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Ageing and Demographic Change in Japan: Economics, Politics and Culture

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Abstract: Japan's population, which peaked in 2009, has been affected by the twin problems of population decline and ageing. From 128.56 million in 2009, Japan's population has started decreasing continuously and is expected to touch 126.48 million by 2020. Japan's fertility ratio fell sharply from 4.5 in 1947 to 2.1 in the 1960's, and to 1.42 in 1995. This situation is expected to persist in the period upto 2040, with the population over 65 years of age continuously expanding. It is only after 2040 that old age population is expected to decline. Even though Japan has seen higher levels of participation by elderly workers in the labour force, this has not solved the problem of labour shortages. The decline in the working age population group increases the old age dependency ratio for Japan and makes it difficult for the government to generate the economic output needed to support the needs of the elderly. Consequently, the social security burden of an ageing population and declining workforce has affected government finances negatively. The share of social security costs in total expenditure of the Japanese government has increased from around 20 per cent in 2000 to 34 per cent in 2019 and has now become the most important item of government spending. Japan's debt situation seems to have reached unsustainable levels. Most countries that have suffered a decline in population have solved the problem by depending on higher levels of immigration, both temporary and permanent. However, in Japan, immigration has been discouraged because of political and cultural factors. Traditionally, Japan has considered itself to be an ethnically homogenous nation. Most political parties have been reluctant to embrace large scale migration into Japan for fear of undermining Japanese culture. In recent years, however, some changes are evident in government policy. The Japanese government has implemented reforms to its immigration policy which has led to a more liberal visa regime for temporary workers. Whether it solves the economic problems caused by an ageing population and declining workforce remains to be seen.

Key words: Japan, Social Security, Migration, Ageing, Gender, Society

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Ageing and Demographic Change in Japan: Economics, Politics and Culture

1. Introduction

Japan's ageing related issues have attracted the attention of the global community for quite some time. Former US Secretary of Commerce Peter Peterson has referred to population ageing as "a threat more grave and certain than those posed by chemical weapons, nuclear proliferation, or ethnic strife" (Peterson 1999). Japan's Prime Minister, Shinzo Abe, labelled this phenomenon his country's "biggest challenge" to address following his 2017 re-election (Yamaguchi 2017).

Japan's population, which peaked in 2009, has been affected by the twin problems of population decline and ageing. A decline in the fertility rate has been accompanied by significant increase in average life expectancy, leading to a situation where a depleted working-age population group is expected to generate the economic output needed to support the needs of a growing elderly population. The problem is expected to get worse in the coming decades. While one-third of the Japanese population were in the age group 65 years or above in 2017, this is expected to rise to 42 per cent in 2050.

The decline in population and the pronounced aging of society has had an economic impact on Japan. The most important consequence has been a decline in the labour force. Higher levels of participation by elderly workers in the labour force have not solved the problem of labour shortages. The social security burden of an ageing population and declining workforce has affected government finances as well. The share of social security costs in total expenditure of the Japanese government has increased from around 20 per cent in 2000 to 34 per cent in 2019 and has now become the most important item of government spending.

Most countries that have suffered a decline in population have solved the problem by depending on higher levels of migration, both temporary and permanent. However, in Japan, immigration has not been seen as a solution to the economic problems posed by an ageing population and declining work force because of political and cultural factors. Traditionally, Japan has considered itself to be an ethnically homogenous nation and Japanese government policy was tough on immigration in the post-war period. Most political parties have been reluctant to embrace large scale immigration into Japan for fear of undermining Japanese culture.

In recent years, however, some changes are evident in government policy. The Japanese government has implemented reforms to its immigration policy which has led to a more liberal visa

regime for temporary workers. Whether it solves the economic problems caused by an ageing population and declining workforce remains to be seen.

This paper considers the issue of immigration from a political, economic and cultural perspective. An introductory section is followed by Section 2 which discusses ageing patterns and demographic trends in Japan. Section 3 looks at gender and cultural issues which have a bearing on changing demographic trends. Section 4 looks at Japanese immigration policy in the post-war period. It discusses the political factors that led the Japanese government to implement a tough immigration policy from the fifties to the eighties and also the reasons for some liberalization of the policy ever since. Section 5 looks at changes in domestic economic policy that have been necessitated by an ageing society, in particular it considers moves towards greater automation. Section 6 looks at the impact on social security and health care costs of ageing and demographic change. A concluding section, Section 7, considers some of the longer term implications of Japan's demographic challenges.

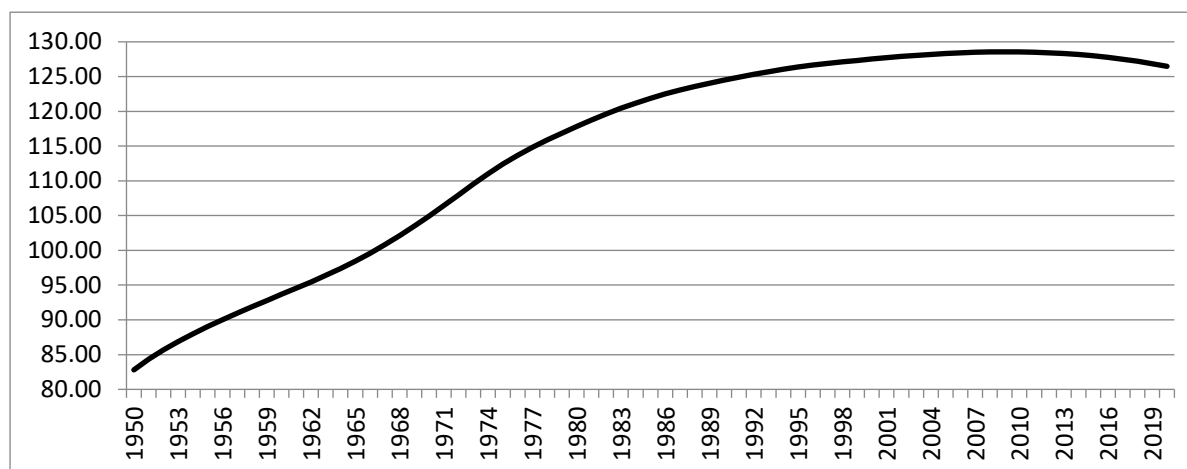
2. Ageing and Demographic Change in Japan

2.1 Current Population Trends

Despite Japan's fast recovery in the aftermath of World War II, and eventual emergence as an economic superpower, its population has been plateauing since the beginning of the millennium. In more recent times after reaching a peak of 128.56 million in 2009, Japan's population has started decreasing continuously and is expected to touch 126.48 million by 2020 (Chart 2.1). The number of babies born in Japan was estimated at 921,000 in 2018, indicating a reduction of 25,000 from the previous year and falling short of 1 million for the third year in a row (Japan Times, 2019). The *Japan Times* in an editorial noted:

“The number of annual births in Japan hit a record 2.69 million in 1949 during the postwar baby boom. When the second baby-boomer generation was born in the early 1970s, the number still topped 2 million each year. But then it began to decline — dipping below 1.5 million in 1984, 1.1 million in 2005 and 1 million in 2016. The total fertility rate, the estimated number of children a woman gives birth to in her lifetime, fell below 2.07 — the level deemed necessary to maintain a population — in the mid-1970s and has never recovered that threshold.²

² “Face challenges of a shrinking, aging population”, *The Japan Times*, October 1, 2019, available at <https://www.japantimes.co.jp/opinion/2019/01/10/editorials/face-challenges-shrinking-aging-population/#.Xa7vqOgzaUk>

Chart 2.1: Japan's Total population, as of 1 July (Million)

Source: United Nations, World Population Prospects 2019.

At any point of time, the total population of a country will be determined by fertility, mortality and migration. While Japan's life expectancy has increased steadily over the past century, its birth rate had experienced a significant reduction over the years. Japan's fertility ratio fell sharply from 4.5 in 1947 (i.e., the period of post-war baby boom) to 2.1 in the 1960s, and to 1.42 in 1995 (Yashiro, 1997). At the same time average life-expectancy increased - for males it has increased from 50.1 years in 1947 to 76.4 years in 1995 and for females from 54.0 years to 82.9 years during the same period. Currently the average life expectancy as of 2015 is 86 years for women and 80 years for men. Rising income levels; associated improvements in living condition in general, and health care in particular; spread of education; low immigration; cultural moorings all seem to be responsible for this trend.

2.2 Future Population Trends

In such a situation, how does the future Japanese population look like? United Nations' World population projections looked into this question in great detail and generated population forecasts under different assumptions of fertility, mortality and migration. The following variants are considered in particular: (i) Low fertility; (ii) Medium (fertility); (iii) High fertility; (iv) Constant-fertility; (v) Instant-replacement-fertility; (vi) Momentum; (vi) Constant-mortality; (vi) No change; and (viii) Zero-migration (Table 2.1).

Projection variants	Assumptions		
	Fertility	Mortality	International migration
Low fertility	Low	Normal	Normal
Medium (fertility)	Medium (based on median probabilistic fertility)	Normal (based on median probabilistic fertility)	Normal
High fertility	High	Normal	Normal
Constant-fertility	Constant as of 2015-2020	Normal	Normal
Instant-replacement-fertility	Instant-replacement as of 2020-2025	Normal	Normal
Momentum	Instant-replacement as of 2020-2025	Constant as of 2015-2020	Zero as of 2020-2025
Constant-mortality	Medium	Constant as of 2015-2020	Normal
No change	Constant as of 2015-2020	Constant as of 2015-2020	Normal
Zero-migration	Medium	Normal	Zero as of 2020-2025

Source: United Nations, World Population Prospects 2019.

The UN projection variants In terms of assumptions for fertility, mortality and international migration are reported in Table 2.2. From the 2020 level of 126.5 million most optimistically Japan's population can reach 113.1million in 2100 under the assumption of "instant replacement". On the other hand under the assumption of "no change" Japan's population can come down to as low as 57.3 million in 2100. Thus, while the forecast variations are wide and ranges from 50 million to 113 million, all these projections are pointers to the fall of Japanese population in the days to come.

Variants	2020	2030	2040	2050	2060	2070	2080	2090	2100
1. Instant-replacement	126.5	125.0	121.0	116.7	113.9	111.5	110.1	110.8	113.1
3. Momentum	126.5	123.4	117.1	110.3	105.0	100.6	97.8	96.9	97.3
3 .Zero-migration	126.5	120.2	112.1	103.9	95.7	87.1	79.7	74.1	69.2
4. Constant-mortality	126.5	119.7	110.7	101.4	92.2	83.2	76.2	70.8	66.1
5. Constant-fertility	126.5	120.7	112.7	104.3	95.8	86.7	78.6	72.0	66.0
6. No change	126.5	119.7	110.0	99.9	89.7	79.4	70.9	63.8	57.3
7(a). Low variant	126.5	118.8	108.5	98.2	87.8	76.5	66.4	58.1	50.5
7(b). Medium variant	126.5	120.8	113.4	105.8	98.3	90.5	83.9	79.0	75.0
7(c). High variant	126.5	122.8	118.2	113.4	109.5	106.3	104.7	105.1	107.2

Source: United Nations, World Population Prospects 2019.

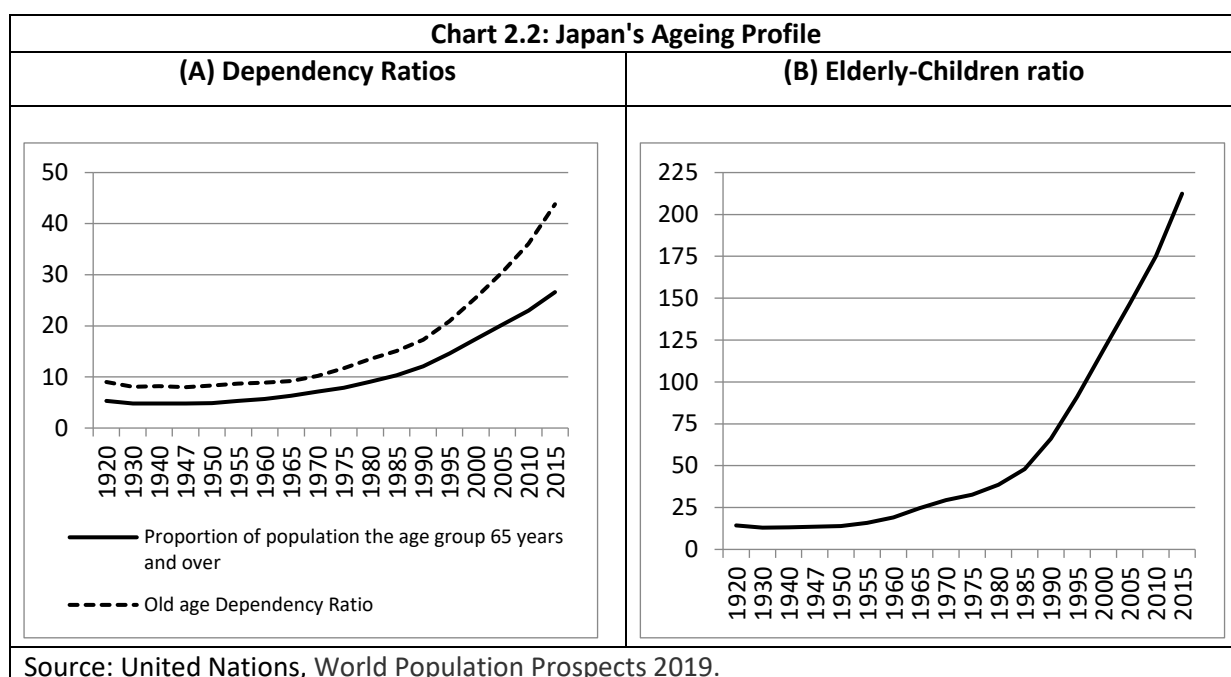
2.3 Ageing Profile

The fall of population has its antecedent impact on ageing. Japan has the unique distinction of having the longest ever recorded life expectancies of 84 years and the highest elderly (ages 65+) population share worldwide at 27 per cent (Bloom et. al., 2018). Based on the data provided in the *Report on World Population Ageing, 2017* of the UN, a comparison of global trends across three time points (viz., 1980, 2017 and 2050) is provided in Table 2.3. In 1980, each of the world's ten most aged populations were all located in Europe and the shares of the population aged 60 years or over were less than 25 per cent. But by 2017 Japan is seen to be dominating the global ageing scene with one-third of the population in the age group 65 years or above; by 2050, this proportion is projected to be 42 per cent. On the contrary, Europe is expected to account for 5 of the 10 most aged countries or areas in 2050 (Table 2.3).

Table 2.3: Ten countries or areas with the largest share of persons aged 60 years or over: 1980, 2017 and 2050 (Per cent)						
	1980		2017		2050	
1	Sweden	22.0	Japan	33.4	Japan	42.4
2	Norway	20.2	Italy	29.4	Spain	41.9
3	Channel Islands	20.1	Germany	28.0	Portugal	41.7
4	United Kingdom	20.0	Portugal	27.9	Greece	41.6
5	Denmark	19.5	Finland	27.8	Republic of Korea	41.6
6	Germany	19.3	Bulgaria	27.7	Taiwan	41.3
7	Austria	19.0	Croatia	26.8	Hong Kong	40.6
8	Belgium	18.4	Greece	26.5	Italy	40.3
9	Switzerland	18.2	Slovenia	26.3	Singapore	40.1
10	Luxembourg	17.8	Latvia	26.2	Poland	39.5

Source: United Nations (2017): *World Population Ageing*.

The impact of ageing is best understood from the old-age dependency ratio (OADR). Conventionally, the OADR is defined as the number of old-age dependents (persons aged 65 years or over) per 100 persons of working age (aged 20 to 64 years) (United Nations, 2019). Looking at the inter-temporal trajectory of demographic change in Japan it may be noted that the old age dependency ratio has increased sharply from 17.3 in 1990 to 43.8 in 2015. The elderly-children ratio (i.e., population 65 years-plus as a proportion of the population in the age group 0 - 15 years) increased from 66.2 in 1990 to 212 in 2015 (Annex Table 1 and Chart 2.2).



More recently, the economic implications of OADR is being captured by another concept of economic OADR (EOADR), which is defined as, "the effective number of *consumers* aged 65 years or over divided by the effective number of *workers* at all ages" (expressed as a percentage).³ Economic OADR is related to population ageing and represent labour force participation rates or full lifecycle economic behaviour of National Transfer Accounts (NTA).⁴ Interestingly, Japan continues to lead both in terms of OADR as well as EOADR - both in 2019 as well as 2050 (Table 2.4). In some sense, this underscores the seriousness of Japan's aging problem, both in terms of the population as well as its economic profile.

³ $EOADR = \frac{\sum_{x=65}^W C(x)N(x)}{\sum_{x=65}^W y(x)N(x)}$, where $C(x)$ is the per capita consumption of age x , and $y(x)$ is the per capita labour income at age x , and $N(x)$ is the population of age x .

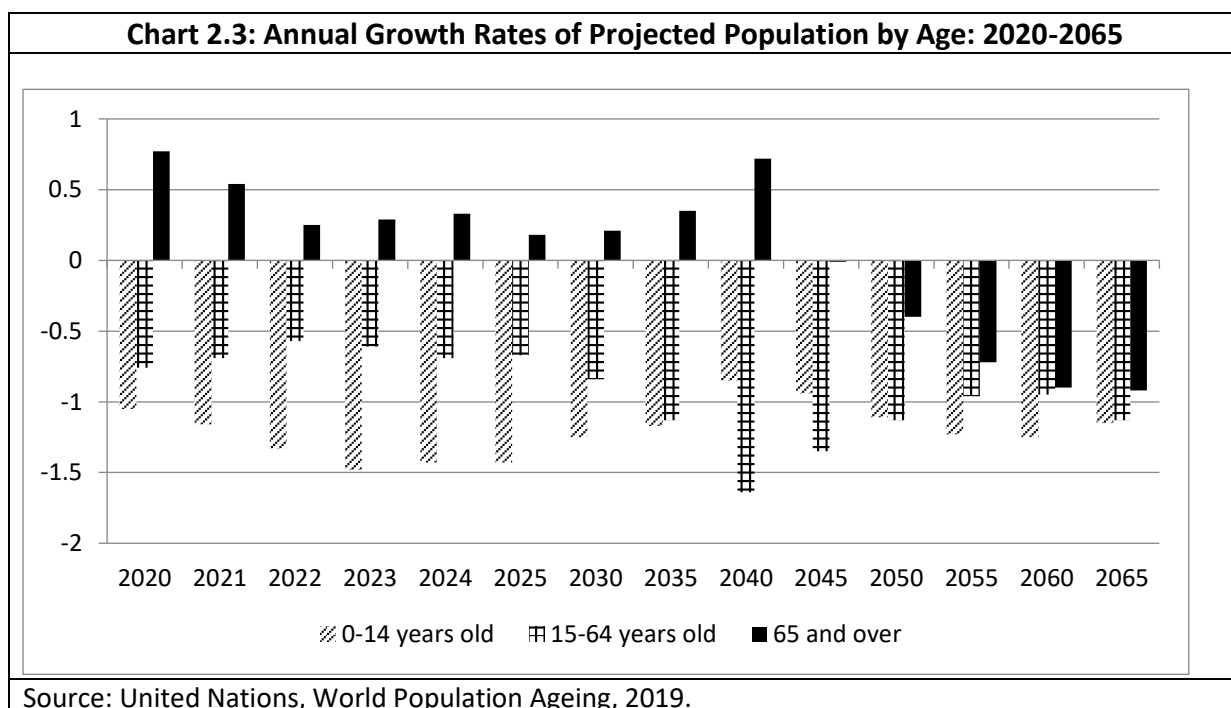
⁴ The national transfer accounts (NTAs), provides a linkage between population and the economy. In analysing changing age structures in relation to the economy, the NTA creates age profiles of labour income and consumption across countries (United Nations, 2013).

Table 2.4: Countries with Highest Dependency Ratios

Old-age Dependency Ratio (OADR)				Economic Old-age Dependency Ratio (EOADR)			
2019		2050		2019		2050	
Japan	51	Japan	81	Japan	78	Japan	127
Finland	39	Korea	79	Finland	57	Greece	107
Italy	39	Spain	78	France	55	Italy	97
Portugal	38	Greece	75	Germany	54	Slovenia	93
Martinique	37	Italy	74	Denmark	53	Spain	93
Greece	37	Portugal	71	Greece	53	Puerto Rico	92
Virgin Islands	37	Taiwan	71	Sweden	52	Portugal	91
France	37	Hong Kong	71	Italy	50	Switzerland	89
Germany	36	Martinique	68	Netherland	50	Germany	89
Bulgaria	36	Slovenia	65	Virgin Islands	50	Korea	89

Source: United Nations, World Population Ageing, 2019.

How does the future look like? While the total population is facing a contraction, it is primarily among children and the people in the working age population that this negative growth of population is noticeable till about 2040. It is only after 2040 that old age population is going to experience a negative growth rate (Chart 2.3).



3. Demography, Gender and Cultural Issues

Demographic change in Japan is happening at a time when Japanese society is itself undergoing changes. Japanese society is witnessing increasing women empowerment as the government of Shinzo Abe seek to ensure women's workforce participation in large numbers. The Japanese government's program "womenomics," adopted in 2013, eased the way for millions of married and middle-aged women to return to work. The increasing women empowerment in Japan have contributed to political mobilization of women who have succeeded to usher in new individual perspectives on gender roles to younger generations. As more and more women in Japan are increasingly focusing on building their career and finding more opportunities to renegotiate their nurturing and caring roles, the social contract of a male breadwinner and a "professional housewife" engaged in child bearing, child rearing and elderly care, is gradually fading out. There is an emerging trend among the Japanese women to postpone and even avoid marriage and have children. One of the reasons behind this emerging trend, as G. Roberts (Roberts: 2005) points out, is the desire to continue working and enjoy a high living standard, away from the social burdens related to the traditional roles of "wife" and "mother".

Another issue of concern is that pregnant women and female employees after child birth often face hostility in work place. Maternal harassment, *matahara*, has increased in recent history. *Matahara* is an abbreviated combination of the English words: "maternity" and "harassment" which refers to the all-too-common practice in Japan of demoting or even laying off women when they become pregnant and after conception. Female employees, who take maternity leave after child birth, are often confronted with uncertain employment situations upon returning to work. (Mahoney: 2020). Pregnancy and child birth, therefore, threatens a Japanese woman's financial stability. Such discriminatory practices and gender inequality account for the reluctance of the Japanese working women to raise a family. This indicates how the problem of low-fertility and dwindling birth rate in Japan is inextricably linked with the issue of gender inequality and strict gendered division of labour.

Gender stereotypes, gender inequality, cultural, social and labour market conditions in Japan have all been factors in the prolonged and sharp fall in fertility rate. A strong indicator of gender inequality is reflected in Japan's faring badly in the number of women in leadership in public life. Among the Organization of Economic Development and Cooperation (OECD) countries, the most male-dominated political class is evident in Japan with a mere 9.5 percent of women in the Parliament (OECD, 2017).

Gender inequality is also evident from the fact that among the OECD countries, Japan ranks the lowest for women in management positions and for the share of women in boards of directors. The share of seats for women in boards of directors in publicly listed companies in Japan is the second lowest among the OECD countries at 3.4% (OECD: 2017). As Yamaguchi points out, there is a managerial career track (*sogoshoku*) and a dead-end clerical track (*ippanshoku*). This track system is strongly associated with gender. Many women do not pursue *sogoshoku* jobs despite their greater opportunity for career development because they require regular overtime hours (Yamaguchi, 2019). Yamaguchi contends that among the Japanese women, the major correlate of becoming a manager is the presence of long work hours. Women who do not work long overtime hours are deprived of opportunities to become managers (Yamaguchi, 2019). However, extended work hours for women are incompatible with Japanese family roles after marriage due to the strong persistence of traditional division of labor in which the burden of childcare and household tasks is chiefly borne by women. As a result, Japanese firms' insistence on long work hours is an inherent source of gender inequality, especially for the attainment of managerial positions by women. As Yamaguchi notes, gender-segregated career tracks are largely to blame for the country's gender inequality in the rate of promotion of women to managerial positions (Yamaguchi, 2019).

In this context it needs to be noted that the hard-working corporate culture of long office hours for Japanese men leave women doing more than three quarters of the unpaid house work and caregiving. The 'long hours' culture for men at workplaces, including frequent overtime work and mandatory after-hours socializing with colleagues, combined with the gender stereotypes, pose a veritable hindrance to a better sharing of paid and unpaid work among Japanese men and women. Japan's corporate culture, thus, seems to assume and reinforce a traditional gender ideology and gender stereotypes. While the labour market conditions exact such high opportunity costs from the child bearing workforce, it needs to be noted that the Japanese government has tried to initiate policies for work-family reconciliation and family-friendly work arrangements. In 1989, when the total fertility rate (TFR) hit a record low of 1.57 per woman, measures to address the declining birthrate started being considered as important. Several family programs and policies have been implemented to make marriage and parenthood attractive to the new generations.

To encourage young Japanese to marry and have children, the government has tried to establish a legal framework focusing on parental leave, monetary assistance to parents and subsidized childcare, for instance, Child/family Care Leave Law of 1991 and 1999; Angel Plans of 1995 and 2000; Law to Promote Structures for the Upbringing of the Next Generation of 2005, to name a few. The legal framework and family programs aim at relieving the women of the burden of household chores while promoting "joint participation" (Osawa, 2000) of men and women in

housework (Schad-Seifert 2006). However, such programs appear to have had very little impact on the demographic dimension. This is particularly evident from the fact that the year 2019 has witnessed a record population decline as the Japanese Ministry of Health, Labor, and Welfare estimated that 864,000 children were born in Japan in 2019, marking the first time for births to drop below 900,000 since records were first kept in 1899. (Nippon.com, 2019)

One underlying factor behind the rapid demographic decline in Japan seems to be the economic stagnation. As the Japanese economy struggles with deflation and a sluggish growth over the last three decades, a large proportion of the young men, employed today, are in temporary jobs, which are affecting their marriage prospects. The long-term recession has decreased the number of eligible marriage partners for women with an income sufficient to raise a family comfortably. The shrinking employment opportunities for young men have factored in the reluctance of women to marry or have children. Thus, increasing number of Japanese men and women are deferring marriage or remaining single. (Kumagai, 2015) As childbearing outside of marriage in the Japanese society is still rare, this trend is likely to have serious implications on the country's rapidly declining fertility.

It is interesting to note that in the era of economic stagnation, to control public expenditure, the Japanese state has relied on women and families to be the core source of welfare provision, over the years (Harada, 1988). The Japanese welfare state system presents a case of a strong familialistic model which is based on a traditional patriarchal system and strict gendered division of labour. This produces new tensions and contradictions between the existing welfare state arrangements and the changing gender roles and social dynamics as members of the younger generations, particularly women, start perceiving the tradition of family care and welfare responsibilities as a heavy burden. Apart from the factors of economic recession and women empowerment, the main issue which has rendered the "marriage package" unattractive for young Japanese women, seems to be the persistence of strict gendered division of labour in the Japanese society.

Though the government has implemented several family programs and established a legal framework, the gender gap in unpaid work in Japan is 183 minutes per day, the fourth longest in the OECD (OECD, 2019:94). The reluctance of the Japanese men towards sharing house-hold work is a crucial factor contributing to this gender gap in unpaid work. Such intransigent and reluctant attitude of Japanese men towards sharing social burdens could be attributed to the traditional elements of Japan's culture such as the ideology of a patriarchal system embedded in the role of family and the nurturing/subordinated role of women in house work and child care that reflect extreme gender inequality. To ensure gender equality in the Japanese workforce, the Abe government has focused on the increased participation of women (Abe, 2013). Abe noted that

female participation in Japan's workforce would be crucial as its population is shrinking and also ageing rapidly. Abe viewed that the tax burden would be crushing unless women participate in much greater numbers to expand the Japanese workforce. (Author's interview, 2011).

Japan's stringent immigration policy and the failure of immigration reform demonstrate the persistence of the "no-immigration principle" at the policymaking domain. The "no-immigration principle" seems to be the manifestation of the still-dominant and pervasive discourse of "homogeneous Japan" which has its roots in the country's cultural and historical legacy. The notion of "homogeneous people" (*tanitsuminzoku*) appears to be deeply embedded in the Japanese culture because of the collective memory of the period of national seclusion. Japan was effectively sealed off from the rest of the world during the Tokugawa shogunate period (1600 to 1858). The nation's all-powerful shogunsexpelled thousands of foreigners or restricted their presence to the port city of Nagasaki for they perceived the Catholic traders and missionaries as forerunners of a military conquest by European powers. Culturally chauvinist shoguns also proceeded to stamp out Western influences of political and social philosophies and Christianity. In contemporary literature, elements of cultural chauvinism is particularly reflected in the *Nihonjinron*, a popular genre of writing on national identity. A central tenet of *Nihonjinron* is that the Japanese are a homogeneous people who constitute a racially unified nation.

For this long history of political and cultural isolation, Japan is still struggling to come to grips with other races and cultures and the need for bringing in new reforms in its immigration policy. The Liberal Democratic Party (LDP), the present ruling party, seems to advocate the popular "homogeneous people" discourse. This was particularly evident when the then-education minister in 2007 called Japan "extremely homogenous" and Prime Minister Abe endorsed his views. (The Japan Times: 2007). It is interesting to note that in Abe's growth strategy, the 'Abenomics', one thing which was missing was immigrants and immigration reform. Opening the gate (*kaikoku*) to immigration is an unpopular solution in Japan. Hence, for revitalising the Japanese economy, the Abe government seeks to ensure women's workforce participation in large numbers. Though "womenomics" has succeeded in bringing more than one and a half million more Japanese women into the labor force over the past five years, it seems to be a narrow-gauged success. This is because Abe's "womenomics" fails to uproot or even challenge a discriminatory culture that makes it nearly impossible for women to advance a career while raising a family.

Increasing women empowerment in the Japanese society on one hand and gender inequality on the other are, thus, two of the most critical factors contributing to the fall in fertility rates. Unless

the issue of gender inequality is adequately addressed by the government reforms and the Japanese society at large, the new generation of empowered women's inclination to avoid marriage and reluctance towards child birth are likely to grow, which will have a decisive impact on the declining fertility rates in the country.

4. Politics of Demographic Change in Japan

4.1 Japanese Immigration Policy

The Japanese government has been dealing with the consequences of both long-term structural changes in the economy as well as short-term shocks to the economy beyond its control. While the short-term shocks brought about by a major earthquake and tsunami in 2011 have been successfully dealt with, the longer-term challenges of large public debt, deflation and a rapidly aging population are proving much more difficult to overcome. (Bic & Stuchlíková, 2013).

The Japanese government has been slow in implementing reforms in response to the problem of an ageing population. The important areas where reforms are needed include pensions, health care, and reforms to the immigration system to bring in more workers. Most Japanese government efforts until now have been concentrated on technology development, particularly development of robotics technology to replace ageing workers and improve productivity in the economy (Bic & Stuchlíková, 2013).

Though Japan had a foreign population by the end of the Second World War, it was a small group relative to the Japanese population - around 500,000 people of foreign origin in a total population of 71 million. Traditionally, Japanese society has been uncomfortable with the idea of multi-culturalism, with many believing that Japan is an ethnically homogenous nation (Nagayoshi 2011: 562). Japan promoted the concept of *Nihonjinron* or 'Japaneseness', a feeling of national exceptionalism based on ideas of 19th century European nationalism (Thranhardt, 1999). Japanese government policy was, consequently, tough on immigration policy in the post-war period and it did not consider itself a country of immigration. In fact, until 1993 the Japanese government did not even nominate a representative in the Organization of Economic Development and Cooperation (OECD) Immigration Group (Thranhardt, 1999).

The Japanese government began to relax its tough immigration policies and allow more foreigners to settle in the country in the early 1990s. In 1990 the Japanese government changed immigration policy to allow non-skilled immigrants from Latin America, who were of Japanese ancestry to work in Japan (Bornstein, 1992). These changes in policy allowed foreign citizens of Japanese origin, the *nikkeijin*, residing in Japan to become long-term residents without restrictions on the types of jobs they could hold (Song 2016).

In addition to allowing relaxation of employment restrictions on the *nikkeijin*, the government also brought in changes to its Industrial Trainee Programme (ITP) originally introduced in 1982 to bring in workers from China and Southeast Asia for large companies. Reforms introduced in the programme in the 1990s allowed small and medium enterprises also to engage foreign

workers. Japan, in this respect was not different from other East Asian countries like South Korea, where the need for immigration reform arose from problems faced by Small and Medium Enterprises because of labour shortages (Song, 2016:1-2). However, it needs to be noted that immigrant workers were not given the same rights as Japanese workers. Most of the immigrants were essentially temporary workers, employed by labour contracting agencies who would provide temporary workers, whenever needed, to local firms. This helped firms to maintain flexibility in labour employment in a system where life-long employment was the norm (Takenoshita, 2017). The fact that most of the immigrant workers came in under the ITP made this flexibility legal, since firms needed only to pay a training allowance and did not have the responsibility of providing full workers' rights (Thranhardt 1999).

4.2 Local governments and migration

Central government participation in the process of labour recruitment was quite limited in the early stages of labour immigration in the 1990s and recruitment was primarily done by travel agencies who recruited workers to fill local level labour shortages (Bornstein, 1992). Consequently, unlike other East Asian countries, such as South Korea and Taiwan, Japanese immigration policy has evolved in a decentralized manner, with local governments and civil-society organizations playing a major role in developing immigration policy, mainly to deal with the problem of local labour shortages but also to ensure their greater integration into local communities. This decentralization of immigration policy has become possible because social policy has been significantly decentralized in Japan and local governments differ considerably in their attitudes to social issues, particularly when it comes to policies relating to immigrants (Nagayoshi 2011). The emphasis in Japanese immigration policy at a local level has been on ensuring that their distinct 'immigrant' identities are protected, while they provide necessary local services to residents. Local governments have also seen the local integration of these immigrants as being important for promoting understanding of cultural diversity among local residents (Song 2016).

The increasing number of migrants into different regions of Japan also led to the promotion of the idea of 'multiculturalism' by several local governments in Japan such as those in Osaka, Hamamatsu, and Kawasaki. In Kawasaki representative bodies were created to seek the views of immigrant communities as inputs into local policy-making. Other local governments also followed Kawasaki's example and began to create mechanisms to incorporate the views of foreign residents into their decision-making. Coordinated efforts of thirteen municipalities in 2001 resulted in the creation of an organization called the 'Council of Cities with High Concentrations of Foreign Residents'. This organization aimed at developing common demands to the central government on immigration and immigrant integration policies that would benefit these municipalities (Song 2016).

By 2009 the number of municipalities in this pressure group had increased to twenty-eight, most of them in the prefectures of Aichi, Mie, Gifu, and Shizuoka Prefectures. These were prefectures that had a large number of small of medium-sized manufacturing firm that were labour intensive. The Japan Intercultural Academy of Municipalities has also developed programmes to train local officials in the areas of intercultural diversity but also cultural cohesion (Song 2016).

The Council of Local Authorities for International Relations, which works with Japan's Ministry of Internal Affairs (JMIA) has also changed its policy to put greater emphasis on multiculturalism. They have lobbied the central government to formulate programmes at the national level to ensure integration of immigrants. In response to local pressures, the JMIA in 2006 adopted a policy of 'multi-cultural co-existence', the first such policy at the national level. It also recommended that the central government decentralize policy on three aspects of immigrant support – communication, living and co-existence – to local communities for formulation (Song 2016). The prefectures of Aichi, Gifu, and Gunma Prefectures have developed new policies relating to multiculturalism and provision of basic social services since 2006. Local government officials in regions with large immigrant populations have also developed policies relating to provision of information in multiple languages, health and social services to their foreign residents (Song 2016).

Even in the Japanese legislature, the Diet, it is members whose electoral districts have a large number of foreign residents who have demonstrated an interest in immigration issues. Immigration policy formulated by the Japanese government have also been influenced by the views of local governments (Song 2016).

5. Aging and Internationalisation of Japan

Aging and the concomitant shrinking of Japan's population are giving rise to long term changes in the country's demographic profile that are not consonant with the current and expected demands of the country's labour market. The growing imbalance is causing Japan to re-think its economic and social model; and internal restructuring, acting with the forces of globalisation, is spurring the internationalization of Japan's economy and society.

The most direct consequence on the economy of an aging population and therefore a declining share of the working age population is the supply shortage in the labour market. The productive age population (between 15–64) in Japan has been declining as a percentage of total population continually since 1993 and because of a shrinking population in absolute terms as well since 1995. This working age population is projected to decline continuously from 59.7% of the population in 2018 to 51.6% in 2060.

It is notable that there has been an improvement in the labour participation rate in the age group 20-69 years, which has grown from 74.8% in 1993 (December) to 81.0 in 2019 (September). However, this has not obviated the labour crunch.

5.1 Structural Change in the Labour Market

Like other major economies, Japan too has had to cope in the past with rising demand for labour. In the period of high economic growth much of this demand was met by rural migration. The share of rural population in Japan declined at a fast rate in the period 1960-75, from 36.7% to 24.3% of the total population. Thereafter, in the period 1975-90, the migration was significantly less and the share of rural population in 1990 was 22.7%. The shortfall in labour in the latter period began to be made up by import of foreign labour, including from countries with which Japan then had visa free agreements such as Pakistan, Bangladesh and Iran.

Unlike the rural migrants who were absorbed easily into Japan's manufacturing industries and corporate culture, foreign labour could be used mostly for jobs the wealthy Japanese were increasingly unwilling to do, which were *kiken*, *kitanai*, *kitsui* (difficult, dirty, dangerous). Subsequent demand for industrial labour, in the post-bubble economy period, was sought to be met by *nikkeijin* and the technical intern trainee scheme. The foreign labour was not expected to bring in specialized skills nor really be absorbed in corporate Japan. The restricted importation of labour on the margins of the economy was seen as the appropriate response to a non-systemic problem.

However, aging in Japan has created structural deficiencies in the labour force that has prompted fresh thinking on the sensitive subject of labour immigration. In a policy paper entitled 'An Economy and Society That Responds to the Challenges of a Declining Population' issued in 2008, the conservative body of big Japanese business, Keidanren, proposed the 'active acceptance of foreign workers that assumes their permanent residency' and a comprehensive immigration policy. The bold proposals promoting labour import and residency were beyond the scope of extant thinking and policy and challenged long held values relating to societal homogeneity and uniformity.

In a paper issued in 2018, Keidanren went further, proposing measures to promote 'the realisation of a multi-cultural society coexisting with foreigners' such as using multiple languages in corporate settings and making life attractive for foreigners, including through provision for education for their children (that would require accommodation in Japan's uniform education policy).

Evidently, the changed thinking was due also to the pressures of globalisation, as Japanese companies have large markets overseas. However, the consequence of aging in Japanese society is to reinforce the process of internationalization of Japan's economy and society.

So, while Japanese companies, like MNCs elsewhere, are increasingly globalising their operations anyway, the lack of human capital at home is an independent push factor for them to invest overseas. In a speech in 2012, the Governor of the Bank of Japan noted that the ratio of Japan's outward FDI to GDP was notably lower than that of other advanced economies. To cope with the challenge of demographic change in Japan, he suggested that demand overseas could be met more efficiently by allocating capital to higher FDI spend rather than through exports. In the 7 years since that speech was made (2012-18) Japan's FDI as a % of GDP has nearly doubled from 16.72% to 31.53%.

To cite an analogous example, the internationalization of Japan's university system has its own rationale in terms of improving its global competitiveness and is a priority of Prime Minister Abe's government. Speaking to a conference of university leaders from the UK and Japan, Prime Minister Abe was quoted saying that "the number of foreign students at a university will define its success."

However, consider the situation with regard to the strength of the cohort of students in Japan who would be the catchment population for university enrolment. The number of students in upper secondary schools in Japan has declined sharply in the period 1995-2013 from 4.725 million to 3.320 million, a drastic fall of nearly 30%, a crisis by any standards that will call into question the viability of a quality university system, in the absence of foreign students.

5.2 Emerging Shifts in Composition of Labour Demand

Apart from the sheer shortage in overall labour supply, there are internal dynamics that are causing shifts in the composition of labour demand that are aggravating the mismatch with supply and independently motivating the process of internationalisation.

The Japanese government has already determined that the greatest structural issue facing the Japanese economy is the aging of society and shrinking of the population. And its response is 'Society 5.0' - a bold vision for the next step in human evolution – that will focus on the vast potential of accumulating data, and new technologies of the fourth industrial revolution, to find solutions to social issues such as the declining birth rate, an aging population, and environmental and energy issues.

In pursuit of this vision that aims to reimagine Japan, the government has specifically stressed the areas of AI, Internet of Things and Robotics. While Japan was successful in building the industrial society (Society 3.0), much of the information society (Society 4.0) coincided with Japan's 'lost decades'. Given this background, one has to consider how prepared Japan is for Society 5.0 in terms of the availability of IT related manpower.

According to a report of Japan's Ministry of Economy, Trade and Industry, the shortfall in 2016 of such manpower in Japan was 171,000 and this was expected to more than double in the four years to 2020 to reach an estimated 369,000. As it is, the Keidanren paper of 2018 says that the foundations of Society 5.0 can be created through diversity of people, work styles and talented human resources from different countries. Thus, the demand for such manpower is only likely to increase and Japan will have to reorient its labour market to provide large sectors of the economy with the digital and other related skills necessary to realise Society 5.0. It seems unlikely that this can be done without greater reliance on high skilled foreigners.

Efforts to increase labour supply domestically in Japan have aimed partly at increasing the participation rate of women in the labour force. Though there continue to be issues with regard to representation and parity, there has been an increase in the female participation rate particularly in the age group 25-44. 2.01 million women entered the workforce during the 5-year period from 2012 to 2017. This has created a huge demand for child care facilities and child care givers. Similarly, the aging population has created a huge demand for caregivers for the elderly and nursing.

The problem is that much more so than in other advanced economies, the responsibility of child care, and more so of parental care, has devolved on the family (the women mostly) due to deep-seated notions of family values, filial piety and inter-generational solidarity. Thus, while societal norms are changing, the market is unable to supply in short time frames requisite certified labour for work traditionally done at home. A report by the Nomura Research Institute estimates that an additional 279,000 child care centres are required if Japan is to reach its objective of 80% female employment rate in the child bearing age group.

Recognising this peculiar but critical situation, the government has used all available instruments to import foreign caregivers. In the Economic Partnership Agreements that Japan has with Philippines, Vietnam and Indonesia, there are specific provisions for import of nurses/caregivers. Further, caregivers are now allowed to work in Japan under the technical intern trainee scheme and nursing is included among the professions eligible for Specified Skills Workers visas under rules introduced this year. These efforts are aimed at meeting the emergent demands of specialised labour not traditionally available in Japan.

5.3 Changing Public Attitudes

A peculiarity of the aging process in Japan is that it is being felt more acutely in rural Japan due to internal migration. A former politician Hiroya Masuda wrote a book called 'Local Extinctions' in which he used the latest official figures to show that 896 cities, towns and villages throughout Japan were facing extinction by 2040. These scenarios are provoking attitudinal changes in

conservative rural heartlands of Japan. The Mayor of the remote town of Akitaka in Hiroshima Prefecture called on the government to expand the immigration system to allow long term residency of foreigners. A 2017 survey showed that 48 percent of Akitakata residents thought it was "good" to have foreigners live in the city, up from 30.8 percent in 2010. The new Specified Skills Workers visa that provides for permanent residency takes account of the special needs of rural Japan and includes agriculture and fisheries among the professions permitted for employment.

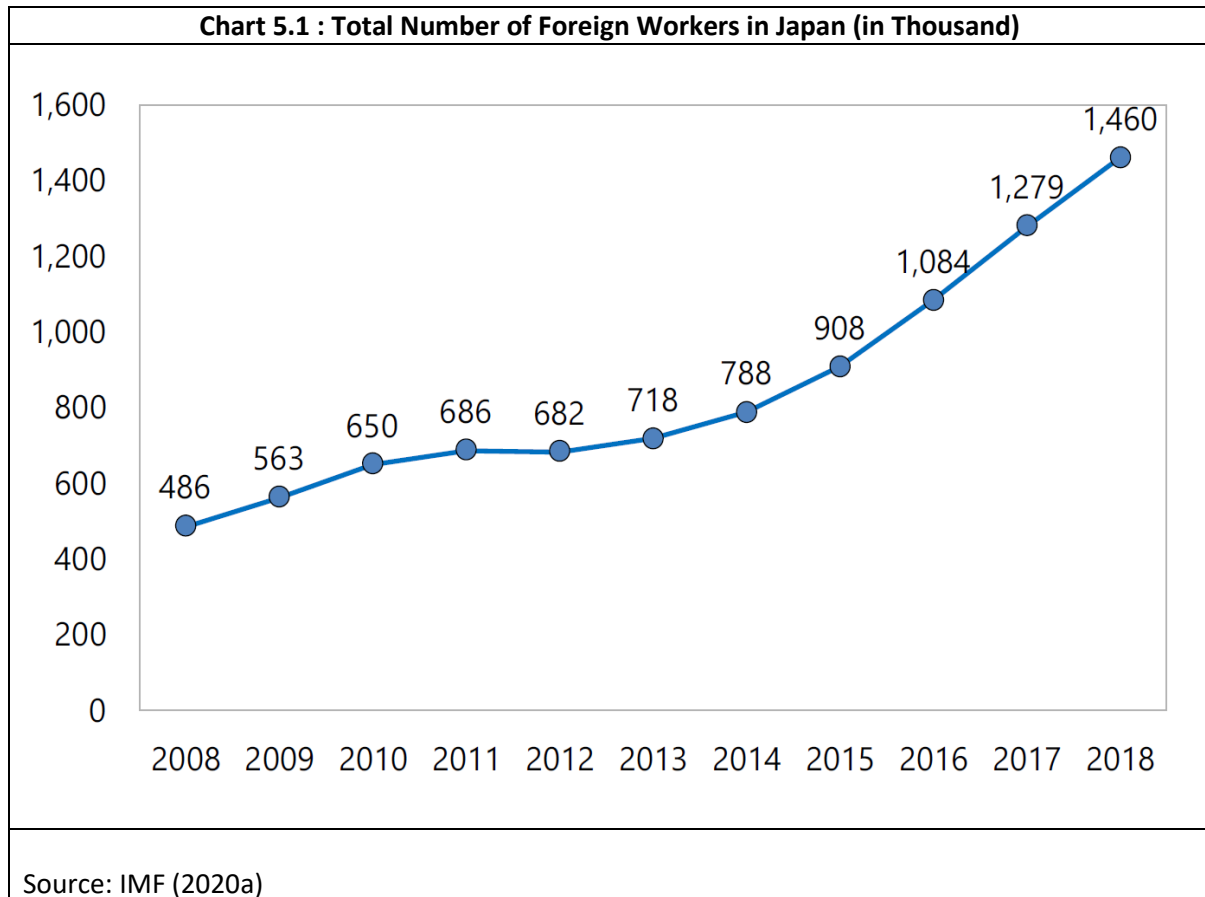
The government has started to address the problems associated with demographic change through legislation passed in 2018 that introduced the Specified Skills Worker visa system allowing for import of labour in specified categories and prospects of permanent residency. The government has repeatedly clarified that it does not presage a policy of 'immigration'. However, given the structural changes in demand and supply that aging is causing in the labour market, it is expected that internationalisation of Japanese society, economy and education will proceed apace not only in terms of greater numbers of foreign labour but also through multiculturalism. The latest statistics show that the number of foreign residents in Japan has increased from 2.121 million in 2014 to 2.561 million in 2017 (figures as of end of year), a growth of more than 20% in three years.

5.4 Foreign labour in Japan

Japan's share of foreign workers is low. But it has been growing since the inception of Abenomics in late-2012, with the share of foreign employment rising from 1.1 percent in 2012 to 2.0 percent in 2017; in absolute terms, the number of foreign workers stood at nearly 1.46 million (Chart 5.1). Vietnam, China and the Philippines accounted for most of the foreign workers inflows into Japan during 2012–17.

According to the immigration statistics, more than 40% of the number of foreign national residents in Japan come from ROK (including North Korea) and China. While the number of foreign residents from ROK has shown a marginal decline over the period 2015-17, figures of the Japan National Tourist Office show that the number of arrivals from ROK have increased by 2.7 times in a four-year period from 2.755 million in 2014 to 7.538 million in 2018. On the other hand, while the number of foreign residents in Japan from China has shown a steady increase, the number of technical intern trainees from China has shown a sharp decline over the past few years. The data does not indicate any correlation between the vagaries of the political relationship between Japan and its two key neighbours and trends in immigration/tourism from these countries. The number of technical intern trainees has increased from South East Asian countries such as Vietnam and Philippines. However, the issue of immigrant/ treatment of labour has not figured in recent

statements issued after high level summits between Japan and these countries. From South America the largest number of nikkeijin came from Brazil. However, the number of foreign residents in Japan from Brazil has decreased sharply from 316,967 in 2007 to 191,362 in 2017. Immigration is no longer a salient issue in bilateral relations between the two countries.



It may be concluded that unlike migration and immigration issues in the US, Europe and countries like South Africa, which have escalated into important foreign/regional policy issues, in Japan the issue continues to be dealt with substantially by the justice and relevant economic ministries.

5.5 Recent changes to immigration policy and its impact on Japan's external relations

Traditionally, Japan has been reluctant to tie its relations with other countries to the issue of immigration. The only notable exception was the 1965 agreement between Japan and South Korea under which Koreans who had settled in Japan before the Second World War and families of those brought to Japan as part of Japan's forced conscription policy were granted permanent residency (Cha, 1996). However, there have been significant changes to immigration policy under Prime Minister Abe that has seen Japan actively engaging with other countries on immigration matters.

After Prime Minister Abe was elected Chairman of the ruling Liberal Democratic Party in December 2018, the party pushed through changes to Japan's Immigration Control and Refugee Recognition Act which came into force in April 2019. These changes liberalized conditions for entry of non-skilled foreign workers into Japan's labour force. Healthcare, agriculture, tourism and construction were among the 14 industrial sectors where Japan relaxed existing controls on movement of workers. The revised law also provided a path to permanent residency if they passed specified examinations.

Another significant change in Japanese foreign policy brought about by the new law was an increased willingness by the Japanese government to engage with foreign governments to sign bilateral agreements relating to exchange of information and management of imported workers (Aizawa, 2019). This was considered necessary to ensure that unscrupulous recruiting agents did not cheat workers who might consider applying for work in Japan under the new scheme. Initially the government expected to sign agreements with Cambodia, China, Indonesia, Thailand, Myanmar, Philippines and Vietnam (NAR, 2019).

In July 2019 the Japanese and Indonesian governments signed a bilateral agreement to "establish a basic framework for information partnership in order to ensure smooth and proper sending and accepting specified skilled workers, in particular the elimination of malicious intermediary organizations" (MoFA, 2019). Under the agreement the Indonesian government agreed to upload information regarding vacancies available in Japan and the appropriate recruitment process on to its labour management information system. It also agreed to conduct pre-departure orientation for workers moving to Japan and provide the Japanese government with information on availability of workers with specific skills. In return, Japan agreed to provide Indonesia with information on Japanese organizations that were recruiting Indonesian workers, provide updated information to the Indonesian labour management information system, issue Visas for workers only after they had received a 'Certificate of Eligibility' from the Indonesian government, and respond to requests for information from the Indonesian government regarding the skilled worker scheme.

The Japanese government has also entered into agreements with other countries to bring in short-term workers under the Technical Intern Training Programme (TTIP) which was initiated to overcome the shortage of skilled workers. In 2017, India and Japan signed a bi-lateral agreement under which Indian technical interns would be sent to Japan for on-the-job training for a period of three to five years (GOI, 2017). The scope of the TITP was further enhanced in the 2019 reform of the Immigration Act. Under these changes lower-skilled foreign workers who pass industry-specific language and skills tests will be eligible to live and work in Japan under the new Specified Skills Visa

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that gave them residence status. The Visa would be valid for five years, but workers would not be able to bring family members (Toshihiro, 2019).

6. Social Security and Healthcare

A key economic implication of ageing is the associated costs of health care and social security. After all, tautologically when one lives much beyond the productive age, two things happen. First, she has to be supported either by her own past savings, or by her young family members or by the state – and in each case the model of social security would be different. Second, there is a change of demand pattern when one grows old – one tends to move from the usual basket of consumer goods and assets creation towards healthcare. Illustratively, instead of a new swanky model of car, an old person would perhaps need more of good quality assisted living or doctors / nurses to take care of her. How has Japan coped with these two issues?

6.1 Social Security in Japan

There is no one model of social security across the world and not all types of social security are related to aging. The ILO has enumerated following ten types of social security (Table 6.1). It is worth noting that of all these ten distinct schemes, there could be two distinct sources of finance, viz., (a) tax revenue and (b) social insurance.

Scheme	Finance	Main Type of Function (ILO Standard)
1. Public Pension	Social Insurance	Old Age, Survivors, Invalidity Benefits
2. Health Insurance	Social Insurance	Sickness and Health
3. Public Health	Tax	Sickness and Health
4. Long-Term Care Insurance	Social Insurance	Old Age
5. Services for the Elderly (except for long-term care insurance)	Tax	Old Age
6. Family Policy	Tax	Family Benefits
7. Policy for Persons with Disabilities	Tax	Invalidity Benefits
8. Public Assistance	Tax	Social Assistance and Others
9. Employment Insurance	Social Insurance	Unemployment Family Benefits
10. Work-Related Accident Insurance	Social Insurance	Employment Injury
Source: IPSS(2019)		

Japan has a long tradition of social security. The first health insurance system was introduced in Japan in 1922. Subsequently, the pension system for workers was introduced in 1941. The Social Welfare Service Act was passed as early as 1951. The National Pension Act and National Health Insurance Act was passed in late fifties. The sixties witnessed legislation of a number of social security Acts, such as, the Act on Social Welfare for the Elderly (1963) or the Act on Welfare of Mothers with Dependents. Many of these Acts were amended during the 1980s and 1990s. In April

2000, a long-term care insurance system was launched. As of April 2016 there are 6.22 million people certified as needing care / support. In September 2015, Prime Minister Abe announced an “Abenomics 2.0” platform where raising the birth rate and expanding social security occupy two crucial planks. He also created a new cabinet position dedicated to reversing Japan’s demographic decline.

Currently Japan’s social security system has a number of key arms. First, Japan has a near-universal pension system; the National Pension of Japan is “a public pension system participated by all persons aged 20 to 59 years who have an address in Japan, which provides benefits called the “Basic Pension” due to old age, disability, or death” (Japanese National Pension System, 2019). The public pension system has two key elements, viz., (a) national basic pension; and (b) income related pension (for employees of the public sector employees and for private firms). The coverage is quite extensive (Table 6.2). Second, employees and their families are covered under health insurance. Besides, there is national health insurance for the self-employed and their families as well as health services for the elderly. Third, there are unemployment insurance and related policies. Fourth, there are family policies providing child allowances, maternity leave allowances, and day care services for children.

Table 6.2: Coverage of Japan’s Pension System

National Pension Fund		Employees’ Pension Fund / Employees’ Pension Insurance System	
Self Employed Persons & others	Dependent Spouses of Category II Insured Persons	Salaried Workers of Private Sector	Government Employees
Category I Insured Persons	Category III Insured Persons	Category I Insured Persons	

Source: IPSS(2019)

Such an extensive social security system costs heavily. Table 6.3 below reports different items of general expenditure of the Japanese government for different fiscal years.⁵ In the fiscal year, 2019, major expenditures from the initial general account budget include social security (34.2 percent), national debt service (23.6 percent), local allocation tax grants, etc. (16.1 percent), public works (6.1 percent), education and science (5.4 percent), and national defence (5.2 percent). More importantly, share of social security in total expenditure has increased steadily from around 20 per cent in 2000 to 34 per cent in 2019 and emerged as an important item of expenditure.

⁵ Japan's fiscal year starts in April, and ends in March of the following year.

Table 6.3: Expenditures of General Account

Fiscal Year	Total Expenditure (TE) =(A)+(B)+(C)		General Expenditure (A)		Of which: Social Security		National Debt Service (B)		Local Allocation, Tax Grants etc (C)	
	(Billion Yen)	(% of TE)	(Billion Yen)	(% of TE)	(Billion Yen)	(% of TE)	(Billion Yen)	(% of TE)	(Billion Yen)	(% of TE)
2000	89,321	100.0	52,046	58.3	17,636	19.7	21,446	24.0	15,829	17.7
2005	85,520	100.0	49,343	57.7	20,603	24.1	18,736	21.9	17,441	20.4
2010	95,312	100.0	56,978	59.8	28,249	29.6	19,544	20.5	18,790	19.7
2015	98,230	100.0	58,966	60.0	31,398	32.0	22,464	22.9	16,801	17.1
2016	97,542	100.0	60,117	61.6	32,208	33.0	22,086	22.6	15,339	15.7
2017	99,109	100.0	60,835	61.4	32,536	32.8	22,708	22.9	15,567	15.7
2018	1,01,358	100.0	62,330	61.5	33,051	32.6	22,741	22.4	16,026	15.8
2019	99,429	100.0	59,936	60.3	33,991	34.2	23,508	23.6	15,985	16.1

Source: Government Finance Statistics, IMF.

6.2 Healthcare

Japan's universal health insurance system was founded in 1961. Over the years the Japanese health care system has enhanced its effectiveness so much so, that WHO (2018) commented, "Japan's health care system is characterized by excellent health outcomes at a relatively low cost; the system emphasizes equity, facilitated by universal insurance coverage through social insurance premiums and tax subsidies, with virtually free access to health-care facilities."⁶

The OECD Report on *Health at a Glance 2019* (OECD Indicators, 2019) highlights a number of interesting trends of Japanese health. The following deserve special mention:

- In terms of various standard indicators (like life expectancy) Japan's performance in health front has been outstanding.
- In various healthy lifestyle related indicators, Japan's performance has been very good. Illustratively, it has the lowest share of overweight adults among the OECD countries.
- Despite a falling trend, suicide rates are relatively high in Japan (sixth highest among OECD countries).
- Quality of care is also generally high, as revealed by (a) the second lowest 30-day mortality rate after a stroke; (b) high 5-year net survival across a range of cancers; and (c) low avoidable hospital admissions for chronic conditions.
- Access to health care is quite wide and strong.
- Presence of public services in health care is quite high in Japan. The share of costs covered by public sources in Japan is the third highest across OECD countries.

Over the years, the number of monthly users of long-term care insurance services increased nearly threefold and totalled nearly 5.5 million per month average in recent times. In addition, the amount of nursing care costs (including allowances for high-cost long-term care service, for high-cost

⁶ By law, all residents of Japan (including foreign nationals with a residence card) need to enrol in a health insurance programme; see WHO (2018) for details.

medical care and long-term care service, and for long-term care service to a person admitted to a specified facility), totalled nearly 9.8 trillion yen.

In terms of financing, Japan's health-care system is based on a social insurance system, with tax subsidies and some amount of out-of-pocket (OOP) payment. According to OECD data, total health expenditure increased substantially and accounted for 10.9% of the GDP in Japan in 2018 (ranked 4 among 34 countries) (Table 6.4). While Japan's healthcare expenditure is about two percentage points above the OECD average of 9 per cent, it is still much lower than the US. Healthcare in Japan is predominantly financed by publicly sourced funding.

	2010	2011	2012	2013	2014	2015	2016	2017	2018
United States	16.4	16.4	16.3	16.3	16.4	16.7	17.1	17.1	16.9
Switzerland	10.7	10.8	11.1	11.3	11.5	11.9	12.2	12.3	12.2
Germany	11.0	10.7	10.8	10.9	11.0	11.1	11.1	11.2	11.2
Japan	9.2	10.6	10.8	10.8	10.8	10.9	10.8	10.9	10.9
United Kingdom	8.4	8.4	8.3	9.8	9.8	9.7	9.7	9.6	9.8

Source: OECD Health Statistics, 2019

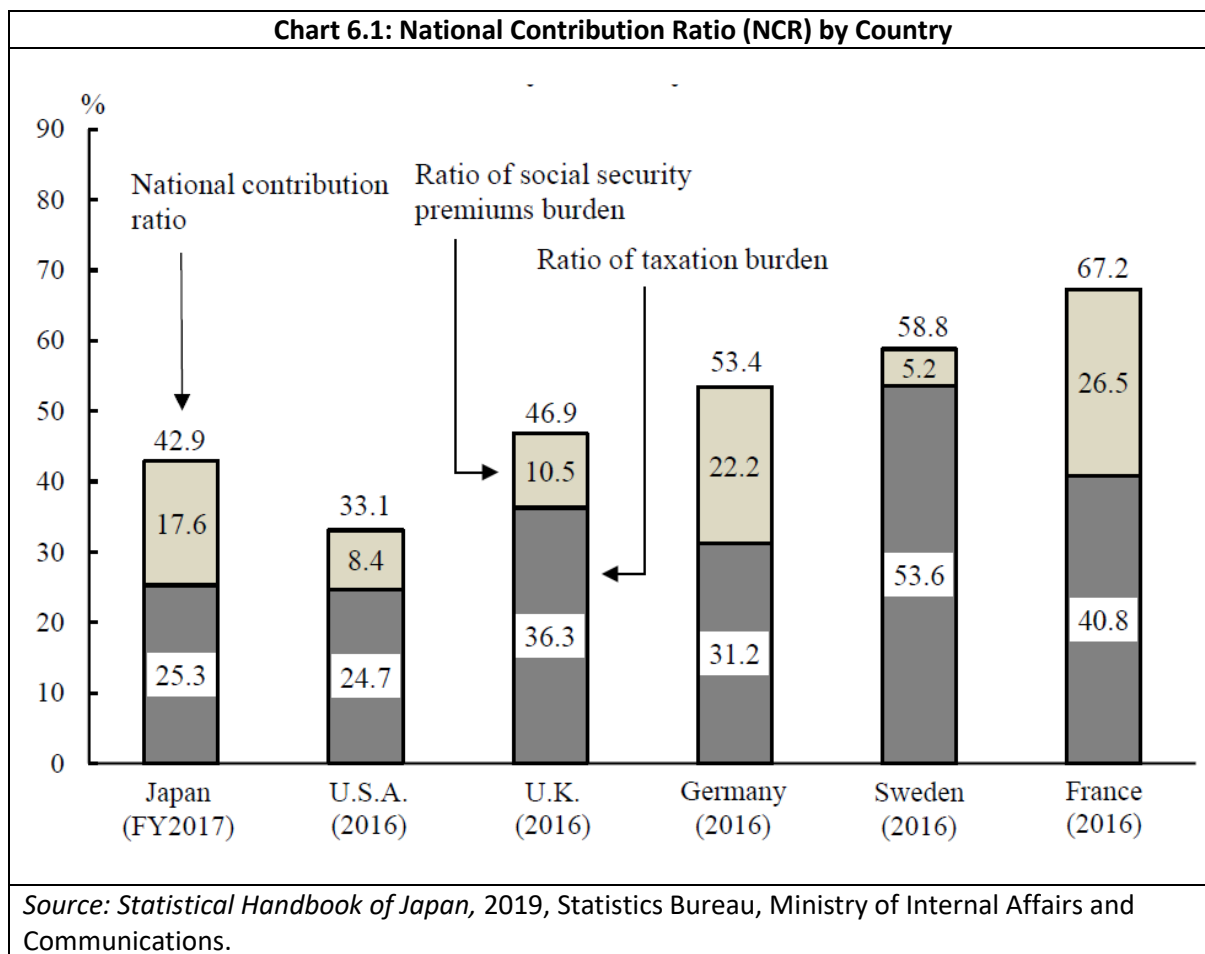
Apart from financing, healthcare sector over the years had turned out to be a destination for employment. Employing nearly 8.3 million people (12.5 per cent of total employment), healthcare sector is in third position in terms of employment generation – just next to wholesale and retail trade (16.1 per cent) and manufacturing 15.9 per cent) (Table 6.5).

	Thousands	% to Total
1. Primary industry	2280	3.4
(a) Agriculture and forestry	2100	3.2
(b) Fisheries	180	0.3
2. Secondary industry	15660	23.5
(a) Mining and quarrying of stone and gravel	30	0.0
(b) Construction	5030	7.5
(c) Manufacturing	10600	15.9
3. Tertiary industry	47310	71.0
(a) Electricity, gas, heat supply and water	280	0.4
(b) Information and communications	2200	3.3
(c) Transport and postal activities	3410	5.1
(d) Wholesale and retail trade	10720	16.1
(e) Finance and insurance	1630	2.4
(f) Real estate and goods rental and leasing	1300	2.0
(g) Scientific research, professional and technical services	2390	3.6
(h) Accommodations, eating and drinking services	4160	6.2
(i) Living-related and personal services and amusement services	2360	3.5
(j) Education, learning support	3210	4.8
(k) Medical, health care and welfare	8310	12.5
(l) Compound services	570	0.9
(m) Services, not elsewhere classified	4450	6.7
(n) Government	2320	3.5
Total	66640	100.0

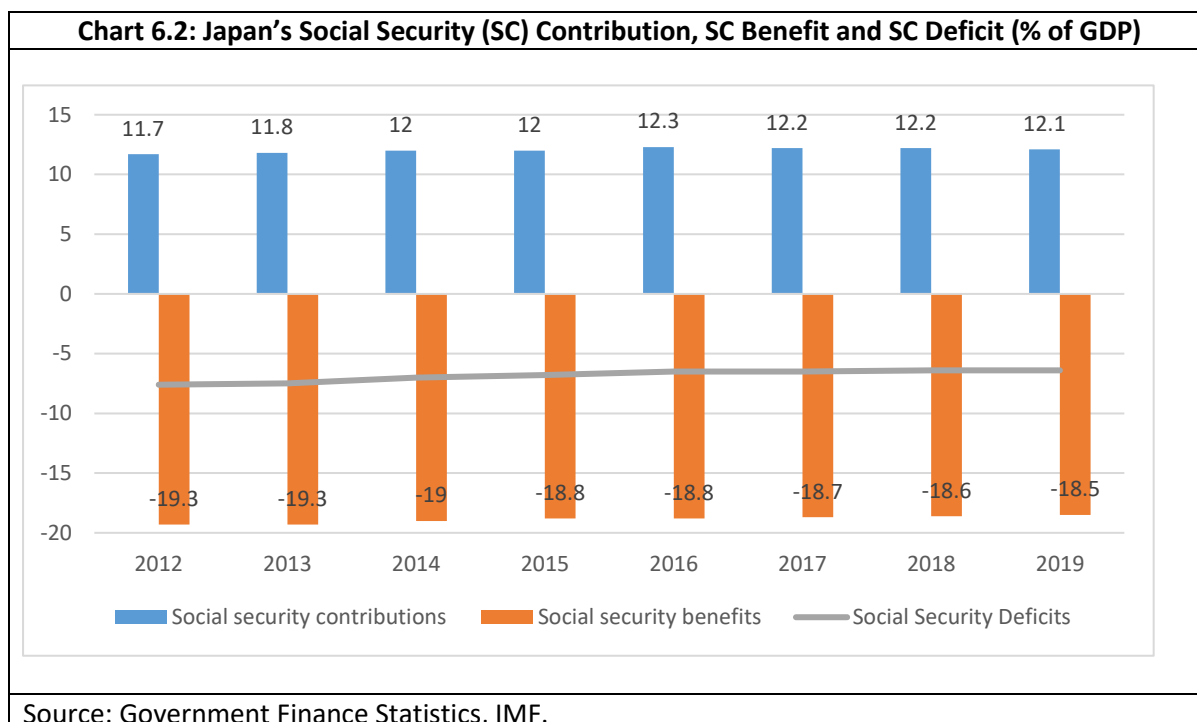
Source: Statistical Handbook of Japan, 2018, Statistics Bureau, Ministry of Internal Affairs and Communications.

6.3 Fiscal Implications

With increasing demand for health and long-term care services, Japan’s ageing population poses challenges for fiscal sustainability. An important metric in this context is the national contribution ratio (NCR), measuring the combined ratios of taxes and social security costs to national income). The NCR for Japan stood at 43 percent in fiscal 2017 (taxation burden: 25.3 percent; social security premiums: 17.6 per cent). While the ratio in Japan was higher than that of the U.S.A., it was lower than a number of European countries (Chart 6.1). This in some sense gives one an idea of the extent of states collection of revenue from the public via taxes and social security.

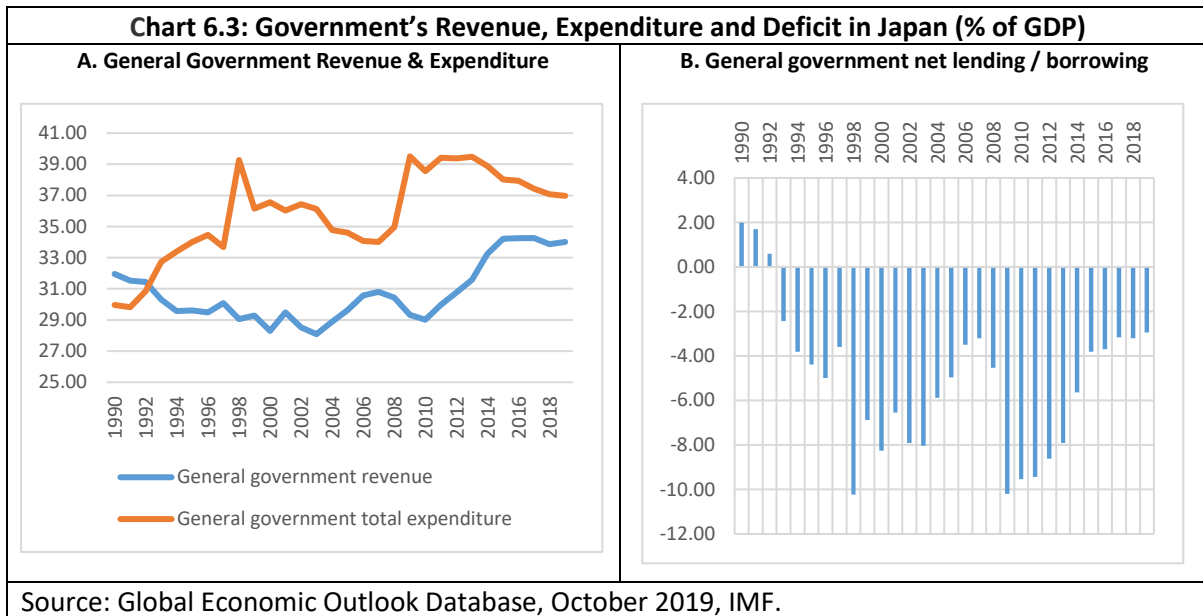


What is the source of such social security expenditure in Japan? Interestingly, budgetary data show that social security contribution (revenue item in the Budget) far exceeds social security benefits (expenditure item in the Budget) (Chart 6.2). Consequently, the difference between the two, which we have termed as social security deficit, has been substantial. Illustratively in 2019, social security benefits stood at 18.5 per cent of GDP, out of which 12.1 per cent of GDP came from social security contribution; thus, effectively a deficit of 6.4 per cent of GDP was left to be funded from taxes and other resources (Chart 6.2). All these has put enormous pressure on fiscal position of the Japanese government.

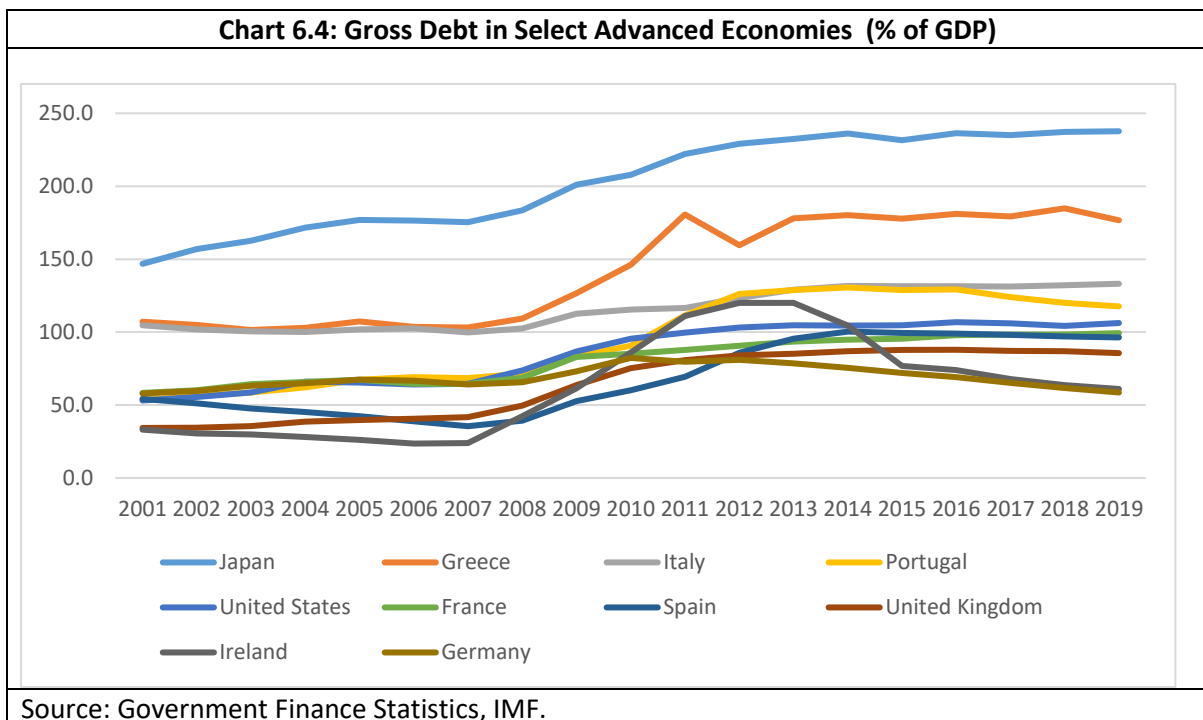


Consequently, fiscal deficits have grown substantially (Chart 6.3). In fact, since 1992, Japanese Government's surplus position turned into deficit. The fiscal position really deteriorated in the aftermath of the global financial crisis in 2009 when net borrowing by the Japanese government touched as high as 10.2 per cent of GDP. Situation improved since then. The tax reform programme in general and introduction of consumption tax under Abenomics in particular seemed to have improved the position since then. In 2019, net borrowing is projected to have improved to around 3 per cent of GDP. Illustratively, after 17 years, the consumption tax rate was raised from 5 to 8 percent on April 1, 2014. More recently, consumption tax was raised to 10 per cent in October 2019 alongside the introduction of a new reduced rate system.⁷

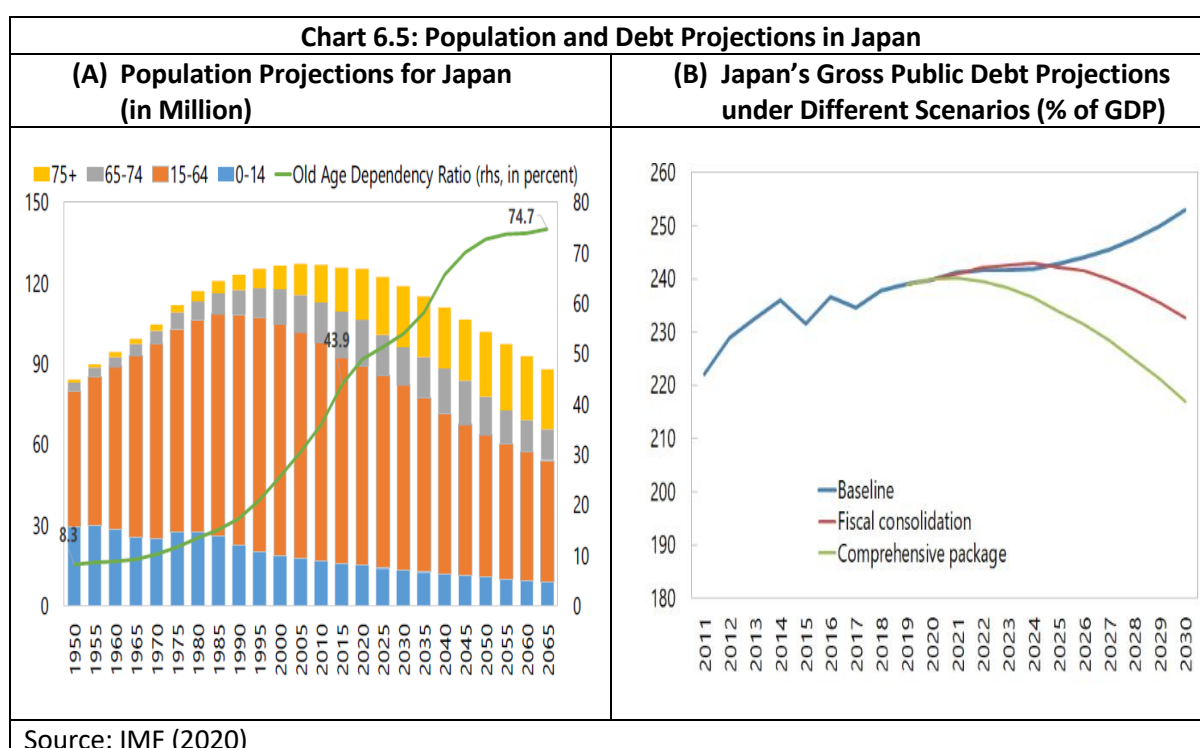
⁷The consumption tax in Japan now consists of two different rates: the standard rate of 10% and a reduced rate of 8%.



While there has been some improvement in the flow position of deficit, in stock terms, debt situation in Japan is quite precarious. As of end 2019, Japan had a gross debt-GDP ratio at 237 per cent! Since the beginning of this millennium Japan has the highest debt-GDP ratio next only to Greece. In comparison to all the major advanced countries (like the US, UK or Germany) as well as countries affected during Euro area debt crisis (such as, Greece, Italy, Ireland, Portugal and Spain) (Chart 6.4). In fact, the IMF in annual assessment of the Japanese economy of February 2020 has noted: “Japan’s demographic transition will pose grave challenges for fiscal sustainability under the current social security system.”



In no way Japan is getting younger. Since the old-age burden of Japan is going to get worsened, questions are raised in various quarters whether Japan’s debt is sustainable. As the old age dependency burden is going to reach around 75 per cent by 2065, it is going to put an enormous burden on social security and fisc (Charts 6.5A & 6.5B). The IMF in its recent Annual Assessment of Japanese economy highlighted three scenarios. Under the baseline scenario gross debt-GDP ratio of Japan could rise as high as 250 per cent, raising serious doubts about the sustainability of such debt. Under a scenario of some fiscal consolidation there are possibilities that gross debt-GDP may start coming down (after an initial increase) and reach 230 per cent within next ten years. If and only if a comprehensive package is adopted in the days to come there are possibilities that the gross debt-GDP ratio may come down to 210 per cent over the ten years.



7. Concluding Observations

Insofar as demography is concerned, Japan is now in uncharted territory. After reaching a peak in 2009, Japan’s population had started dwindling. Along with the economic miracle since the 1950s, increase in general level of wellbeing and educational status, a number of gender and culture related issues contributed to the prolonged and sharp reductions in fertility rate and a fall in death rate. Ageing and increased longevity have given rise to huge challenges in social, political, cultural and economic spheres. Illustratively, higher longevity while indicating improved quality of life, has put enormous burden on social security, health care, and the labour market. Japanese public debt has reached unsustainable levels. The fact that traditionally Japan has been less open in terms of

immigration than its G-7 peers also complicates the situation to a great extent. Public attitudes and cultural norms also seem to have made the demographic transition difficult. With a prolonged stagnation, bursting of the twin bubbles of stock and real estate markets, accompanied by a low inflation rate and deflation, Japan's economic outlook seems uncertain.

It is not that the Japanese authorities are unaware of these challenges. With measures like increasing consumption tax, encouraging female labour and liberalizing labour migration, Abenomics had taken a number of steps in the right direction. Ever increasing government spending, driven by frequent fiscal stimulus packages and population aging, made government debt unsustainable. As per OECD calculations, even if the government's target of a primary surplus in 2020 was to be achieved, the debt to GDP ratio in Japan could surpass 600% of GDP by 2060.

Thus, moving forward, a number of uncertainties remain. In dealing with the multidimensional nature of the ageing crisis in Japan, the authorities need to think in unconventional terms. Of course, one would expect that there may not be any paucity of out of box thinking in an economy that had introduced bullet train, pocket calculator, Walkman, Android robots, and negative interest rate to the global community!

Annex

Annex Table 1: Indicators on Age Structure of Population: 1884-2015									
Year	Proportion (%)			Mean age (years old)	Median age (years old)	Dependency ratio			Elderly- children ratio
	0-14 years old	15-64 years old	65 and over			Total	Child	Old age	
1884	31.6	62.6	5.7	28.9	21.0	59.6	50.5	9.1	18.1
1888	33.7	60.8	5.5	28.2	24.5	64.5	55.5	9.0	16.3
1898	32.8	61.7	5.5	28.0	23.9	62.1	53.2	8.9	16.7
1908	34.2	60.5	5.3	27.7	24.1	65.2	56.5	8.7	15.3
1920	36.5	58.3	5.3	26.7	22.2	71.6	62.6	9.0	14.4
1930	36.6	58.7	4.8	26.3	21.8	70.5	62.4	8.1	13.0
1940	36.7	58.5	4.8	26.6	21.9	70.9	62.7	8.2	13.1
1947	35.3	59.9	4.8	26.6	22.1	66.9	58.9	8.0	13.6
1950	35.4	59.7	4.9	26.6	22.3	67.5	59.3	8.3	14.0
1955	33.4	61.3	5.3	27.6	23.7	63.1	54.4	8.7	15.9
1960	30.0	64.2	5.7	29.1	25.6	55.7	46.8	8.9	19.1
1965	25.6	68.1	6.3	30.4	27.5	46.8	37.6	9.2	24.6
1970	23.9	69.0	7.1	31.5	29.1	44.9	34.7	10.2	29.5
1975	24.3	67.7	7.9	32.5	30.6	47.6	35.9	11.7	32.6
1980	23.5	67.4	9.1	33.9	32.5	48.4	34.9	13.5	38.7
1985	21.5	68.2	10.3	35.7	35.2	46.7	31.6	15.1	47.9
1990	18.2	69.7	12.1	37.6	37.7	43.5	26.2	17.3	66.2
1995	16.0	69.5	14.6	39.6	39.7	43.9	23.0	20.9	91.2
2000	14.6	68.1	17.4	41.4	41.5	46.9	21.4	25.5	119.1
2005	13.8	66.1	20.2	43.3	43.3	51.3	20.8	30.5	146.5
2010	13.1	63.8	23.0	45.0	45.0	56.7	20.6	36.1	175.1
2015	12.5	60.8	26.6	46.4	46.7	64.5	20.6	43.8	212.4

Source: United Nations, World Population Prospects 2019.

Annex Table 2.2: Japan: Labor Market & Population Indicators			
	Unemployment rate (% of labor force)	Employment (Million Persons)	Population (Million)
1980	2.0	55.4	116.8
1981	2.2	55.8	117.6
1982	2.4	56.4	118.5
1983	2.7	57.3	119.3
1984	2.7	57.7	120.1
1985	2.6	58.1	120.8
1986	2.8	58.5	121.4
1987	2.9	59.1	122.0
1988	2.5	60.1	122.5
1989	2.3	61.3	123.0
1990	2.1	62.5	123.4
1991	2.1	63.7	123.9
1992	2.2	64.4	124.4
1993	2.5	64.5	124.8
1994	2.9	64.5	125.1
1995	3.2	64.6	125.4
1996	3.4	64.9	125.7
1997	3.4	65.6	126.0
1998	4.1	65.1	126.3
1999	4.7	64.6	126.6
2000	4.7	64.5	126.8
2001	5.0	64.1	127.1
2002	5.4	63.3	127.4
2003	5.2	63.2	127.6
2004	4.7	63.3	127.7
2005	4.4	63.6	127.8
2006	4.1	63.9	127.7
2007	3.8	64.3	127.8
2008	4.0	64.1	127.7
2009	5.1	63.2	127.6
2010	5.1	63.0	127.6
2011	4.6	62.9	127.8
2012	4.3	62.8	127.6
2013	4.0	63.3	127.3
2014	3.6	63.7	127.1
2015	3.4	64.0	127.0
2016	3.1	64.7	127.0
2017	2.8	65.3	126.7
2018	2.4	66.6	126.5
Projections			
2019	2.4	67.4	126.2
2020	2.4	67.6	125.8
2021	2.4	n/a	125.3
2022	2.4	n/a	124.8
2023	2.4	n/a	124.2
2024	2.4	n/a	123.6

Source: United Nations, World Population Prospects 2019.

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