

EUROPA ECONOMIC PERSPECTIVES



The Japanese Economy
Strategies to Cope with a
Shrinking and Ageing Population

Randall S. Jones



The Center on Japanese Economy and Business
5 March 2026

**A New Era in Japan:
The New Administration and Its Impact
on the Economy and Business**

Randall S. Jones

Professional Fellow, Center on Japanese Economy and Business
Adjunct Professor, Johns Hopkins University and the KDI School
Distinguished Non-resident Fellow, Korea Economic Institute
Former Senior Counselor - East Asia and Head of Japan/Korea
Desk, Organisation for Economic Cooperation and Development
(OECD)

Main points of presentation

1. The Liberal Democratic Party's landslide victory in the February 2026 election provides an opportunity for Prime Minister Takaichi to implement far-reaching reforms to improve the Japanese economy.
2. The government's ambitious spending plans and tax cuts may slow progress in reducing public debt and pose economic risks. With public social spending set to rise in the context of population aging, a medium-term fiscal plan to ensure long-run fiscal sustainability is a priority.
3. Policies to better enable women to combine careers with children through improved work-life balance and greater use of parental leave could help reverse the decline in the birth rate. Raising employment rates, particularly for women and older persons, and greater use of foreign workers are essential to offset the decline in the working-age population.
4. The Council for Japan's Growth Strategy, which will formulate a public-private investment roadmap focusing on 17 sectors, offers potential gains and risks. The fundamental priority should be to reduce the large productivity gaps between large firms and small and medium-sized enterprises and between manufacturing and services. Leveraging Japan's large investment in education and R&D is essential to boost productivity.
5. Japan's exports to the United States fell in 2025 the context of rising US tariffs. In the September 2025 agreement, Japan agreed to invest \$550 billion in the United States in projects selected by the US government. With the 15% US tariff on Japanese goods set to expire in July 2026, Japan should use the investment agreement to negotiate a lower tariff rate. Expanding trade agreements with other countries would reduce Japan's vulnerability to US protectionism.

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3. How will Prime Minister Takaichi cope with the demographic crisis as the number of babies born in Japan fell for the 10th consecutive year in 2025, reaching its lowest level on record, and public resistance to inflows of foreign workers is growing?
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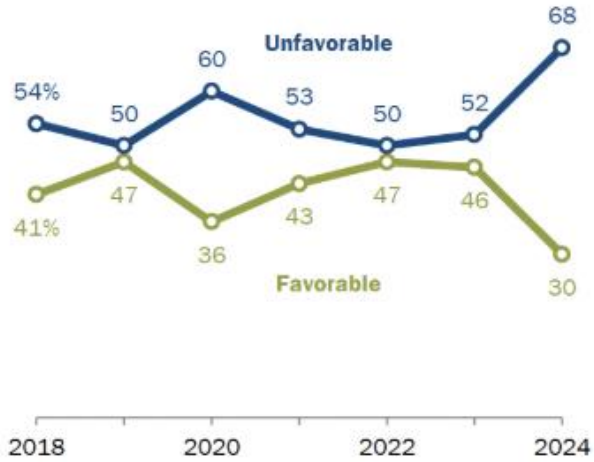
	Shinzo Abe 安倍 晋三 Rep for Yamaguchi 4th (1954–2022) <i>Premiership</i>	26 September 2006	26 September 2007	1 year, 1 day
	Yasuo Fukuda 福田 康夫 Rep for Gunma 4th (born 1936)	26 September 2007	24 September 2008	365 days
	Tarō Asō 麻生 太郎 Rep for Fukuoka 8th (born 1940)	24 September 2008	16 September 2009	358 days
	Yukio Hatoyama 鳩山 由紀夫 Rep for Hokkaido 9th (born 1947) <i>Premiership</i>	16 September 2009	8 June 2010	266 days
	Naoto Kan 菅 直人 Rep for Tokyo 18th (born 1946) <i>Premiership</i>	8 June 2010	2 September 2011	1 year, 87 days
	Yoshihiko Noda 野田 佳彦 Rep for Chiba 4th (born 1957) <i>Premiership</i>	2 September 2011	26 December 2012	1 year, 116 days

	Shinzo Abe 安倍 晋三 Rep for Yamaguchi 4th (1954–2022) <i>Premiership</i>	26 December 2012	16 September 2020	7 years, 266 days
	Yoshihide Suga 菅 義偉 Rep for Kanagawa 2nd (born 1948) <i>Premiership</i>	16 September 2020	4 October 2021	1 year, 19 days
	Fumio Kishida 岸田 文雄 Rep for Hiroshima 1st (born 1957) <i>Premiership</i>	4 October 2021	1 October 2024	2 years, 364 days
	Shigeru Ishiba 石破 茂 Rep for Tottori 1st (born 1957) <i>Premiership</i>	1 October 2024	21 October 2025	1 year, 21 days
	Sanae Takaichi 高市 早苗 Rep for Nara 2nd (born 1961) <i>Premiership</i>	21 October 2025	Incumbent	127 days

Growing dissatisfaction with the LDP and with how democracy is working in Japan

Favorability of Japan's Liberal Democratic Party has declined this year

% of Japanese adults who have a(n) ___ view of the LDP

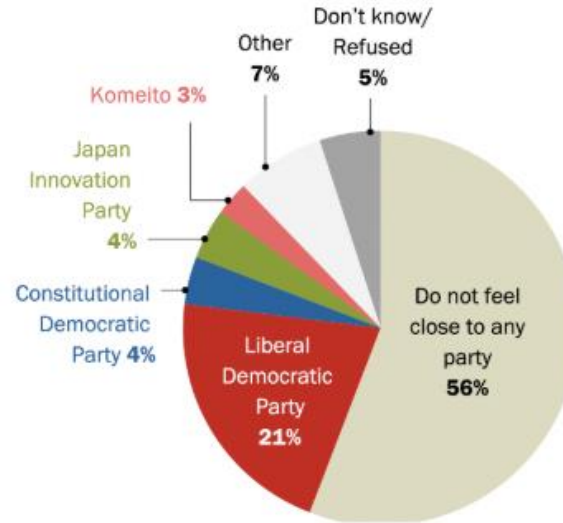


Note: Those who did not answer are not shown.
Source: Survey of Japanese adults conducted Jan. 5-March 9, 2024.

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Only about 1 in 5 Japanese adults regularly back Liberal Democratic Party

% of Japanese adults who support ___ on a regular basis

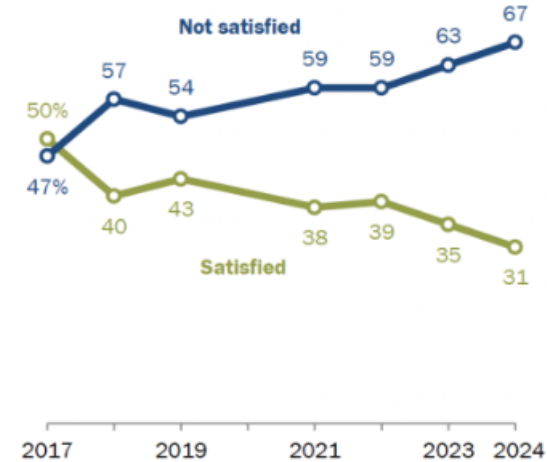


Note: Question is open-ended. "Other" includes any party named by less than 3% of respondents.
Source: Survey of Japanese adults conducted Jan. 5-March 9, 2024.

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Satisfaction with democracy is declining in Japan

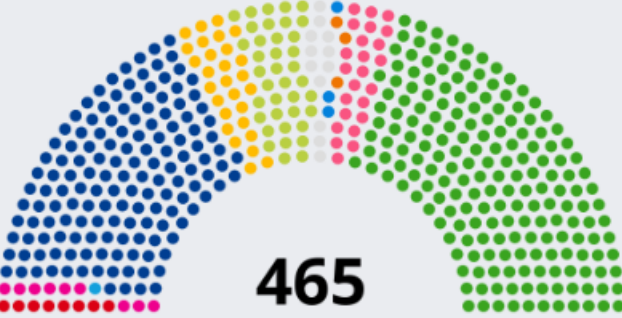
% of Japanese adults who say they are ___ with the way democracy is working in their country



Note: Those who did not answer are not shown.
Source: Survey of Japanese adults conducted Jan. 5-March 9, 2024.

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In October 2024, the LDP lost its majority (with coalition partner Komeito) in the lower house for the first time since 2009 due to LDP's corruption problems and rising inflation



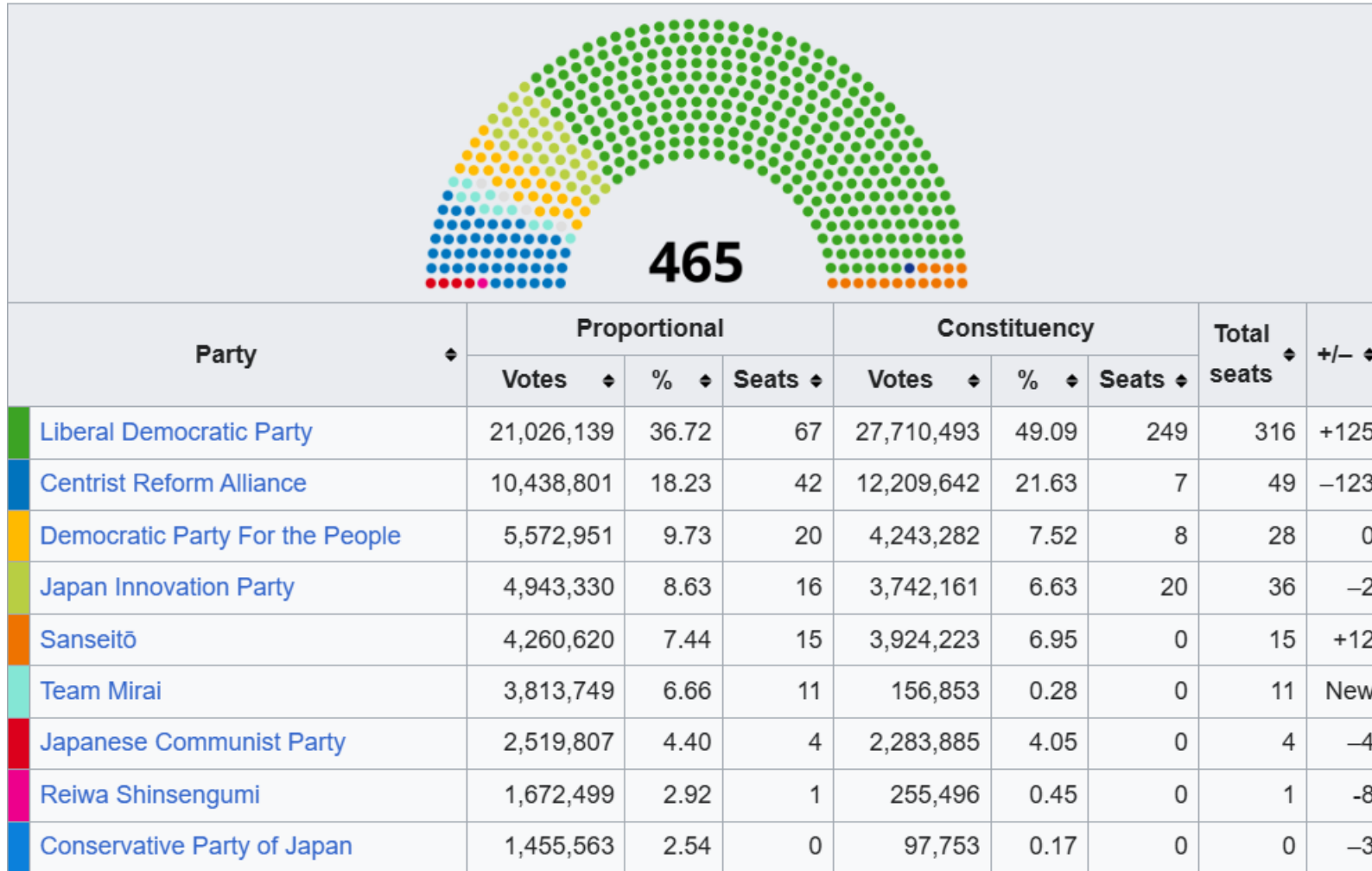
Party	Proportional			Constituency			Total seats	+/-
	Votes	%	Seats	Votes	%	Seats		
Liberal Democratic Party	14,582,690	26.73	59	20,867,762	38.46	132	191	-68
Constitutional Democratic Party of Japan	11,564,222	21.20	44	15,740,860	29.01	104	148	+52
Japan Innovation Party	5,105,127	9.36	15	6,048,104	11.15	23	38	-3
Democratic Party For the People	6,172,434	11.32	17	2,349,584	4.33	11	28	+17
Komeito	5,964,415	10.93	20	730,401	1.35	4	24	-8
Reiwa Shinsengumi	3,805,060	6.98	9	425,445	0.78	0	9	+6
Japanese Communist Party	3,362,966	6.16	7	3,695,807	6.81	1	8	-2
Sanseitō	1,870,347	3.43	3	1,357,189	2.50	0	3	New
Conservative Party of Japan	1,145,622	2.10	2	155,837	0.29	1	3	New

In July 2025, the LDP lost its majority in the upper house – the first time it did not have a majority in either house of the Diet

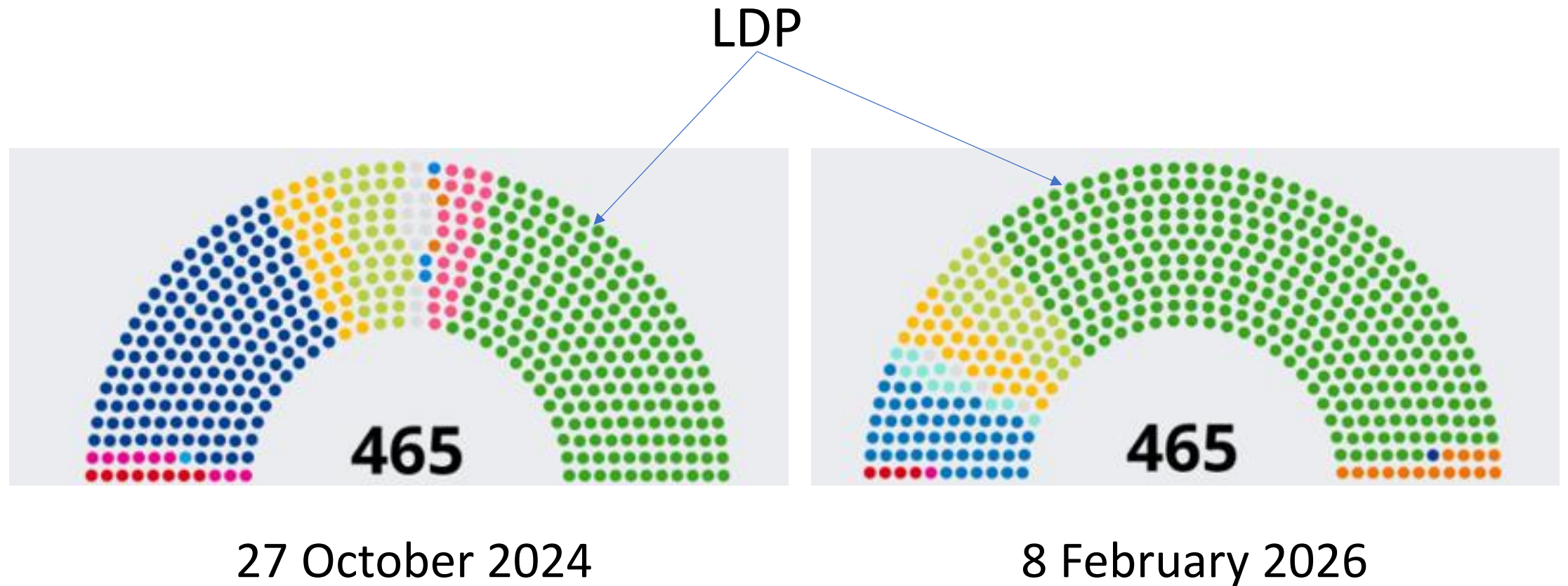


Government									120
Liberal Democratic Party and Group of Independents <i>Jiyūminshutō / Mushozoku no Kai</i>	Liberal Democratic Party (LDP) Independent	18	43	61	12	28	40	101	
Nippon Ishin (Japan Innovation Party) <i>Nippon Ishin no Kai</i>	Nippon Ishin no Kai	8	4	12	4	3	7	19	
Opposition									121
The Constitutional Democratic Party of Japan and Independents <i>Rikken-minshu / Mushozoku</i>	Constitutional Democratic Party (CDP) Independents	7	10	17	7	16	23	40	
Democratic Party For the People and The Shin-Ryokufukai <i>Kokumin-minshutō / Shin-Ryokufūkai</i>	Democratic Party For the People (DPFP)	3	4	7	7	11	18	25	
Komeito <i>Kōmeitō</i>	Komeito	6	7	13	4	4	8	21	
Sanseitō <i>Sanseitō</i>	Sanseitō	1	0	1	7	7	14	15	
Japanese Communist Party <i>Nihon Kyōsantō</i>	Japanese Communist Party (JCP)	3	1	4	2	1	3	7	
Reiwa Shinsengumi <i>Reiwa Shinsengumi</i>	Reiwa Shinsengumi	2	0	2	3	0	3	5	
Conservative Party of Japan <i>Nihon Hoshutō</i>	Conservative Party of Japan	0	0	0	2	0	2	2	

The LDP won a landslide victory in February 2026, winning more than two-thirds of the seats in the lower house of the Diet



The LDP's super majority in the Lower House enables it to advance important reforms



Prime Minister Takaichi has an opportunity to be a transformational leader for Japan

	Eisaku Satō 佐藤 榮作 Rep for Yamaguchi 2nd (1901–1975)	9 November 1964	7 July 1972	7 years, 242 days
	Yasuhiro Nakasone 中曾根 康弘 Rep for Gunma 3rd (1918–2019)	27 November 1982	6 November 1987	4 years, 345 days
	Junichiro Koizumi 小泉 純一郎 Rep for Kanagawa 11th (born 1942)	26 April 2001	26 September 2006	5 years, 154 days
	Shinzo Abe 安倍 晋三 Rep for Yamaguchi 4th (1954–2022) <i>Premiership</i>	26 December 2012	16 September 2020	7 years, 266 days
	Sanae Takaichi 高市 早苗 Rep for Nara 2nd (born 1961) <i>Premiership</i>	21 October 2025	Incumbent	127 days

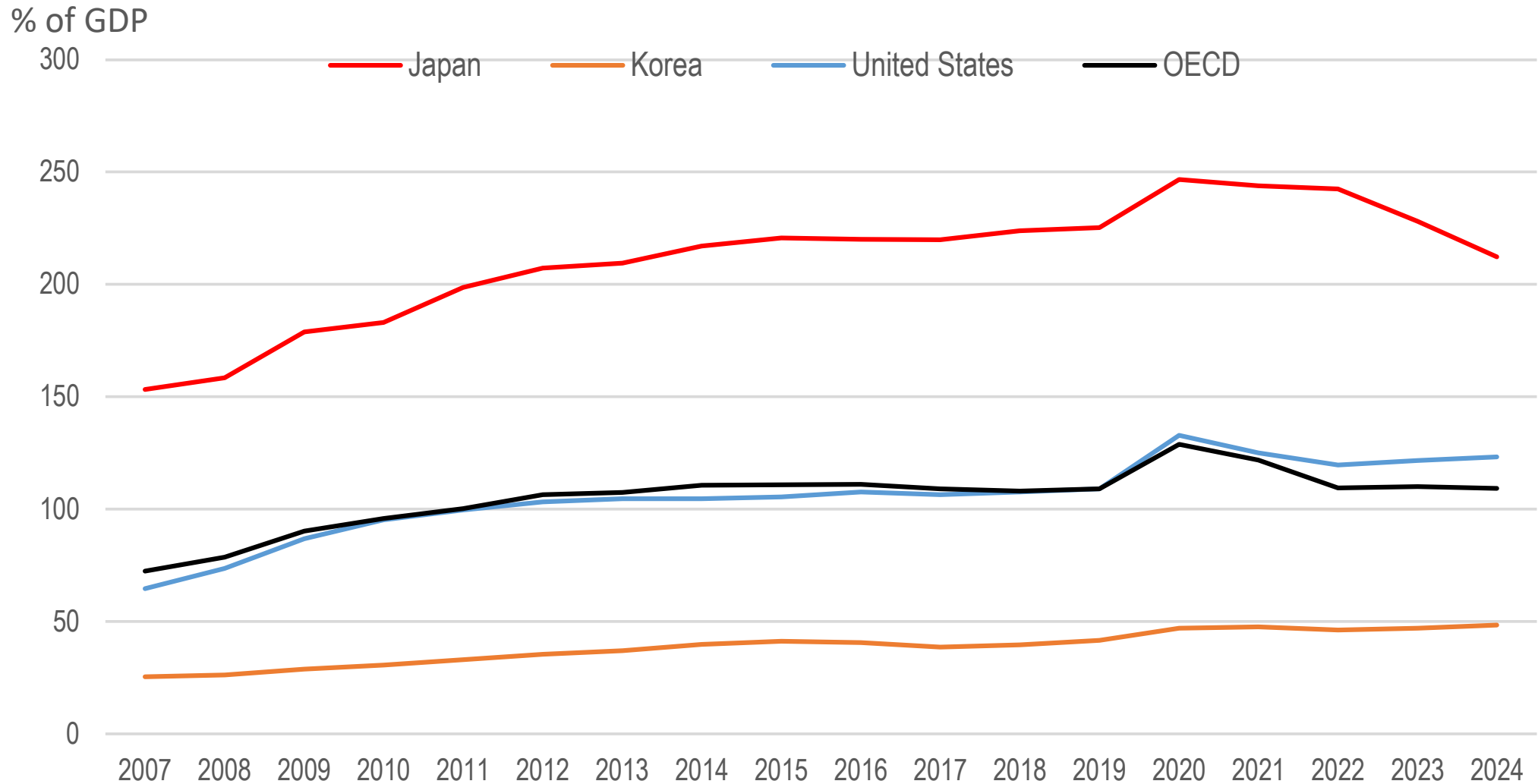
- Contributed to Japan’s post-war reconstruction and income-doubling plan in the 1960s.
 - Introduced the “Three Non-Nuclear Principles” in 1967.
 - Won the Nobel Peace Prize for preventing the spread of nuclear weapons.
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- Privatized state-owned companies, notably the railways and telephone systems.
 - Led Japan into the Plaza Accord, which led to a significant appreciation of the yen.
 - Created the Maekawa Commission to promote Japan’s structural adjustment.
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- Launched policies to resolve the crisis in the banking sector.
 - Privatized Japan Post.
 - Introduced fiscal reforms, which put government debt on a downward trend.
-
- Launched the three-arrow strategy, known as Abenomics in an attempt to revitalize Japan.
 - Doubled the sales tax in an effort to reduce government deficits and debt.
 - Led Japan into the CPTPP and bilateral EPAs to strengthen integration in the world economy.

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Outline of presentation

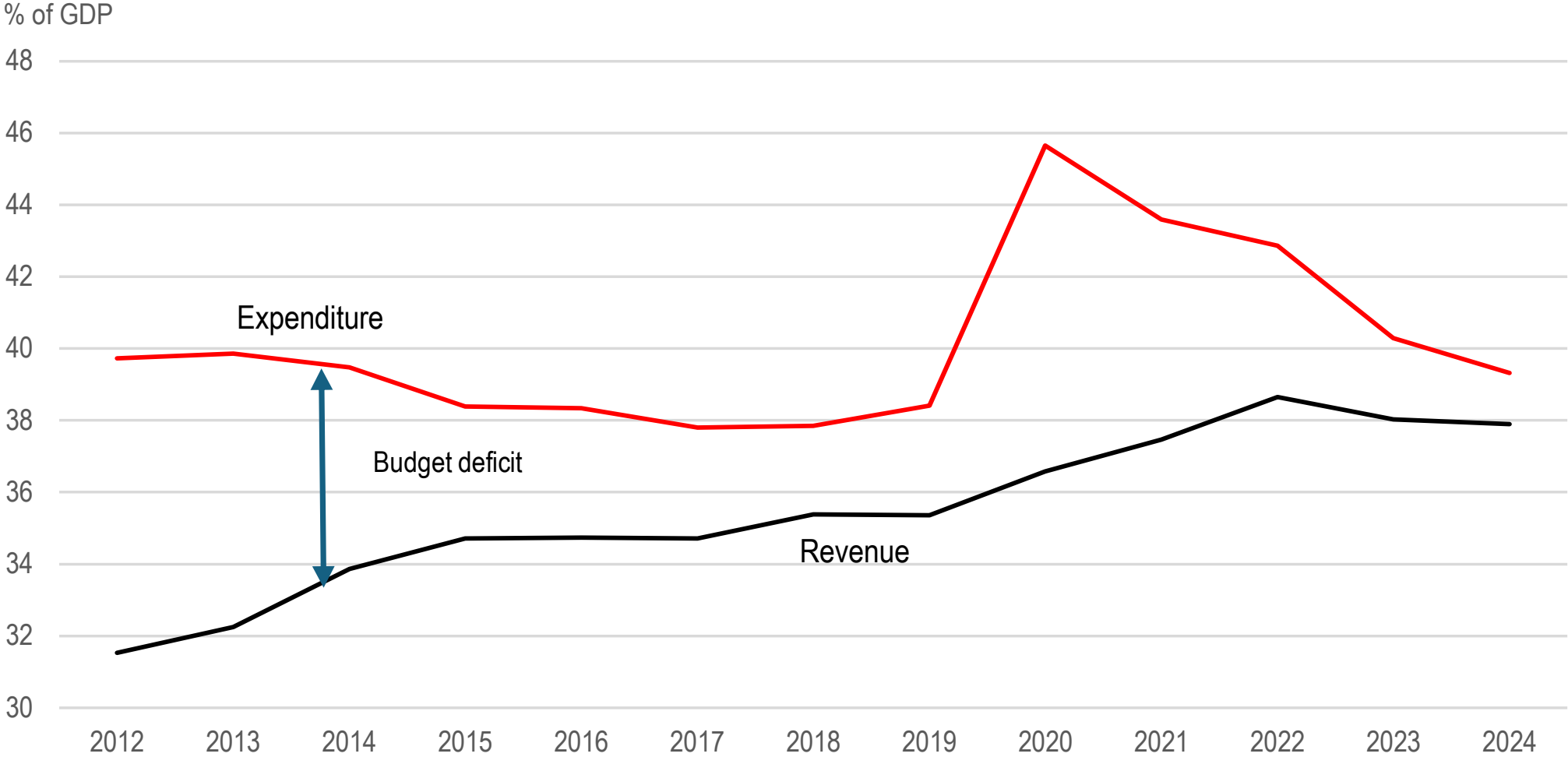
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Japan's gross government debt remains very high, but has fallen below its pre-pandemic level



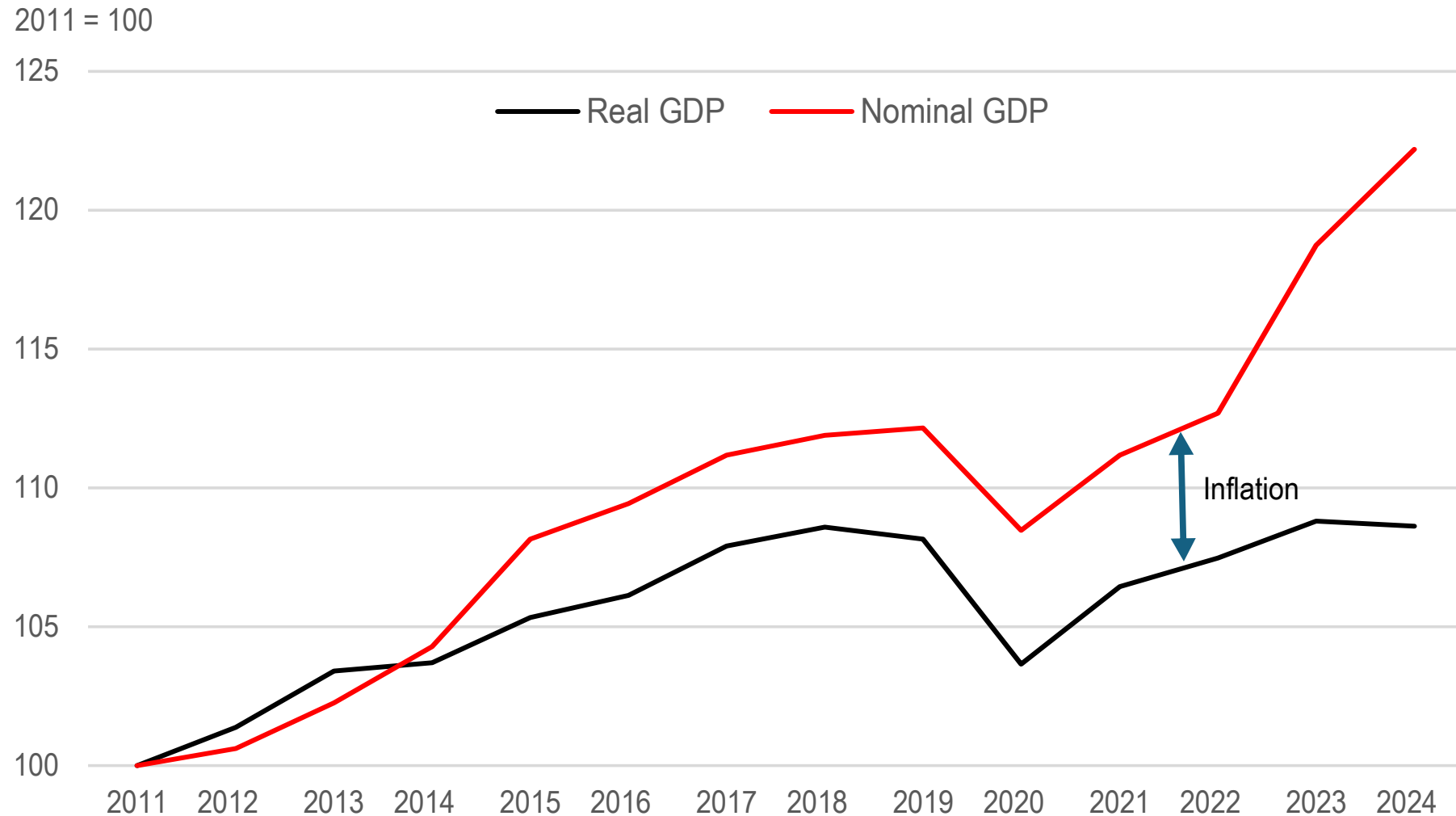
Source: [OECD, Public finance main indicators - government at a glance, yearly updates](#), accessed 25 February 2026.

1. The government debt-to-GDP ratio has been reduced by bringing spending back to its pre-pandemic level, helping reducing the budget deficit



Source: [OECD Economic Outlook Statistical Annex | OECD](#).

2. The government debt-to-GDP ratio has been reduced by higher inflation, thus increasing nominal GDP



Prime Minister Takaichi's fiscal proposals

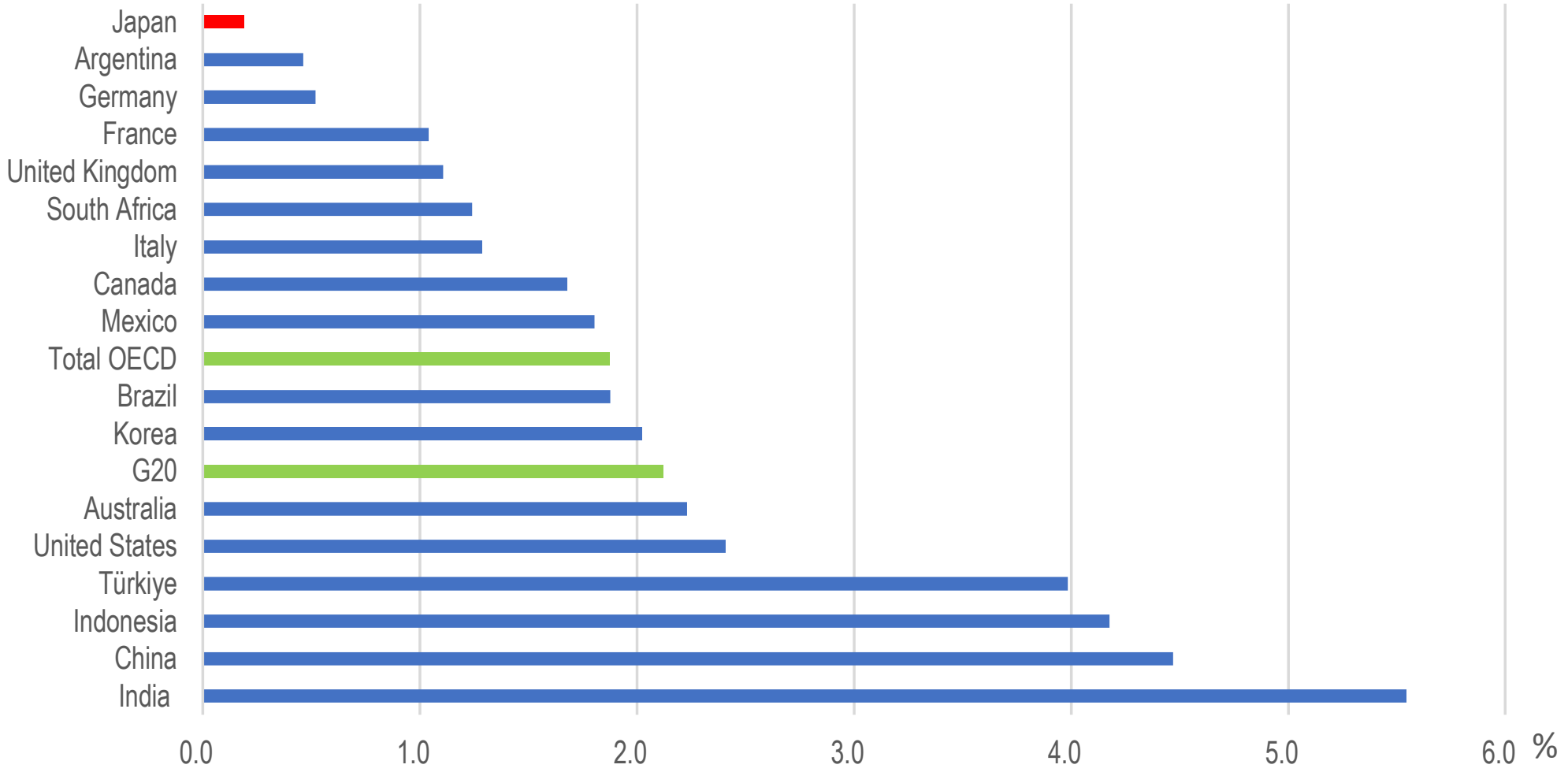
Under the “responsible proactive fiscal policy,” Takaichi has proposed:

- A JPY 21.3 (USD 135 billion) fiscal package, equivalent to 4% of GDP.
- Suspending the consumption tax on food (set at 8%) for two-years. It is estimated to cut government revenue by JPY 5 trillion (USD 32 billion).
- Introducing a refundable tax credits to low and middle-income households. This would function as "negative income tax."
- Abolishing the so-called provisional tax rates on gasoline and diesel.
- Protecting small and medium-sized enterprises (SMEs) and small-scale business operators from rising costs.
- Expanding grants to local governments.
- Raising the income tax deduction for the personal income tax, which will reduce tax revenues by 0.2% of GDP.

Economic projections do not suggest a need for fiscal stimulus

	2022	2023	2024	2025	2026	2027
Japan	Current prices YEN trillion	Percentage changes, volume (2015 prices)				
GDP at market prices	560.6	1.2	-0.2	1.3	0.9	0.9
Private consumption	310.5	0.8	-0.2	1.2	0.6	0.5
Government consumption	120.8	-0.3	0.8	0.5	2.5	1.9
Gross fixed capital formation	147.3	0.9	-0.2	1.7	1.4	1.1
Final domestic demand	578.6	0.6	0.0	1.2	1.2	0.9
Stockbuilding ¹	2.8	-0.3	-0.1	0.4	-0.1	0.0
Total domestic demand	581.5	0.3	-0.1	1.5	1.1	0.9
Exports of goods and services	120.8	3.3	0.7	3.4	0.9	1.7
Imports of goods and services	141.6	-0.8	1.0	4.2	1.6	1.9
Net exports ¹	- 20.9	0.9	-0.1	-0.2	-0.2	-0.1
<i>Memorandum items</i>						
GDP deflator	–	4.1	3.1	3.0	2.3	2.0
Consumer price index	–	3.3	2.7	3.2	2.2	2.1
Core consumer price index ²	–	2.7	2.0	1.7	1.6	1.9
Unemployment rate (% of labour force)	–	2.6	2.5	2.5	2.4	2.4
Household saving ratio, net (% of disposable income)	–	0.9	3.3	2.0	3.7	3.4
General government financial balance (% of GDP)	–	-2.3	-1.4	-0.6	-1.6	-1.0
General government gross debt (% of GDP)	–	227.0	222.0	213.3	208.3	203.4
Current account balance (% of GDP)	–	3.8	4.7	5.0	5.1	4.8

Japan's estimated potential growth is well below its projected growth in 2026 and 2027



Note: Potential growth is the rate of expansion that an economy can sustain at full capacity and employment. The estimate was made in 2024.

Source: OECD, [OECD Economic Outlook Statistical Annex](#) | OECD.

Risks associated with fiscal expansion: inflation

- Fiscal expansion is aimed in part at improving affordability for Japanese households. Real wage growth was -1.3% in 2025 (2.3% rise in wages and a 3.7% rise in CPI inflation). Real wage growth has been negative in Japan every year since 2019, except for 2021.
- However, fiscal stimulus would tend to boost inflation, further hurting affordability for consumers.
- Higher inflation tends to put downward pressure on a country's currency. This would tend to raise inflation, as households pay higher prices for imported food and energy.
- Low real interest rates in Japan also contributes to a weak yen. The real yield on JGBs is 0.2% compared to 2% in the US.
- The won has fallen by more than half since 2012. Its current value of around 155 JPY per USD is about 58% below its estimated purchasing power parity level of around 90 JPY per USD.

Risks associated with fiscal expansion: higher bond yields

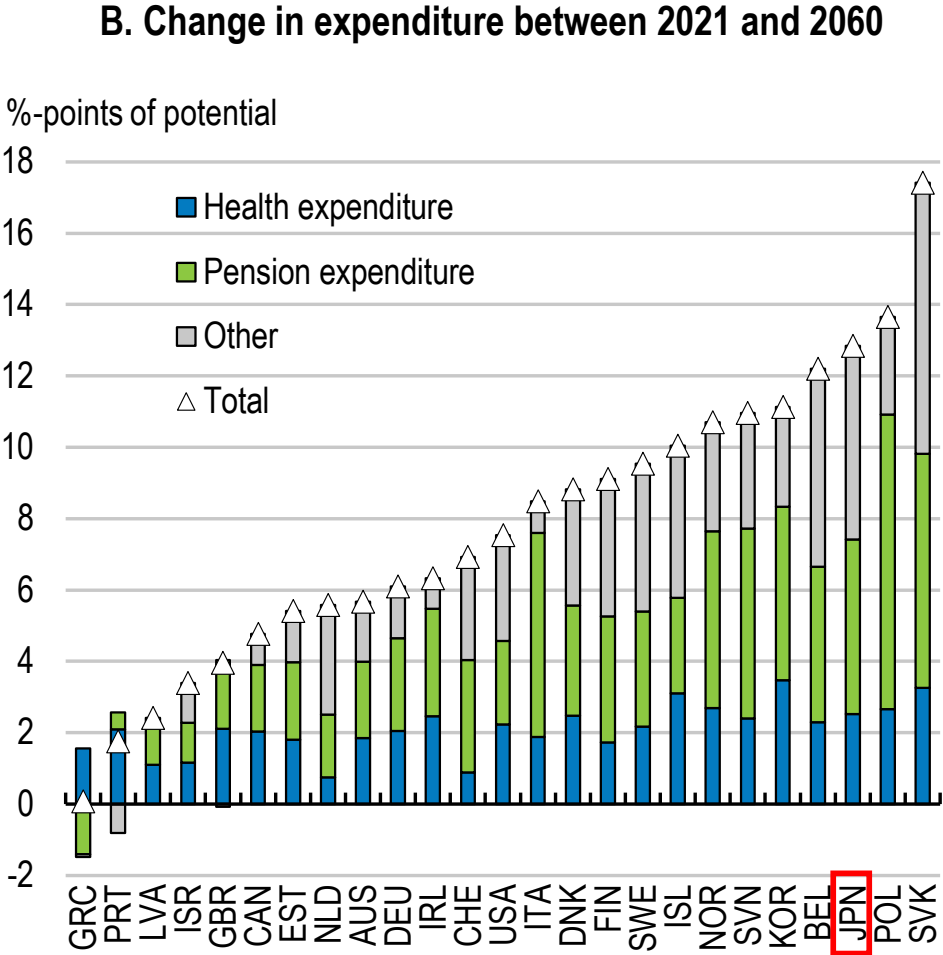
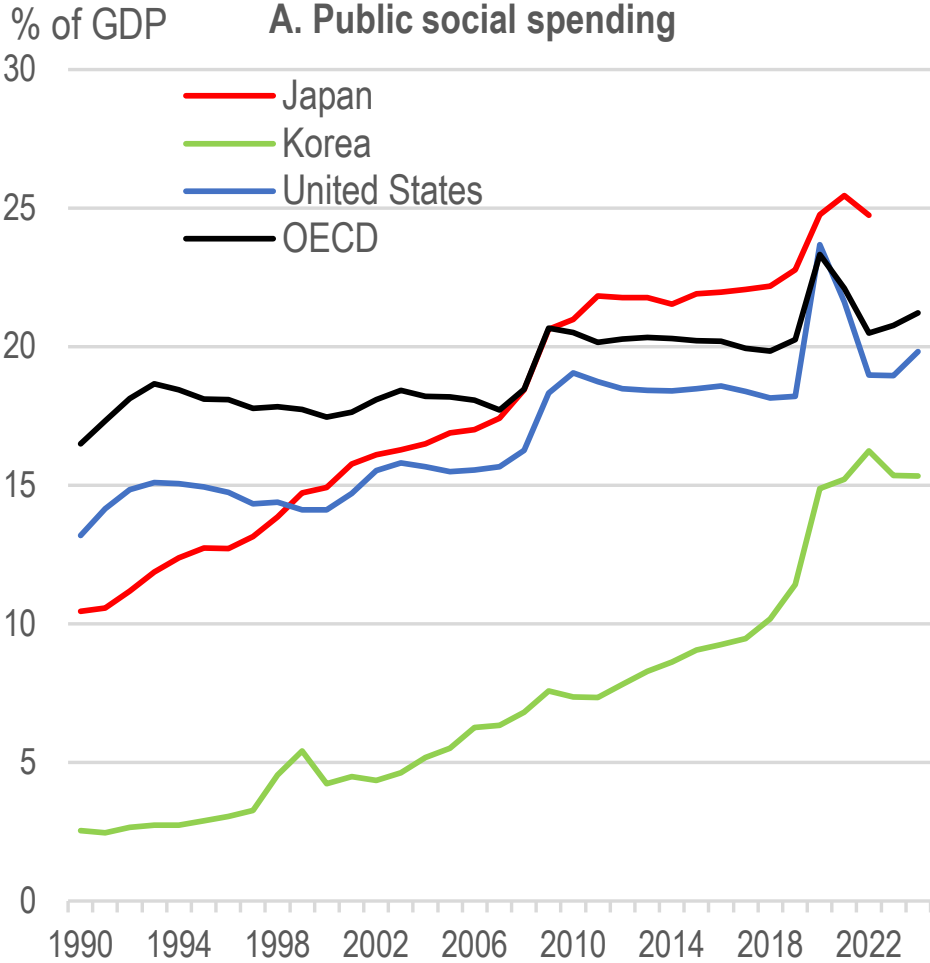
- July 2024, the BoJ raised its policy rate (the key short-term rate) for the first time in 17 years. It went from negative 0.1% to 0.25%. It is now 0.75%.
- In 2016, the Bank of Japan introduced Yield Curve Control (YCC), under which it bought unlimited quantities of Japanese government bonds (JGBs) to keep the 10-year yield under 1%.
- The BOJ owns half of the JGBs sold in the market, while foreign investors make up just 6.6% and the rest is held by domestic financial institutions and households.
- YCC depressed 10-year JGBs yields by 1 to 3 percentage points, greatly reducing the government's borrowing costs.
- The BoJ ended YCC in March 2024. The BoJ is “tapering” its purchases of JGBs (from 4.5 trillion yen in 2024Q1 to 2.9 trillion yen in 2026Q1). To bring inflation down to 2%, the BoJ will have to raise interest rates, implying a significant rise in government borrowing costs.
- The OECD projects that Japan's net interest payments on general government debt will jump from 0.2% of GDP in 2025 to 1.0% in 2027.

The fiscal plans of the new government contributed to the rise in the government bond yield (10-year) by about 100 bp points since April 2025



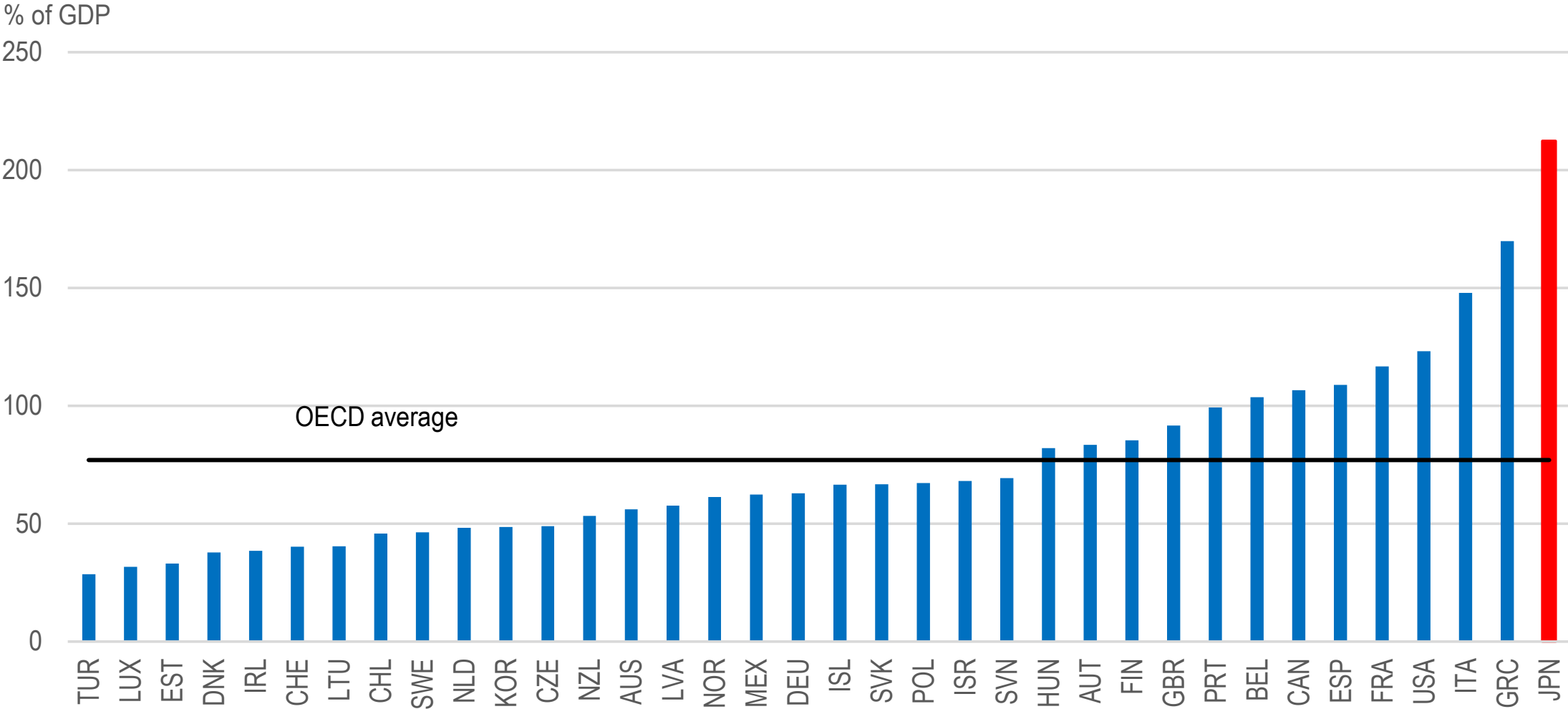
Source: Trading Economics.

Public social spending, which has risen by 15 percentage points, is projected to rise by another 13 points by 2060



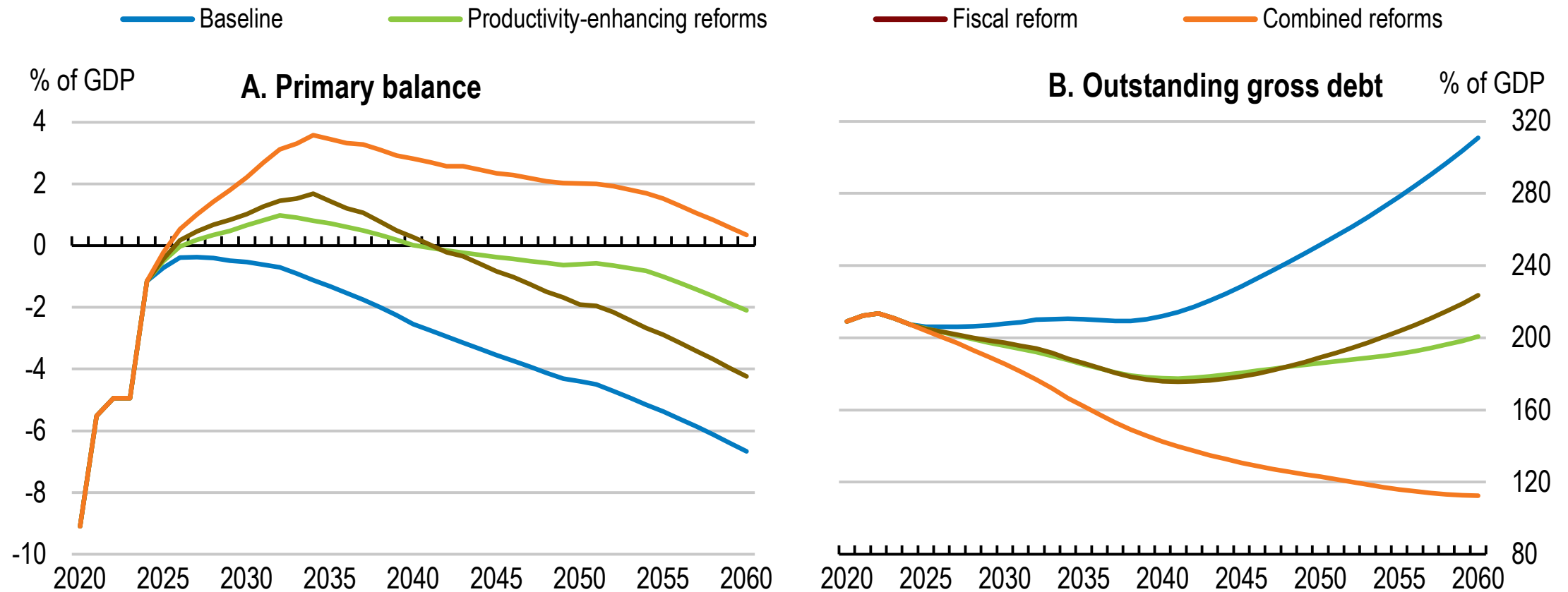
Source: OECD Data Explorer, "Social Expenditure", accessed 27 September 2025; OECD (2022), [OECD Economic Surveys: Korea 2022](#) | OECD

Rather than short-term stimulus, Japan should create a medium-term fiscal framework to reduce its high level of government debt



Source: OECD, [OECD Data Explorer • Public finance main indicators - government at a glance, yearly updates](#), accessed 24 February 2026.

Fiscal reforms would limit the rise in the primary budget deficit and gross debt



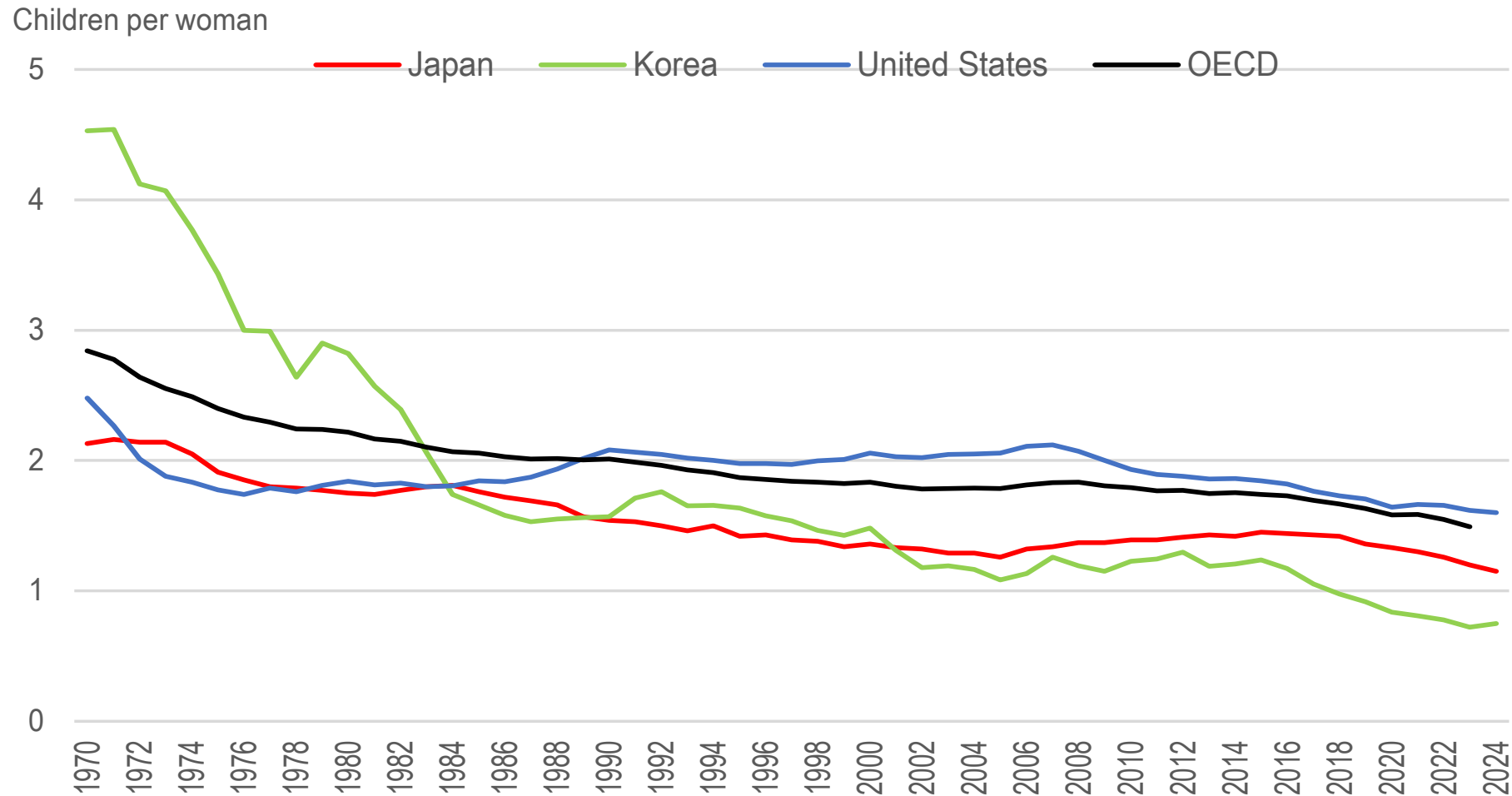
Note: The baseline scenario takes into account rising spending pressure stemming from ageing and holds current fiscal policy settings constant. The fiscal reform scenario assumes the consumption tax rate is gradually increased from 10% to 20% and the carbon tax from JPY 289/tCO₂ to JPY 4 000 over ten years. Half of the additional revenues are recycled to offset the economic shock. The pension eligibility age is raised by one year every three years, starting from 2031, towards age 70. Government spending is assumed to grow less robustly such that spending relative to baseline is 10% lower after 30 years.

Source: OECD, [Full Report: OECD Economic Surveys: Japan 2024 | OECD](#).

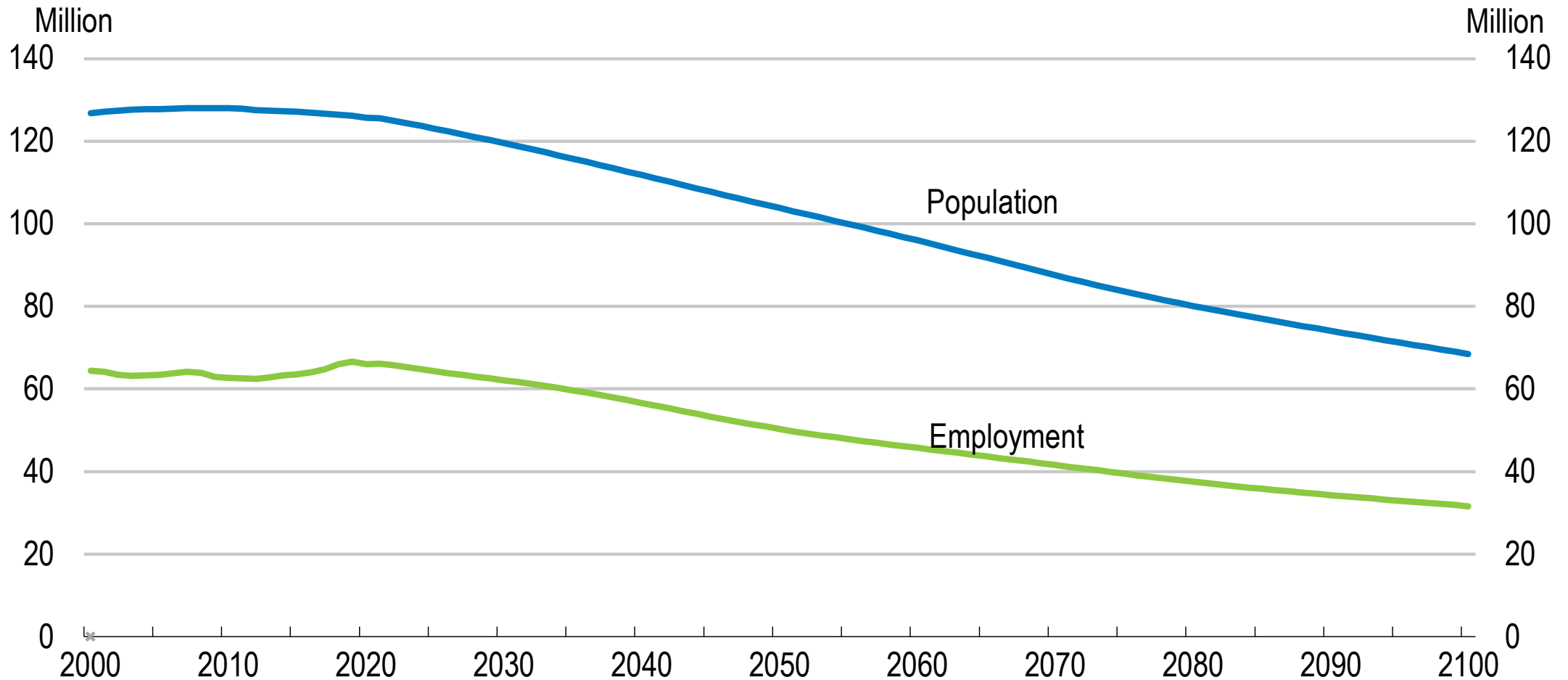
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Japan's fertility rate fell to its lowest rate ever in 2024



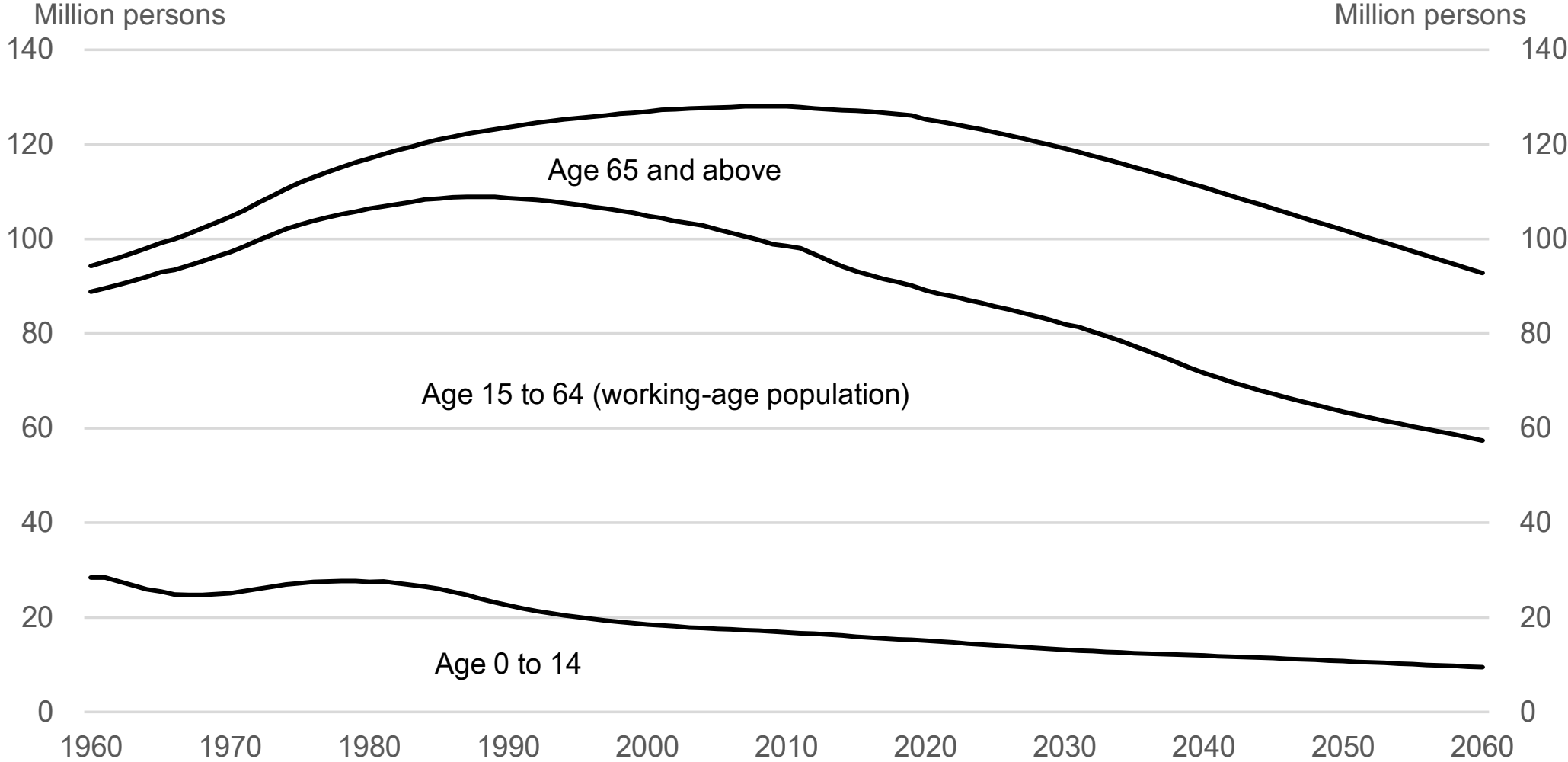
Japan's population and employment will decline by about half under current parameters by 2100



Note: Assumes that the total fertility rate remains constant at 1.3, net immigration continues at 100,000 per year and employment rates by gender and five-year age cohorts stay constant. Employment includes self-employed and workers in family businesses.

Source: Jones (2024), "Addressing Demographic Headwinds: A Long-term Perspective," 2024 OECD Economic Survey of Japan.

In addition to shrinking, Japan's population will be aging: the share of elderly rises from 29% to 38% by 2060



Source: Jones (2022), *The Japanese Economy: Strategies to Cope with a Shrinking and Ageing Population*, London: Routledge Press.

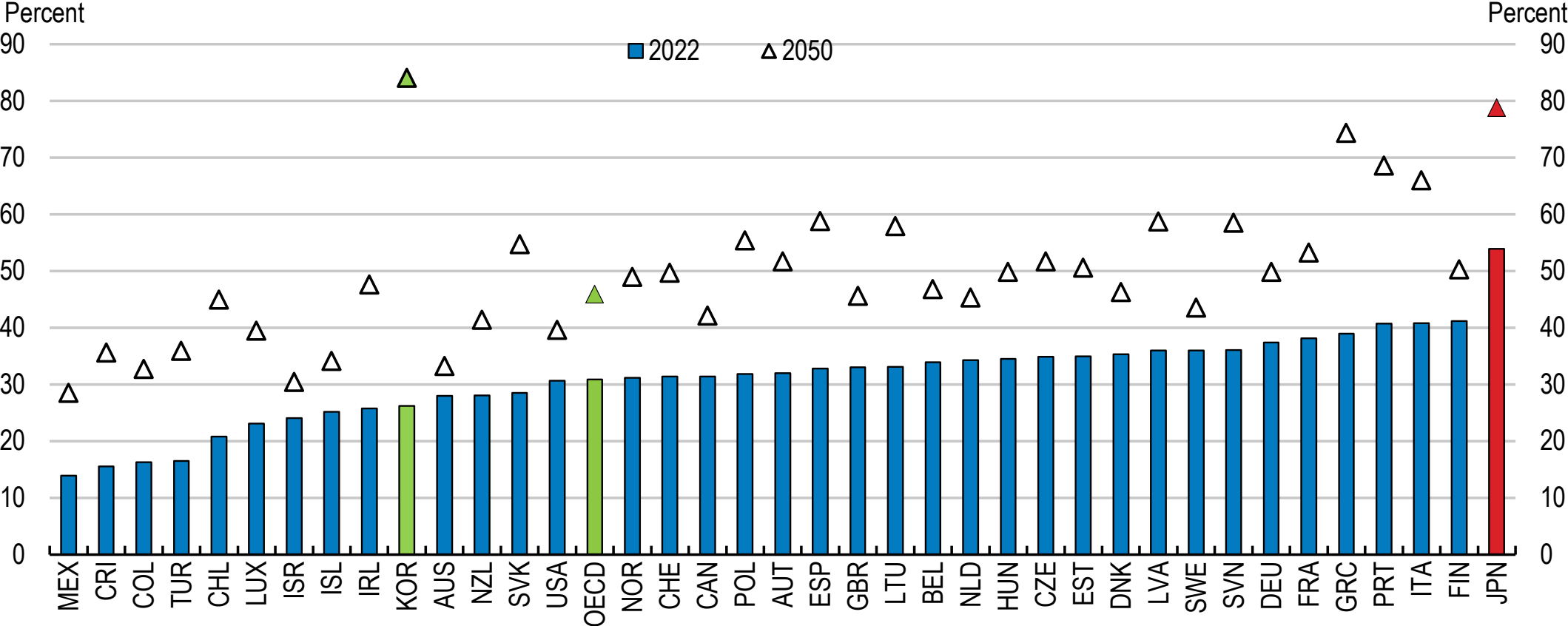
Population aging in Japan will be is exceptionally rapid compared to other countries (except Korea)

Country	Year when share of elderly (65 and over) make up:			Years elapsed	
	7% of the population	14% of the population	20% of the population	7 to 14%	14 to 20%
Korea	2000	2018	2025	18	7
Japan	1970	1994	2006	24	12
Germany	1931	1972	2008	40	36
United Kingdom	1929	1976	2025	47	49
Italy	1927	1988	2008	61	20
United States	1942	2014	2028	72	14
Sweden	1887	1972	2018	85	46
France	1864	1979	2028	115	39

Source: Jones (2022), *The Japanese Economy: Strategies to Cope with a Shrinking and Ageing Population*, London: Routledge Press.

Japan's elderly dependency ratio is the highest in the OECD and will continue rising

The elderly population as a share of the working-age population



Note: Ratio of population aged 65 and above to population aged 20-64. Projections are based on medium fertility variant.
 Source: Jones (2024), "Addressing Demographic Headwinds: A Long-term Perspective," 2024 OECD Economic Survey of Japan.

Japan has implemented many measures to boost the fertility rate since the 1989 “1.57 shock”

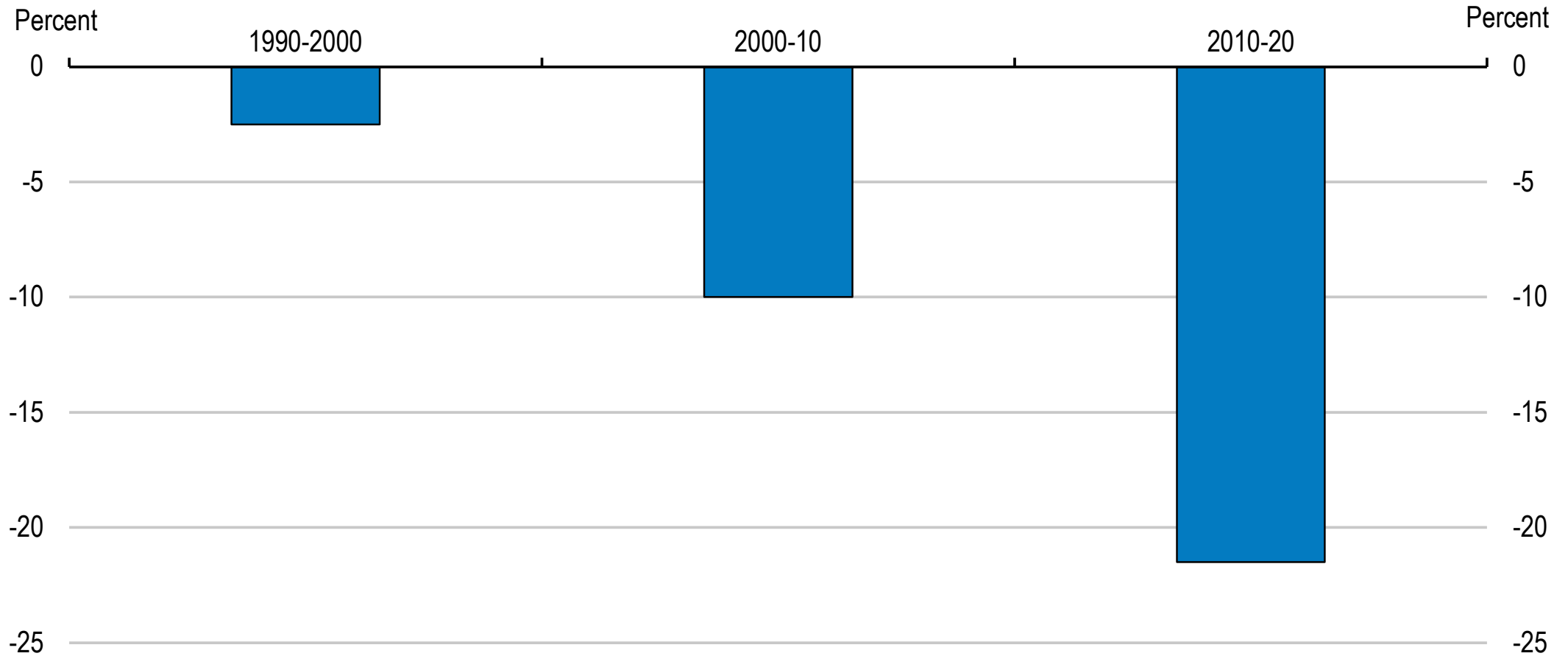
- The government launched the Angel Plan in 1994, followed by the New Angel Plan in 1999. Both plans aimed to make it easier to raise children by:
 - Enhancing access to childcare services.
 - Strengthening maternal and child healthcare facilities.
 - Improving housing and public facilities for families with children.
 - Promoting child development and improving the educational environment.
 - Reducing the economic cost associated with child-rearing, including education.
 - Making the employment environment more flexible for parents.
 - Changing traditional gender roles and the work-first atmosphere in workplaces.
- A monthly allowance per child was introduced in 2010. Currently, the government offers JPY 10,000 to 5,000 (USD 75 to 113) per month for each child until graduation from middle school.
- The Abe administration took additional steps:
 - Japan added 530,000 childcare places over FY2013-17 and another 320,000 by FY2021.
 - The government introduced free early childhood education and care for children aged three to five in 2019.
 - The share of fathers taking parental leave from 6% to 40.5% in 2024 (although 86% took less than 3 months). The government set a target of 50% for 2025.

The new government has also made reversing the population decline a top priority

- Prime Minister Takaichi said that the declining population is Japan's "biggest problem" and established a "Population Strategy Headquarters" in November 2025.
- In the policy speech to the Diet, Takaichi said that, "If we are to overcome the decline in population alongside the shrinking birthrate and aging of society, we need to have a national discussion about how we should design the benefits and burdens associated with the social security system."
- At the same time, Takaichi has been pushing for tougher policies on immigration and foreigners. This resonates with the growing number of supporters of an anti-globalist party Sanseito, which says the LDP's promotion of foreign labor as a solution for Japan's declining population is making Japanese communities unsafe and causing cultural clashes.
- The government in January approved tougher rules on permanent residency and naturalization, as well as measures to prevent unpaid tax and social insurance by foreigners.

The urgency in reversing the decline reflects the accelerating decline in the number of births in Japan

The change in the number of births compared to the previous decade

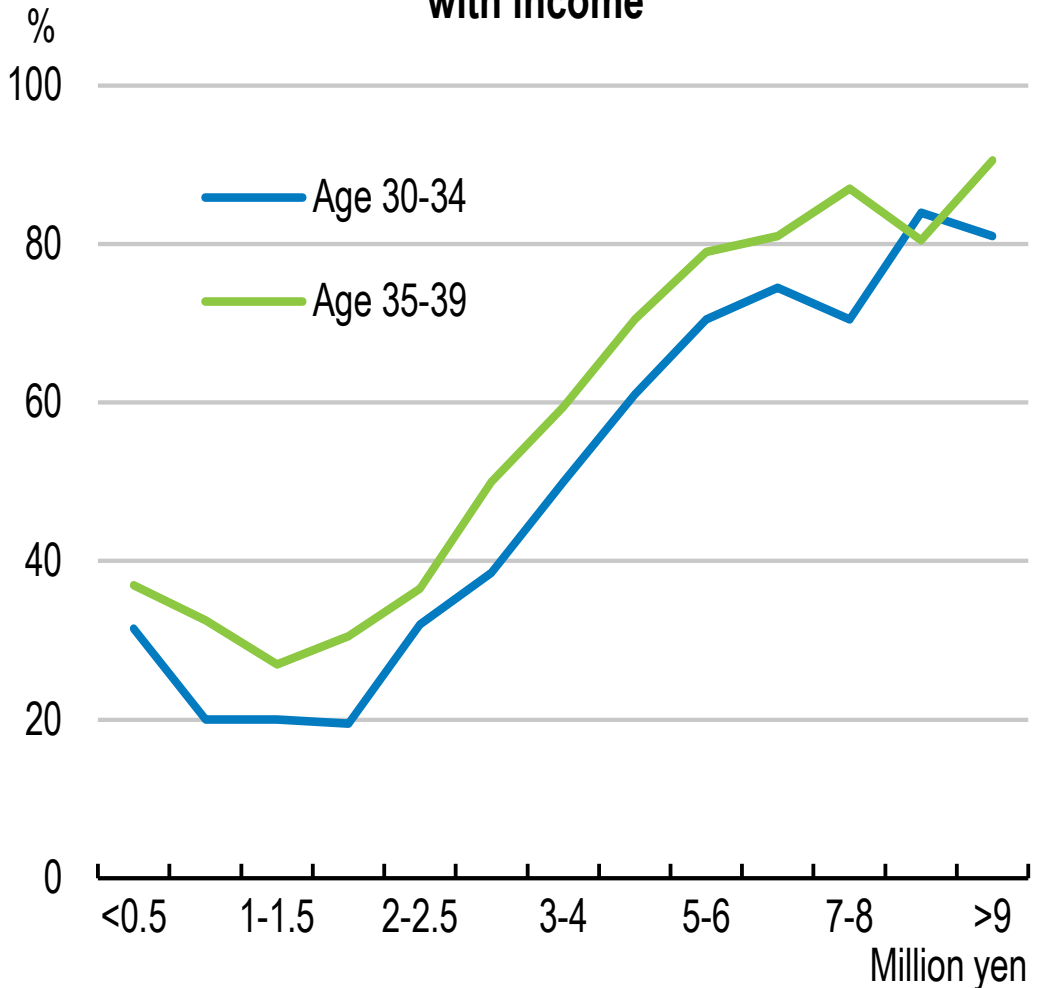


The financial insecurity of young people discourages family formation

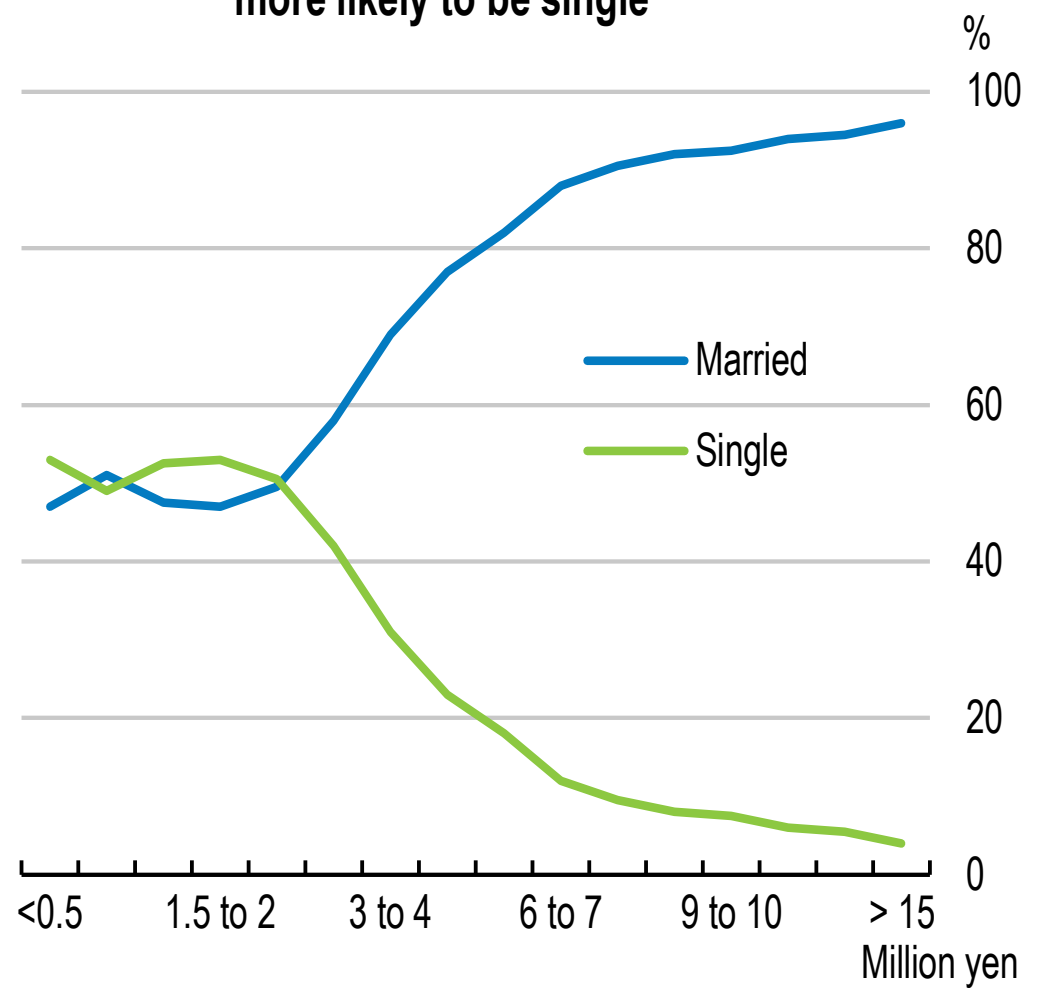
- Given that 98% of births are to married couples, policies that remove obstacles to marriage, particularly at a younger age, would tend to boost the fertility rate.
- As in other countries, life goals other than family and children, such as career advancement, wealth and self-realization, have gained importance.
- In a 2021 survey of single persons between the ages of 18 and 34 by the National Institute of Population and Social Security Research, more than 80% of both men and women said that they planned to get married eventually, and that their desired number of children was 1.8 on average.
- In a 2019 government survey that asked single young people, “What conditions are necessary for you to consider marriage?”, the most common response, at 42%, was “being financially comfortable.” Another 10% cited the challenge of finding suitable housing.
- In sum, the problem is uncertainty about employment prospects. And if young people do have a job, they may be working such long hours that they find little time to date. Or it may be a non-regular job, which pays much less than regular jobs.
- Breaking down labor market dualism (the high share of non-regular jobs) and reducing the importance of seniority in setting wages would boost the financial position of young people.

Marriage rates are positively linked to income

A. The share of men who are married rises with income



B. Men in their 40s with low incomes are more likely to be single



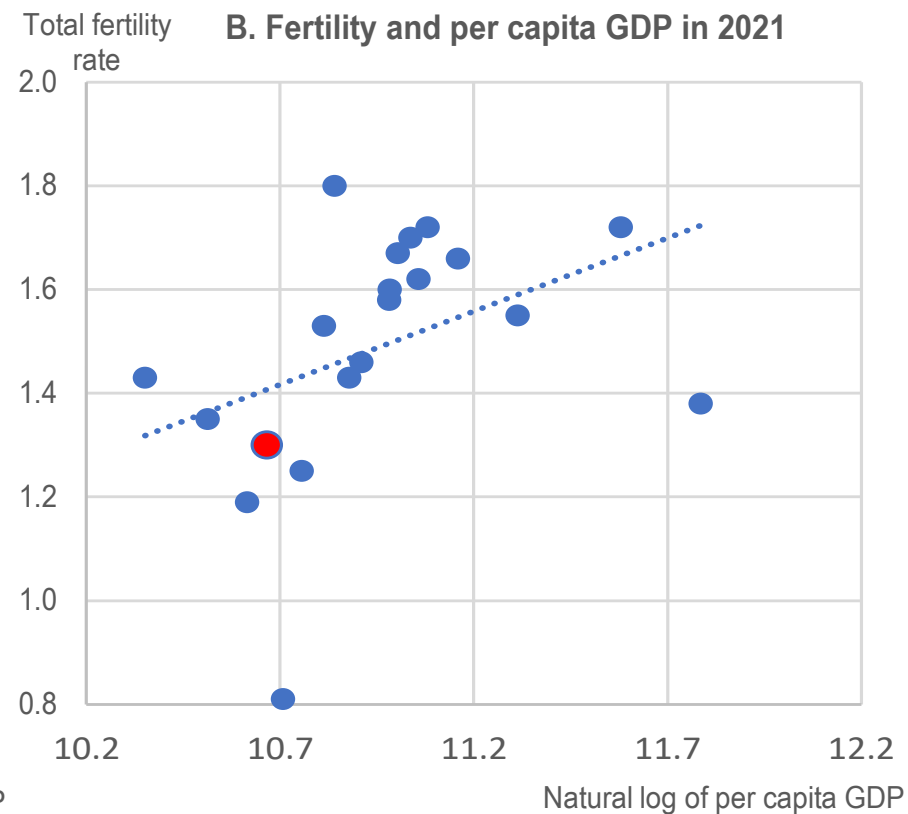
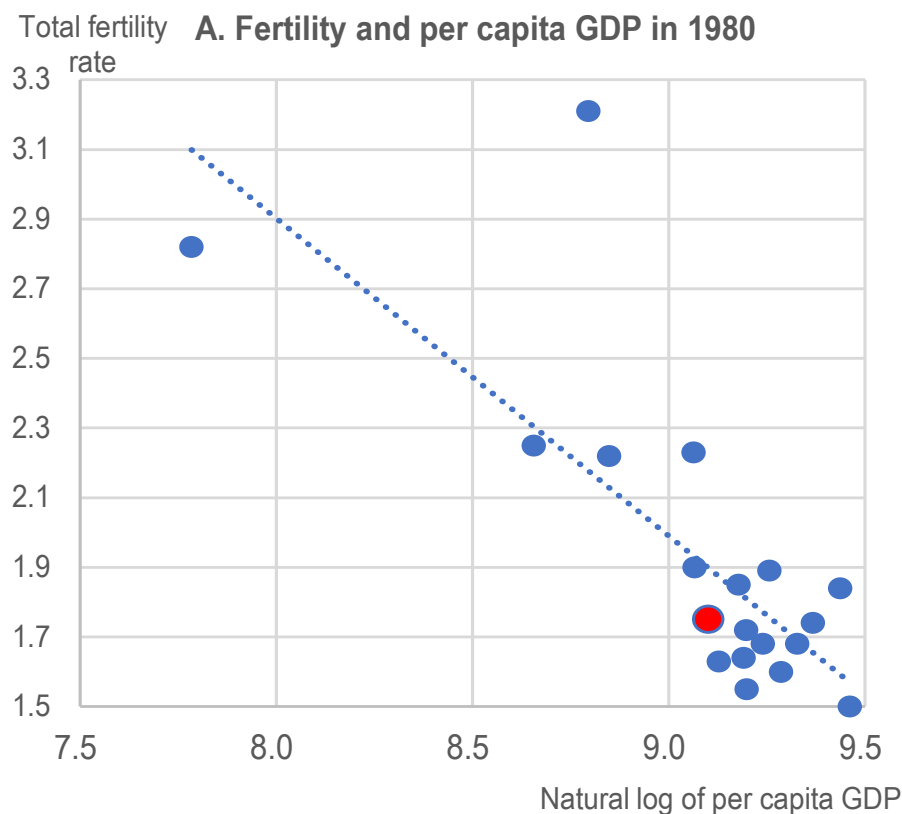
Source: Ministry of Internal Affairs and Communications.

The relationship between fertility and per capita in high-income countries was negative in 1980 but positive in 2021

In 1980, the relationship between fertility and GDP per capita was negative (as income rises, fertility goes down), reflecting:

- i) The quantity-quality trade-off: as parents get richer, they invest more in quality (e.g. education), which is costly, so parents choose to have fewer children; ii) the rise in the opportunity cost of childcare rises as wages increase. The result is a decline in fertility as income increases, as well as an increase in female employment.

By 2021, the relationship between fertility and GDP per capita was positive.

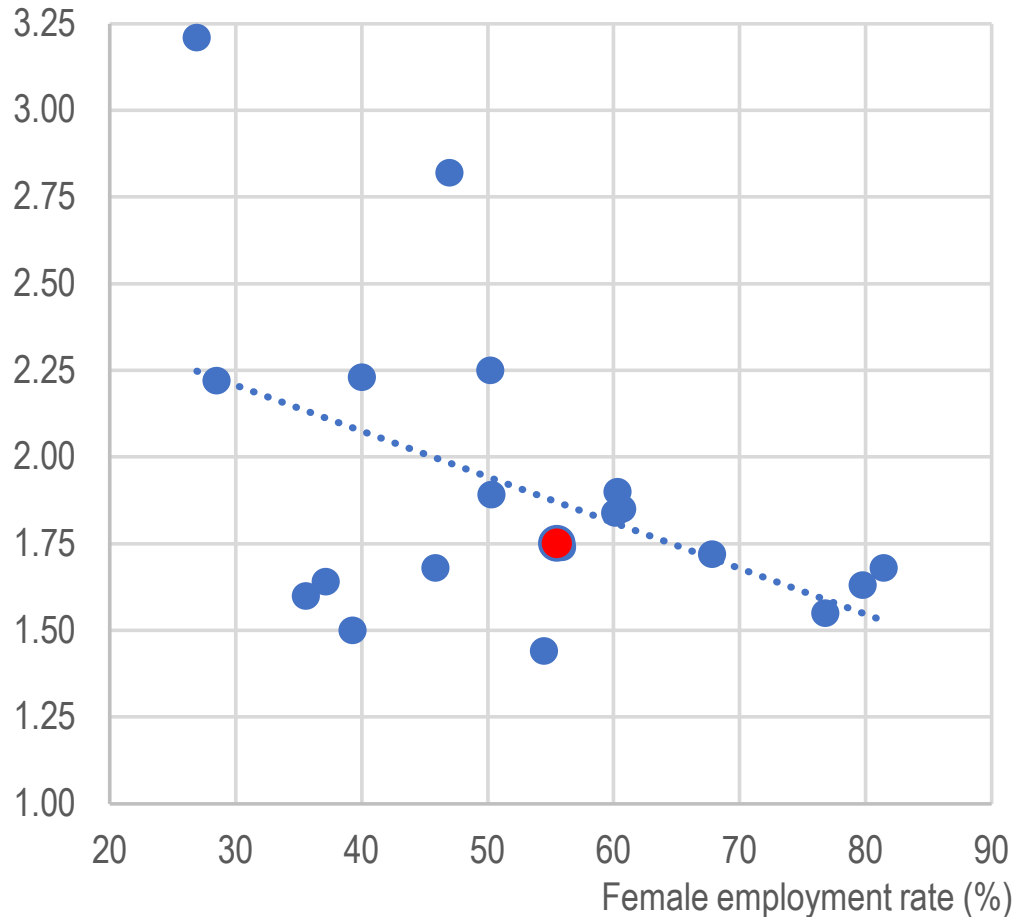


Note: The correlation coefficient between fertility and income increased from -0.8 in 1980 to +0.4 in 2021. The figure includes 20 OECD countries for which data are available since 1980. The larger red circles represent Japan.

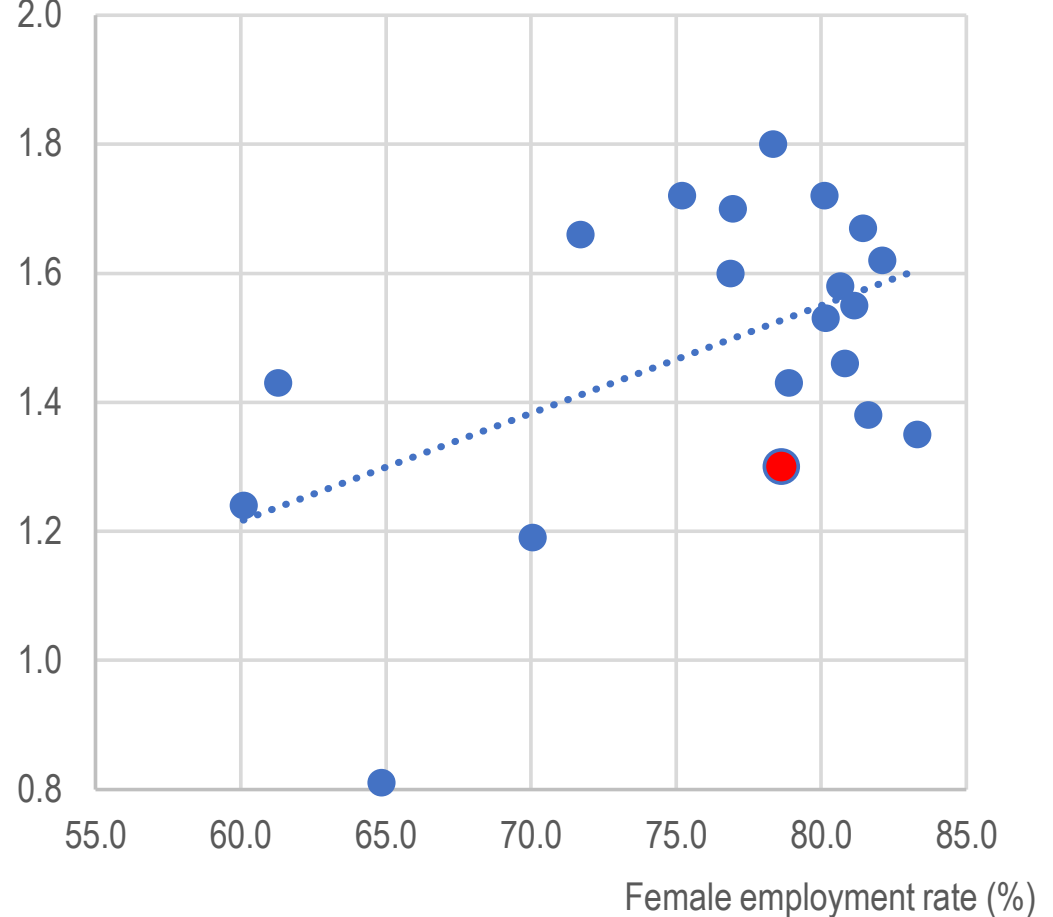
Source: Calculations based on data from the World Bank and OECD, National Accounts.

The relationship between fertility and female employment, which was positive in 1980, also was positive in 2021

Total fertility rate **A. Fertility and female employment rate in 1980**



Total fertility rate **B. Fertility and female employment rate in 2021**

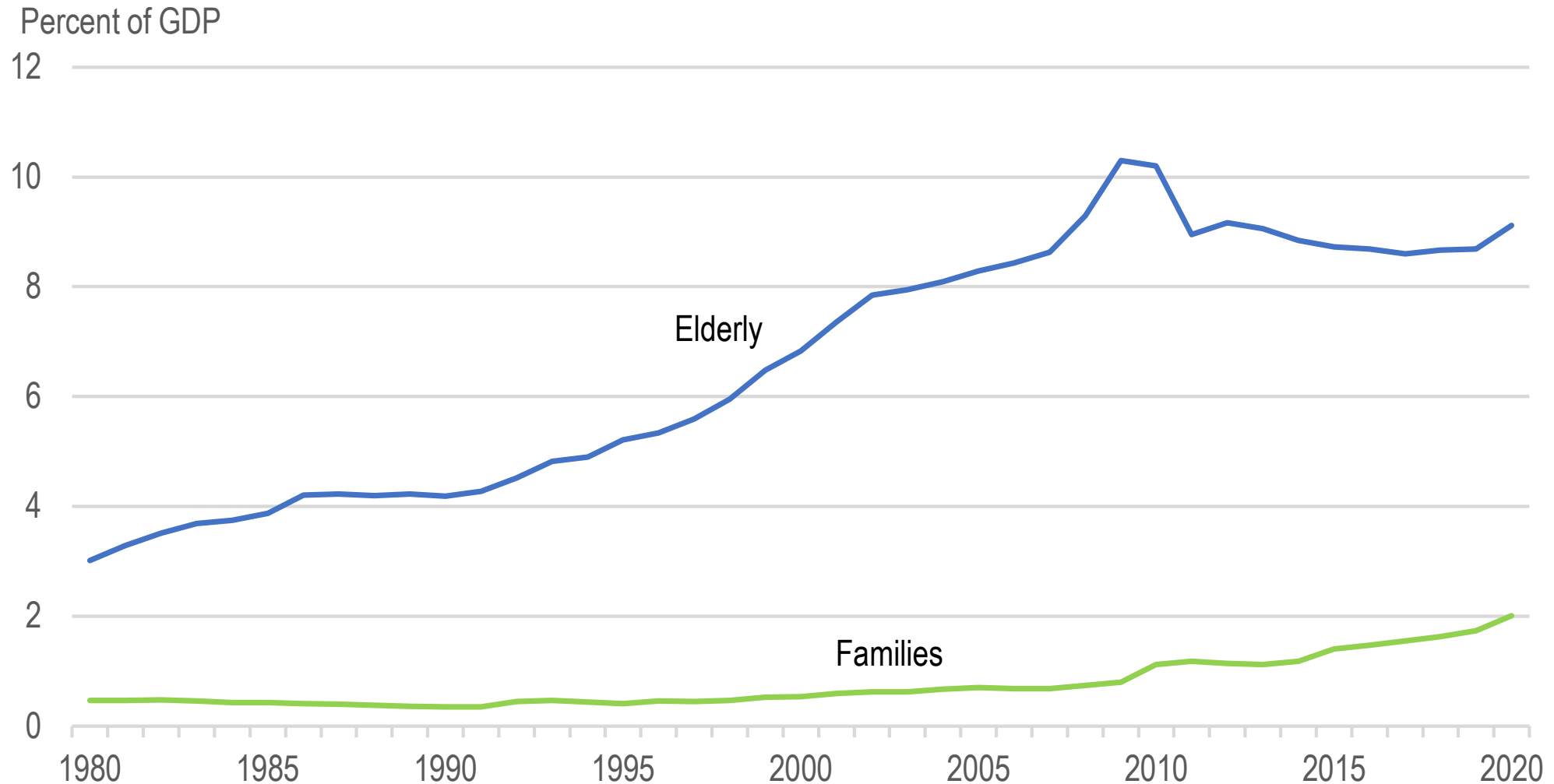


Note: The correlation coefficient between fertility and the female employment rate rose from -0.5 to +0.5. The female employment rate is for the 25-54 age group. The figure includes 20 OECD countries for which data are available since 1980. The larger red circles represent Japan.
Source: Calculations based on data from the World Bank and OECD Labor Force Statistics.

The positive relationship between fertility and female employment is driven by the compatibility of work and family

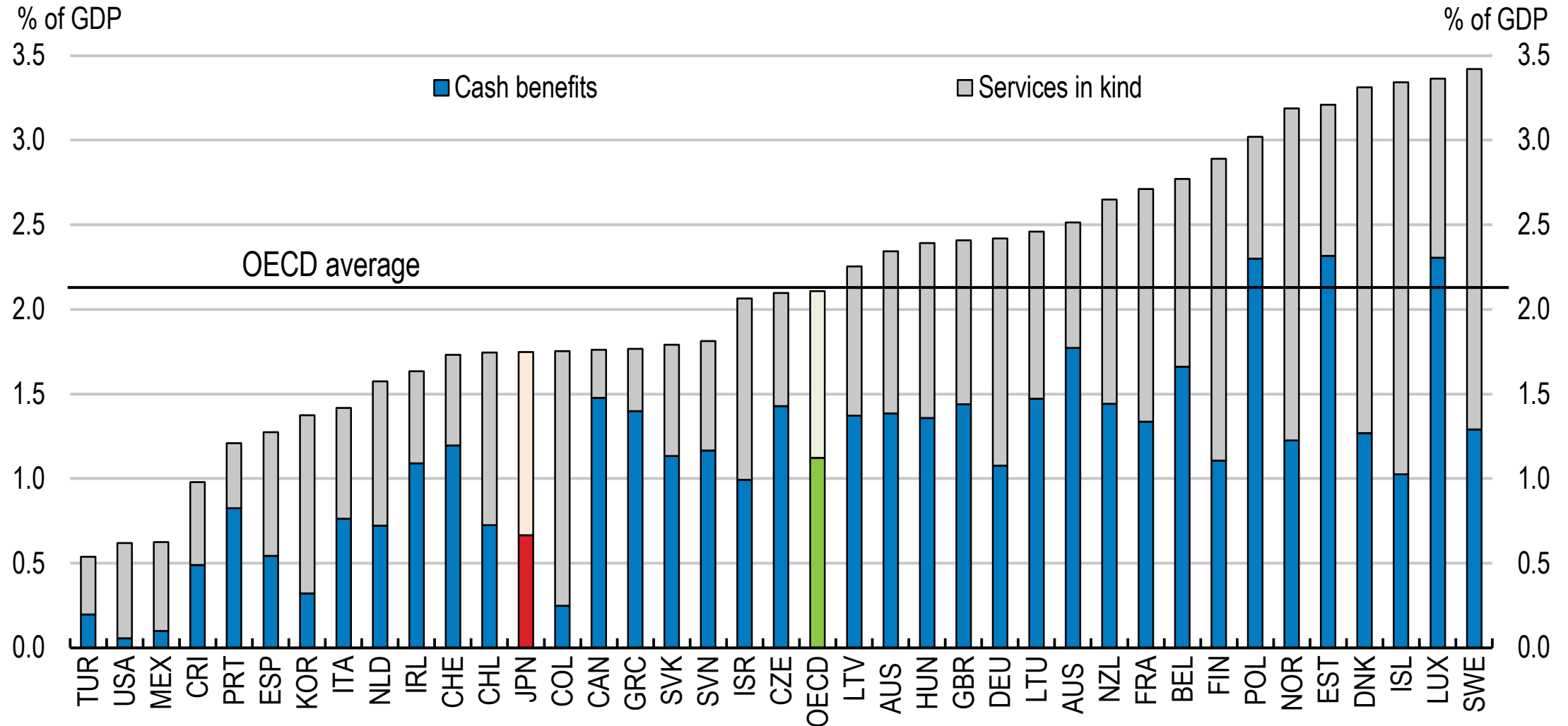
- Fertility behavior in high-income countries, appears driven by the compatibility between women's careers and families. Without such compatibility, women choose to have fewer (or no) children. In other words, making it easier to combine paid work and family is critical so that women are not forced to choose between a career and children.
- **The compatibility of women's careers and families depends on:**
 - i. Public social spending (including cash transfers, services and in-kind benefits) and tax benefits for families with children.
 - ii. The role of fathers
 - iii. Flexible labor markets: segmentation between regular and non-regular workers is a problem in Japan
 - iv. Favorable social norms: 教育ママ (Education Mother)

Public social spending: outlays for the elderly far outpace expenditures for families



Source: National Institute of Population and Social Security Research (2021), *The Financial Statistics of Social Security in Japan FY2020*.

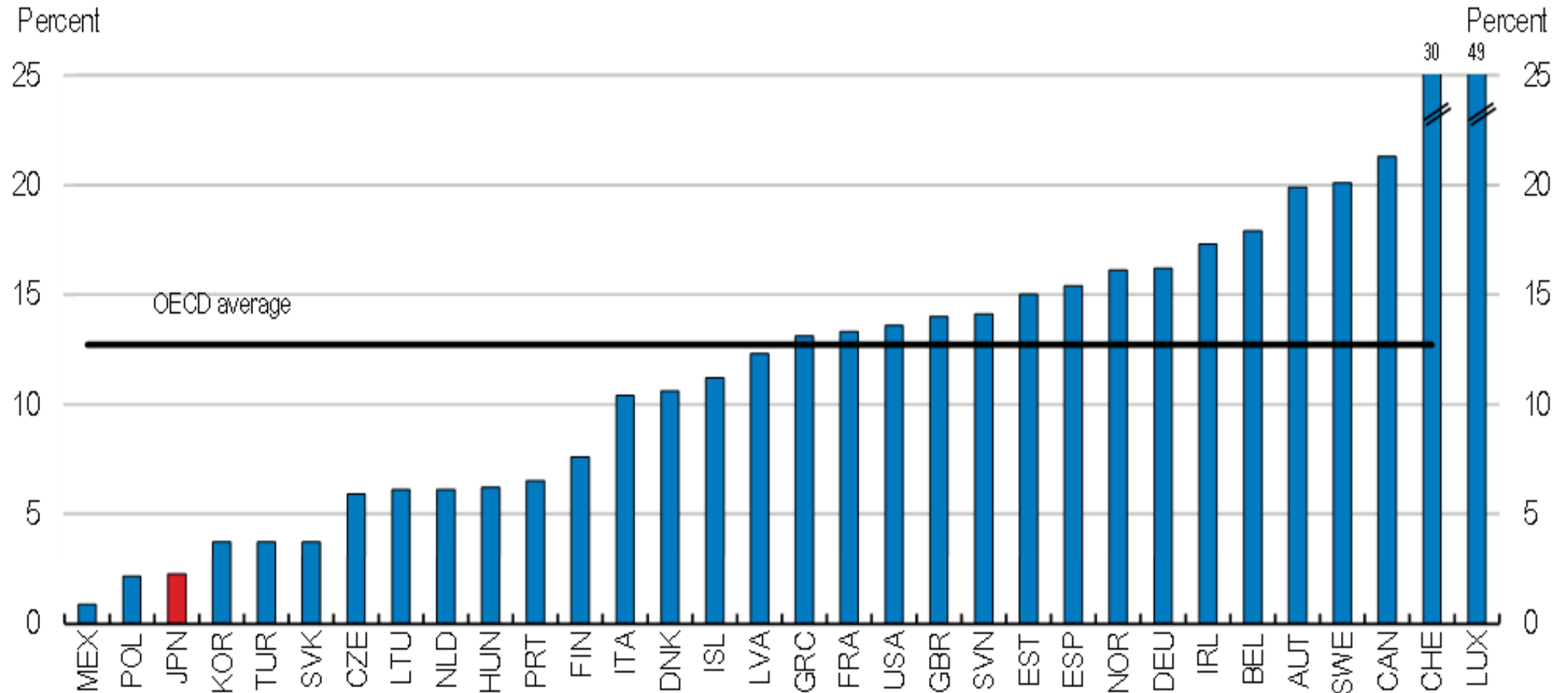
Japan's public expenditure on family support is relatively low



Note: The figure does not include tax breaks for families, which amounted to 0.3% of GDP in Japan in 2019, close to the 0.2% of GDP average.

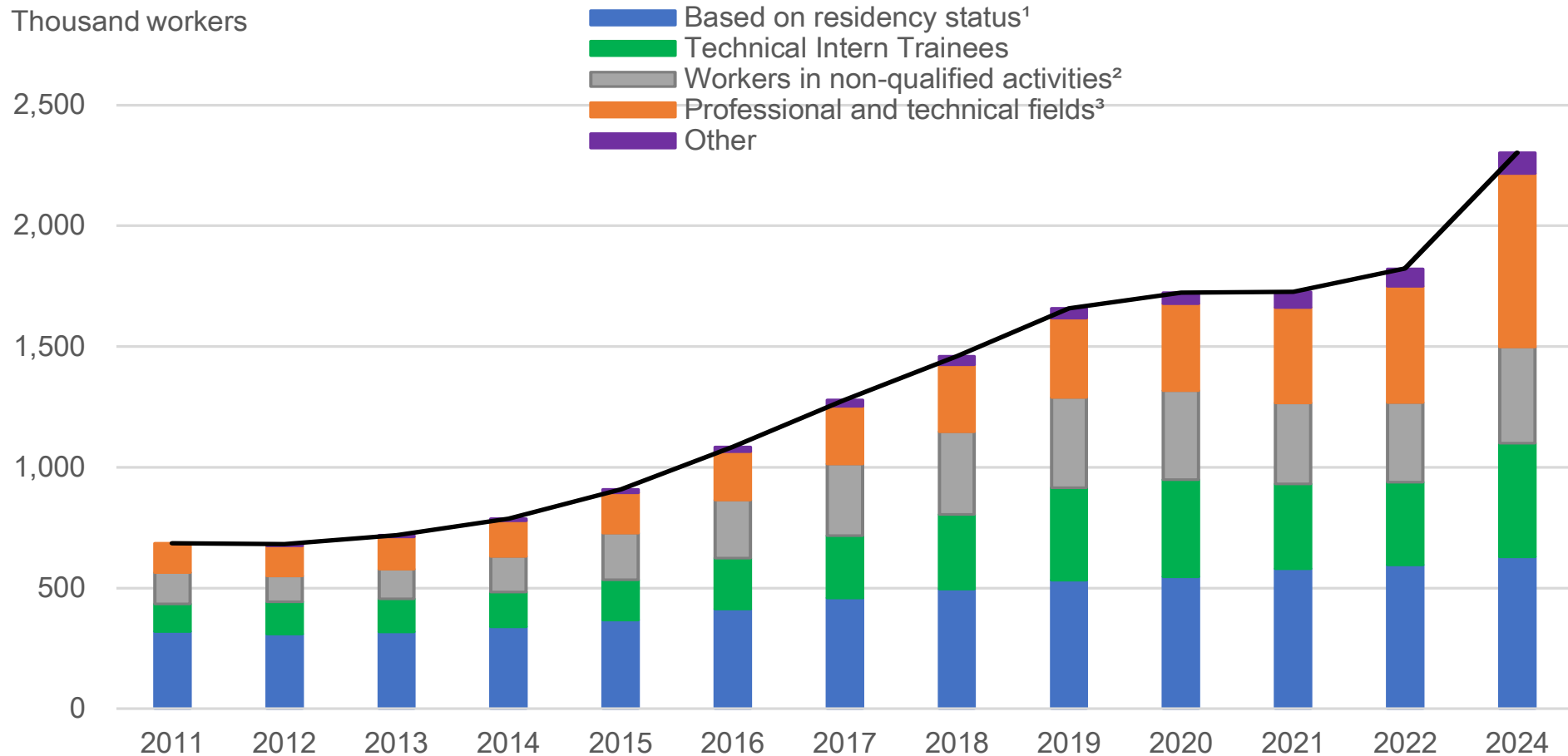
Source: Jones (2024), "Addressing Demographic Headwinds: A Long-term Perspective," 2024 OECD Economic Survey of Japan.

The share of the foreign-born population in Japan is low compared to other OECD countries



Source: OECD (2021), *International Migration Outlook 2022*.

The number of foreign workers in Japan increased almost three-fold between 2014 and 2024



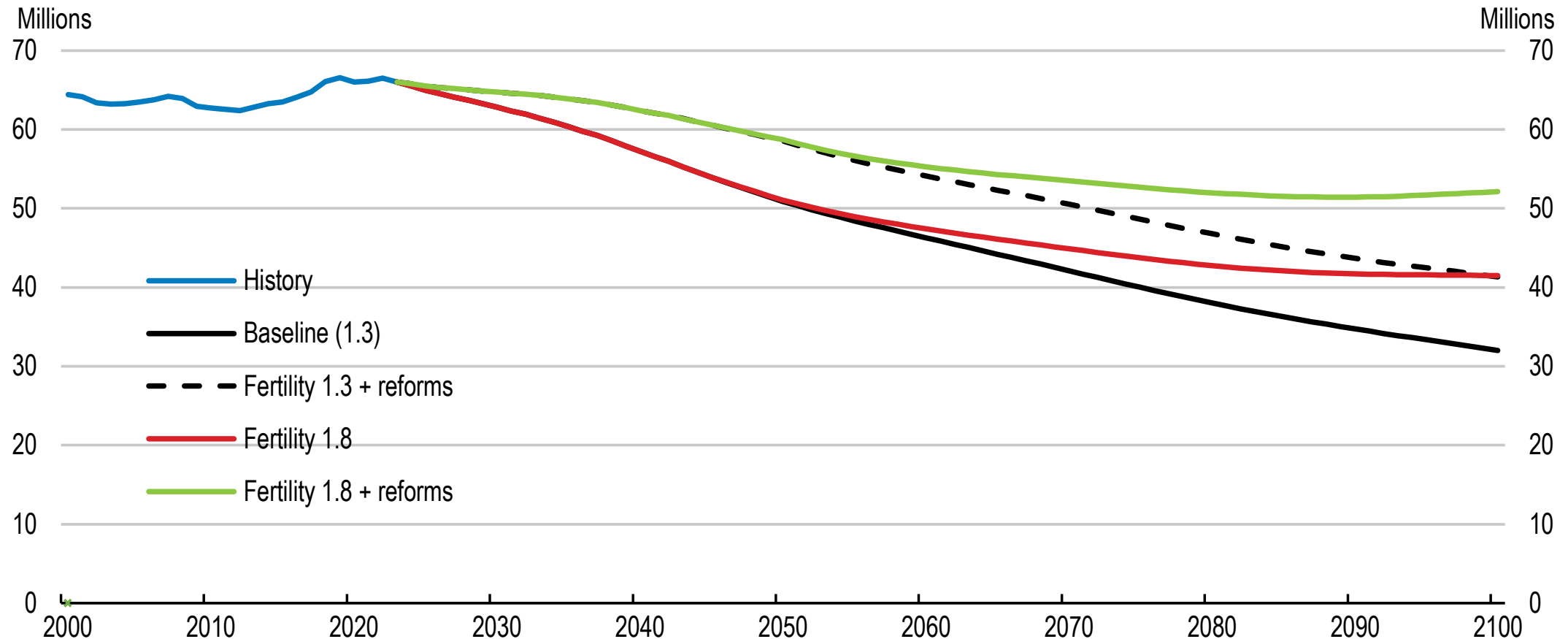
1. Includes (permanent) residents and spouses of Japanese or (permanent) residents.

2. Persons who have permission to engage in activities outside of their visa status. This group consists primarily of international students.

3. Includes professors and teachers, artists, religious teachers, journalists, business management (including corporate intra-industry transfers), legal and accounting services, health and nursing care, entertainment, research, engineers and specialists in humanities and international services.

Source: Ministry of Health, Labor and Welfare, *Summary of Notification Status Indicating "Employment Status of Foreigners"*.

Reforms to boost employment rates, notably for women and older persons, and increase the number of foreign workers would mitigate the fall in the labor force



Note: The reforms include; i) a doubling of inflows of foreigners to 200,000 per year; ii) a convergence of female employment rates to those of men by 2050; and iii) the employment rate for each five-year cohort from 60-64 to 70-74 converges to that of the preceding cohort (i.e., the rate for the 60-64 group would rise to the 2021 rate for the 55-59 age group, etc.) by 2050.

Source: Jones (2024), "Addressing Demographic Headwinds: A Long-term Perspective," 2024 OECD Economic Survey of Japan.

Outline of presentation

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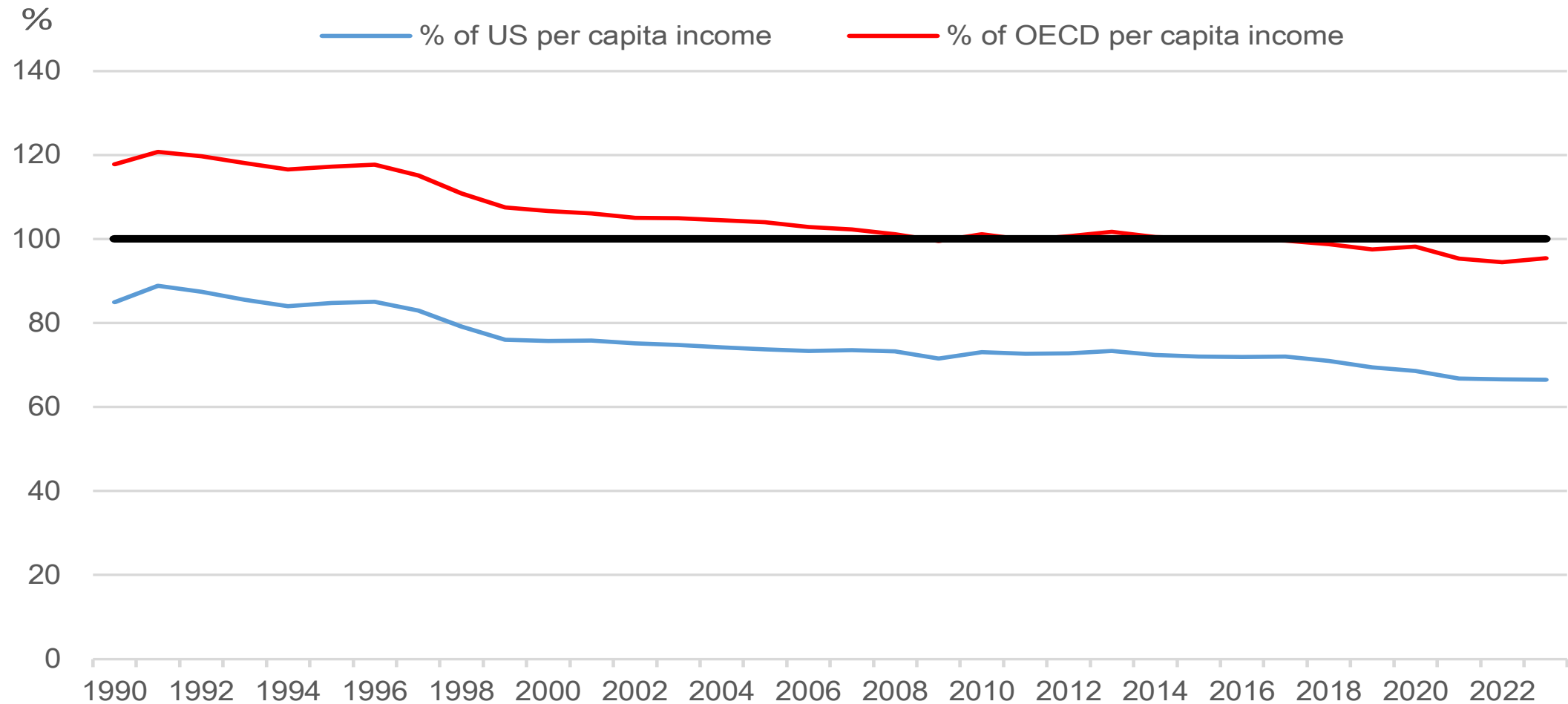
Prime Minister Takaichi established Japan's Growth Strategy Headquarters in November 2025

- Takaichi said: “Strategic investments that enhance resilience against potential crises are the core focus of the growth strategy. We will promote strategic investments that the public and private sector will implement preemptively, working hand in hand, to drastically strengthen the supply structure in response to risks and social issues.”
- At the Headquarters’ inaugural meeting, it set up the Council for Japan’s Growth Strategy, which will launch a growth strategy in the summer of 2026 that brings together these strategies, focusing on 17 sectors.
- Takaichi asked that the ministers overseeing each sector to “formulate a Public-Private Investment Roadmap” that includes details of investments to be realized through these measures, their timing, and target amounts. The roadmap should present a quantitative outlook on the expected impact of these investments on national wealth.
- The initiative will rest on two pillars: i) “crisis management investment” to strengthen supply chains in national security-related sectors; and ii) “growth investment” in advanced technologies.
- In her 20 February Policy Speech to the Diet, Takaichi announced JPY 7.2 trillion (USD 48 billion or 1.1% of GDP) of direct government spending in the 17 sectors. The goal is to have JPY 50 trillion (USD 48 billion) in combined public-private investment by 2030.

The 17 sectors in the growth strategy are:

- AI and semiconductors
- Shipbuilding
- Quantum technology
- Synthetic biology and biotechnology
- Aviation and space
- Digital and cybersecurity
- Content industry
- Food tech
- Resource, energy security and green transformation
- Disaster prevention and national resilience
- Drug discovery and advanced medicine
- Fusion energy
- Materials (critical minerals and component materials)
- Port logistics
- Defense industry
- Information and communications
- Marine and ocean

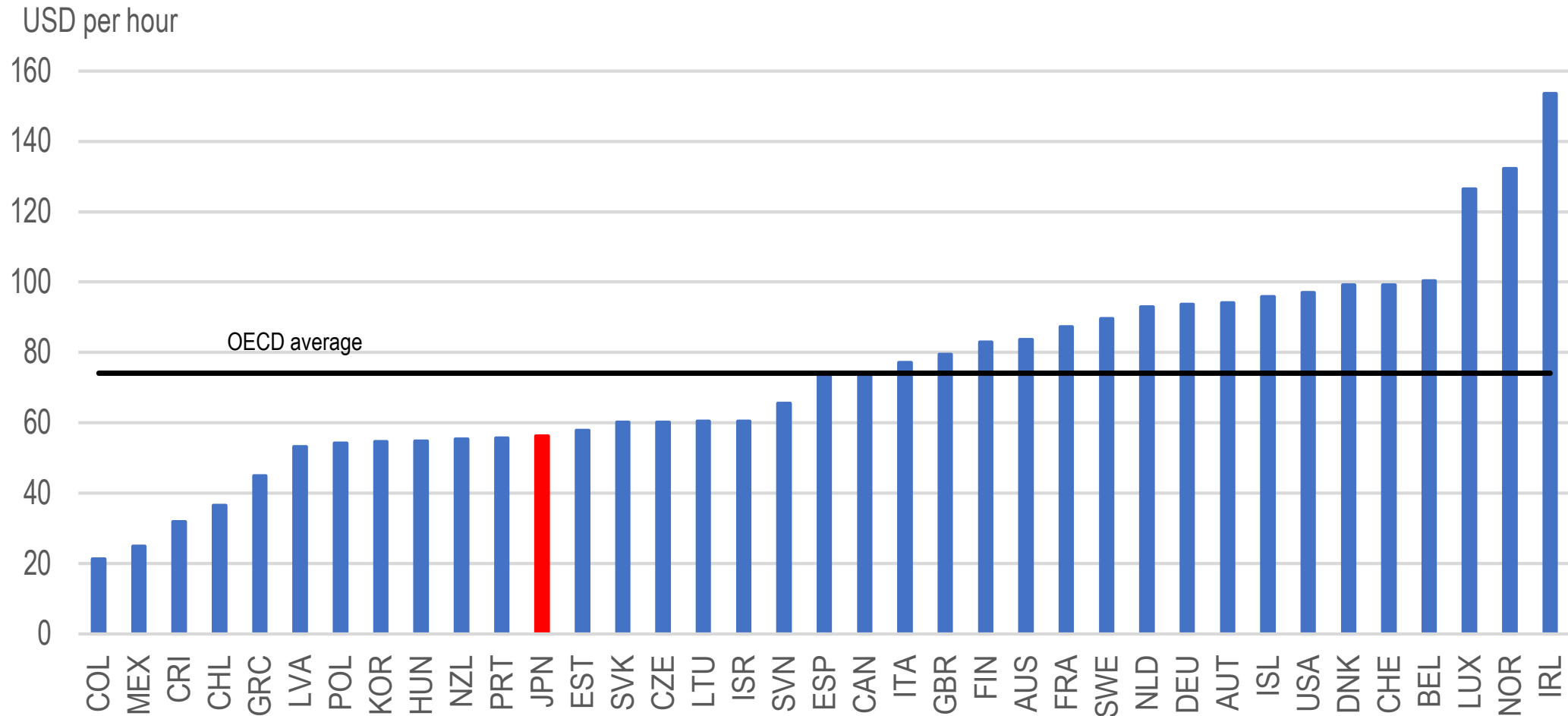
Japan's per capita income has fallen relative to the US and the OECD area



Note: Annual GDP per capita in volume, constant PPPs (reference year 2015).

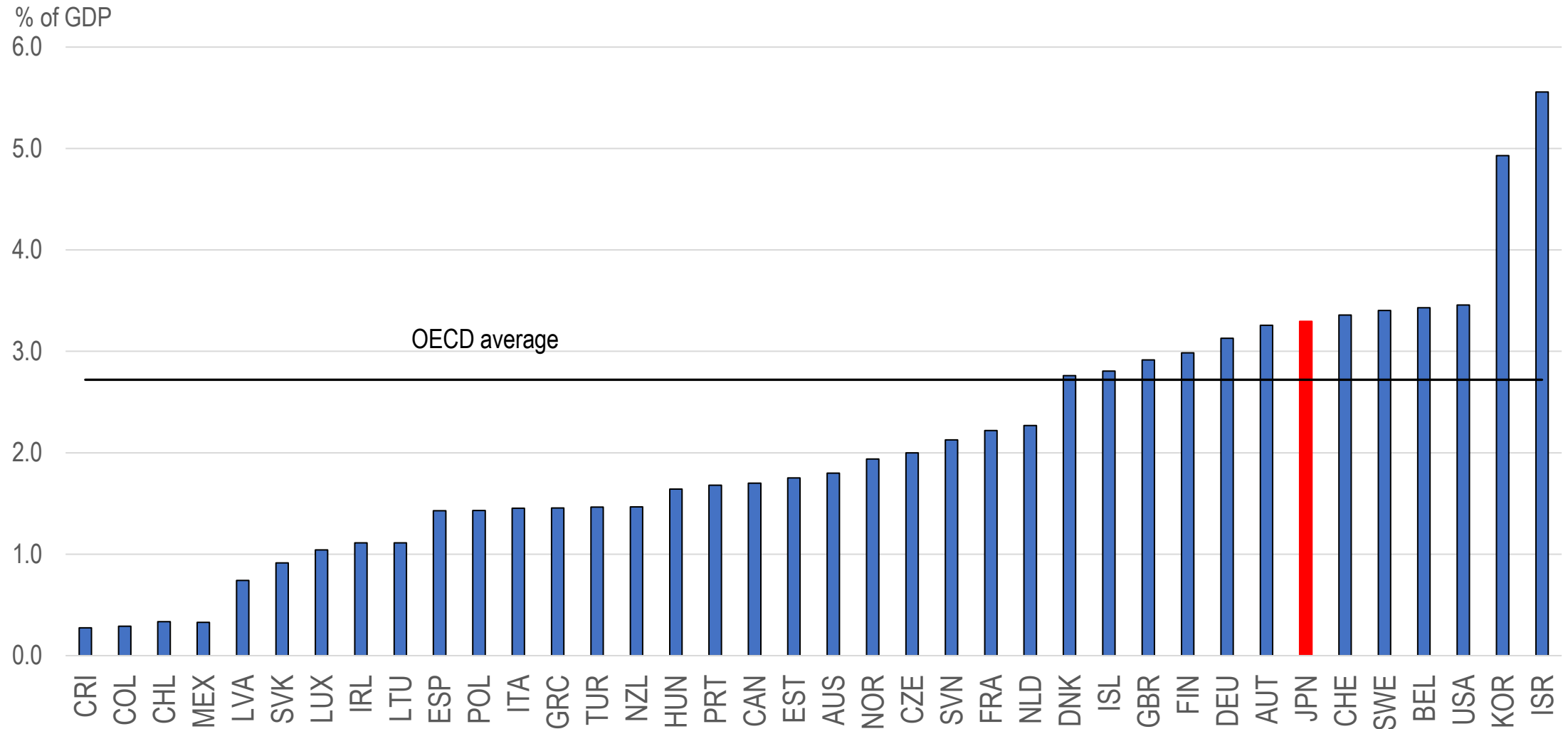
Source: OECD Explorer, [OECD Data Explorer • Annual GDP and consumption per capita, US \\$, volume, constant PPPs, reference year 2015](#), accessed 18 November 2024.

The key to promoting economic growth is raising Japan's relatively low level of labor productivity



Note: USD per hour worked, converted in purchasing power parity exchange rates in 2023.
Source: OECD, [GDP per hour worked | OECD](#), accessed 16 February 2026.

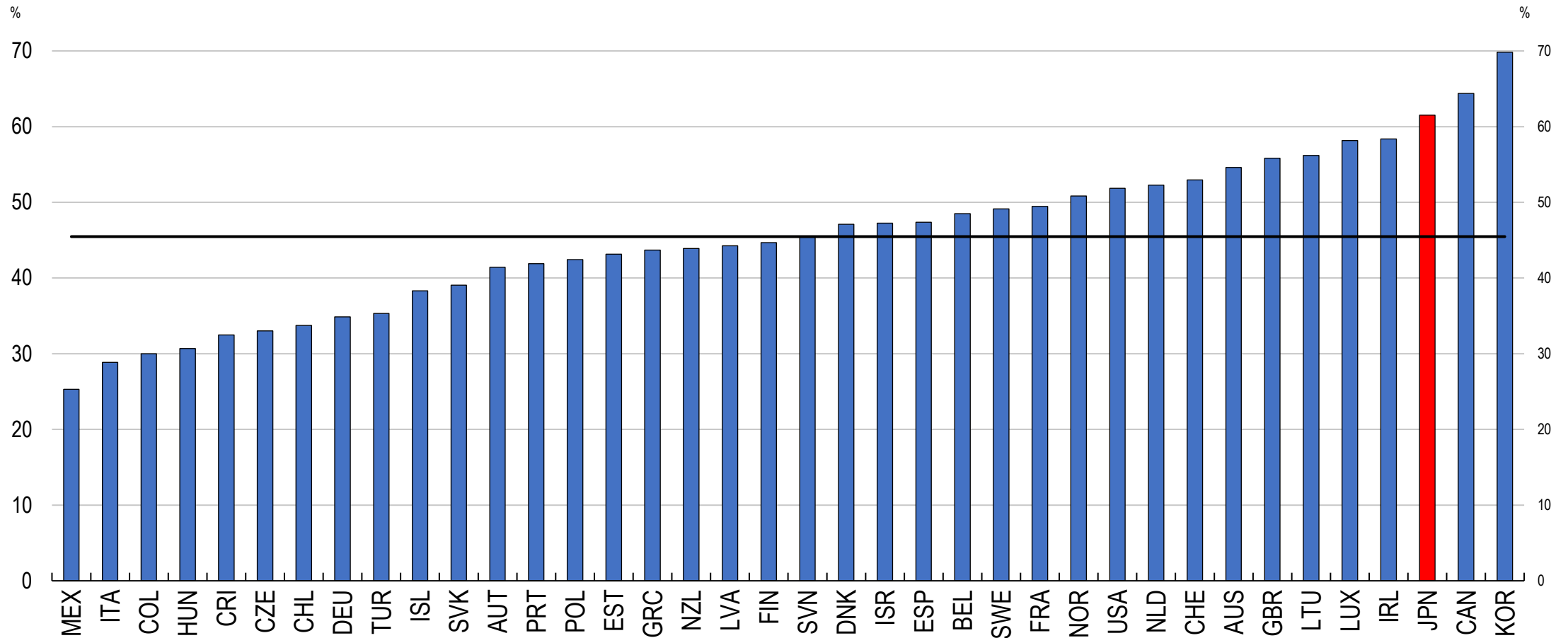
Japan's R&D spending (as a % of GDP) was one of the highest in the OECD area in 2021



Source: OECD Data Explorer, Main Science and Technology Indicators (MSTI database)..

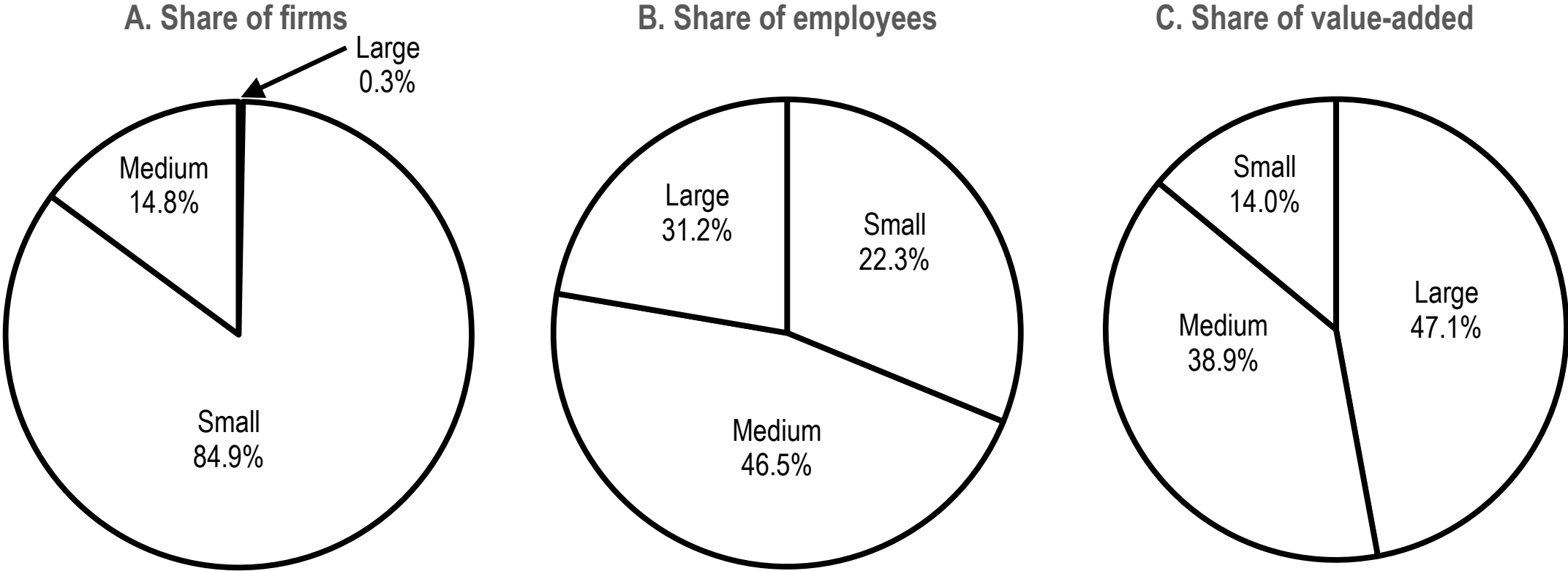
The share of tertiary graduates among young Japanese is the third highest in the OECD

Percentage of the 25-34 age group in 2020



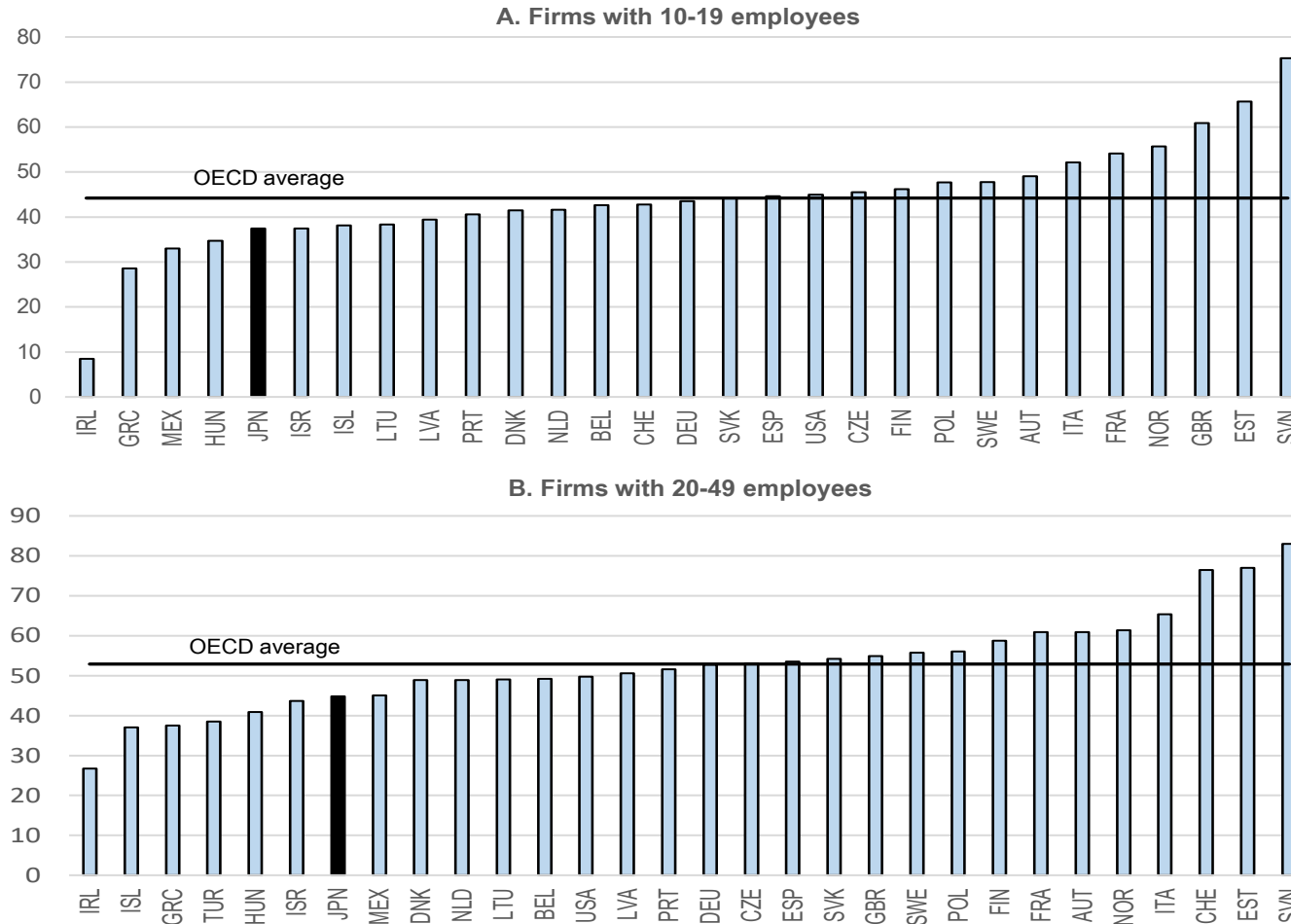
Source: Jones, R. and J. Beom (2022), [Policies to increase youth employment in Korea | OECD Economics Department Working Papers | OECD iLibrary \(oecd-ilibrary.org\)](#), OECD Economics Department Working Paper No. 1740.

SMEs account for a large share of firms and employees, but their share of value-added is relatively small



Source: Ministry of Economy, Trade and Industry and the Ministry of Internal Affairs and Communications, *2016 Economic Census of Business Activity*

Japan's productivity gap between large firms and SMEs is wide compared to other OECD countries



Note: Value added in 2016 per employed person. In percent with large firms at 100.

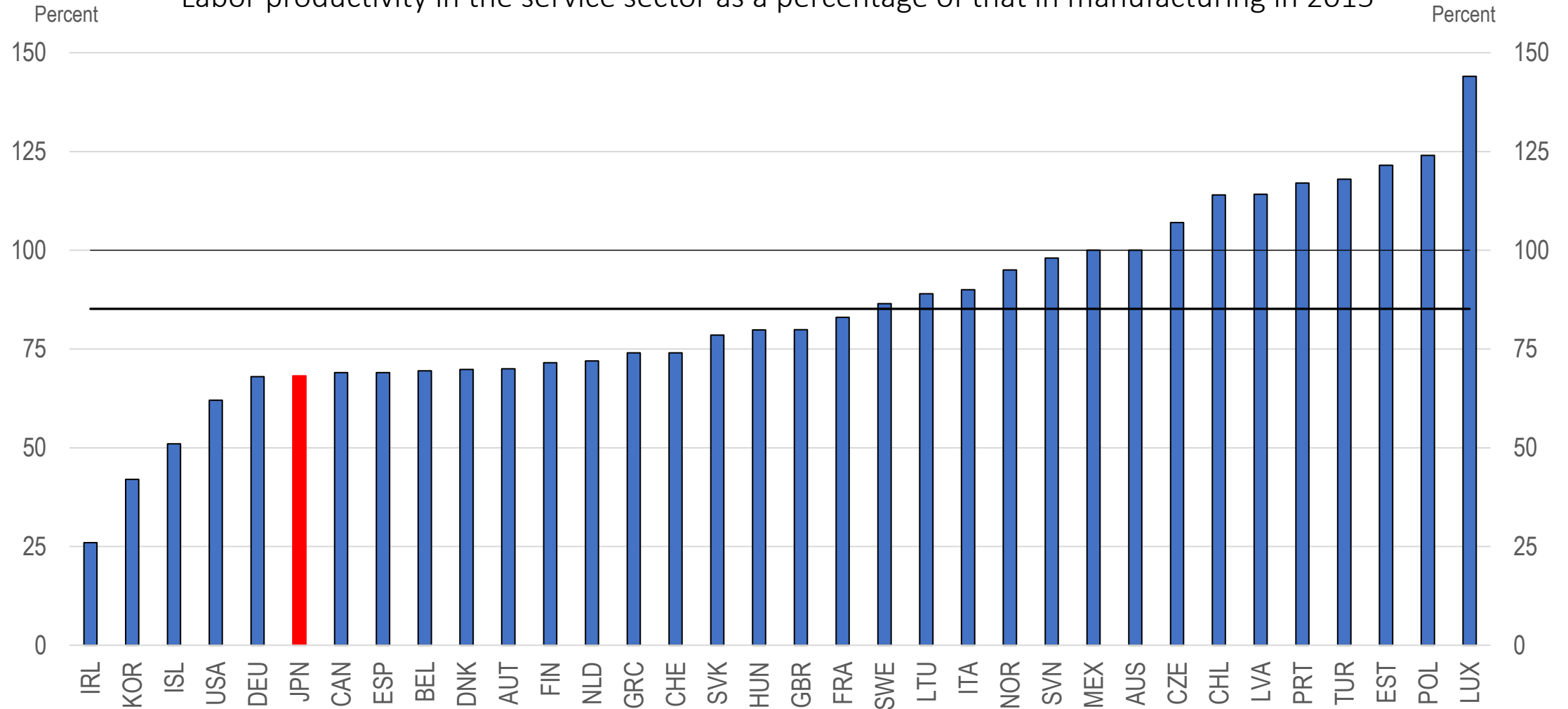
Source: OECD (2018), *Entrepreneurship at a Glance: 2018 Highlights*, OECD Publishing, Paris, [Entrepreneurship at a Glance Highlights 2018 \(oecd.org\)](https://www.oecd.org/entrepreneurship-at-a-glance-highlights-2018/).

Why is the productivity of SMEs relatively low in Japan?

1. SMEs are concentrated in the service sector, where productivity is low compared to manufacturing.
2. SMEs lag in innovation and introduction of new technology, reflecting a lack of capital and human resources.
3. SMEs' level of participation in international trade and investment is low, reflecting high barriers on FDI.
4. The small size of SMEs limits economies of scale. Many remain small to retain the advantages given to SMEs (the Peter Pan Syndrome).
5. SMEs tend to be old.

Service-sector productivity is low in Japan compared to other OECD countries

Labor productivity in the service sector as a percentage of that in manufacturing in 2015

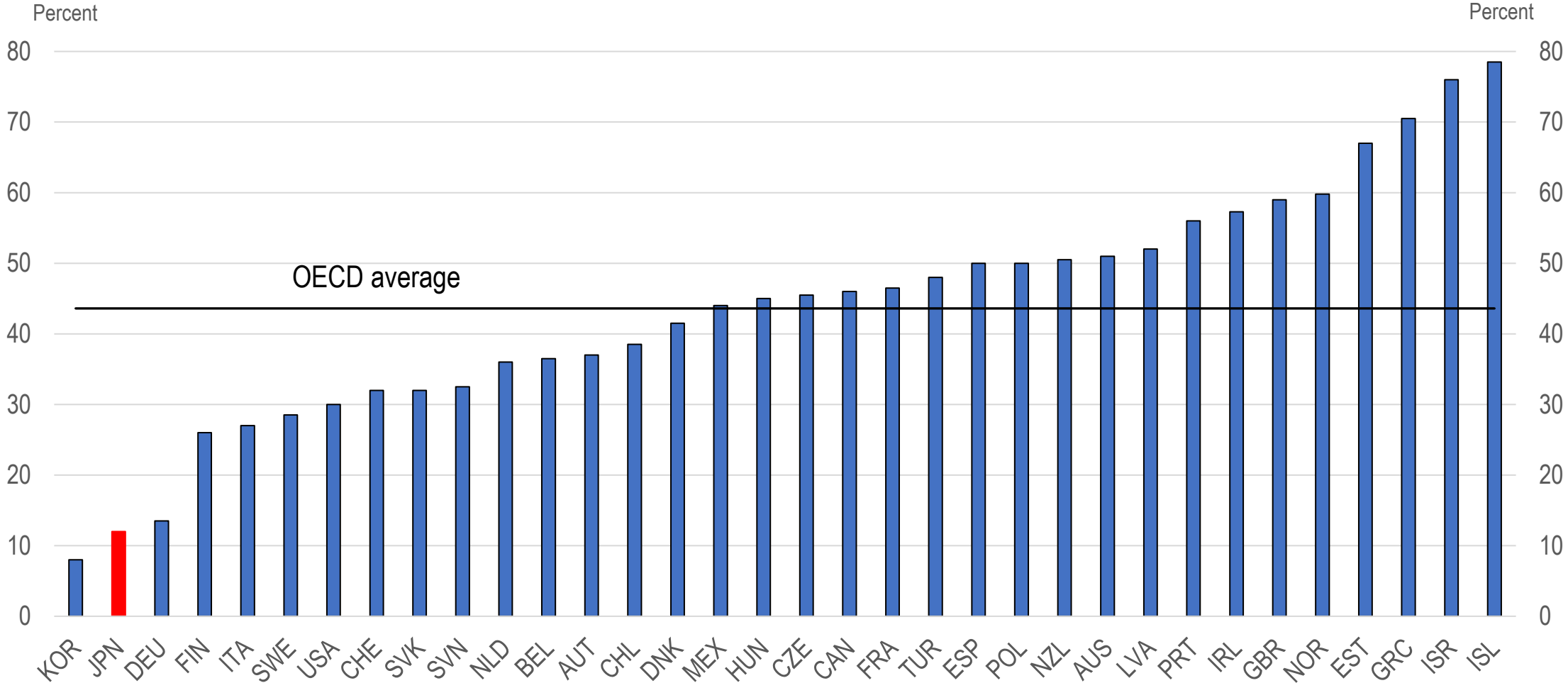


Note: The service sector excludes financial services

Source: OECD (2021), *Inclusive Growth Review of Korea: Creating Opportunities for All*, OECD Publishing Paris.

R&D in Japan's SME sector is extremely low

As a percentage of total business R&D in 2015



Source: OECD (2017), *OECD Science, Technology and Industry Scoreboard 2017*, OECD Publishing, Paris.

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Frequent changes in US tariff policy since March 2025

Date	Authority	Country	Commodity	Description
12 March	Section 232	All	Steel & aluminum	25% tariff
2 April	IEEPA (reciprocal)	Most countries	Most goods	10% tariff
2 April	IEEPA (reciprocal) Liberation Day	Japan	Most goods	Country-specific 24% tariff to take effect on 9 April
3 April	Section 232	All	Automobiles	25% tariff
4 April	Section 232	All	Beer & empty aluminum cans	25% tariff
5 April	IEEPA (reciprocal)	All	Most goods	10% baseline tariff (excluding Canada and Mexico)
9 April	IEEPA (reciprocal)	All	All goods	Country-specific tariffs (except for China) paused for 90 days (until 9 July 2025)
12 April	IEEPA (reciprocal)	All	Semiconductor; smartphones and consumer electronics	Certain of these products are excluded from the tariffs announced on 2 April
3 May	Section 232	All	Auto parts	25% tariff
4 June	Section 232	All	Steel & aluminum	25% tariff raised to 50%
23 June	Section 232	All	Steel derivative products	50% tariffs on steel derivative products such as washers, refrigerators, stoves, etc.
7 July	IEEPA (reciprocal)	All	All goods	The 90-day pause extended to 1 August
31 July	IEEPA (reciprocal)	Japan	All goods	Country-specific tariff rate of 15% announced
1 August	Section 232	All	Semi-finished copper	50% tariff
18 August	Section 232	All	Steel & aluminum	50% tariff on the value of steel and aluminum content
4 Sept	IEEPA (reciprocal)	Japan	All goods	US-Japan agreement
1 Nov	Section 232	All	Medium/heavy-duty vehicles, parts, buses	25% tariff on medium- and heavy-duty vehicles and 10% tariff on buses
15 Jan 2026	Section 232	All	Semiconductors	25% tariff on certain semiconductors
24 Feb 2026	IEEPA all	All	All	All IEEPA tariffs are terminated and invalid

The 4 September US-Japan Agreement

- The United States will apply a baseline 15% tariff on nearly all Japanese imports entering the United States, alongside separate sector-specific treatment for automobiles and automobile parts and other products.
- Japan will provide American manufacturing, aerospace, agriculture, food, energy, automobile, and industrial goods producers with breakthrough openings in market access across key sectors. Specifically, Japan is working toward an expedited implementation of a 75% increase of US rice procurement and purchases of other US agricultural goods, including corn, soybeans, fertilizer, bioethanol and other US products, in amounts totaling \$8 billion per year. Japan is also working to accept for sale in Japan US manufactured passenger vehicles without additional testing. Japan will also purchase US-made commercial aircraft, as well as United States defense equipment.
- Critically, unlike any other agreement in American history, Japan has agreed to invest \$550 billion in the United States. These investments — which will be selected by the US Government — will generate hundreds of thousands of US jobs, expand domestic manufacturing, and secure American prosperity for generations.
- Japan is not alone in this type of commitment: the European Union, Japan, South Korea, Taiwan, Switzerland, Liechtenstein and the Persian Gulf states of Saudi Arabia, Qatar, Bahrain and the United Arab Emirates have similar agreements.
- This new tariff framework, combined with expanded United States exports and investment-driven production, will help reduce the trade deficit with Japan and restore greater balance to the overall United States trade position.

Has US tariff policy in 2025 helped thus far reduce the trade deficit with Japan and restore greater balance to the overall US trade position?

- In 2025, US exports to Japan increased 3.9%, while imports from Japan fell 1.6%. Consequently, the bilateral trade deficit with Japan narrowed from USD 69.4 billion in 2024 to USD 63.9 billion in 2025.
- Nevertheless, the US set records for its total trade, total exports, and total imports.
- It also set a record for the goods trade deficit, which increased 2.1% to an all-time high of \$1.24 trillion.
- Record goods trade deficits were reported with Mexico, Vietnam, Taiwan, Ireland, Thailand and India. The goods trade deficit with China shrank to \$202.1 billion from \$295.5 billion in 2024.
- The fall in the trade deficit with Japan was more than offset by larger deficits with other countries.
- “There just isn't any evidence out there in the economic research literature to suggest that tariffs have materially impacted trade deficits historically when countries have implemented them.” (Chad Bown, fellow at the Peterson Institute for International Economics).
- Instead, trade balances reflect a country's saving-investment imbalance.

What should Japan do in the face of “Pure tariff chaos from the U.S. administration,” (according to the European Parliament’s trade committee chairman)?

- Following the Supreme Court ruling on 20 February ending the reciprocal tariffs under the IEEPA, President Trump imposed a 15% tariff on all countries and all goods under Section 122 of the Trade Act of 1974. It limits the tariffs to a period of 150 days.
- The US can use other trade laws (Sections 201, 232 and 301) to impose tariffs on specific items but they are based on investigations that take time (hence Trump used the IEEPA).
- The 15% tariff under Section 122 matches the IEEPA tariff in the 4 September US-Japan agreement. When it expires, Japan could use the \$550 billion in promised investment in the US as leverage to avoid higher tariffs under other trade remedies.
- Japan should follow the EU lead in creating new trade agreements, for example with India and South America. In addition, CPTPP could link to the EU.

EUROPA ECONOMIC PERSPECTIVES



The Japanese Economy
Strategies to Cope with a
Shrinking and Ageing Population

Randall S. Jones



The Center on Japanese Economy and Business
5 March 2026

**A New Era in Japan:
The New Administration and Its Impact
on the Economy and Business**

Randall S. Jones

Professional Fellow, Center on Japanese Economy and Business
Adjunct Professor, Johns Hopkins University and the KDI School
Distinguished Non-resident Fellow, Korea Economic Institute
Former Senior Counselor - East Asia and Head of Japan/Korea
Desk, Organisation for Economic Cooperation and Development
(OECD)