The era of declining population has come to Japan

**Japan's Population Growth**

**Japan's Population by Age**

Source: Japan Ministry of Internal Affairs and Communications
Implications of declining population for businesses

1. Two declines

\[
\begin{align*}
\text{decline in demand for your products} \\
\text{decline in supply of labor}
\end{align*}
\]

2. Impacts differ from industry to industry.

Complex dynamic maximization problem under tremendous uncertainty
A solution: globalizing your business

Shares in the World GDP

Distribution of the World Population (2005)

Note: Based on purchasing power parity.
Source: IMF

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

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
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**

**Proportion of Primary Industry Employees**

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

*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

China's Real Growth Rate of GDP and Wage

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

Note: See Kwan "China in Transition."

Source: National Bureau of Statistics of China
How to Survive the Era of Declining Population

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

Japanese manufacturing firms are aggressively globalizing their business

**Japan's Goods Exports by Region**

![Graph showing exports by region](image)

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

**Number of Foreign Affiliates of Japanese**

![Graph showing number of foreign affiliates](image)

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

Number of Foreign Affiliates of Japanese Nonmanufacturers

Source: Bank of Japan

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