

Choice for the Future

- Creating a Growth and Development Model Made in Japan Transcending Rapid Depopulation and Super Aged Society -

[Interim Report on Previous Discussions] (Summary)

Basic Understanding

- If no action is taken to change the current situation, our future will be extremely tough and difficult.
- If we are able to change the system, policy and public mindset, we can change our future.

I. Depopulation to Continue Next 50 Years

- Depopulation is to continue for the next 50 years.
- Assuming the current birthrate is to continue¹:

“Rapid depopulation”:

2008 - 2013	-160,000 per year
Late 2010s - early 2020s	-500,000 to -600,000 per year
Early 2040s	-1 million per year

“Rapid aging population”: Persons over 65 years old to account for about 40% of the whole population in 50 years.

>> Likely adverse impacts - Decline in labor force population, lower economic growth, contraction of local communities, and crisis in fiscal sustainability of municipal and national governments, as well as the social security system.

II. The Future can be changed

1. Future Images When No Action Is Taken to Change the Current Situation

i. **Negative Growth: Contraction of the Economic Scale**

Unless stagnant productivity growth is improved, it will be difficult for Japan’s economy to continue positive growth.

Japan’s relative economic size will shrink by global comparison.

ii. **Demographic Onus and Contraction Spiral: Contraction in the Economic Scale, Leading to Lower National Welfare**

Declining birthrate and aging population will create the “Demographic Onus”, whereby a relatively high proportion of the population becomes a burden on economic growth since they are supported by a relatively small workforce. There is also concern about the “Contraction Spiral”, where a contraction in the economic scale spawns another set of contractions with rapid depopulation resulting in a shrinking domestic market, lower appeal as an investment destination, and a lack of innovation.

iii. **Fixation and Reproduction of Economic Inequality**

Continued polarization of the labor market, where regular employees tend to be engaged

¹ The medium variant projections (as of Jan. 2012) of the future population by the National Institute of Population and Social Security Research is population of 86.74 million in 2060 with 39.9% of the population over 65 years old, assuming the current level of birthrate to continue till 2060. (Total population of 128.06 million in 2010 with 23.0% of the population over 65 years old.)

in overworking while non-regular employees find it difficult to form a career path with unstable jobs, has failed to fully utilize the female, youth, and elderly workforce, and is likely to immobilize and reproduce the existing inequality.

iv. **Over a Quarter of Local Governments to Disappear and Rapidly Aging of Tokyo**

If the tide of over-concentration of the youth in Tokyo will continue, more than a quarter of all local government entities will become unable to provide adequate administrative services², especially in local areas.

The Tokyo metropolitan area will lose its energy as a global city with its rapid aging of population. A shortage of medical and nursing care services would lead to the creation of many “medical and nursing care refugees” who are unable to receive appropriate care.

v. **Risk of Financial Reversal and Lower International Standing**

The social security bill will continue to rise. Without a steady reduction in the budget deficit, there will be an increasing risk of financial reversal with the structural diminution of the current account surplus.

Our international standing will be adversely affected with weakened capabilities to contribute internationally.

2. **Choice for the Future**

- **If the system, policy, and public mindset change swiftly, our path to the “rapidly declining and aging population” can be diverted.**
- **A focused approach to reform and changes are required, so that the youth and generations to come are able to enjoy a wealth of life in which they can get married and raise children.**

i. Create an **environment to realize couples’ wish** (actual number of children per couple at 1.7 as opposed to their desire of 2.4 children³), and **maintain a population of about 100 million with a stable demographic structure of about in 50 years⁴**.

- Under this scenario, the population will slightly increase in the next generation to follow.

ii. **Maintain growth by opening up the economy to the world and “creating new value by originality and ingenuity”.**

Economic growth and development is indispensable to preserving the national quality and standard of living

- **Dynamism**: Reform for an open and flexible system to accelerate innovation and create a dynamic industry structure.
- **Open**: Gather talent, resources, funds, and information from all over the world to

² In case of continuing population influx from the local areas to the large metropolitan areas, the young female population is forecast to decrease by more than 50% by 2040 in 896 municipalities (49.8% of total), 523 of which (29.1% of total number of municipalities) will suffer from the “possibility of disappearance” with their respective population dwindling down to less than 10,000.

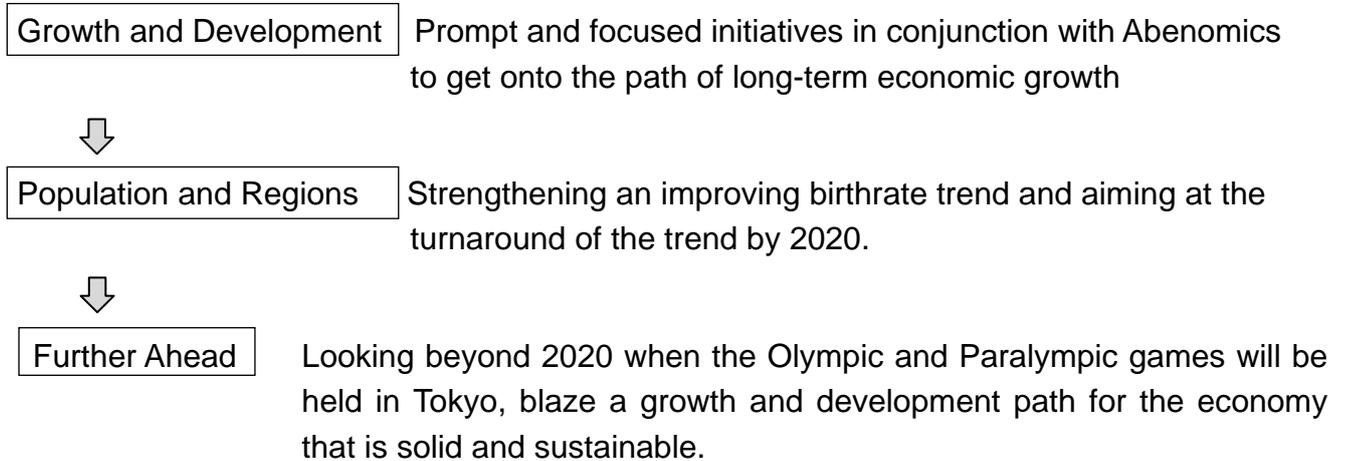
³ Source: “Japanese National Fertility Survey, Married Couples”, National Institute of Population and Social Security Research.

⁴ If the level of the total fertility rate recovers to 2.07 by 2030, marked imbalances in demographic structure are expected to be resolved with a more balanced ratio for each age group of total population in 2060; 20.7% under 20 years old, 46.3% 20-64 years old, and 33% over 65 years old.

benefit from global growth and development.

- iii. **Establish a labor market structure where the enthusiastic can work, regardless of their age or gender**, with much more active participation from women, youth, and the elderly.
- iv. Implementing **regional strategies that take advantage of local characteristics and advancing the integration and vitalization processes in regional area, approach to utilize resources with lateral thinking and create new job opportunities.**
- v. **Valuing the social infrastructure:** fundamental system (social security, public finance), culture, civic minds and others.

III. Timeframe to Change of Future and Direction of the Reforms



[Direction of the Reform]

- **Management efforts by the private sector are important together with the change in mentality of such people as business managers and employers.**
- **The government's role is to provide a suitable environment by way of unrelenting reform of system and policy.**
- **Share a sense of crisis for the shortage of time left to implement the necessary reforms and changes.**

1. Population: maintain a population of about 100 million with a stable demographic structure of about in 50 years by providing a better environment to raise children.

[Drastic Countermeasures to the declining Birthrate]

- Review the system and structure in order to minimize the extra economic burden generated by having children.
- Focus of resource allocation to be drastically shifted from the elderly to children by doubling support for child birth and child-rearing. The current working generation should bear the cost.

[Policy Initiatives for Children and Radical Change in Mentality]

- Countermeasures to reverse the declining birthrate to be reviewed from the perspective of the overall policy for children in various areas expanding from the support measures for child birth and child-rearing, and enhance them aggressively as an investment in future.

2. Medium- to Long-Term Economic Growth and Development: Continue growth by opening up the economy to the world and “Creating New Value by Originality and Ingenuity”.

[Innovation - Key to the Productivity Improvement]

- Shift in mindset, from “manufacturing” to “Mono-Kotozukuri (value added manufacturing)”; promotion of innovation by reforming to an open and flexible system (“creating new value by originality and ingenuity”).
- Improved productivity of value added through branding and marketing; accumulation and promotion of “Knowledge Capital”.

[Encourage “Regeneration and Rejuvenation” of Industry and Business]

- Execution of dynamic transformation of the industry structure through bold and fundamental reform.
- Enhancement of financial functionality (revitalization of emerging and venture capital markets).

[Open country]

- Simultaneous progress of outward globalization of Japan’s service sectors and SME’s, and internal globalization of accelerated FDI into Japan.
- Maximization of value added made in Japan in the global value chain.
- Strategic acceptance of foreign labor force while encouraging national debate on the subject, and taking advantage of the mutual exchanges with them for economic growth and development.

[Sustainable Social Security System and Public Finance]

- Correction of regional imbalances of medical and nursing services. Brakes on ever increasing medical and nursing costs.
- Commitment to sound fiscal consolidation with a clearly set objective, such as lowering the debt-to-GDP ratio.

3. Human Resources: Talent Utilization regardless of Age and Gender

[Gender, Regular and Non-Regular: More Working Opportunities in Accordance with Ability and Motivation]

- Reform of working style for both men and women, and a better work-life balance, especially for men.
- Improved visibility of the initiatives taken against the declining birthrate.

[The Elderly: Healthy Longevity as Social Energy]

- Treating 70 years as new retirement age (“New Productive Age Population”), encourage active participation of the elderly in labor force and/or other social activities.

[The Youth and Children: Nurturing Future Generations]

- Life-long human resource development, education focused on extending self-motivation and creativity, wider range offering of the learning options, ample opportunities for re-learning. By providing more educational options for the development of children independent of the financial capability of parents, avoid reproduction of economic inequality.
- Nurture future talent who can create new added value.

4. Prospects of the Regions: Regional strategies that take advantage of local characteristics and “Integration and vitalization” in regional area

[Implementing regional strategies that take advantage of local characteristics]

- Utilize available resources with lateral thinking. Constructing a wide-ranging network by way of ICT application, cooperation and exchanges among diverse human resources and entities. Create jobs in areas such as the agriculture, forestry and fisheries industry, tourism and medical care.
- Constrain population migration from the countryside to Tokyo and foster human flow into the regions from Tokyo.
- Advocate the reconstruction efforts from the Great East Japan Earthquake as a model for regional development.

[“Integration and vitalization” for Regional Regeneration]

- “Integration and vitalization”: Consolidate the township in the central area by contracting and withdrawing from the peripheral part with a view to consolidating administrative services and revitalize economic activities.
- Strong leadership required for sharing a sense of crisis and forming consensus through discussions.
- Appropriate management of public assets including absorption and reorganization. Switch “from ownership to utilization” of real property.

[Regional Development Based on “New Bond”]

- Encourage regional development based on the “new bond” such as NPO activities and social business.
- Cultivate regional leaders including global-local talents and “outsiders”; social investment to support regional fund flow.

5. Trust and Discipline: Securing a Basis for Safety and Peace of Mind

[Respect for Japan and Japanese-ness]

- Inheritance and further refinement of our tradition, culture, an aesthetic sense and values that have been nurtured by Japan's climate and nature. Establish brand "Japan".

[Remaining a Responsible and Important Nation with a Role to Play in the International Community]

- Uphold our standing in the international community and keep our messages heard by joining in international contributions and global framework setting activities.