

4 March 2025 (No. of pages:1)

Japanese report: 27 Feb 2025

Boosting Japan's Supply Capacity

Continuous Efforts to Raise Labor Productivity While Leveraging Domestic and Foreign Workforce

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Summary

- The factors hindering Japan's economic growth are shifting from a lack of demand to supply constraints. As the declining birthrate and aging population are expected to continue, boosting Japan's supply capacity requires: 1) strengthening domestic labor supply, 2) expanding the acceptance of foreign workers, and 3) improving labor productivity.
- Domestic labor supply has been decreasing in the medium to long term, influenced by factors such as the reduction of working hours per person. With the progress of work style reform, it currently seems that working hours per person are not expected to increase. While the correction of long working hours may expand employment opportunities for diverse human resources, even considering such effects, it is estimated that domestic labor supply will continue to decrease at an annual rate of -0.4% to -0.1% until FY2040.
- By accepting 270,000 foreign workers annually, it is possible to limit the decrease in labor input to an annual rate of -0.1%, but this would require nearly doubling the current intake. To achieve this, further measures such as strengthening employment support for international students and relaxing visa requirements will be necessary.
- Labor productivity is estimated to increase by about 0.2 to 0.3 %pts annualized if the quality of labor improves through the expansion of human capital investment, and by about 0.1 to 0.2 %pts annualized if real capital investment increases by 50 to 70%. The government is required to continuously promote efforts to improve labor productivity, while making the most of the domestic and foreign workforce, including the promotion of human capital investment, the encouragement of inward foreign direct investment, and export support linked to capital investment targets.