

# ISAS Brief

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## Japan's Demographic Challenges: A Silver Lining for India-Japan Relations

*In early June 2018, Japan's Prime Minister Shinzo Abe announced plans to tackle his country's shrinking workforce, promising to bring in 500,000 foreign workers by 2025.<sup>1</sup> A first batch of Indian interns arrived in Japan on 17 July 2018 under the Technical Intern Training Program, which was established by India and Japan in October 2017.<sup>2</sup> In fact, the two countries could benefit from each other's demographic challenges. The paper discusses the potential role India could play as a longer-term solution to Japan's problems and vice versa.*

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### India and Japan – Demographic Challenges

A low birth rate, coupled with an ageing population, has led to projections about Japan's population shrinking by a third by 2065.<sup>4</sup> Deaths in Japan have exceeded births at an average

<sup>1</sup> "Abe vows to bring in more foreign workers", *Nikkei Asian Review*, 6 June 2018. <https://asia.nikkei.com/Economy/Abe-vows-to-bring-in-more-foreign-workers>. Accessed on 22 June 2018.

<sup>2</sup> "Skill India's first batch of Indo-Japan technical interns reaches Japan", *Business Standard*, 21 July 2018. [https://www.business-standard.com/article/news-ani/skill-india-s-first-batch-of-indo-japan-technical-interns-reaches-japan-118072100213\\_1.html](https://www.business-standard.com/article/news-ani/skill-india-s-first-batch-of-indo-japan-technical-interns-reaches-japan-118072100213_1.html). Accessed on 25 July 2018.

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rate of 1,000 a day.<sup>5</sup> Japan's unyielding immigration policy only serves to aggravate its problems. Increasing the role of women in the workforce appears to be the logical option for the Japanese government, yet the female participation rate in the labour market is not increasing, in part due to a shortage of childcare facilities.<sup>6</sup> Instead, the development of robotic technology and artificial intelligence has been the main choice of action in Japan's fight against a dwindling population.

While Japan's working age population is projected to diminish in the next decade, India's population of working age is estimated to grow by 115 million people<sup>7</sup> and the surplus of high-skilled labour is predicted to reach 245.3 million in 2030.<sup>8</sup> India also has the world's largest young population, with 600 million – more than half of the population – under the age of 25 years old. While other countries may look at this with envy, a population boom does not come without its own set of problems. For example, securing a job in India has become a huge obstacle where millions are applying for jobs that exist only in the thousands. Less than a fifth of all the graduates in the country manage to secure a job immediately.<sup>9</sup> Furthermore, only 2.3 per cent of the workforce has undergone proper skills training.<sup>10</sup>

The contrasting demographics of India and Japan raise problems that could slowly undermine the two societies from within. Japan, despite possessing a highly-trained manpower and advanced technologies, will face both, a shrinking and ageing workforce and a situation where there is an overabundance of jobs without job-seekers. India, on the other hand, though possessing a huge potential pool of talent, runs the risk of having to manage a population that

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<sup>4</sup> Demetriou, D., "Japan's population to shrink by a third by 2065", *The Telegraph*, 11 April 2018. <https://www.telegraph.co.uk/news/2017/04/11/japans-population-shrink-third-2065>. Accessed on 22 June 2018.

<sup>5</sup> Lewis, L., "Japan's ageing population milestone intensifies investor focus", *Financial Times*, 20 April 2018. <https://www.ft.com/content/be6bf7ac-43bd-11e8-803a-295c97e6fd0b>. Accessed on 26 July 2018.

<sup>6</sup> "Families worry about lingering daycare shortage in Japan", *The Jakarta Post*, 15 August 2017. <http://www.thejakartapost.com/life/2017/08/14/families-worry-about-lingering-daycare-shortage-in-japan.html>. Accessed on 26 July 2018.

<sup>7</sup> "Ageing Tigers, hidden dragons", *Deloitte Insights*, 15 September 2017. <https://www2.deloitte.com/insights/us/en/economy/voice-of-asia/sept-2017/demographics-ageing-tigers-hidden-dragons.html>. Accessed on 22 June 2018.

<sup>8</sup> "India to have 243 mn excess workers by 2030; China to face shortage", *Business Standards*, 27 May 2018. [https://www.business-standard.com/article/economy-policy/india-to-have-243-mn-excess-workers-by-2030-china-to-face-shortage-report-118052700182\\_1.html](https://www.business-standard.com/article/economy-policy/india-to-have-243-mn-excess-workers-by-2030-china-to-face-shortage-report-118052700182_1.html). Accessed on 22 June 2018.

<sup>9</sup> Jack, I., "India has 600 million young people – and they're set to change our world", *The Guardian*, 13 January 2018. <https://www.theguardian.com/commentisfree/2018/jan/13/india-600-million-young-people-world-cities-internet>. Accessed on 22 June 2018.

<sup>10</sup> Ibid.

is aspirational at a time when jobs also need to be created at an exponential rate. This could, nevertheless, transform into an opportunity for both, drawing on the complementarity of strengths and weaknesses on both sides. Indo-Japanese cooperation, in this way, could potentially promote an even more robust bilateral relationship between the two countries.

## **A Win-Win Strategy: Skills, Jobs and Technology**

Identifying complementarity and working towards policies that could be mutually beneficial is a formidable task. At least, the awareness of possible mutual gains to be made, has been realised and articulated by both Indian Prime Minister Narendra Modi and Japanese Prime Minister Shinzo Abe. In a nutshell, the strategy involves India providing labour to the Japanese and the latter transferring skills and technology to the former.

The two countries can capitalise on their well-matched strengths through two different – indirect and direct – approaches. India, through its indirect approach, provides labour by sending untrained Indian youth for training to Japan. In exchange, Japan equips them with the necessary skills through the training. This is not only limited to the Indians sent to Japan as Japanese training facilities are also being set up in India. The second approach, a far more direct one, consists of India sending trained professionals to Japan, or Japan transferring technology to India.

The signing of a memorandum of cooperation (MoC) between India and Japan on the Technical Intern Training Program in October 2017 represents the indirect approach undertaken by both countries for greater bilateral cooperation in skills development. Under this programme, 300,000 Indian youth will be sent to Japan, with Japanese financial assistance and a tenure of 3 to 5 years.<sup>11</sup> Moreover, with the signing of another MoC on skills development, as part of the “Manufacturing Skill Transfer Promotion Programme” in November 2016, Japan-India Institutes for Manufacturing (JIM) will be established in India

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<sup>11</sup> “India to send 3 lakh youth to Japan for on-job training”, *The Economic Times*, 11 October 2017. <https://economictimes.indiatimes.com/jobs/india-to-send-3-lakh-youth-to-japan-for-on-job-training/articleshow/61042209.cms>. Accessed on 22 June 2018.

with the aim of training 30,000 Indians over a span of 10 years by the Japanese.<sup>12</sup> Four such JIMs were established in August 2017 and are operational in the states of Gujarat, Karnataka, Rajasthan and Tamil Nadu.<sup>13</sup>

In response to Japan's shrinking population and resultant shortage of skilled workers, India is able to adopt the direct approach, using its huge talent pool to directly address this gap. In the Informative Technology (IT) sector, India is set to send 200,000 IT professionals to Japan in 2018 to ease its immediate demand, with the number predicted to surge up to 800,000 by 2030.<sup>14</sup> In other sectors, skilled Indians are also on board to aid Japan in key projects such as the 2020 Olympics and bullet train factories.<sup>15</sup>

Although workers from mainland China, Vietnam, Philippines and Brazil make up the bulk of the recorded one million foreign nationals in Japan in 2016,<sup>16</sup> Japan's decision to ease rules for green cards and permanent residency to skilled foreign professionals benefits India,<sup>17</sup> which has a coveted supply of such professionals. Visa rules for Indian travellers have also been relaxed from the beginning of this year in an effort to encourage greater mobility and foster interest in Japan.<sup>18</sup> Increasing the flow of people could create linkages and bonds for a stronger bilateral friendship, going beyond the more abstract security and economic agreements, and raising mutual awareness amongst the populations.

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<sup>12</sup> "Japan to set up skill development institutes in Gujarat, Karnataka and Rajasthan", *The Economic Times*, 11 November 2016. <https://economictimes.indiatimes.com/news/politics-and-nation/japan-to-set-up-skill-development-institutes-in-gujarat-karnataka-and-rajasthan/articleshow/55377055.cms>. Accessed on 22 June 2018.

<sup>13</sup> "Signing of MoC on Technical Intern Training Programme (TITP) between India & Japan", *Press Information Bureau, Government of India*, 18 October 2017. <http://pib.nic.in/newsite/PrintRelease.aspx?relid=171789>. Accessed on 26 July 2018.

<sup>14</sup> "Japan to recruit 200,000 IT professionals from India to fill manpower gap", *Business Standard*, 9 March 2018. [https://www.business-standard.com/article/current-affairs/japan-to-recruit-200-000-it-professionals-from-india-to-fill-manpower-gap-118030900400\\_1.html](https://www.business-standard.com/article/current-affairs/japan-to-recruit-200-000-it-professionals-from-india-to-fill-manpower-gap-118030900400_1.html). Accessed on 22 June 2018.

<sup>15</sup> Pandey, M., "Japan to call over 1 lakh Indians to be part of 2020 Olympic workforce", *India Today*, 1 December 2016. <https://www.indiatoday.in/mail-today/story/japan-tokyo-indians-2020-olympics-skill-development-ministry-workforce-354942-2016-12-01>. Accessed on 22 June 2018.

<sup>16</sup> "Japan to have record 1 million foreign workers this year", *The Japan Times*, 2 April 2016. <https://www.japantimes.co.jp/news/2016/04/02/national/japan-to-have-record-1-million-foreign-workers-this-year/#.WyC4xdUzaUk>. Accessed on 22 June 2018.

<sup>17</sup> "Japan to Indian techies rescue: Country wants to recruit 2 lakh IT professionals", *The Economic Times*, 9 March 2018. <https://economictimes.indiatimes.com/nri/visa-and-immigration/japan-to-recruit-2-lakh-indian-it-professionals/articleshow/63220607.cms>. Accessed on 22 June 2018.

<sup>18</sup> Ibid.

With Modi's 'Make in India' vision and commitment to transform his country into a society, based on knowledge, skills and technology,<sup>19</sup> Japan is an ideal partner. As one of the most technologically advanced countries in the world, Japan can help India with valuable technology transmission. The signing in September 2017 of an agreement for completion of a US\$17 billion (S\$29.8 billion) Japanese bullet train project in India by 2023,<sup>20</sup> is an example of such a transfer.

## Looking Ahead

Since coming to power four years ago, the Modi government has actively sought to enhance bilateral cooperation with Japan through economic agreements. This has included boosting existing infrastructure projects such as the North East Road Network Connectivity Projects with loans pledged by the Japan International Cooperation Agency.<sup>21</sup> The setting up of 11 Japanese industrial townships in India represents further noteworthy cooperation, with the former offering concessions to Japanese companies that are equivalent to those offered in Special Economic Zones.<sup>22</sup>

Coming on top of existing bilateral economic cooperation between the public and private sectors, however, lies the potential for greater bilateral engagement drawing on the demographic challenges faced by both Japan and India. Moreover, apart from addressing the pressing demographic problems, other benefits could ensue.

It could potentially bring about a significant breakthrough in governmental policies. Japan's immigration regime has already been loosened as a result of the need for highly-skilled professionals. Other areas could follow suit, such as the need to tap foreign workers in the

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<sup>19</sup> "Speech by Prime Minister at India-Japan Business Leaders Forum, Gandhinagar", *Press Information Bureau, Government of India*, 14 September 2017. <http://pib.nic.in/newsite/PrintRelease.aspx?relid=170782>. Accessed on 26 July 2018.

<sup>20</sup> Dasgupta, N., Jain, R., Obayashi, Y., "Exclusive: Japan in driver's seat for Indian bullet train deals", *Reuters*, 18 January 2018. <https://www.reuters.com/article/us-japan-india-train-exclusive/exclusive-japan-in-drivers-seat-for-indian-bullet-train-deals-idUSKBN1F7036>. Accessed on 22 June 2018.

<sup>21</sup> "Govt approves North-East road network connectivity project", *The Times of India*, 23 March 2017. <https://timesofindia.indiatimes.com/good-governance/centre/govt-approves-north-east-road-network-connectivity-project/articleshow/57786668.cms>. Accessed on 22 June 2018.

<sup>22</sup> Chaudhury, D. R., "Japan plans to set up 11 industrial townships in India", *The Economic Times*, 12 December 2015. <https://economictimes.indiatimes.com/news/politics-and-nation/japan-plans-to-set-up-11-industrial-townships-in-india/articleshow/50146382.cms>. Accessed on 22 June 2018.

tourism and real estate sectors. Needless to say, these could be possible avenues for India to exploit as well. Next, Japan could look into utilising Indian workers to resolve the social challenges it faces from the lack of nursing care workers to look after the Japanese elderly – the country faces a shortage of 337,000 such workers.<sup>23</sup> Other sectors facing an acute labour shortage include agriculture, construction and shipbuilding.

As Indians nationals look into taking on these increasing number of jobs, created from a lack of supply or demand from Japanese workers, they concurrently contribute to the fall in unemployment rates in India. Economic growth in India is another obvious result, since more Indians working abroad would translate into higher remittances.

However, the pace of change has been very gradual and controlled. Cooperation between the two countries in skills, technology and people flows remains slow despite the programmes in place to facilitate these exchanges. In addition, language remains a key barrier for Indian workers in Japan. Highly skilled workers, who will be able to obtain permanent residency more easily as a result of the relaxation of government rules, will not be required to speak Japanese. And yet, only a small number of companies in Japan operate in English.<sup>24</sup>

It is common to conceive of India-Japan relations as improving only thanks to shared geo-strategic concerns such as the China factor. Yet, it is truly the convergence of other interests, values and ambitions between the two leaders of India and Japan<sup>25</sup> that solidifies the relationship between the two countries. Though Abe's description, during an official visit to India in 2015,<sup>26</sup> of India-Japan relations to be "the world's most important bilateral relationship" was dismissed by many as highly exaggerated, India-Japan relations have, in

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<sup>23</sup> "Fill the gap in nursing care workers", *The Japan Times*, 26 June 2018. <https://www.japantimes.co.jp/opinion/2018/06/26/editorials/fill-gap-nursing-care-workers/#.W1mIvdUzaUk>. Accessed on 26 July 2018.

<sup>24</sup> Fussa & Kawaguchi, "Japan is finally starting to admit more foreign workers", *The Economist*, 5 July 2018. <https://www.economist.com/asia/2018/07/05/japan-is-finally-starting-to-admit-more-foreign-workers>. Accessed on 8 July 2018.

<sup>25</sup> "Tokyo Declaration for India – Japan Special Strategic and Global Partnership", *Ministry of External Affairs, Government of India*, 1 September 2014. <http://www.mea.gov.in/bilateral-documents.htm?dtl/23965/Tokyo+Declaration+for+India++Japan+Special+Strategic+and+Global+Partnership>. Accessed on 26 July 2018.

<sup>26</sup> "Come together on the Abe road", *The Economist*, 12 December 2015. <https://www.economist.com/asia/2015/12/12/come-together-on-the-abe-road>. Accessed on 26 July 2018.

fact, never been stronger, as “substantial dialogues are being held at all levels”.<sup>27</sup> The matching of strengths and weaknesses of both countries could pave the way for an even more resilient relationship, one that is less likely to be swayed by the exigencies of international politics.

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<sup>27</sup> “India at centre of Japan’s Indo-Pacific policy: Envoy”, *Business Standard*, 9 December 2017. [https://www.business-standard.com/article/news-ians/india-at-centre-of-japan-s-indo-pacific-policy-envoy-117120900390\\_1.html](https://www.business-standard.com/article/news-ians/india-at-centre-of-japan-s-indo-pacific-policy-envoy-117120900390_1.html). Accessed on 26 July 2018.