

Part II Labour Policy Issues in a Society with a Declining Population
Chapter 1 Population Change and the Economy and Society
Section 1 Recent Economy and Society Change

Japan is experiencing a rapid change in its population structure with accelerated aging and declining birthrate, as well as decline in productive population and labour force. In addition, the society is expected to face the problem of a declining population.

Since the fall of 2003, the country has experienced some degree of economic recovery. Although the pace of recovery has slowed down considerably recently, the Japanese economy is expected to maintain this positive shift, notwithstanding some remaining concerns.

As Japan expects to face changes in population structure and declining population, it is essential for the nation to foster development based on a sustainable economic growth. It is critical that the country focus not only on responding to declining population, population aging, and low birthrate issues, but also with globalization and an advanced industrial structure.

(Changes in Population and Population Structure)

Looking at the changes in population structure in Japan, the ratio of elderly (proportion of people over 65 years old to total population) reached 7% in 1970, meeting the United Nation's definition for an aging society. In the following 25 years, Japan's rate of aging accelerated sharply to 14%, a pace experienced by no other developed country. Except for 1.58 in 1966 (the Year of the "Hinoeuma" when the possibility of giving birth to girls was generally avoided), the total fertility rate has increased moderately by 2 or more between 1960 and mid-1970s. Since then, however, the total fertility rate in 1989 dipped below the 1966 level of 1.58 to 1.57. This drop became known as the "1.57 shock", and has since fallen to 1.29 in 2003 (Table 12). Productive population (15 through 64 years) reached a peak in 1994, and then turned downward. The over-15 population willing to work, i.e. the labour force, also started declining in 1998.

While further acceleration of aging and declining birthrate and a decline in productive population are expected in the future, Japan's total population on October 1, 2004, was 127.69 million, of which 62.3 million were males and 65.39 million were females (Statistics Bureau, Ministry of Internal Affairs and Communications (MIC). Based on the information provided in National Institute of Population and Social Security Research's "Population Projections for Japan (2002)", the total population of Japan will reach a peak in 2006. However, the population, which has consistently increased since the end of World War II, is projected to decrease after 2006.

(Changes in the Global Economy and Efforts to Build New International Relations)

An aging society, declining birthrate, issues of productive population and labour force, and a declining population are likely to become a serious problem in the future, confronting not only Japan but also other developed countries. In addition, in line with the recent changes in population and population structure, the positions of each country in the global economy and international relations have gradually but fundamentally shifted (Table 13).

According to the IMF's "World Economic Outlook Database, September 2004", Japan's growth rate since the second oil shock has hovered between -2% and +7%, that of other developed countries has also moved at the same pace of around -2% and +8%, China, however, other than in 1989 and 1990 when it had experienced slower growth than developed countries (Figure 14), achieved a significant economic growth with a rate between +4% and +16%.

Table 12 Aging Ratio and Total Fertility Rate in the Developed Countries

Country	1950		1960		1970		1980		1990		2000	
	Aging ratio (%)	Total fertility rate	Aging ratio (%)	Total fertility rate	Aging ratio (%)	Total fertility rate	Aging ratio (%)	Total fertility rate	Aging ratio (%)	Total fertility rate	Aging ratio (%)	Total fertility rate
Japan	4.94	3.65	5.73	2.00	7.06	2.13	9.10	1.75	12.05	1.54	17.34	1.29 (2004)
US	8.26	3.02	9.19	3.64	9.84	2.46	11.21	1.84	12.21	2.08	12.28	U 2.01 (2002)
France	11.38	2.92	11.64	2.72	12.87	2.47	13.97	1.99	13.99	1.78	15.96	E 1.89 (2002)
Germany	9.72	2.05 (1951)	11.52	2.34	13.69	2.01	15.60	1.46	14.96	1.45	16.31	E 1.31 (2002)
Italy	8.26	2.52	9.31	2.31	10.89	2.43	13.15	1.61	15.32	1.33	18.07	1.24 (2001)
Sweden	10.25	2.32	11.97	2.17	13.67	1.94	16.29	1.68	17.78	2.13	17.40	1.65 (2002)
UK	10.73	2.19	11.68	2.67	12.94	2.38	15.07	1.90	15.94	1.85	15.86	E 1.64 (2002)

Sources: Aging ratio: National Institute of Population and Social Security Research "Latest demographic statistics"

Total fertility rate in Japan: MHLW "Vital Statistics of Japan"

Total fertility rate in other countries: UN "Demographic Yearbook"

Note that "U" and "E" refer to the sources of NCHS, National Vital Statistics Reports and Council of Europe, Recent demographic developments in Europe in 2003, respectively.

- Notes:
- 1) "Aging ratio" is the proportion people 65 years old and over to total population
 - 2) The total fertility rates of Japan before 1990 are actual figures and those for 2004 are approximate numbers
 - 3) The total fertility rates of Germany before 1990 are those for West Germany only
 - 4) The total fertility rates of UK before 1980 are the total figures for England and Wales.

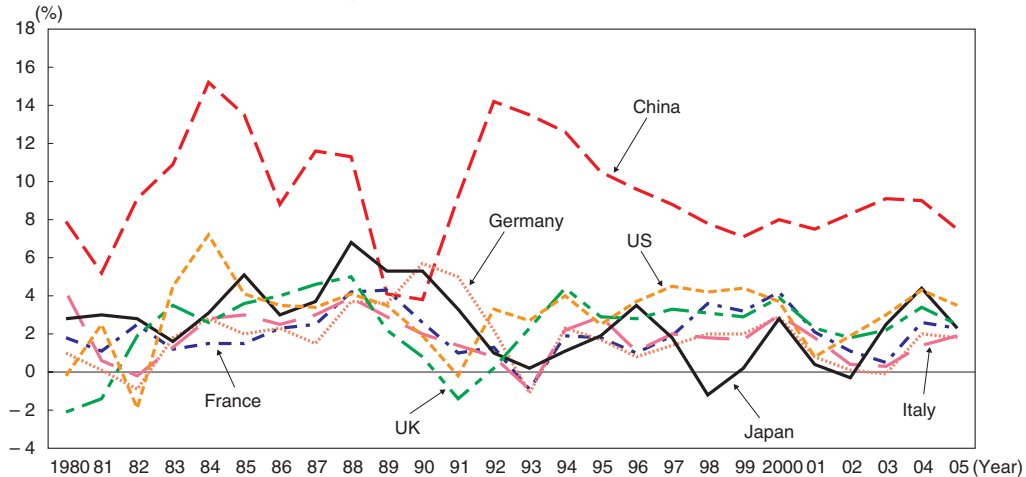
Table 13 Demographic Transition in Selected Countries (Unit: 1,000)

Country	1950	2000	2050 (estimate)
Japan	83,625	127,034	112,198
China	554,760	1,273,979	1,392,307
South Korea	18,859	46,779	44,629
India	357,561	1,021,084	1,592,704
US	157,813	284,154	394,976
Canada	13,737	30,689	42,844
Brazil	53,975	173,858	253,105
UK	49,816	58,670	67,143
France	41,829	59,278	63,116
Germany	68,376	82,344	78,765
Italy	47,104	57,715	50,912
Sweden	7,014	8,877	10,054

Source: UN "World Population Prospects: The 2004 Revision"

Note: The figures for 2050 are median values

Figure 14 Trends in Real GDP Growth



Source: IMF website "World Economic Outlook Database, September 2004"

Note: The growth rates for 2004 and 2005 are the estimates and Germany's growth rates up to 1990 represent those for the former West Germany

With respect to the trend in Japan's trade volume since 1990, both imports and exports were weak until 1993, but then growth began to speed up. In particular, while the imports from the US and EU remained more or less flat, imports from Asia (excluding China) experienced an increase, and those from China saw a remarkable increase. The imports from China, for example, exceeded those from the EU in 1999, and from the US in 2002, making China Japan's largest importer (Figure 15). This is partly as a result of the horizontal or vertical division of trade in Japanese corporations in the form of an operational shift to China, where labour and other operational costs are relatively lower. The fundamental backdrop for such an increase in imports from China reflects the recent robust economic growth of this country.

(Changes in Domestic Economy)

Given that improved business performance had a positive effect on households, the Japanese economy appeared to recover slowly throughout 2004. According to MOF "Financial Statements Statistics of Corporations by Industries Quarterly", the corporate sector reported a record profit and the economic recovery seemed likely to become a steady recovery after bursting of the bubble economy.

The MIC Statistics Bureau's "Family Income and Expenditure Survey" indicates that during the period of sluggish economy in the 1990s, reflected in household spending, spending on transport and communications increased with the development of an information-oriented society. As the population ages, spending on medical care increases, while spending on food, clothing, and shoes decreases (Figure 16).

With respect to distribution of industry in real GDP growth terms during the same period, the contribution to GDP growth of some sectors, including construction, decreased due to cuts in public projects, while the contribution made by services and financial and insurance industries increased because of expansion in the tertiary industry. Given this background, the "Population Census" conducted by the Statistics Bureau of MIC shows that, in the shift of worker distribution by industry during the 1990s, the number of workers in primary industries (e.g. agriculture, forestry, and fisheries) decreased to a large extent, whereas, among the secondary industries (e.g. mining, construction, and manufacturing), the number of workers in the mining sector decreased significantly while those in manufacturing continued to drop throughout the 1990s. In the first half of the 1990s, the number of workers in the construction sector expanded, although in the latter half of the same decade, it began to fall, resulting in the reduction of numbers in the secondary industries as a whole. Tertiary industries, e.g. wholesale and retail trades, restaurants, and financial and insurance sectors saw some decrease in the first half of the 1990s. In the latter half of the same decade, these sectors again experienced some level of decrease. Overall, however, the expansion of the service industries supported a continuous rise in the number of workers in the tertiary industries throughout the 1990s (Figure 17).

During the 1990s, the Japanese market received strong foreign inflows of capital. Before this period, Japanese stocks were mainly cross-held or held by institutional investors. However, this trend has been changing and, since around 1990, foreign equity flows into Japan, both from foreign business and individual investors, have expanded.

(Japan's Challenges for Sustainable Growth)

As the recent economic trends clearly show, it is essential for Japan to stimulate the economy in order to achieve an enhanced economy based on a sustainable economic growth. This can be achieved by strengthening its global competitiveness, acquiring creative value-added skills, and by applying the outcome of such efforts to improving employment and worker's households. The important issues to be addressed include: population decrease, population aging and declining birthrate, globalization, and sophistication of the industrial structure. Of these challenges, perhaps the most critical to be dealt with is the declining birthrate and the growing proportion of elderly people.

Figure 15-1 Trends in Exports to Asia, US and EU

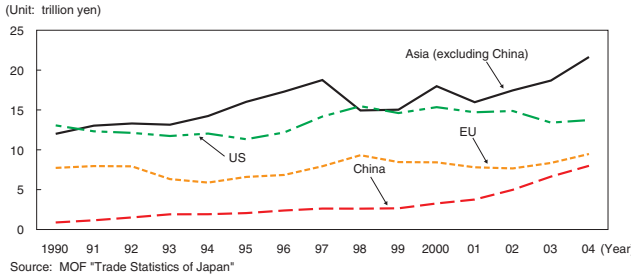


Figure 15-2 Trends of Imports from Asia, US and EU

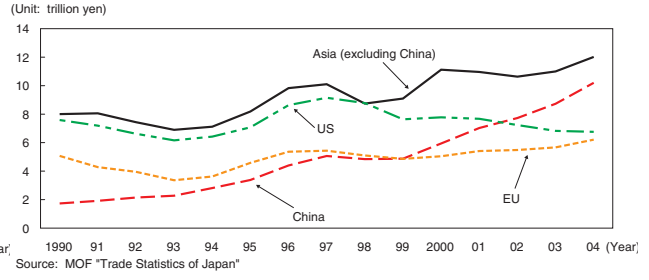
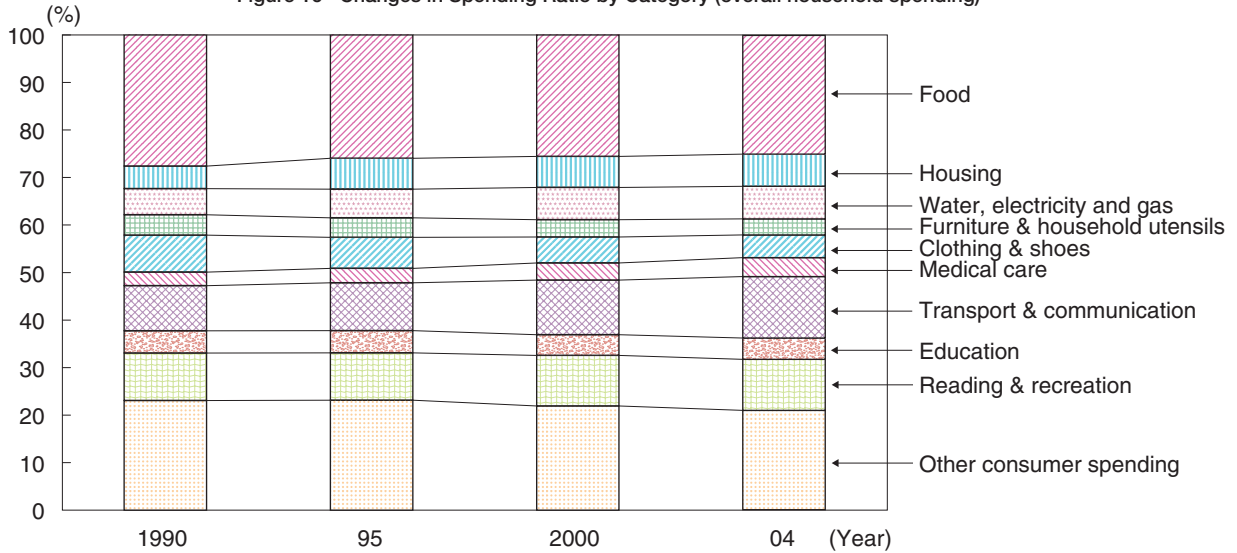


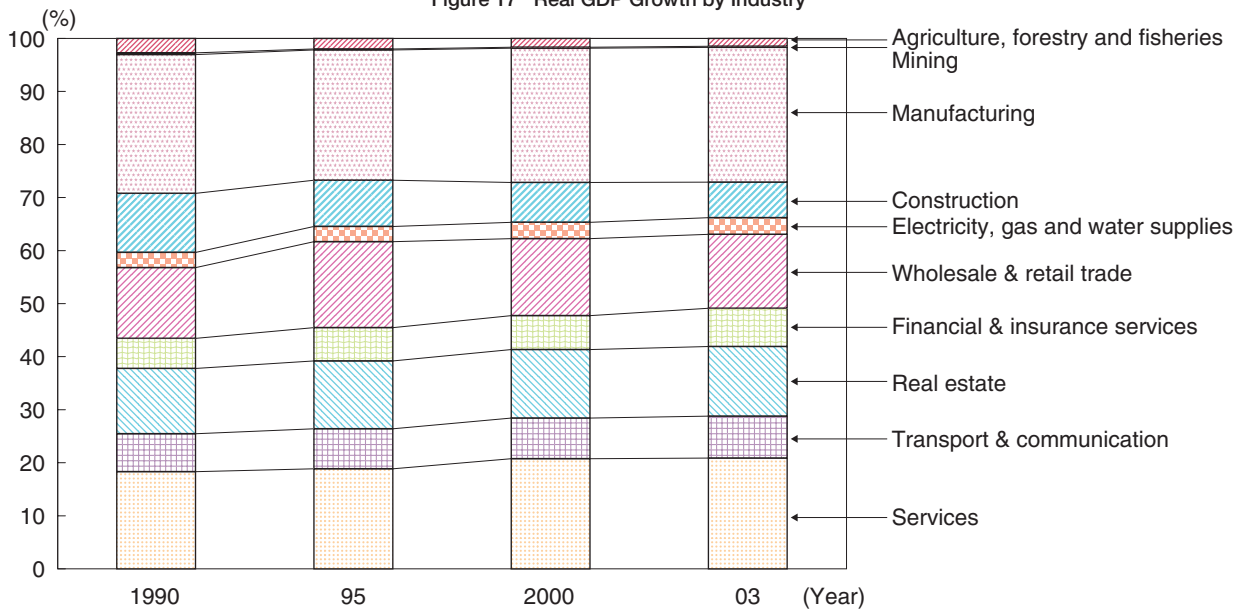
Figure 16 Changes in Spending Ratio by Category (overall household spending)



Source: Statistics Bureau, MIC "Family Income and Expenditure Survey"

Note: "Family income and expenditure survey" studied households of two people or more (excluding those in agriculture, forestry and the fisheries industry)

Figure 17 Real GDP Growth by Industry



Source: Cabinet Office "National Accounts"