
Mizuho Economic Outlook & Analysis

July 25, 2018

Japan's foreign population hitting a record high

The government announces the acceptance of more foreign workers

< Summary >

- ◆ The latest population of foreign residents in Japan based on the resident registration (as of January 1, 2018, and demographic changes for the year 2017) reached an all-time high according to an announcement from the Ministry of Internal Affairs and Communications in July 2018.
- ◆ Looking at population by region, a growing number of foreign residents live primarily in large metropolitan areas, with the breakdown of these foreign residents showing a significant increase in permanent residents with few employment restrictions in addition to technical intern trainees and students.
- ◆ The government announced that it will expand the acceptance of foreign workers. If annual growth of the foreign population reaches 250,000, a figure slightly larger than the current level, Japan's overall population decline will ease, making it possible to achieve the government's target of maintaining the total population at 100 million in 2060.

Mizuho Research Institute Ltd.

Yutaka Okada, Senior Research Officer, Research Department – Public Policy

yutaka.okada@mizuho-ri.co.jp

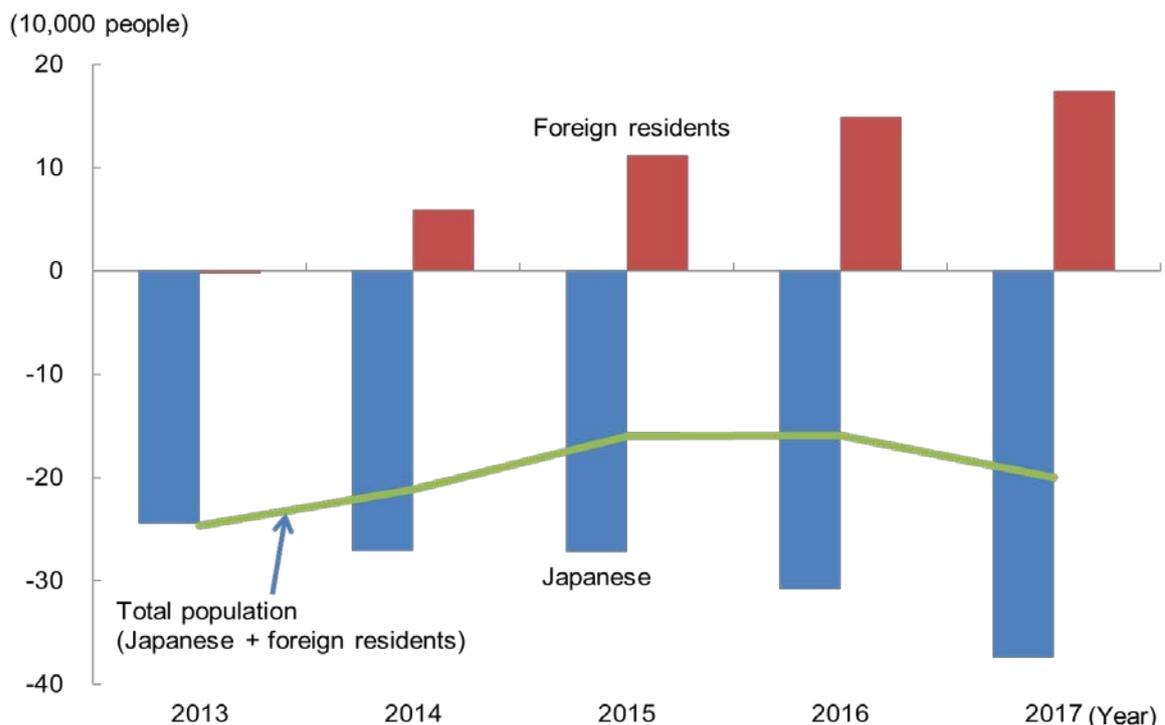
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1. A significant rise in the foreign population

The population of foreign residents in Japan hit a record high of 2.5 million people as of January 1, 2018 (a 170,000 increase from January 1 to December 31 in 2017), accounting for 2.0% of the country's total population (Japanese and foreign residents). This record high now surpasses the population of Nagoya (approximately 2.3 million people), the third most populous city of all municipalities.

Looking at the foreign population increase based on available data since 2013, the number of foreign residents has been rising at a faster pace each year since 2014 (**Chart 1**). While the Japanese population continues to shrink, the growing number of foreign residents is helping to mitigate Japan's total population decline.

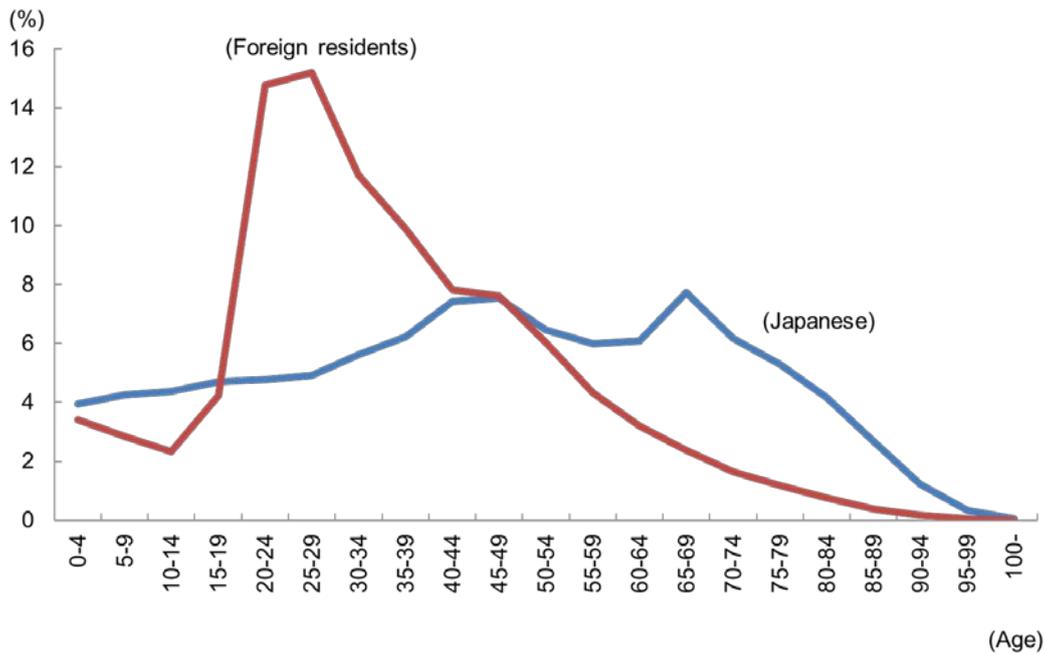
Chart 1: Changes in the increasing numbers of Japanese and foreign residents



Source: Made by MHRI based on the Ministry of Internal Affairs and Communications, *Population, Demographics and Number of Households Based on the Basic Resident Register* (each year).

The percentage of foreign population by age as of January 1, 2018, shows the working-age population (aged 15-64) at 85%, considerably higher than the Japanese at 60%. In addition, in terms of the five-year age groups, foreign residents have the highest percentage in the 25-29 age group, with the combined 20-39 age groups representing nearly half of the total (**Chart 2**). Meanwhile, the largest Japanese age group is 65-69, with the 20-39 age groups remaining around 20% of the total. These results reveal that foreign residents have a markedly younger age distribution than Japanese people.

Chart 2: Percentage of Japanese and foreign residents by age (January 1, 2018)



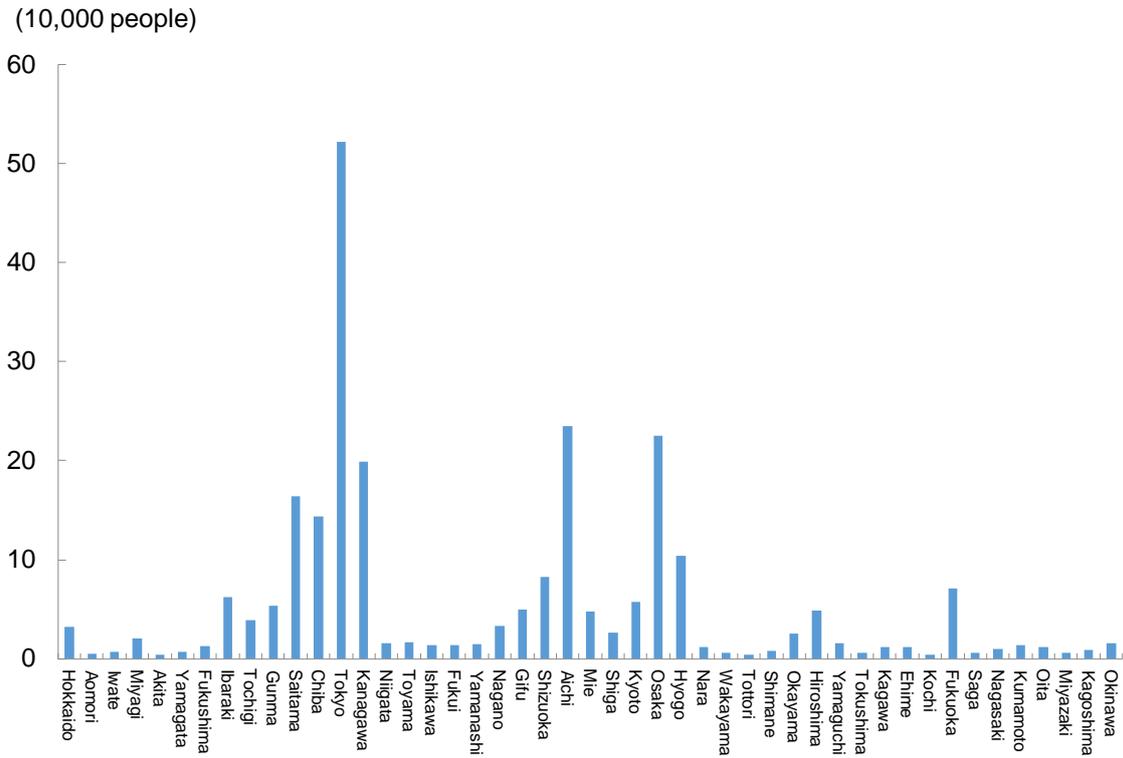
Source: Made by MHRI based on the Ministry of Internal Affairs and Communications, *Population, Demographics and Number of Households Based on the Basic Resident Register (2018)*.

2. Foreign population growth concentrating in large metropolitan areas

The foreign population by prefecture indicates that Tokyo ranks first at 520,000 people, and that prefectures included in the three largest metropolitan areas also top the list (**Chart 3**). Foreign residents in the three major metropolitan areas account for roughly 70% of Japan’s overall foreign population, with about 40% residing in the Tokyo metropolitan area alone. Even looking at the ratio of foreign residents to the total population by prefecture, Tokyo leads at 3.8%, and prefectures in the three metropolitan areas dominate the top positions as well (**Chart 4**).

On the other hand, many rural areas have also seen a growing number of foreign residents. While the percentage of municipalities with a shrinking population of Japanese people has reached 80% in cities and wards and 90% in towns and villages, cities and wards as well as towns and villages with an increasing number of foreign residents have reached 90 and 70%, respectively. Moreover, the ranking of the ratio of foreign residents to Japan’s total population by municipality shows local municipalities listed among the top positions (**Chart 5**). These results suggest that the recent increase in foreign residents is helping rural areas to slow the decline of their populations.

Chart 3: Foreign population by prefecture (January 1, 2018)



Source: Made by MHRI based on the Ministry of Internal Affairs and Communications, *Population, Demographics and Number of Households Based on the Basic Resident Register* (2018).

Chart 4: Ranking of the ratio of foreign residents to the total population by prefecture (January 1, 2018)

Rank	Prefecture	Ratio of foreign population (%)
1	Tokyo	3.82
2	Aichi	3.12
3	Gunma	2.69
4	Mie	2.60
5	Osaka	2.54
6	Gifu	2.39
7	Chiba	2.28
8	Saitama	2.23
9	Kyoto	2.22
10	Shizuoka	2.21

Source: Made by MHRI based on the Ministry of Internal Affairs and Communications, *Population, Demographics and Number of Households Based on the Basic Resident Register* (2018).

Chart 5: Ranking of the ratio of foreign residents to the total population by municipality (January 1, 2018)

Rank	Municipality (including the administrative division of city designated by government ordinance)	Ratio of foreign population (%)
1	Shimukappu, Hokkaido	22.69
2	Ikuno-ku, Osaka	21.78
3	Oizumi, Gunma	18.11
4	Akaigawa, Hokkaido	12.68
5	Shinjuku-ku, Tokyo	12.40
6	Naniwa-ku, Osaka	12.39
7	Naka-ku, Yokohama	10.85
8	Naka-ku, Nagoya	10.71
9	Rusutsu, Hokkaido	10.15
10	Toshima-ku, Tokyo	10.10

Source: Made by MHRJ based on the Ministry of Internal Affairs and Communications, *Population, Demographics and Number of Households Based on the Basic Resident Register* (2018).

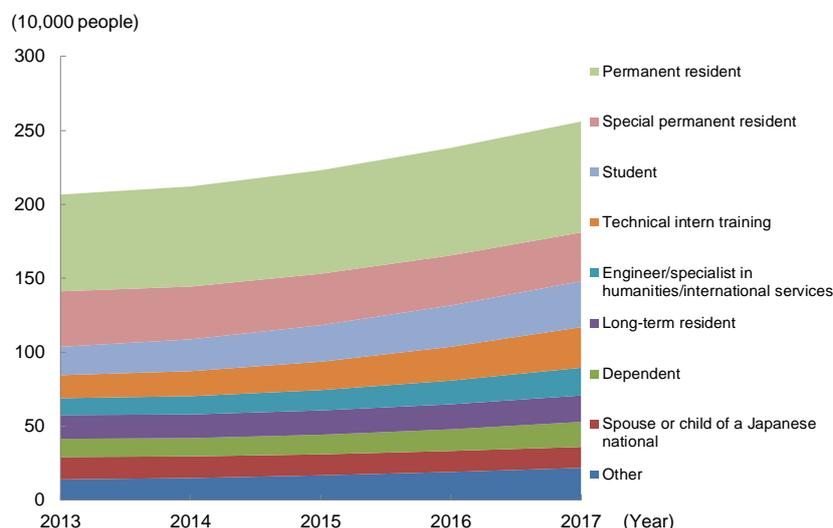
3. Notable increase in permanent residents

To investigate the influx of foreign residents, this report looked at the breakdown of the residency status of foreign residents in Japan based on the Ministry of Justice's *Statistics on Foreign National Residents*. The largest number of foreign residents at the end of 2017 was permanent residents at 750,000, representing roughly 30% of the total and far exceeding the recently dwindling number of special permanent residents (Korean and other foreign residents in Japan, 330,000), and a notably rising number of students (310,000) and technical intern trainees (270,000) (**Chart 6**). Permanent residents are not required to renew their status to extend their stay, can seek employment with few limitations, and are allowed to be accompanied by their family members. The rights retained by Japanese citizens but denied to permanent residents include suffrage and employment in certain public offices. Followed by the above status were engineers and specialists in humanities and international services (190,000). Among foreign residents studying in Japan, about 90% of those who find work in Japan after graduation are engaged in the fields of engineering, humanities and international services, with this visa enabling these foreign residents to renew their period of stay.¹ These four types of status, namely, permanent resident, student, technical intern training, and engineer/specialist in humanities/international services, comprise approximately 60% of foreign residents in Japan, and have seen a remarkable increase in recent years. The remaining types of residency status in descending order include long-term residents mainly consisting of people of Japanese descent; dependents who are spouses or children of foreign residents

¹ Immigration Bureau, Ministry of Justice, *The Employment of International Students by Japanese Companies in 2016* (2017).

with the status of engineer/specialist in humanities/international services and other types of status; and spouses or children of Japanese nationals.

Chart 6: Changes in the number of foreign residents by status of residence



Source: Made by MHRI based on the Ministry of Justice, *Statistics on Foreign National Residents* (each year).

Among these types of foreign residents, the trend of permanent residents dominating the foreign population is attracting attention. In the past, foreign residents staying in Japan for other types of status were required to stay for 20 years in principle to switch to the status of permanent resident, but in 1998 the period of stay was reduced to 10 years. The period of stay required for permanent residents is basically over 10 years altogether, including the years after changing their residency status. For example, since foreign residents with the status of engineer/specialist in humanities/international services are allowed to extend their stay, international students are provided with an opportunity to apply for permanent residency through employment in Japan. This shortening of the required period of stay has contributed to a roughly twentyfold increase in the number of permanent residents compared with before.

4. The government's 2018 basic policy proposing the establishment of a new residency status

As for the future trend of permanent residents, deregulations on the status of technical intern training will be a major factor. The number of foreign residents with this status has been growing rapidly in recent years, but switching to a different status of residence is difficult. In this respect, the *Basic Policy on Economic and Fiscal Management and Reform 2018 – Realizing Sustainable Economic Growth by Overcoming the Decreasing*

Birth Rate and Aging Population approved by the government in June 2018 is worthy of attention. Although details on the types of industries and the new status of residence have yet to be established, the *Basic Policy* specifies the direction of deregulations to expand the acceptance of foreign workers. The government is currently discussing plans to deal with the serious labor shortage facing certain industries, for instance, creating a new residency status with a period of stay up to five years on the condition of passing the examinations certifying the levels of technical skills required for each industry and Japanese proficiency. Foreign residents who have completed technical intern training (a maximum of five years) will be eligible to switch to the new status without taking the examinations, and will be permitted to stay for up to 10 years in total. In other words, if the recently surging numbers of technical intern trainees are provided with an opportunity to gain the status of permanent resident, the size of the future foreign population is likely to enter a new phase.

5. Huge impact of a rising number of foreign residents on Japan's future population

The government's *2018 Basic Policy* does not clarify the projected increase in the number of foreign workers with the new status of residence, but various news media estimate around 500,000 people by around 2025. With the new status likely to be established in FY2019 at the earliest, the population of foreign workers is expected to grow by roughly 70,000 each year in the future.

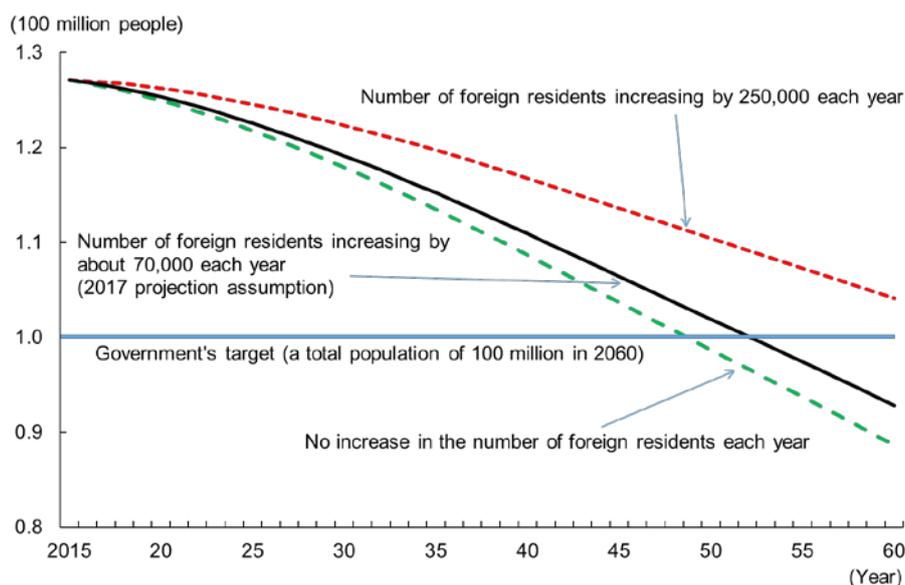
According to the *Population Projections for Japan* released in 2017 by the National Institute of Population and Social Security Research, Japan's population in 2060 is projected to be 92.84 million people,² slightly less than the government's target of 100 million. But this projection is based on the trend of foreign residents up to 2015, when the annual increase in the number of foreign residents was estimated at nearly 70,000 people. However, as mentioned above, the actual increase in foreign residents in 2017 was about 170,000, far exceeding the 2017 projection. If the increase continues at this pace, Japan's future total population is likely to rise higher than projected.

The *Population Projections for Japan* also simulated the impact of a rising number of foreign residents on the country's total population. For example, if the number of foreign residents increases annually by 250,000 people, the total population will amount to 104.11 million in 2060, thereby achieving the government's target (a total population of 100 million in 2060) without raising the country's fertility rate (**Chart 7**).

² The projections are based on medium assumptions for both fertility and mortality rates. Population projections in this report are based on the same assumptions.

Through its policy of revitalizing local economies since 2014, the government has been seeking to curb the rural population decline by reducing the outflow of young people to Tokyo with a low birth rate, while aiming to halt the nation's overall population shrinkage to a certain extent by improving the fertility rate. Yet, the influx of young people into Tokyo has not stopped, and Japan's birth rate can hardly be expected to jump. On the other hand, considering the 170,000 increase in foreign residents in 2017, as well as the potential for an annual growth of 70,000 foreign workers issued with the new residency status and an additional number of their accompanying family members, it is highly possible for Japan to witness an annual foreign population increase of roughly 250,000 people in the near future.

Chart 7: Calculations of the total population change based on the scale of accepting foreign residents



Source: Made by MHRI based on the National Institute of Population and Social Security Research, *Population Projections for Japan: 2016-2065* (2017).

6. Can a growing number of foreign residents halt the rural population decline?

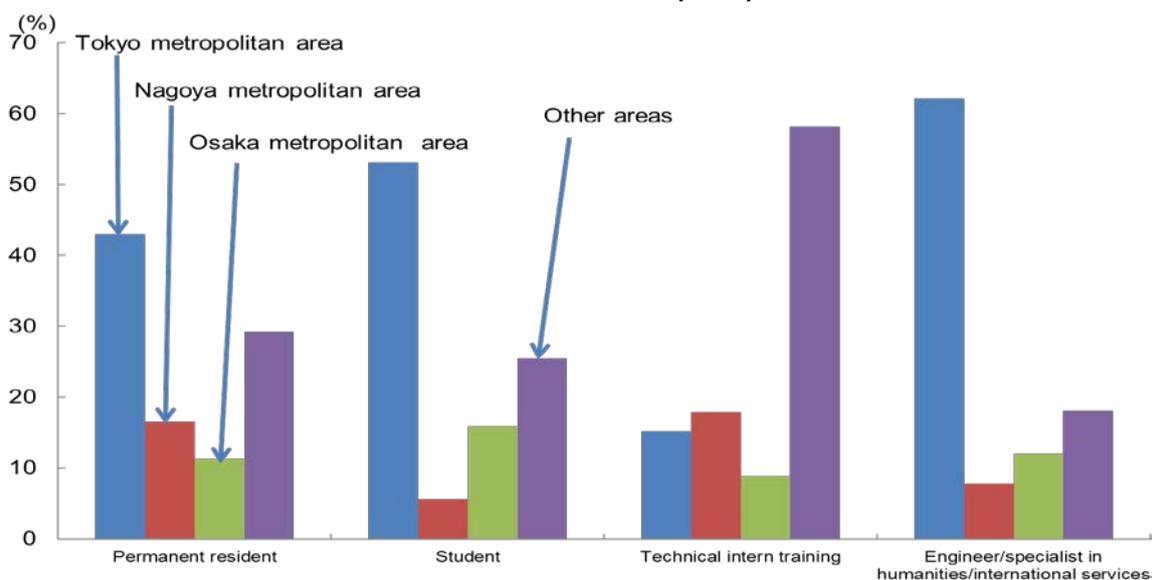
Compared with Japanese people, foreigners have a higher migration rate and are perceived as taking up residence based on their work.³ For example, Yubari City in Hokkaido recorded the highest population decrease of all cities and wards (4% year-on-year), but also ranked top in foreign population growth (76.9% year-on-year). For rural areas suffering population losses, the recent growth in foreign residents can be a golden opportunity to keep the number of residents from dropping further.

³ Yutaka Okada, "Perspective of an increase in foreign migration to revitalize local economies," *Mizuho Insight*, Mizuho Research Institute Ltd. (2015) (in Japanese only).

However, there is also the possibility that when extending their length of stay, foreign residents will move to metropolitan areas offering jobs with better working conditions, including salaries, than rural areas. In fact, in terms of the four types of residency status (permanent resident, student, technical intern training, and engineer/specialist in humanities/international services) that have shown a notable increase, the percentage of foreign residents in the three largest metropolitan areas reveals that the three major metropolitan areas, above all the Tokyo metropolitan area, dominate the share of three types of status (except for technical intern training) (**Chart 8**). In addition, the service industry, expected to accept even more foreign workers in the future, tends to concentrate in major metropolitan areas. Furthermore, if the extension of stay for foreign residents with the status of technical intern training leads to permanent residency, these foreign residents living in rural areas during their technical intern training may eventually move to metropolitan areas.

Therefore, to link the recent growth of foreign residents to future population increases in rural areas, it is essential to enable foreign residents and their family members to live comfortably by providing services in foreign languages and meeting various cultural needs, as well as to create employment with working conditions comparable to those in metropolitan areas. If foreign residents are considered the key to dealing with their population decline, rural authorities will need to work together with businesses hiring foreign workers to actively respond to the needs of foreign residents.

Chart 8: Percentage of foreign residents in the three largest metropolitan areas by status of residence (2017)



Source: Made by MHRI based on the Ministry of Justice, *Statistics on Foreign National Residents* (2017).

7. Conclusion

Expanding the acceptance of foreign workers can ease Japan's total population decline as long as it contributes to an increased number of long-term foreign residents. On the other hand, the growing foreign population will have various effects primarily on industries and local governments accepting more foreign residents. For example, industries hiring more foreign workers are expected to overcome labor shortages, but their work environment including Japanese workers may be slow to improve.

Local communities will also be greatly affected. If the number of foreign residents increases by 250,000 each year, the ratio of foreign residents to Japan's total population will reach roughly 10% in 2060, or about five times the ratio as of January 1, 2018 (2%). While more foreign residents can help halt the population decline, local authorities will also face various challenges in responding to their needs in community development and administrative services.

In terms of foreign population inflows, Japan is already ranked high among OECD member countries and can be viewed in actuality as one of the biggest immigrant nations. Taking various economic and social effects into account, Japan will have to further deepen its discussions on expanding the acceptance of foreign residents.