No Silver Bullet: Addressing Population Decline in Japan and South Korea

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Introduction

Over the next 50 years, Japan and South Korea will struggle to fill the chasms left by population decline. These declines will affect nearly every facet of both countries, from national budgets to the number of people available to serve in the armed forces. But throwing open the doors to high levels of immigration—often touted as a prescription for both countries—is not the solution to that which ails them. There is no realistic level of immigration that would address the challenges facing both countries and not incite a serious nativist backlash. Instead, low levels of immigration should be pursued as one piece in a complex policy puzzle. Both countries must also address the underlying fundamentals that sustain low birth rates. Increasing female labor participation rates is a start to laying the foundation for increased birth rates later, but ultimately the costs of raising children must be addressed. The costs of education and the lack of daycare options are significant contributors in keeping birth rates depressed.

The People Problem

Japan is already in the midst of a serious and sustained population decline, and South Korea will soon follow suit. Of more immediate concern is the decline in the economically active population (EAP)—those aged 15 to 64. It is this segment of the population that will bear the burden of paying for a growing elderly population. The old age dependency ratios in both countries are headed towards fewer than two workers to support each retiree in the coming years.

In Japan, the EAP has been in decline since the late 1990s. While it was 87.2 million in 1995, it had declined to 86.2 million by 2000. In 2016 it reached 76 million and is
expected to shed another eight million by 2030.\(^1\) Birth rates in Japan have been below replacement level since 1974.\(^2\) Total live births add perspective. In 1970, the total number born was 1.9 million. By 2016 it was 977,000.\(^3\)

In South Korea, the decline in EAP is just beginning. It was expected to peak in 2016 at just over 37 million and then begin its fall. From 2024 onwards, the decrease is expected to be greater than 1 percent per year.\(^4\) In South Korea, the total fertility rate has remained below 1.5 since 1998.\(^5\) The number of live births helps to illustrate the impact. In 1970 in South Korea there were just over one million live births. In 2015, it stood at just over 438,000. By the South Korean government’s own estimates, deaths will outnumber births for the first time in 2028 and overall population will begin to decline in 2031.\(^6\)

In both countries there is already tacit recognition of reality—birth rates may never again reach replacement levels, let alone exceed them. In Japan, the government spent $32 billion in 2015 in an effort to push the birth rate toward its goal of 1.8 from the current 1.4.\(^7\) In South Korea the goal is to coax the birth rate back to 1.7 from the current 1.2 children per woman—still well below the replacement level of 2.1—by 2030.\(^8\)

**Immigration No Silver Bullet**

The shortage of working-age people—and the intractable problem of low birth rates—has led some observers to conclude that the simplest solution for both countries is to open their doors to high levels of immigration. After all, some countries in Southeast Asia are at the leading edge of a population dividend and could serve as a source of immigration.\(^9\) But resolving the demographic challenges facing each country through immigration is a fairy tale. The levels of immigration required to address declining EAPs would dramatically alter the social fabric in both Japan and South Korea and would likely provoke serious nativist backlash in the process.

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\(^4\) Based on analysis of population data from the Korean Statistical Information Service.


\(^6\) The lag between the greater numbers of deaths and population decline is explained by estimates of immigration.


In both Japan and South Korea the current number of immigrants is relatively small. At the end of 2015, there were a reported 2.2 million immigrants in Japan\textsuperscript{10} and 1.1 million in South Korea.\textsuperscript{11}

In the case of Japan, the 2.2 million in the country at the end of 2015—roughly 1.7 percent of the total population—was a 5.2 percent increase from 2014. This was the largest increase since records began in 1959. If that increase continued until 2030, Japan would add roughly 2.5 million new immigrants during that time. But Japan’s EAP is projected to decrease by nearly eight million over that same period.

In Korea the situation is roughly the same. A 2014 report by the Korea Economic Research Institute stated that South Korea would need up to 15 million immigrants by 2060 to maintain peak EAP.\textsuperscript{12} That level of immigration would mean, on average, 350,000 new immigrants every year beginning in 2017. To add perspective, between 1999 and 2014 the number of immigrants increase by an average of 60,000 per year. This level of immigration would mean that more than one-third of the population would be non-Korean by 2060, a dramatic change for a country where less than 3 percent of 50 million is currently non-Korean.\textsuperscript{13}

\textbf{Going Native}

In both countries, there is reticence to accept an increase in immigration. In the 2012 Japan General Social Survey 54 percent opposed increasing the foreign population in their communities.\textsuperscript{14} In South Korea, public opinion is somewhat warmer. In the sixth wave of the World Values Survey, one-third (34\%) of Korean respondents felt negatively about neighbors being a different ethnicity. More than four in ten (44\%) had negative feelings about migrant workers.\textsuperscript{15} Additionally, research conducted by the Asan Institute for Policy Studies finds that it is women and those in their 20s and 30s who hold more negative views of foreigners.\textsuperscript{16}

While incremental increases in immigration may be acceptable, incremental increases will not address the challenges facing either country. At the same time, dramatic

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\textsuperscript{10} Shusuke Marai, “Japan sees record high number of foreign residents: Justice Ministry,” \textit{The Japan Times}, March 11, 2016.

\textsuperscript{11} Data from the Korea Statistical Information Service.

\textsuperscript{12} 조경엽 & 강동관, “이민 확대의 필요성과 경제적 효과,” 한국경제연구원, December 2012.


increases in immigration will likely stoke nativist sentiment. In Japan, where public opposition to increasing immigration is clearer, the dots are not difficult to connect. But even in South Korea, where immigration is steadily increasing, the same outcome is likely. South Korea’s immigration policy focuses on assimilation—not integration—setting expectations that societal disruption would be minimized. While assimilation is not impossible, it is not difficult to imagine a scenario in which a lack of assimilation attracts criticism from broader society questioning why increasing numbers of immigrants are needed at the perceived cost to Korean society more broadly. This would be particularly true if the economic gains from immigration are not immediately visible.

The narrative on increased immigration in East Asia also needs to be placed within the global context. The West’s narrative was one that touted the benefits of diverse populations living and working in close proximity. But that story line is now starting to break down. The United States has seen resistance to increasing diversity burst into the open. Neo-nazis have marched in the streets and there is an ongoing effort to further restrict immigration more broadly. The anti-immigrant right has also strengthened in many places in Europe, with the benefits of immigration and diversity further being called into question.

With immigration as a solution in and of itself dispelled, both Japan and South Korea must turn their attention to crafting a combination of policies that will address the problems from the bottom up. If either country is going to seriously address population decline they both need to address the following: low female participation rates in the labor force, the costs of private education, and the inaccessibility and resultant costs of daycare.

**Little Women**

Both South Korea and Japan have a poor record of female labor force participation (FLFP). In the most recent Gender Gap Index produced by the World Economic Forum, Japan and South Korea ranked 111 and 116, respectively, out of 145 countries. Both governments recognize this as a serious problem, and Prime Minister Abe has made “womenomics” a core plank in his effort to revive Japan’s economy. Likewise, closing the gender gap is the top objective for the Ministry of Gender Equality and Family in South Korea. While an increase in the FLFP in both countries will have benefits, it will not ultimately address the core demographic problems facing either country. But getting more women into the workplace—and ensuring they are paid the same as their male counterparts—will be an important foundation to ensure that subsequent policy efforts have the intended effect.

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17 Ibid.
In South Korea, for example, the gender ratio is nearly 1:1 for the 37 million people that make up the EAP. Thus, if female participation rates were raised from 51 percent to the average OECD average of 55 percent, roughly 740,000 would join the workforce. In Japan, raising the FLFP from 50 percent to 55 percent would add 3 million workers. This would certainly bolster an eroding tax base, and would also increase the disposable income available for many families. But it is doubtful that the additional income would spur an increase in births. Data from South Korea helps to explain.

The data confirm that dual household incomes are larger on average than single income households in South Korea. In 2015, dual incomes families had an average household size of 3.43 persons. Single income families had 3.01 members on average. This gap has remained relatively steady since 2003—the first available data. But even as FLFP has increased—from 49 percent in 2003 to 51 percent in 2014—the average household size for both dual and single income households fell. For dual income families, it went from 3.74 in 2003 to 3.43 in 2015. Among single income families, it went from 3.29 to 3.01.20

Thus, simply increasing FLFP will not increase birth rates as families chose to ensure that existing children receive increased financial support. Instead, increasing FLFP should be seen as the foundation to ensure that subsequent policies allow families to use additional income to support additional children. Those policies should aim to both curtail the expense of private education as well as making daycare more accessible.

The Education Arms Race

For any headway to be made in finding a sustainable solution to the birth rate problems in both countries, this education arms race will first have to be tamed. The cost of raising children—of which the costs of private education are a significant factor—is often cited as one of the primary factors sustaining low birth rates. In a 2015 survey in Japan the number one reason reported for not having the ideal number of children was the cost to raise and educate children. While 56 percent overall cited education costs, this was especially strong among those under 30 (77%) and those aged 30-34 (81%).21 In a 2017 survey in South Korea, parents reported

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20 Data from Korea Statistical Information Service. Analysis by author.
spending one-quarter of household income on their children, and there is ample evidence that the cost of education is a primary concern for parents.

In Japan, like in South Korea, private education is big business. According to a 2015 study, the private education industry was worth $25 billion. In the 2011 Economic Survey of Japan produced by the OECD, the average expenditure per student was roughly $3,150 per year. But this number is potentially misleading due to the escalating costs as students progress. Spending on middle school students doubled the amount spent on those in the early years of elementary school. For a student in the third year of middle school, spending was estimated at $5,900 per year.

Private tutoring is also a big business in South Korea. In 2016, private education expenditures for elementary through high school students was 18.1 trillion won (roughly $16 billion)—more than 1 percent of South Korea’s GDP. This was a 1.3 percent increase from 2015. A 2013 McKinsey report found that education was the second fastest growing expenditure among middle income families in Korea from 1990 to 2010. The fastest growing was debt payment. At the same time, the savings rate has nose-dived, falling from 19 percent in 1988 to 4 percent in 2012. Empirical work suggests that education costs have played a role in continued suppression of birth rates in South Korea.

The motivating factor for parents in both South Korea and Japan behind the spending for private education is clear. There is an overarching fear that a failure to provide private education opportunities will see their child fall behind in the education arms race. In both countries a single test taken at the end of high school can determine the long-term career prospects and social status of the students. With the consequences so clearly defined, parents are willing to shell out to ensure that their child has every opportunity at securing a bright future.

In both countries, reforming the private education industry will not be an easy task. Parents have come to see private education as necessary to ensure that their children have the best possible chance of success. But without efforts to tamp down

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22 Hwangbo Yon, “Parents spending roughly a quarter of their income on raising their kids,” Hankyoreh, January 1, 2017.
the cost of private education, families will continue to opt for fewer children, ensuring they can offer every advantage possible.

The State of the Nanny State

Daycare is another area where Japan and South Korea need to focus in order to make it easier for women to enter the workforce as well as to ensure that additional income to families encourages increased birth rates. In both countries affordable options are lacking, and slots in government funded daycare facilities are highly competitive. Thus far, leaders in both countries have taken this step far more seriously than addressing the financial burden created by private education spending.

In South Korea, parents have come to rely on private facilities, either run as businesses or those operated out of private homes. In 2015, there were more than 36,000 of these types of day cares in operation. However, the number of national daycares were fewer than 3,000.\(^{29}\) Waiting lists for national daycare centers stretch longer than one year.\(^{30}\) President Moon Jae-In has set an ambitious goal of having 40 percent of all children attending centers that are national and public. That number is currently at 13 percent.\(^{31}\) This goal is ambitious to be sure, but will be part of a much needed effort to comprehensively address low birth rates moving forward.

In Japan, the OECD reports that more than 70 percent of children enrolled in early childhood education programs attend private institutions. The OECD average is 11 percent.\(^{32}\) The Abe administration has sought to address this by adding 400,000 new daycare slots by 2018.\(^{33}\) But in late 2017, the goal of cutting the waiting list to zero was delayed for three years, and there is doubt that even that will be sufficient.\(^{34}\)

In both countries, there is clear recognition that affordable daycare will be a central plank in policies to eventually raise birth rates. Progress has been uneven thus far, but the fact that there are significant resources being pushed into the effort are positive.

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29 Hwangbo Yon & Lee Jae-uk, “How daycares became the most viable business for the self-employed,” _Hankyoreh_, July 2, 2016.
30 Christine Kim, “In South Korea, childcare burden derails women’s careers,” _Reuters_, January 26, 2015.
34 Kyodo News, “Japan’s day care shortage intensifies as populations cluster near city centers,” _Japan Times_, August 16, 2017.
Conclusion

To be sure, the challenges created by sustained low birth rates in both Japan and South Korea are complex problems and will require complex policy solutions. Thus far, the focus has remained on more daycare centers and subsidies for families. But this is not enough. A multipronged approach will be a necessity if either country can hope to once again raise birth rates. Automation, of course, will also play a role in making up for budgetary challenges created by declining EAPs. But incremental immigration and a focus on reducing the costs of private education will be the most important policy directives in the effort to boost sagging birth rates. The latter will prove to be the most difficult, as it will challenge the core parental commitment to education. But for birth rates to recover, a rethink of the importance of and financial commitment to private education will be required. ■

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