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Can Japan Win in the Global Competition for Talent?

While a continued increase in foreign workers is expected, an economic downturn and a weaker yen are risk factors

Economic Research Dept. **Hirohito Hatanaka**

Summary

- For the Japanese economy, accepting foreign workers not only increases the labor supply but also contributes to improving total factor productivity (TFP) and leads to improvements in pension finances. On the other hand, due to prolonged low growth and the weakening of the yen, Japan's nominal GDP per capita in dollar terms has been overtaken by South Korea and Taiwan, and there are concerns about whether Japan will be able to continue attracting foreign workers in the future.
- Estimates of the number of foreign workers as of the end of 2030 indicate that the number of highly skilled workers will reach 1.22 million (1.8 times the level at the end of 2025), while that of medium and low-skilled workers will reach 2.08 million (2.5 times the level). The driving factors behind this growth are Japan's economic growth and population increases in sending countries. In particular, the latter is projected to grow at a pace that exceeds the government's admission cap in our estimates. However, if slower economic growth coincides with a prolonged period of yen weakness, the number of highly skilled workers at the end of 2030 is estimated to be 190,000 lower than in the above scenario, while that of medium- and low-skilled workers is estimated to be 630,000 lower. Since medium- and low-skilled workers are predominantly employed in industries facing severe labor shortages, this could further exacerbate labor shortages in those sectors.
- To secure foreign workers in necessary sectors and alleviate labor shortages while curbing the decline in the working-age population, it is essential to implement measures that strengthen growth potential, such as investments in labor-saving technologies and growth-oriented initiatives. Furthermore, it is necessary to steadily advance the normalization of monetary policy and fiscal consolidation to prevent further depreciation of the yen.