development, and offer Japanese language lessons).

Whether the foreign talent is unskilled or highly skilled, it is important to build an adequate infrastructure for supporting them. First, the government should set up a central hub to oversee and facilitate the integration and coordination of data-related activities. This should involve the use of DX (digital transformation) for immigration and residency management tasks. For example, entry and exit procedures at immigration can be made digital, and residency application procedures can be streamlined through further digitization.

Furthermore, we must work towards mid-to-long-term social integration. To establish improved living conditions, we will: (1) use digital technology to provide multilingual support at government offices and hospitals, including implementation of measures to promote the spread of “Easy Japanese”; (2) set up systems for Japanese language schools and teachers; (3) streamline procedures related to children’s education and for caregiving, insurance, and pensions; (4) allow people who have lived in Japan for five years to be eligible for permanent residency; (5) accelerate initiatives of the accepting companies, such as performing due diligence (DD) with respect to human rights, ensuring that management respects diverse values.

For foreign workers, the first generation can continue to live in Japan based on their individual skills. But if we look at examples from Europe (such as France and Germany), considerable monetary investment will have to be spent in order to improve education for the second generation. When parents speak imperfect Japanese, it is harder for their children to learn kanji and Japanese grammar in their early years. And once they start elementary school, they have a hard time keeping up with the curriculum. To make it easier for foreign workers to integrate into society, we must continue to support their children’s education through public funding. In addition, we need to have community-based activities to make sure that foreign children are not bullied at school. The recent unrest in France and the Netherlands, along with the UK’s Brexit decision, underscores the complexities of assimilating foreign workers into the societal fabric. Stable, well-thought-out measures are essential for successful integration.

Of concern is the effect of yen depreciation. Foreign workers find that their income is reduced when converted to dollars. There are reports that the number of applicants from overseas, such as nurses, has drastically decreased. It has become necessary to consider measures to ensure that excellent talent from abroad continues to see Japan as an attractive choice for employment.

d) People-to-people exchange

We must continue welcoming international students and technical

interns. The goal is to allow these individuals to learn about Japan and acquire skills that they can take back to their home countries to support economic development. To achieve this, it is important to make sure that they have a fruitful stay in Japan. We need to implement policies that encourage as many people as possible in Asia and all around the world to entertain a favorable view of Japan.

(3) Minimizing Japan's security risk in Asia from population decline and economic contraction

To reduce the risk to Japan's security in Asia, two main strategies are considered.

a) Utilizing high technology

We may use unmanned systems, including robots and artificial intelligence (AI), to maintain military strength despite having fewer troops. Or we may place Self-Defense Forces personnel in more labor-saving positions. However, new types of responses are needed when bringing in such high-tech solutions. Technologies such as AI, cyber warfare, and swarms (groups of drones used in combat) are changing the nature of regional security measures.

Moreover, mastery of these new technologies will require new and longer periods of training. New personnel capable of designing, assembling, and using such complex technologies will be necessary.

As the population grows older and the demand for new types of weapons systems increases, countries that are already struggling to pay for their defense because of a decreasing population will have to consider taking on even more financial responsibility to come up with the money needed for these costs.

Moreover, when private companies become involved in developing new technologies with allies like the US, implementing thorough security clearances will be vital, considering the potential conversion of such technologies for military use.

b) New regional economic security cooperation

We must deepen relationships with nearby nations like South Korea and the Philippines. At the same time, we must fortify our bond with the aforementioned highly populated Asian countries, as well as reinforce mini-lateral cooperation, like the Quadrilateral Strategic Dialogue involving Japan, the US, Australia, and India. Populous countries like India and Indonesia are not threatened by shrinking demographics. Their military budgets have room to grow. Security partnerships with such nations are expected to play a bigger role.

(4) Population trends in Africa and other areas outside of Asia; changes in scale in the economies of the US and China

Looking ahead, it is vital to consider security with international

relationships outside of Asia in mind. For example, in the context of the Indo-Pacific initiative, which is a vital pillar of security in the Asia-Pacific region, it will become important to collaborate with the African region, where population growth is anticipated. Moreover, because of China's declining birth rates and aging population, it seems increasingly unlikely that China will overtake the US in economic size. Even if that were to somehow occur, the situation will probably reverse itself again. The US shares Japan's democratic values and is likely to remain a long-term security partner.

3. Policies that Should Be Referenced in Countermeasures for Declining Birth Rate & Aging Population in Other Countries

Although there are differences in degree, other developed countries, like Japan, face an aging society and are likely at risk of future population decline. We will refer to and introduce policies from these countries (*Table 2*).

(1) France

a) Policies regarding fertility rate

In 2020, France's fertility rate was 1.82, which is considerably higher than Japan's 1.35. The following five policies can be cited as reasons:

- 1) A stable, long-term birth promotion policy – family allowances (benefits) are linked to the cost of living, not GDP.
- 2) Tax policy rules (N-fraction N-power method)

First add up the total income of the family. Then divide it by the computed family coefficient (where adults count as one, the first two children as 0.5 each, and the third and subsequent children as one to get the total) to determine the tax amount per coefficient of 1. With this method of calculating the tax amount by applying a family coefficient, the more children in a family, the less tax they have to pay.

Numerical example: the husband earns 30,000 euros; the wife, 20,000 euros, for a combined family income of 50,000 euros.

For one child, the family coefficient is 2.5. When you divide 50,000 euros by 2.5, the result is 20,000 euros.

For three children, the family coefficient is 4 (1+1+0.5+0.5+1=4.) Dividing 50,000 euros by 4 gives you 12,500 euros.

Before adjusting for family coefficient, the tax rates are:

- 0% for income up to 11,000 euros
- 11% for income from 11,000 to 27,000 euros
- 30% for income from 27,000 to 79,000 euros

For one child, with a family coefficient of 2.5, income up to 27,500 euros (11,000 x 2.5 = 27,500) will be taxed at 0%. The remaining income of 50,000 – 27,500 = 22,500 euros will be taxed at 11%.

TABLE 2

Overview of policies from various countries addressing low birthrates & aging population that should be referenced

	Reforms regarding birth rate			Addressing the aging population	Foreign labor policies
	Childcare assistance	Education cost support	Housing policies		
France	Family allowance payments indexed to cost of living, N-power tax rules. Inclusive family policies supporting all types of families (children born out of wedlock, low income, single parent, etc.)	Free public education including university	Priority housing benefits for families with children	Prohibition of age discrimination	Policies such as birth promotion policies and other social policies are applied equally to foreign workers. The education provided to the children of foreign workers is more substantial than that for the general population. For the children of highly educated foreign talent in particular, there have been efforts to prioritize their admission to elite educational facilities. As a result, there has been some backlash from the general citizenry.
UK	Paid parental leave for both parents until child is 6 years old. Allow flexible work arrangements. Full coverage of childbirth costs, 80% of childcare expenses tax deductible	Free public education until age 16	Generous housing cost support for families with children	Prohibition of age discrimination	The UK: Brexit ended the free movement of Britons within the EU. A "points-based system" was introduced to issue a new "Skilled Worker Visa" to people of all nationalities. Priority is given to higher-skilled workers, while lower-skilled workers are not issued visas unless they reach a certain number of points. In principle, 50% of occupations are open to foreign workers. The majority welcome foreign workers as supporting economic recovery.
Sweden	Strong paid leave support for both parents, generous childcare subsidies	Free public education including university	Housing finance system that favors married couples	Mandatory retirement age of 67 years old	Previously, the policy on foreign workers was close to free flow, but recently, due to the rise of right-wing forces, there has been a notable movement to reduce the numbers of refugees and foreign workers. As a social integration policy, significant weight is given to language education. However, the presence of many foreign workers in impoverished areas tends to exacerbate disparities and increase social unrest. Therefore, an inclusive economic policy is required.
Singapore	Increased Baby Bonus cash gifts; expanded government-paid paternity leave	Childcare and parenting subsidies can be used for education and medical costs	Support for childcare and parenting assistance funds that can be used for educational and medical expenses	Retirement at age 63 but can work until 68 if able to	The provision of long-term stay visas is limited (for those who have a spouse or parent who is a Singaporean citizen or permanent resident, about 10% of the total visas granted). There are strengthened measures to acquire highly skilled foreign workers. It is characteristic that about 40% of the labor population are foreign, of which approximately one-quarter are permanent visa holders.

Source: Prepared by the Working Group for Japan's Population Challenges Secretariat

Therefore, income tax due will be: $0 \times 27,500 + 0.11 \times 22,500 = 2,475$ euros.

In contrast, for three children, the family coefficient is 4. Therefore, income up to 44,000 euros ($11,000 \times 4 = 44,000$) will be taxed at 0%. The remaining 6,000 euros ($50,000 - 44,000 = 6,000$) will be taxed at 11%. Therefore, income tax due will be: $0 \times 44,000 + 0.11 \times 6,000 = 660$ euros.

3) Education policy – Provide free public education, including at the university level.

4) Housing policy – Policies take family size into account. Includes public housing provided preferentially to families with children.

5) Inclusive family policy implementation (achieving equality of opportunity and inclusive social security policies that cover poor

families, single-parent families, children born out of wedlock, etc. A social security system that does not discriminate against children born inside or outside of legal marriage). Measures include special benefits to single-parent households.

The policies above give everyone the choice to have children under different conditions. In this way, anyone in a variety of situations – for example, after completing certain job experiences, and whether they are married or not – can have the option to have children. All such policies will play a role in a higher birth rate.

b) Measures against age discrimination

The EU's General Employment Equality Directive prohibits direct and indirect discrimination based on age. In France, a provision in

the Labor Code prohibits discriminatory treatment based on age.

c) Policy regarding foreign workers

Since 2000, the number of foreign workers in France has increased by 36%. Integrating them into society presents a challenge.

1. Application of social policies to promote fertility

Among adults between the ages of 18 and 60, 31% have at least one grandparent born abroad, which makes them eligible for social policy benefits including housing allowances, back-to-school funding, and subsidies for expenses such as babysitting. Whether or not the worker is a foreign worker is irrelevant to the application.

2. Education

Educational policies are implemented to save children from failing academically, regardless of whether they are the children of foreign workers or French citizens. The reality is that the children of foreign workers are better educated than those of the average French citizen. There is also a system in place that gives highly educated foreign professionals preferential admission to special higher education facilities. But this can result in animosity and backlash from the general public in France.

(2) United Kingdom

a) Birth rate policy

The birth rate was 1.6 in 2020, down from 1.93 in 2010.

The ratio of seniors to the working-age population was just under 30% in 2020 and is projected to be about 50% in 2070. (In Japan, the numbers are just below 50% and around 75% respectively. Both are estimates by the United Nations.)

Thirteen weeks of childcare leave are guaranteed for employees until their child turns one year old. Mothers are entitled to nine months of leave benefits and up to 12 months of maternity leave. Fathers can take 26 weeks of paid leave if they apply within eight weeks of the birth of their child. Parents with children under the age of six have the right to request flexible working arrangements from their employers. Regarding maternity and childcare services, there is full financial support for childbirth costs and, starting with the first child, child allowances are provided until the age of 16 without any income restrictions. 80% of childcare costs, such as the use of daycare centers, are tax deductible. Public-school tuition and related fees are free for children up to the age of 16.

These policies make it easier for both men and women to raise children, and additionally allow men to participate in housework at a relatively high level.

b) Policy regarding foreign workers

The issue of foreign workers was a significant issue just before

Brexit, which signaled opposition to the free movement of workers within the EU. After Brexit, Britons could not travel quite as freely as before within the EU states.

The UK introduced a “points system”, started giving out “Skilled Laborer Visa” (work visa) to people of all nationalities, and lowered the minimum yearly income required for skilled foreign workers from 30,000 pounds to 25,600 pounds. The skill requirements have been lowered from a university graduate level to a high school graduate level. The cap on the number of skilled workers that can be accepted has also been lifted. Also abolished was the so-called “resident labor market test” which prevented foreign workers from being admitted if they were thought to hurt the domestic labor market. Workers need more than 70 points based on criteria such as English proficiency and the appropriate skill level for the proposed job. However, the requirement is lower for a doctoral degree holder. Workers with higher skills can get visas without a job offer, but for lower-skilled workers, visas will not be issued unless the above points are met. In principle, therefore, approximately 50% of jobs have been opened up to foreign workers.

This has impacted public opinion; 10 years ago the issue of foreign workers in the UK was a source of economic stress for most Britons. Now 59% of people believe that foreign labor and skills are needed to help the economy recover.

(3) Sweden

a) Birth rate policy

The current birth rate is around 1.5, which has been higher than Japan’s for the past 40 years. This is partly due to higher birth rates among foreign workers. In addition, the relative youthfulness of foreign workers has helped forestall aging of the population. All children under 18 receive a universal allowance, a generous income compensation during parental leave (80% of salary paid for one year), and substantial childcare subsidies (\$150 per month per child). The government strongly enforces gender equality norms. Financial measures are also in place to help couples secure housing.

b) Foreign worker policy

Sweden has long been concerned about labor shortages and the country’s future as the population trends downwards. It recognized the need for a policy that allows for the acceptance of foreign workers and for utilizing refugees as a strategic labor force.

It is especially noteworthy that in 2008 the government stopped its labor market testing when bringing in non-resident workers. (A check was required to see if there actually was a domestic labor shortage before accepting applicants from abroad.) However, far-right parties who advocated against foreign labor grew more influential. As a result, refugee acceptance became more restrictive

with bans on permanent residency and strict visa requirements. Meanwhile, to promote social integration, non-EU foreign workers are required to receive union-approved wages. There are no limitations on the kinds of jobs that can be held. There are regulations to prevent the cost of housing from being prohibitive for immigrant employees.

Meanwhile, as part of a policy for integrating foreign workers, Sweden emphasizes language education, as well as adult education for those who have not received schooling. Given that a large number of them live outside major urban areas, support for finding housing is stressed. Many live in poverty. Female foreign workers with children are less likely to be employed compared to Swedish women. Stark income disparities exist in large urban areas, while poorer areas are turning into a breeding ground for crime. These and other significant challenges remain. The smooth integration of foreign workers into society is a major task.

(4) Singapore

a) Birth rate policy

Singapore's birth rate was 1.03 in 2022, lower than Japan's 1.3.

Attention has been drawn to the negative effects of low birth rates since the mid-1980s. A variety of incentives were introduced to counter the declining birth rates, but the rates continued to fall despite a temporary increase. Marriage and Childcare Support packages were introduced in 2004, 2008, and 2013. They granted significant subsidies for married couples to purchase houses, substantial subsidies for families with children, extension of paternity leave, assistance for childcare, matchmaking support programs, and tax deductions for households with children.

By 2030, one in four people is projected to be elderly (an aging rate of 25%, the proportion of the population aged 65 and older.) Although the official retirement age is 63, to promote the employment of elderly people, employers are mandated to offer re-employment opportunities up to the age of 68. Part-time re-employment subsidies will be extended until 2025.

b) Foreign worker policy

Approximately 40% of the labor force consists of foreigners (combining just under 10% who are permanent residents and just over 30% who are non-residents). Policies are strengthened to attract highly skilled foreign workers. The Expert Pass is issued to non-residents who earn a fixed monthly salary of 30,000 Singapore dollars (1 SGD = 100 yen) or more, which places them in the top 5% among Employment Pass holders. The pass is valid for five years and allows holders to work for multiple companies simultaneously.

4. Conclusion

Japan's declining birth rates and an aging population are long-term trends that highlight the need to correct underlying structural problems. It is essential to correct this structure over the medium-to-long term by setting population targets. "Maintaining a population of around 100 million people in 50 years (2060)" was set out in the Basic Policies for Economic and Fiscal Management and Reform (the Grand Design), a target set by the Abe administration in June 2014. These are suitable goals to prevent negative economic growth due to population decline, avoid further devastation of regional economies, maintain the social security system, and ensure security in the face of rising geopolitical risks. Social and economic systems such as lifetime employment and seniority systems, previously predicated on population growth and a large number of young people, must fundamentally change to accommodate the shrinking and aging population.

To halt the trend of population decline, it is critical to both improve the birth rate and expand the intake of foreign workers. From a medium-to-long term perspective, we must implement policies that provide incentives for having children and allow people to appreciate the benefits of accepting a global workforce, while also encouraging foreign workers to see the benefits of immigrating to Japan and working here.

The current Kishida administration's extraordinary measures against declining birth rates are based on the medium-to-long term perspective: 1. Increase the income of the younger generation; 2. Change the structure and consciousness of society as a whole to support childrearing with the participation of companies, men, and the community; and 3. provide seamless support regardless of parents' employment or family situation, aligned with life stages. While this is the right direction to take, Japan is still only halfway to achieving these goals, compared to other countries.

Furthermore, Japan should promote 1. Structural income growth through a more flexible labor market; 2. Creation of attractive job opportunities in regional areas through the stimulation of tourism and other industries; and 3. Improvements to work-life balance through enhanced remote education and work. Japan should also consider implementing other measures such as tax rules (N-fraction N-Power) adopted by France, policy support that includes children born out of wedlock, and expansion of free public education, including university studies.

According to the 2021 version of the White Paper on Measures to Cope with the Declining Birth Rate, Japan's child-related budget is relatively low at 1.65% of GNP, compared to around 3% for family-related expenditures in the UK and France. There is room for significant expansion. It is important to form a national consensus

TABLE 3

Policies not covered in Prime Minister Fumio Kishida's unprecedented countermeasures for the declining birth rate & foreign talent recruitment strategies

①	<p>Spread of remote education & remote work</p> <p>Spreading remote education means that whether people live in rural areas or belong to low-income groups, they can access the best knowledge to improve their skills. This raises productivity and income so that people can better afford having children. Additionally, more options for remote work give people more choice over where they live. Saving commuting times and having more leisure time means people can afford to have children. For women with children commuting times had been an obstacle to working or working full-time, but remote work allows them to avoid expensive big cities and work in areas with shorter daycare waiting lists.</p>
②	<p>Labor market reforms</p> <p>Making the labor market more flexible creates better matches between workers and jobs, consequently improving worker productivity and raising wages. This gives people the economic means to have children.</p>
③	<p>Promoting industries like tourism to create attractive employment opportunities in rural areas</p> <p>Japan's rural areas have abundant untapped tourism resources. Developing the tourism industry could create many jobs for youths and accelerate young people settling in or moving to rural areas. An affluent life in the countryside with few time constraints would make child rearing possible.</p>
④	<p>Raising children born out of wedlock</p> <p>In France, 61% of total births are to unmarried parents, while in Japan the rate is just 2.4% (both 2020). France offers the same subsidies from the government to assist in raising children, whether the parents are married or not.</p>
⑤	<p>N-fraction N-power tax rules</p> <p>France's tax rules sum up all family income, divide that by a family coefficient (1 for each adult, 0.5 for the first two children, 1 for each child thereafter) to determine the tax amount per coefficient of 1, then multiply by the family coefficient for total tax amount owed. More children means less taxes owed overall.</p>
⑥	<p>Accelerate the acceptance of highly skilled foreign workers</p> <ul style="list-style-type: none"> • Singapore's Specialist Pass System • The UK's "points-based system" • France's social integration education for foreign workers' children

Source: Prepared by the Working Group for Japan's Population Challenges Secretariat

on funding sources, recognizing that Japan's consumption tax is relatively low.

The expansion of foreign labor, which is another measure to stop population reduction, involves transitioning the current Technical Intern Training Program into a new system driven by the need to "secure and nurture talent". Japan should commit to a full-scale expansion of highly skilled international talent and to support this, improve the environment for welcoming their families. They should have ready access to Japanese language lessons and quality education for their children. Additionally, job discrimination should be prohibited in the workplace. Japanese society as a whole should create an environment that is more open to foreign workers (Table 3).

According to the National Institute of Population and Social Security Research, the birth rate for maintaining the current population should be 2.07. This is a much higher rate than 1.26, which was the figure the Ministry of Health, Labor and Welfare announced on June 2, 2023. Birth rates under 1.50 are considered

"ultra-low", a situation for concern. We might assume that the reason for the current low birth rate is that fewer people were getting married during the Covid-19 crisis. But even if the pandemic impact eases, and the current measures to raise the birth rate gradually begin to work, the Research Institute still predicts a low birth rate of 1.64. According to its calculation, by 2070 there will be just under 100 million people – 95.49 million, of which 8.8 million will be from other countries. Therefore, to ensure a long-term population of 100 million, it is necessary to implement all policies, including those aimed at foreign workers. Raising national awareness of the issue through large-scale social mobilization will be an important step towards Japan becoming a "child-friendly society".

Article translated from the original Japanese by Cheryl Chow. JS

The Japan Economic Foundation (JEF) initiated the Working Group for Japan's Population Challenges with prominent Japanese experts in January 2023 and published policy recommendations in Japanese in November 2023.