

How to Survive the Era of Declining Population

---The Chinese Market as a Great Opportunity---

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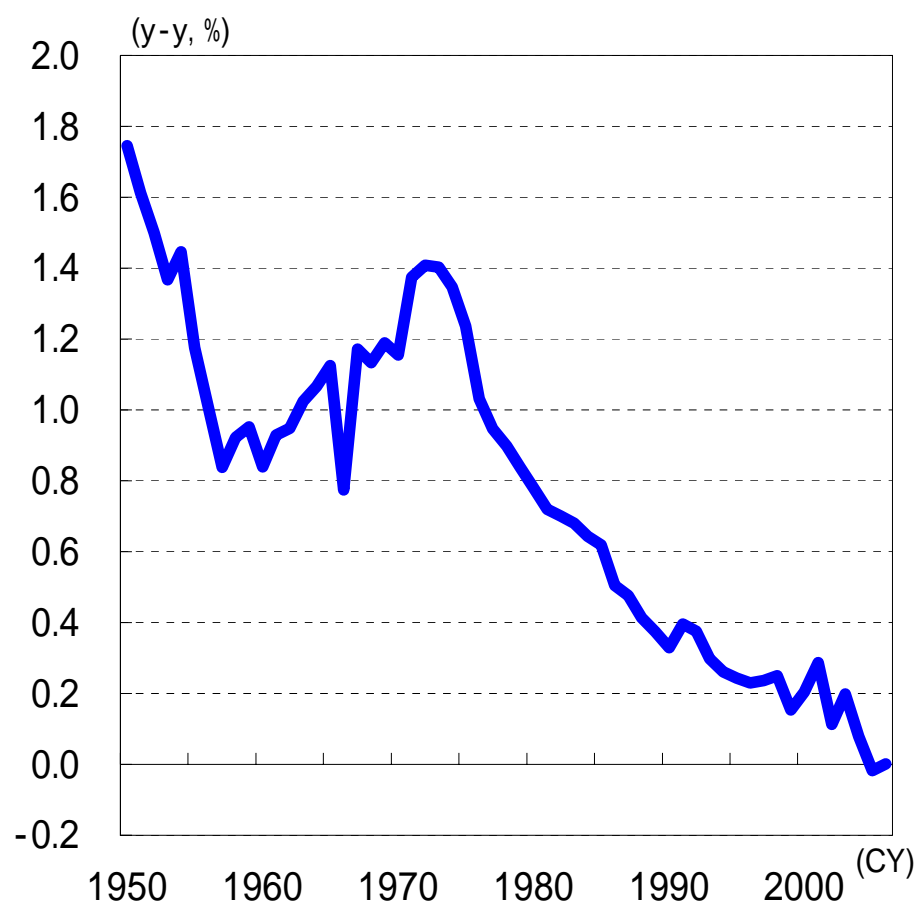
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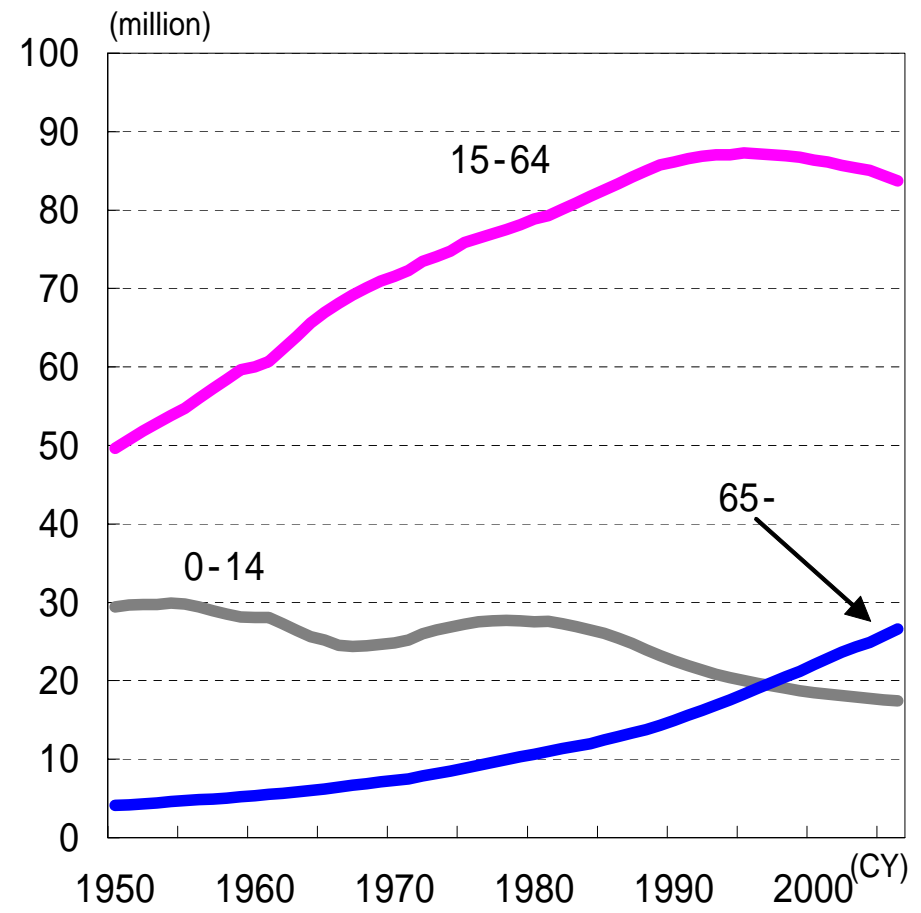
The era of declining population has come to Japan

Japan's Population Growth



Source: Japan Ministry of Internal Affairs and Communications

Japan's Population by Age



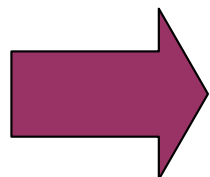
Source: Japan Ministry of Internal Affairs and Communications

Implications of declining population for businesses

1. Two declines

- decline in demand for your products
- decline in supply of labor

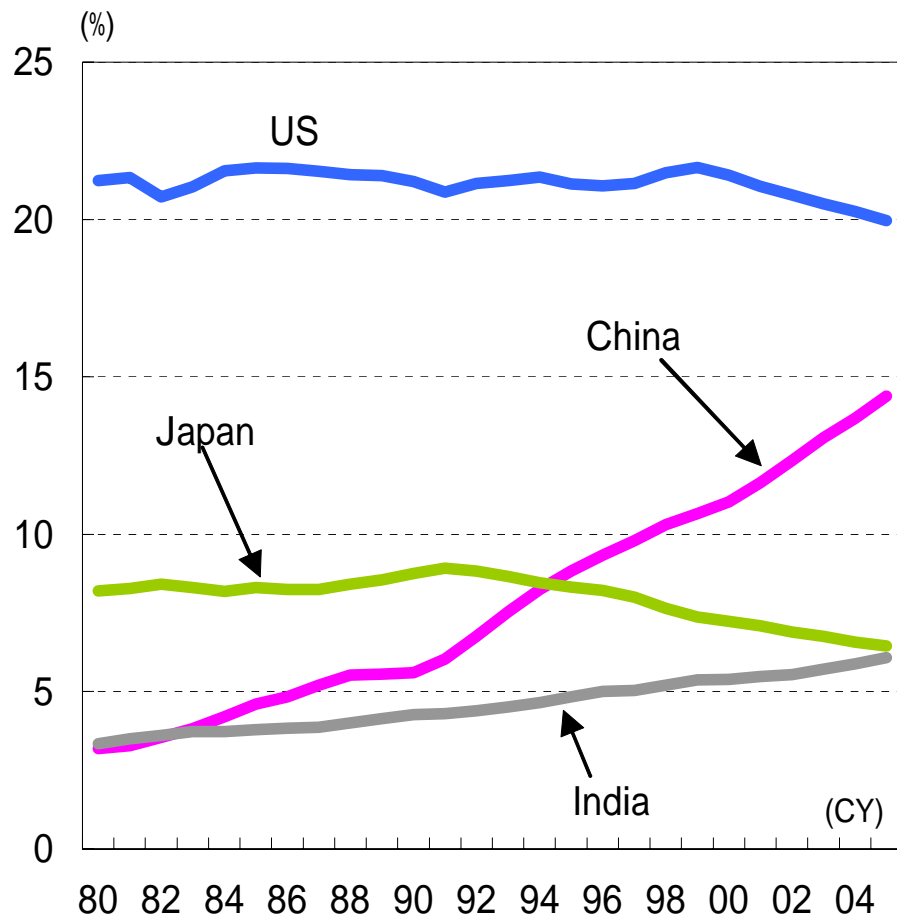
2. Impacts differ from industry to industry.



Complex dynamic maximization problem
under tremendous uncertainty

A solution: globalizing your business

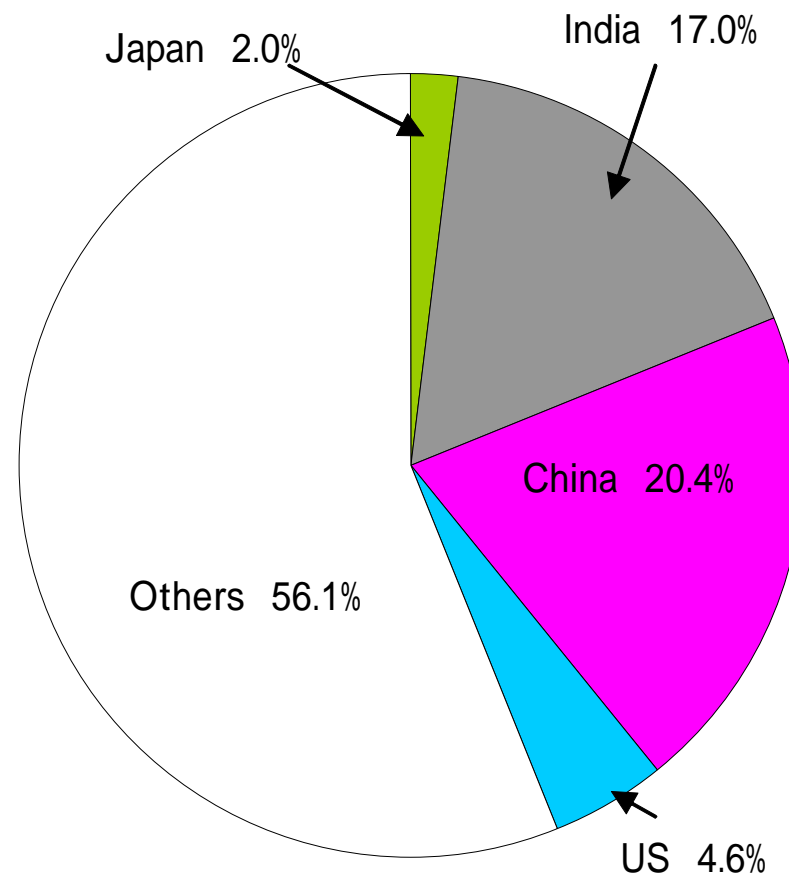
Shares in the World GDP



Note: Based on purchasing power parity.

Source: IMF

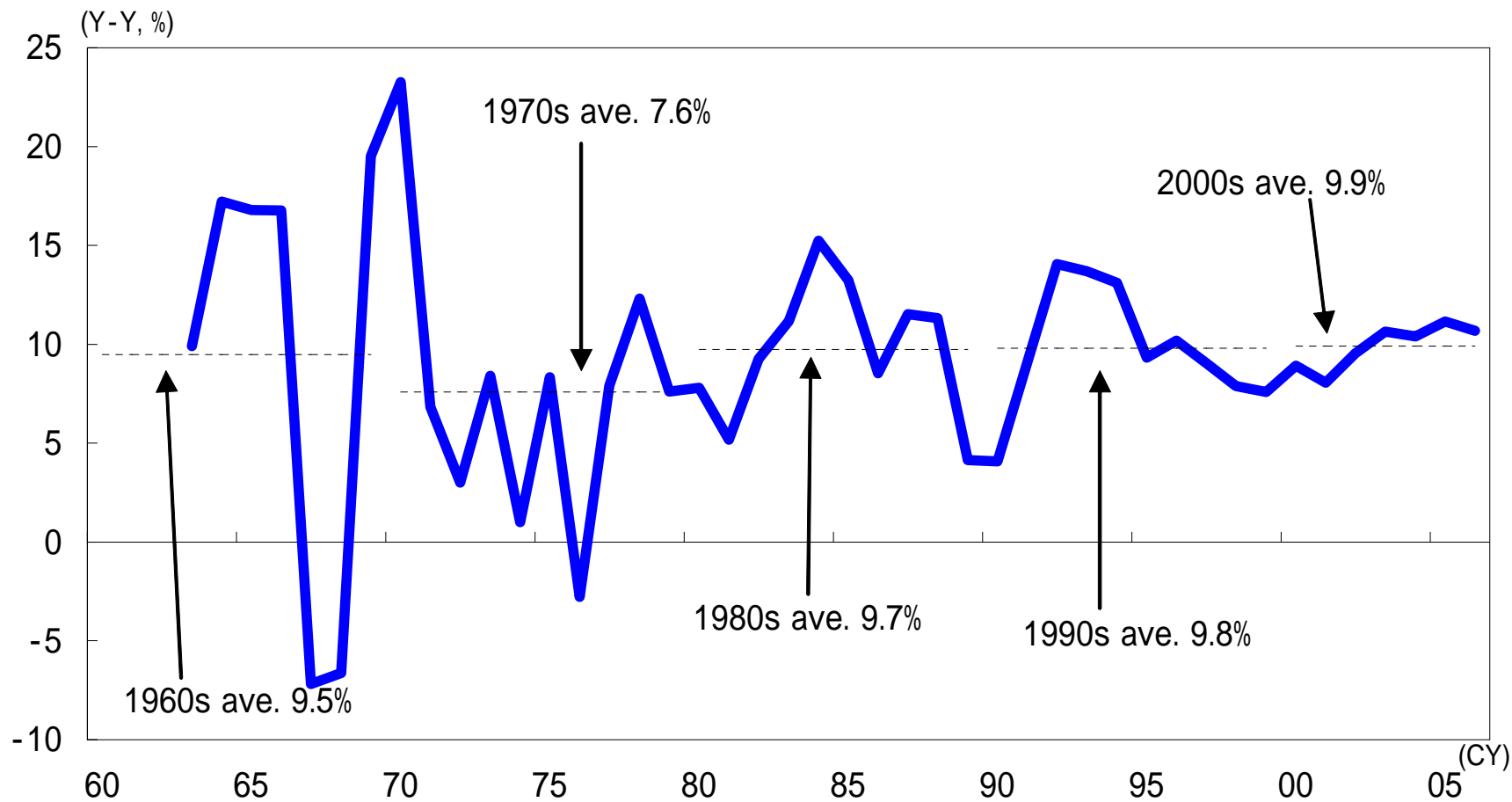
Distribution of the World Population (2005)



Source: Nomura, based on Japan Ministry of Internal Affairs and Communications

Continuing high growth of China

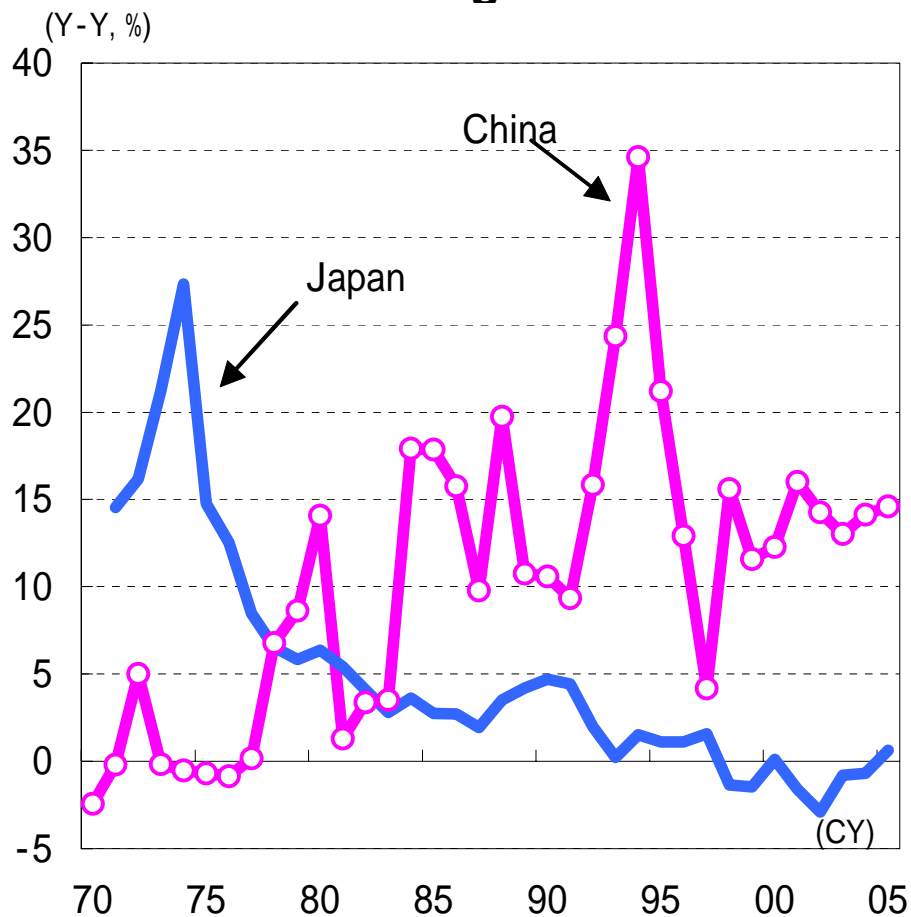
China's Real Growth Rate



Source: Nomura, based on National Bureau of Statistics of China and International Historical Statistics data

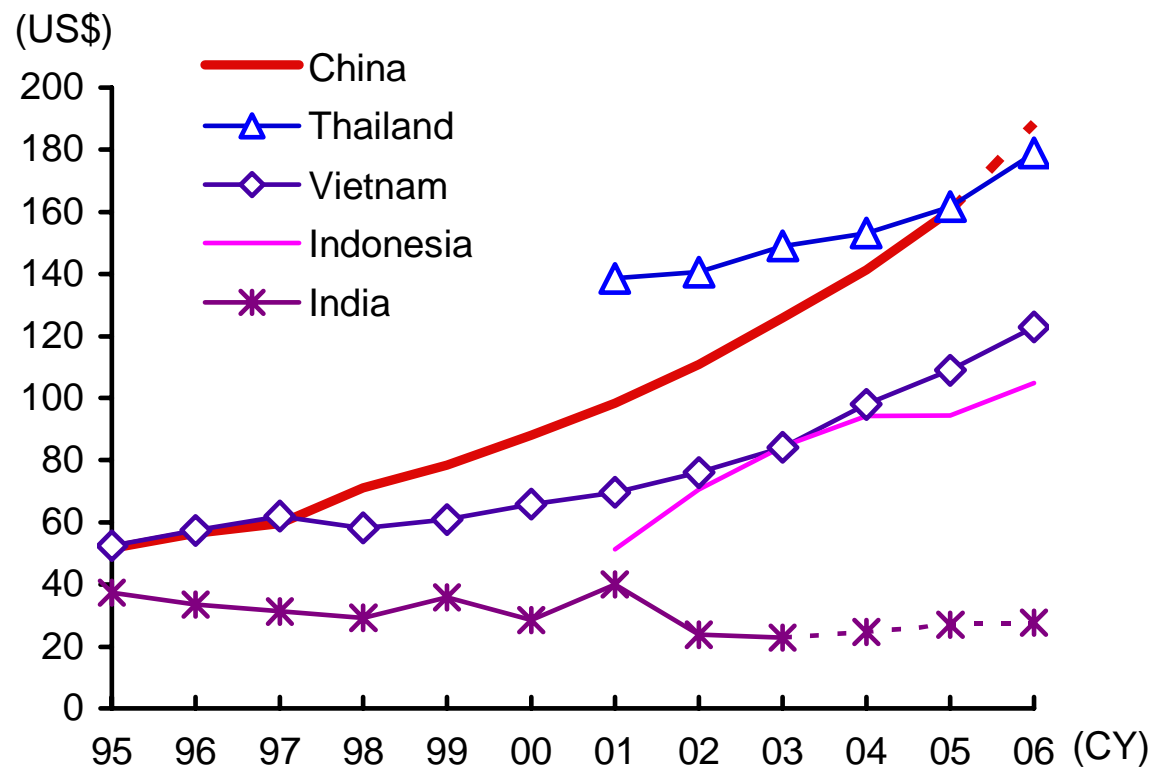
China's wage is increasing rapidly

Nominal Wage Growth Rate



Source: National Bureau of Statistics of China and Japan Ministry of Health, Labor and Welfare

Per-employee monthly wages (manufacturing)



Note: (1) Figures for India from 2004 are extrapolated from 2003 data using wage growth rates at textile mills. (2) Figures for China for 2006 extrapolated from 2005 data using wage growth rates on an all-industry basis.

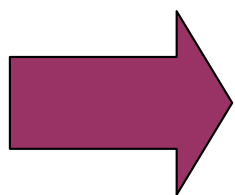
Source: Nomura, based on CEIC and International Labour Organization (ILO) data

China's unlimited labor supply

Chinese government's view:

150 – 170 million excess labor in rural area

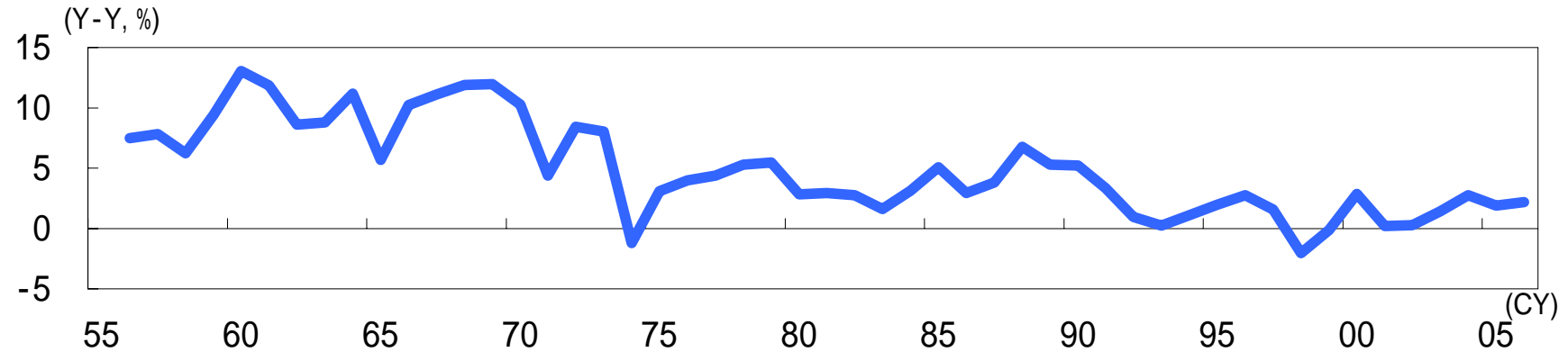
People's Daily Online (Sep. 13, 2007)



Ten more years of unlimited labor supply
from rural areas to urban areas

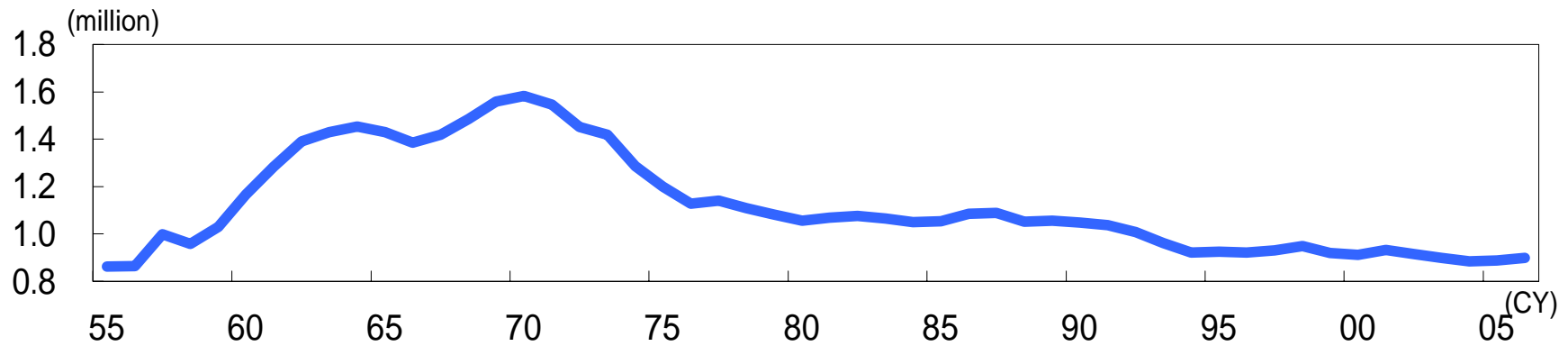
Japan's high growth in 1960s was attained by massive population shift

Japan's Real Growth Rate



Source: Nomura, based on Japan Cabinet Office data

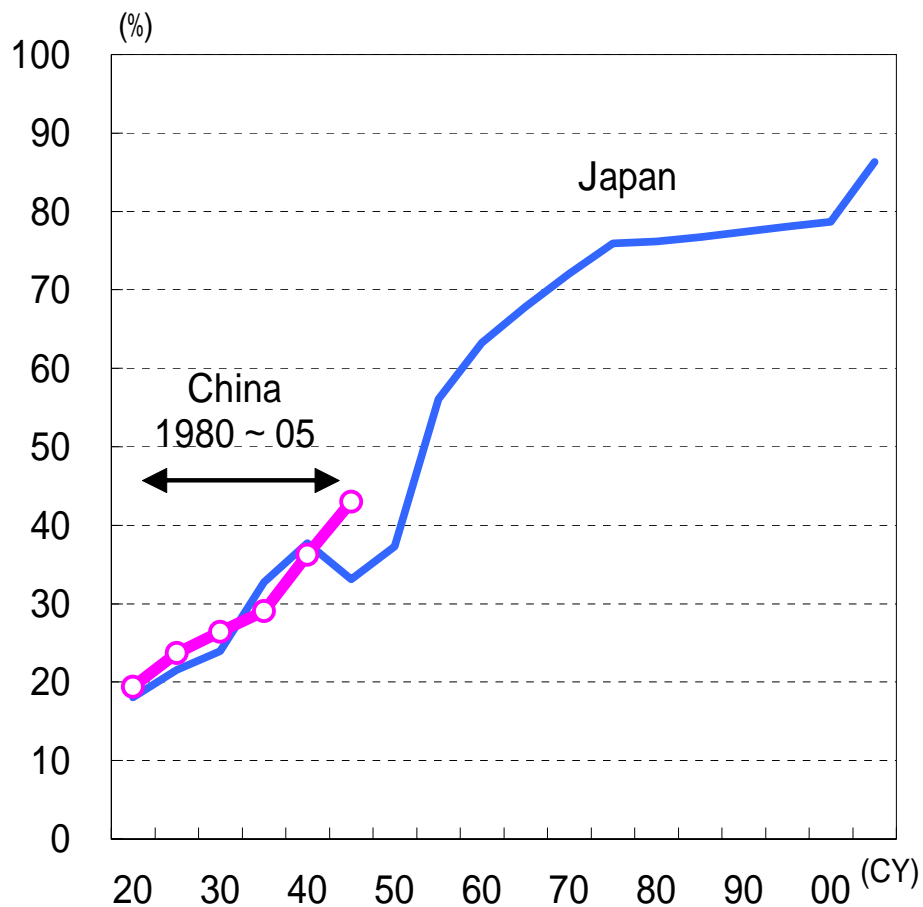
Gross Population Inflow to Tokyo, Nagoya and Osaka Area



Source: Japan Ministry of Internal Affairs and Communications

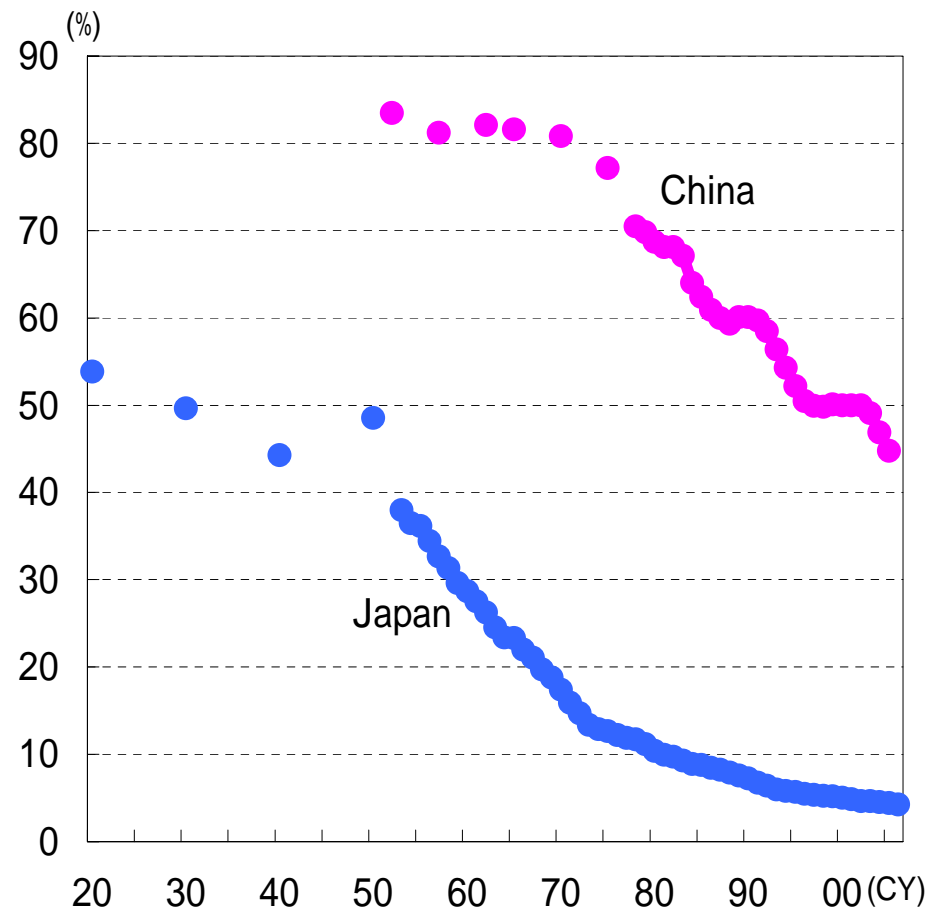
The degree of urbanization is still low in China

Urban Population Ratio



Source: National Bureau of Statistics of China, Japan Statistical Association

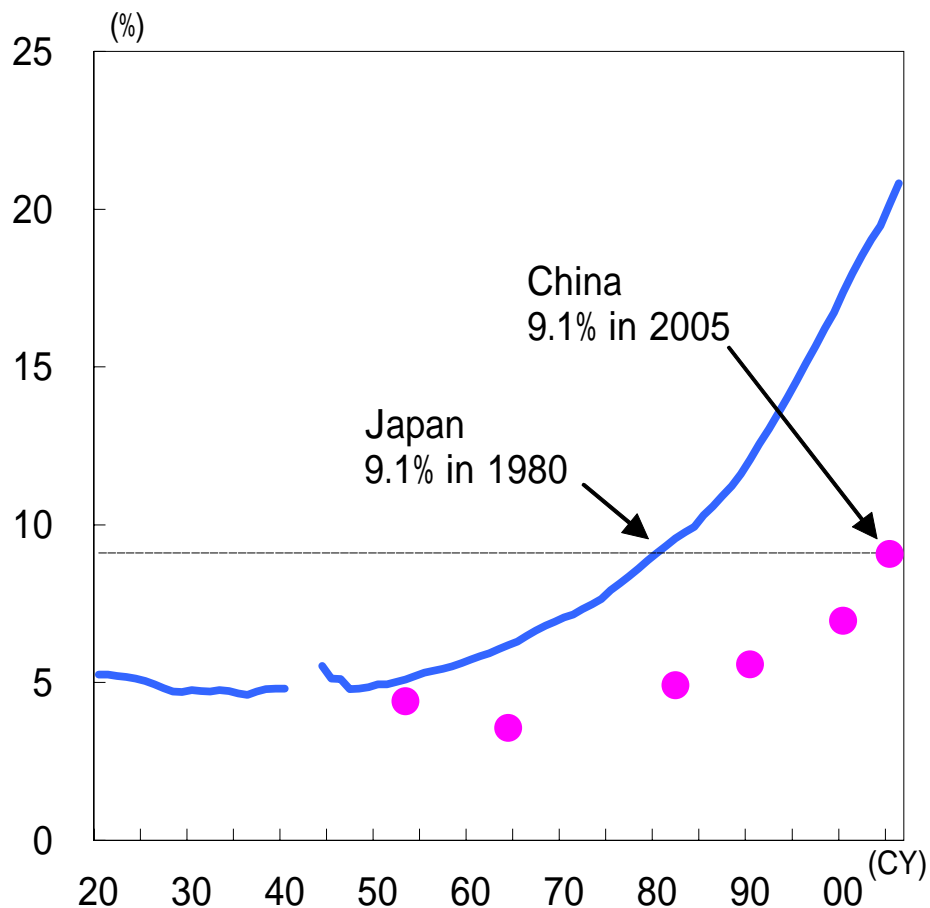
Proportion of Primary Industry Employees



Source: Nomura, based on National Bureau of Statistics of China, Japan Ministry of Internal Affairs and Communications and Japan Statistical Association data

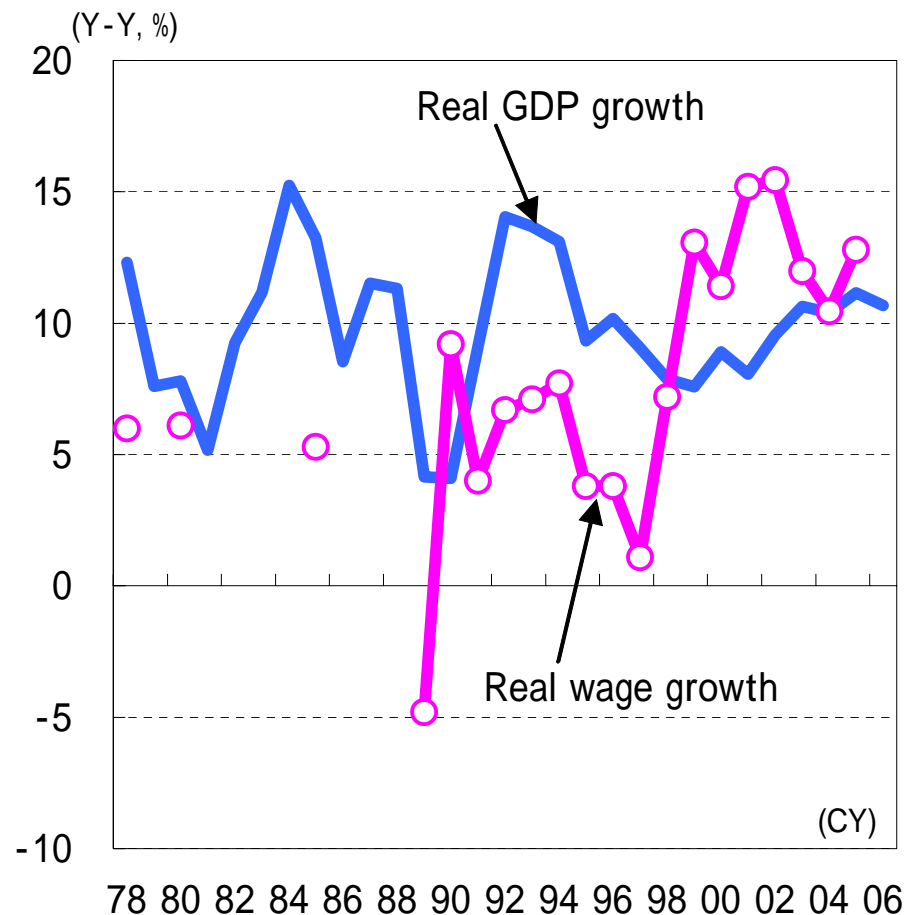
China's labor market may be already tightening

Proportion of Population Aged 65 or Over



Source: Nomura, based on National Bureau of Statistics of China and Japan Ministry of Internal Affairs and Communications data

China's Real Growth Rate of GDP and Wage

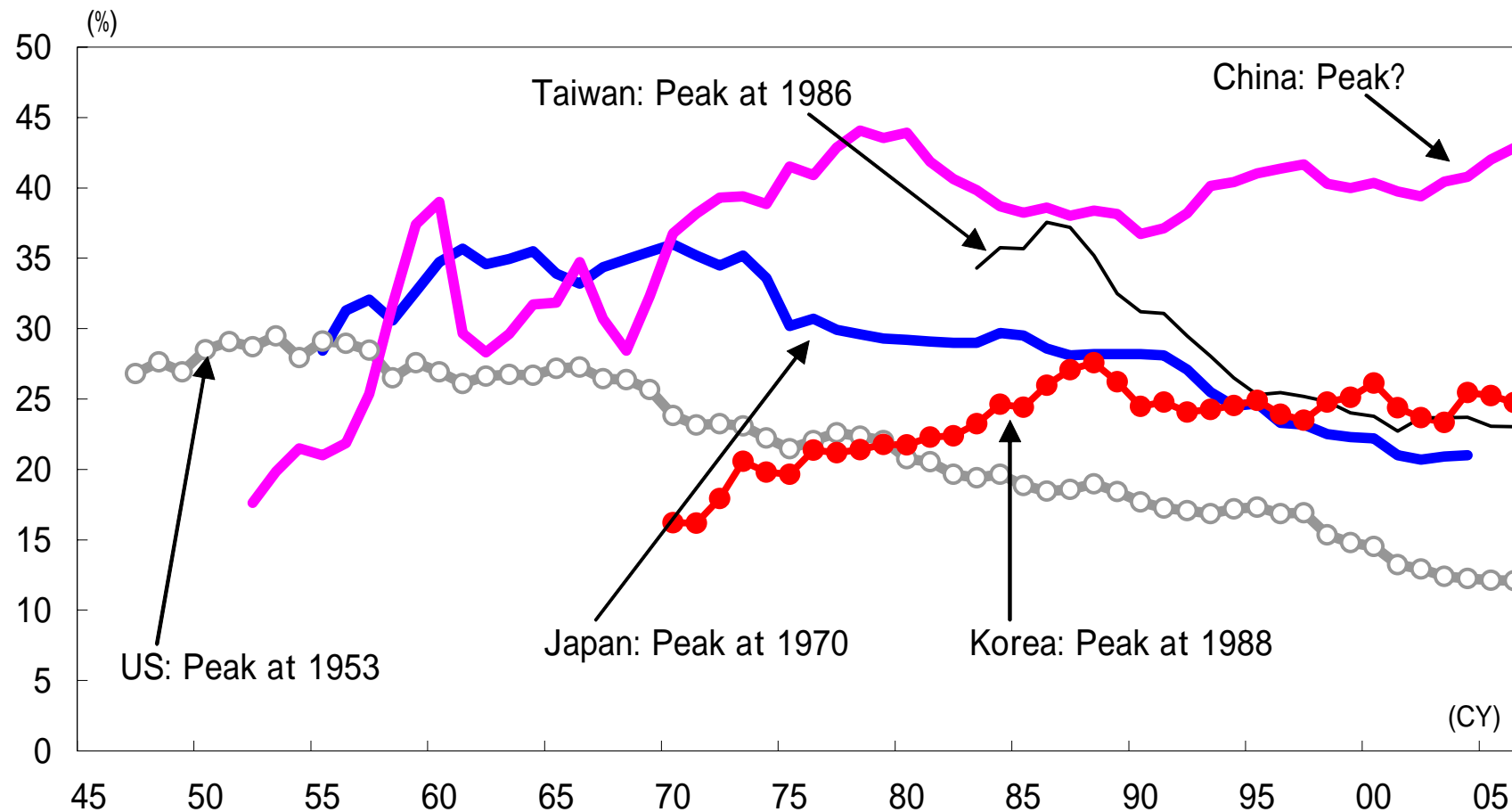


Note: See Kwan "China in Transition."

Source: National Bureau of Statistics of China

Petty-Clark's law is alive

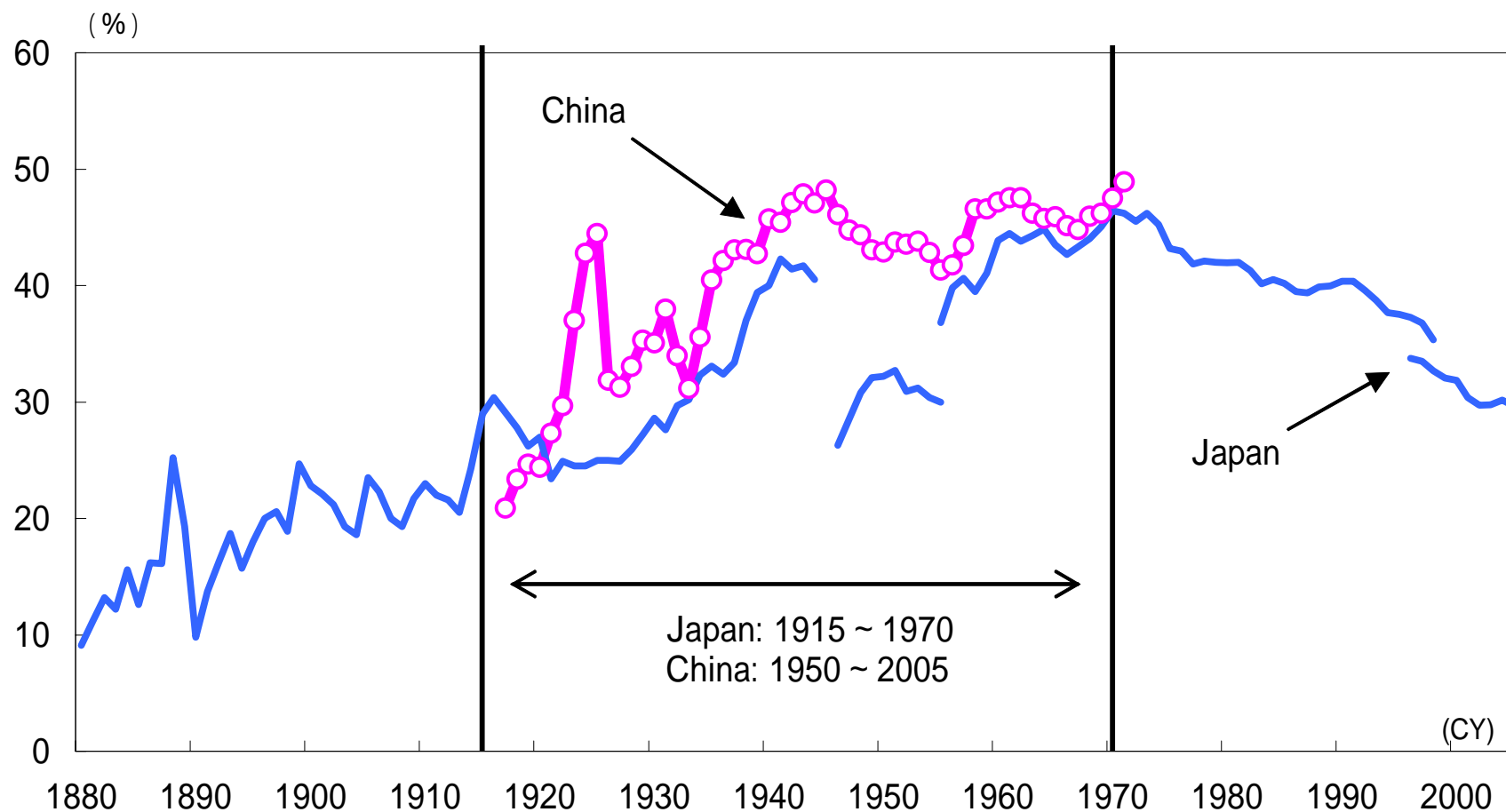
Share of Manufacturing Industry in GDP



Source: Nomura, based on US Department of Commerce, Japan Cabinet Office and Thomson Datastream data

Present-day China resembles Japan in 1970

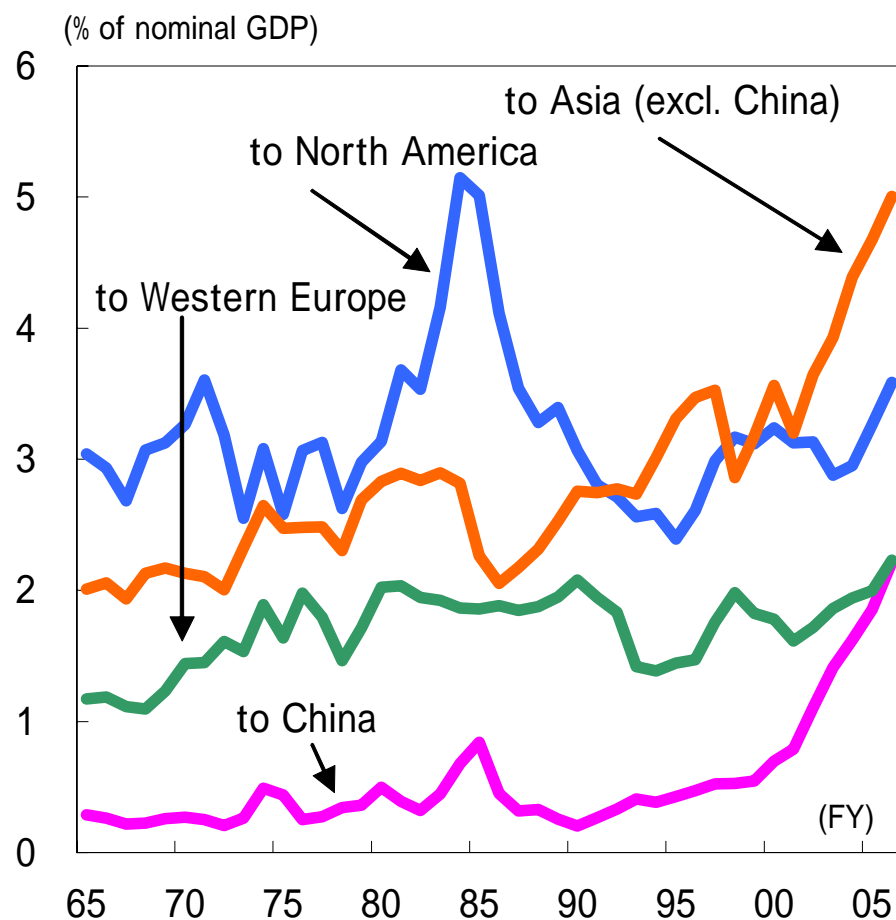
China's Developmental Stage: A Comparison with Japan



Source: National Bureau of Statistics of China, Japan Cabinet Office, Japan Statistical Association, Nomura

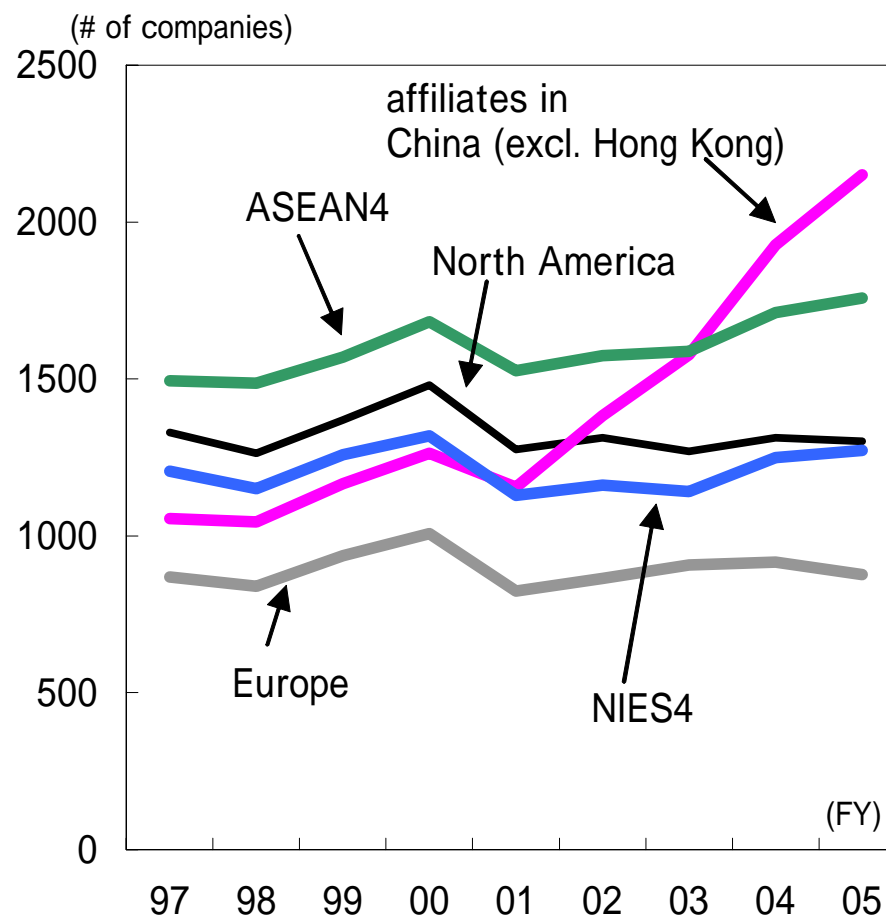
Japanese manufacturing firms are aggressively globalizing their business

Japan's Goods Exports by Region



Source: Nomura, based on Japan Ministry of Finance and Japan Cabinet Office data

Number of Foreign Affiliates of Japanese



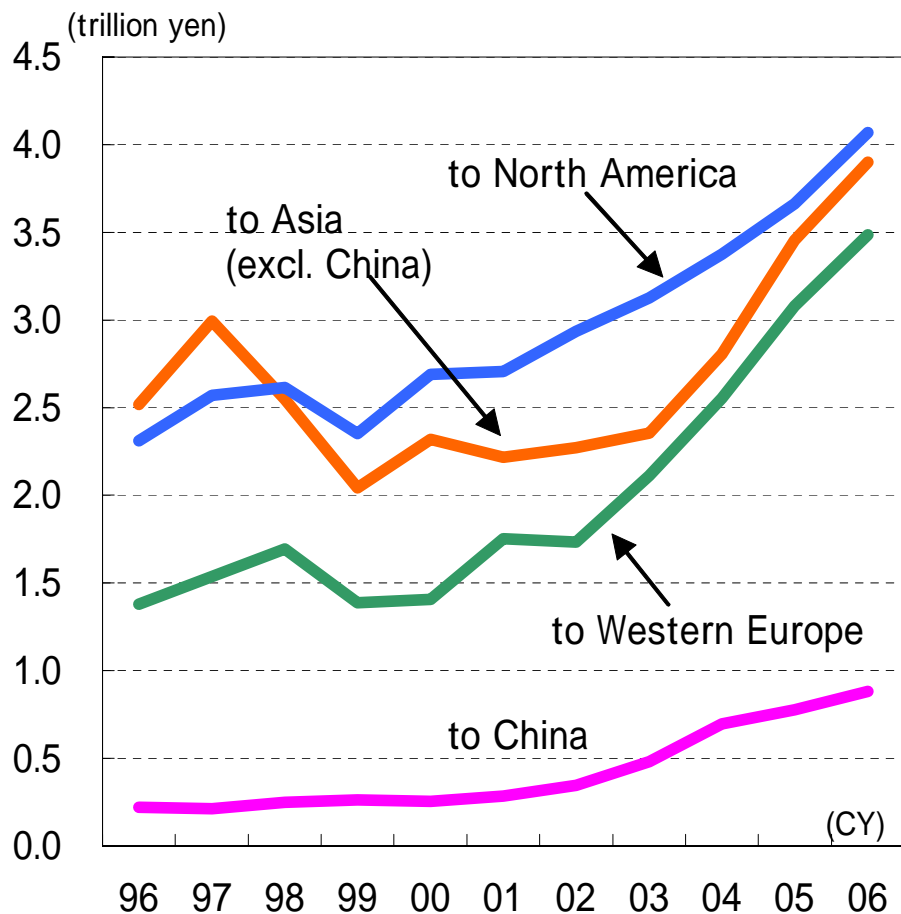
Note: NIES4 = Korea + Taiwan + Hong Kong + Singapore

ASEAN4 = Indonesia + Malaysia + Philippines + Thailand

Source: Japan Ministry of Economy, Trade and Industry

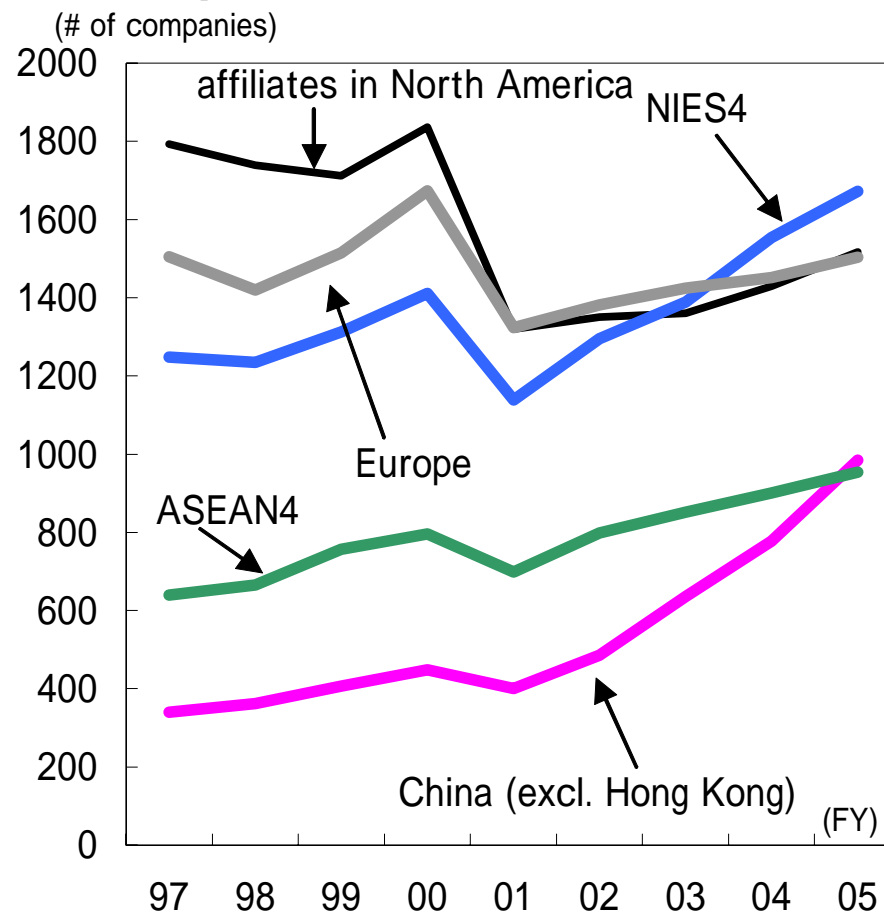
Globalization of Japanese nonmanufacturers' business

Japan's Service Exports by Region



Source: Bank of Japan

Number of Foreign Affiliates of Japanese Nonmanufacturers



Note: NIES4 = Korea + Taiwan + Hong Kong + Singapore

ASEAN4 = Indonesia + Malaysia + Philippines + Thailand

Source: Japan Ministry of Economy, Trade and Industry

Globalization of nonmanufacturing firms: examples

Benesse Corporation

Pregnancy, child care, education (*Shimajiro*), elderly care

Watabe Wedding

Wedding service in *Gajoen*

SECOM

Security system provider