
Mizuho Economic Outlook & Analysis

July 8, 2019

Policy response to the increasing importance of population decline

Employment promotion and regional revitalization under the Basic Policy 2019

< Summary >

- ◆ On June 21, the Cabinet approved the *Basic Policy on Economic and Fiscal Management and Reform 2019 (Basic Policy 2019)*. This is the seventh *Basic Policy* under the second Abe administration.
- ◆ While many of the proposals are seen as an extension of measures taken up until last year, attention is focused on the fact that the package includes prioritized measures to promote the employment of elderly people and measures to stabilize the employment of so-called "employment ice-age" generation.
- ◆ Based on the start of the second period of regional revitalization from 2020, it will be important to correct the unipolar concentration in Tokyo from a long-term perspective such as "related population" and to promote regional economies by taking in overseas vitality such as foreign tourists and exports to foreign countries.

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1. The government adopted the *Basic Policy* for the seventh time under the second Abe administration

On June 21, the Cabinet approved the *Basic Policy on Economic and Fiscal Management and Reform 2019 (Basic Policy 2019)*. This is the seventh *Basic Policy* under the second administration of Prime Minister Shinzo Abe, which aims for "overcoming deflation and revitalizing the economy" and puts priority policy issues at the forefront.

Looking at the successive *Basic Policies* to date (**Chart 1**), the government presented an overall picture of "Abenomics" in 2013. In 2014, the government announced policies that were expected to have immediate effects on economic recovery, such as lowering the effective corporate tax rate. In recent years, emphasis has been placed on initiatives for the utilization and development of human resources, such as work-style reforms (2016) and the expansion of acceptance of foreign workers (2018). As for fiscal reconstruction, the fiscal consolidation plan was formulated in 2015 and revised in the *Basic Policy* in 2018. Based upon the foregoing, the government aims to achieve a primary budget surplus (primary balance) in FY2025.

Chart 1: Outline of the *Basic Policy* to date

Period	Subtitle	Principal contents
2013	Ending deflation and revitalizing the economy	Promoting the "three-arrows" strategy of Abenomics and pursuing both economic revitalization and fiscal consolidation
2014	From deflation to an expanded economic virtuous cycle	Lowering the effective corporate tax rate, corporate governance reform, and regional revitalization
2015	Without economic revitalization, there can be no fiscal consolidation	Formulation of fiscal consolidation plan (achievement of a primary budget surplus in FY2020); Empowerment of women, and overcoming population decline and vitalizing local economies
2016	Road map to a 600 trillion yen economy	Implementation of a "virtuous cycle of growth and distribution", and <i>Plan for Dynamic Engagement of All Citizens</i>
2017	Increasing productivity through investment in human resources	Work-style reforms and investment in human resources (Free early childhood education, etc.)
2018	Realizing sustainable economic growth by overcoming the decreasing birth rate and aging population	Revision of fiscal consolidation plan (Achieving a primary budget surplus in FY2025), Establishment of new residency status for foreign nationals

Source: Made by MHRI based upon the *Basic Policy on Economic and Fiscal Management and Reform (Basic Policy)* of each year

The latest *Basic Policy* (Subtitle: *A New Era of Reiwa: Challenges toward Society 5.0*) also includes a wide range of initiatives (**Chart 2**). As indicated by the term "Society 5.0" in the subtitle, the report sets forth the social implementation of advanced technologies such as digitization as a pillar to strengthen potential growth. One of the initiatives is the establishment of a special organization within the Cabinet Secretariat responsible for the development of rules for the digital market. There are expectations that the use of rules-based data will promote innovation by addressing diverse issues.

As a measure to strengthen partnerships in the global economy and society, the Group of 20 (G20) Summit, chaired by Japan in June this year, included a commitment to sustainable growth. It is hoped that Japan will exercise further leadership in maintaining international cooperation, as stated in the *Basic Policy* that, "recognition that the maintenance of a free trade system is the most important issue for the international community."

With regard to the consumption tax hike in October, the *Basic Policy* clearly states that "work so as not to affect the recovery of the economy" The *Basic Policy* includes measures such as support by redeeming points, issuance and sale of premium gift certificates for families with small children, and implementation of a reduced tax rate system.

Looking at the outline of the new policy, many of it can be seen as an extension of measures taken up until last year. However, it is noteworthy that the government focused on measures to promote the employment of the elderly amid the worsening labor shortage caused by the declining population, and included measures to stabilize the employment of the so-called "employment ice-age" generation who entered their employment phase during the period from the mid-1990s and the early 2000s.

Given that the first phase of regional revitalization will end in FY2019, it is also noteworthy that the *Basic Policy* set forth the policy stance on regional revitalization from FY2020 onward.

This report, therefore, looks at the future policy issues of the Abe administration, focusing on the promotion of employment and regional revitalization, both of which are urgently needed in the face of population decline.

Chart 2: Outline of *Basic Policy 2019 (A New Era of Reiwa: Challenges toward Society 5.0)*

Establish a System Suitable for the Age of “Society 5.0”	Virtuous Cycle of Economic Revitalization and Fiscal Consolidation
<p><u>“Action Plan of the Growth Strategy” and other measures to boost growth potential</u></p> <ul style="list-style-type: none"> • Definition of rules for the digital market • Corporate governance reform • Reforms to social security system for all generations: employment opportunities up to the age of 70, prevention of diseases and nursing care • Reinforcement of measures for regional areas under population decline: special provisions for bus sharing and regional banks measures, etc. 	<p><u>Steady Promotion of the New Economic Plan to Advance Economic and Fiscal Revitalization</u></p> <ul style="list-style-type: none"> • Realization of a 600 trillion yen economy and achievement of the fiscal consolidation target in FY2025 • Budget formulation in line with the benchmarks during the “Foundation-Reinforcement Period” (from FY2019 to FY2021)
<p><u>Human resource development, work-style reform, promotion of measures to increase household income</u></p> <ul style="list-style-type: none"> • Promotion of human resource development: free early childhood education and nurseries, free tertiary education, university reform, recurrent education • Work-style reform: reduction of long working hours and realization of diverse and flexible working styles • Measures to increase household income: support program for the “employment ice-age” generation, raising minimum wages 	<p><u>Efficient and high-quality administrative and fiscal reforms through next-generation administrative services</u></p> <ul style="list-style-type: none"> • Digital government: central government-led standardization of information systems and data, digitalization of local governments, simplification of documents and over-the-counter services • Introduction and expansion of project management in the government information systems
<p><u>Promotion of regional revitalization</u></p> <ul style="list-style-type: none"> • Correction of the monopolar concentration in Tokyo, creation of new movement of people to regional areas • Revitalization of the tourism industry, revitalization of agriculture, forestry and fishery industries, regional revitalization by bringing in vitality from abroad, support for SMEs 	<p><u>Reforms in major policy areas</u></p> <ul style="list-style-type: none"> • Social security: prevention of diseases and aggravation, health promotion, reform of the medical and nursing care systems • Social infrastructure: realization of smart cities, creation of a suitable environment for the acceptance of human resources from overseas • Visualization of costs and effects of policies in education, science and technology
<p><u>Cooperation with the global economy and society</u></p> <ul style="list-style-type: none"> • Commitment to sustainable growth at the occasion of G20, making the 21st century trade rules as international standards • Rules and framework of cross-border data flow toward expansion of the data-driven economy at international level 	<p><u>Accelerating and expansion of policy efforts in expenditure reform</u></p> <ul style="list-style-type: none"> • Thorough implementation and expansion of “visualization” and nationwide dissemination of advanced and good practices, incentive reforms

Source: Made by MHRI based upon *Basic Policy on Economic and Fiscal Management and Reform 2019* and (Cabinet Decision on June 21, 2019)

2. Securing employment opportunities until age 70

(1) Key points of the measures outlined in the *Basic Policy 2019*

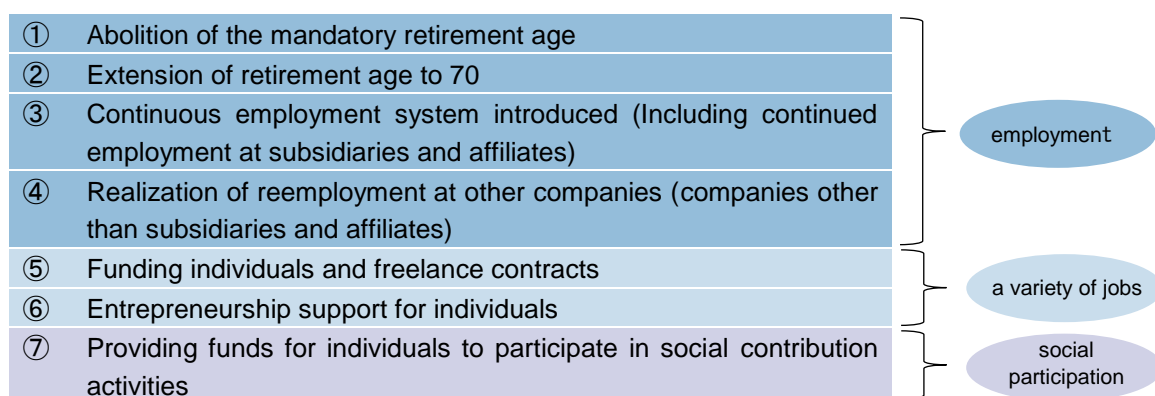
According to the outline, it is necessary to provide opportunities for elderly people to play an active role so that they can fully demonstrate their abilities, and it was made clear that the government would provide various options in the legal system to secure employment opportunities for those between the ages of 65 and 70.

As with the current measures to secure employment up to the age of 65, a wide range of options were presented in addition to employment, including the (1) abolition of the mandatory retirement age, (2) extension of the mandatory retirement age, (3) introduction of a continuous employment system, (4) re-employment at companies other than subsidiaries and affiliates, (5) provision of funds for freelance contracts with individuals, (6) support for startups by individuals, and (7) provision of funds for participation in social contribution activities (**Chart 3**).

It is said that companies will discuss which of (1) to (7) above is to be employed by the company in question, but specific ways of involvement by the company will be discussed going forward.

In addition, the *Basic Policy* state that it is appropriate to develop legislation to ensure employment opportunities for people up to the age of 70 in two stages. In the first stage of legislation, it is stipulated that enterprises should make efforts to secure employment opportunities until the age of 70, after clarifying the options ((1) to (7) in **Chart 3**. In the second stage of legislation, it is stated that the government will consider revising the law as a means of guarantee (in other words, making it compulsory) by disclosing the name of the enterprise, as in the current law.

Chart 3: Image of options in the legal system



Note: The current continuous employment system for employees up to age 65 also includes continuous employment at subsidiaries and affiliates.

Source: Made by MHRI based upon *Basic Policy on Economic and Fiscal Management and Reform 2019*, (Cabinet Decision on June 21, 2019), etc.

As for the timing, the current legal system until the age of 65 (Coming into force in FY2019 at age 63 and scheduled for completion in 2025) will not be revised, and although it is clearly stated that the first stage bill will be submitted to the ordinary Diet session in 2020, there is no mention of the second stage or the effective date.

(2) Current employment situation until age 70

Under the current system, companies are required to either "abolish the mandatory retirement age" "raise the retirement age to 65" or "introduce a continuous employment system for employees up to age 65" in order to secure employment until the age of 65. According to a survey conducted in 2018, 79.3% of enterprises introduced a continuous employment system, 18.1% raised the mandatory retirement age, and 2.6% abolished the mandatory retirement age (**Chart 4**).

Only 27.6% of enterprises have a system that allows employees aged 66 or older to work. Breaking this down, 15.8% of enterprises have a continuous employment system for employees aged 66 or over, 2.0% have a mandatory retirement age of 66 or over, 2.6% have abolished the mandatory retirement age, and 7.2% have other systems to secure employment for employees aged 66 or over (**Chart 5**).

According to the *Annual Report on Labour Force Survey (2018)* of the Ministry of Internal Affairs and Communications, the number of employed persons aged 65 to 69 is 4.42 million, and the employment rate (ratio of employed to population) is 46.4%, which is significantly lower than the employment rate of persons aged 60 to 64 (68.8%). In addition, there are approximately 350 thousand people aged 65 to 69 who are willing to work but are not working¹. If the working environment is improved, the number of people aged 65 to 69 year is likely to increase.

(3) Evaluation of measures to secure employment for the elderly

While employment up to the age of 65 has been more or less secured, with a focus on the continuous employment system, it is noteworthy that the *Basic Policy 2019* has come up with measures for securing employment opportunities up to the age of 70 as the next step. Furthermore, rather than requiring all enterprises to take measures to secure employment until the age of 70, the inclusion of various types of employment, such as freelance contracts other than employment and support for starting up a business, would be easier and more acceptable for enterprises with more options.

On the other hand, it is left to the future institutional design to determine the degree of

¹ There are approximately 110 thousand unemployed people aged 65 to 69 and approximately 240 thousand in the non-labor force population who wish to work.

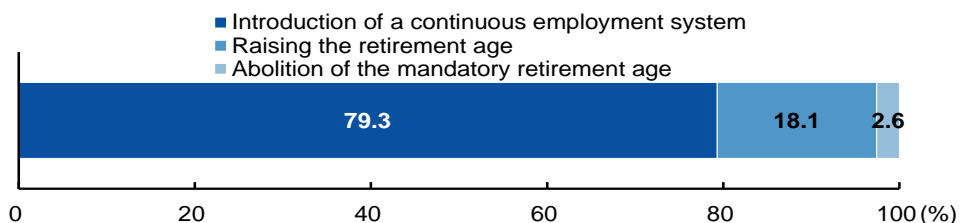
corporate responsibility for each option and other specific aspects of corporate involvement. The direction of discussions in this regard is a focus of attention. The two-stage legislation has the effect of making it easier for companies to introduce the system because they can respond in stages. However, it is unclear how much employment opportunities will be expanded up to the age of 70 under the provisions of the first stage. Depending on the situation, it may be necessary to announce the timing of the transition to the second-phase obligation as soon as possible.

3. Support program for the "employment ice-age" generation

(1) Key points of the measures outlined in the *Basic Policy 2019*

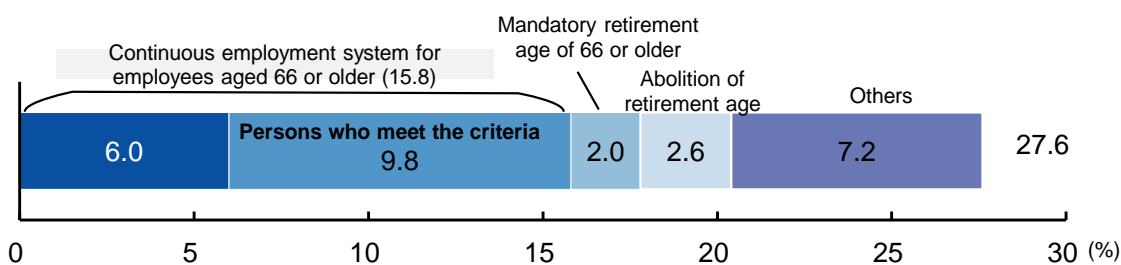
The so-called "employment ice-age" generation refers to those who graduated from school during the period from the mid-1990s to the early 2000s when the employment environment was severe. These individuals are now in their mid-30s to the late 40s. The characteristics of this generation are that many of them were unable to find jobs after graduation, and that the number of people who are working in unwilling situations or unstable jobs or are without work is larger than that of other generations, due to the fact that there has been a lack of mobility in employment practices such as mass hiring of new graduates.

Chart 4: Measures to secure employment until age 65 (2018)



Source: Made by MHRI based upon Ministry of Health, Labour and Welfare, 2018 "Results of survey on the employment status of elderly people" (November 16, 2018) (in Japanese)

Chart 5: State of corporate enterprises having a system that allows employees aged 66 or older to work (2018)



Source: Made by MHRI based upon Ministry of Health, Labour and Welfare, 2018 "Results of survey on the employment status of elderly people" (November 16, 2018) (in Japanese)

Under the latest *Basic Policy*, the government plans to launch a full-scale support program for those in the "employment ice-age" generation. The program is said to concentrate on measures such as the transition to regular worker status during a period of three years.

The number of people eligible for support is expected to be around 1 million, including those who want to work as regular workers but are working as non-regular workers and long-term unemployed people who wish to work. In addition, it has been clarified that it aims to increase the number of regular employees by 300,000 in order to promote better treatment and participation in society by engaging in efforts during a three year period (Chart 6).

Chart 6: Key points for supporting the "employment ice-age" generation in the *Basic Policy 2019*

People eligible for support	<ul style="list-style-type: none"> • A person who wishes to be hired on a regular basis but is unwillingly employed on a non-regular basis • A person unemployed for a long period who wishes to work but for various reasons is not engaging in employment-seeking activities • Those who need more close support to build relationships with society and to participate in society
Target	<ul style="list-style-type: none"> • Increase the number of regular employees by 300,000, while promoting better treatment, work and social participation
Direction of measures	<p><u>Continuous support from consultation, education and training to employment</u></p> <ul style="list-style-type: none"> • Create a flow in which as many people as possible can use consultation services • Set up dedicated support desks at Employment Security Offices (Hello Work) to provide close support • Provision of services by private business operators and provision of employment consultation opportunities through the use of recurrent education • Programs that contribute to the effective acquisition of qualifications for regular employment, etc., and "integrated type" programs that combine the acquisition of qualifications within a short period and practical training in workplace, etc. • A practical human resources development program that takes into account the needs of companies and regions facing labor shortages • Treatment of education & training and workplace practical training as eligible for vocational training benefits • Promotion of "Internship for working people" which serves as recruitment selection • Review of various grants <p><u>Close support to match each individual's situation</u></p> <ul style="list-style-type: none"> • Actively reaching out to potential beneficiaries • Promoting comprehensive support to address complex issues and various regional activities <p><u>Active utilization of measures to promote the creation of employment opportunities in regional areas</u></p> <ul style="list-style-type: none"> • Promoting matching, telework, and flexible and diverse working styles

Source: Made by MHRI based upon *Basic Policy on Economic and Fiscal Management and Reform 2019*, (Cabinet Decision on June 21, 2019), and others

As for the direction of the measures, the *Basic Policy 2019* sets forth the implementation of integrated support covering consultation and education/training and employment, and the implementation of closely tailored support in view of individual circumstances, such as taking a proactive (and not a passive) stance to seek out persons who are potential support targets. In addition to these measures, the *Basic Policy 2019* also plans to promote measures to create employment opportunities in regional areas by creating the flow of people to regional areas (**Chart 6**).

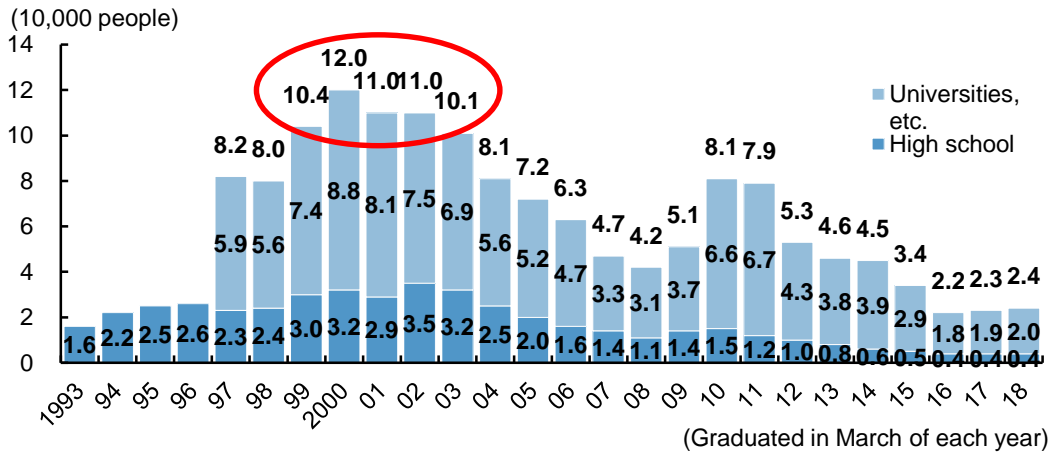
(2) Current situation of "employment ice-age" generation

Among graduates of high schools who graduated in March 1993 onward, and graduates of universities who graduated in March 1997 onward, the number of people who wish to get a job but have yet to find a job is particularly high among the generations who graduated during the period from March 1999 to March 2003. The total number of high school graduates and university graduates surpassed 100 thousand each year (**Chart 7**). It is thought that many of those who graduated without finding a job proceeded to a state of unemployment or non-employment, or non-regular employment such as part-time employment². After graduation, there are a certain number of people who worked in a non-regular status and then switched to regular employee status after gaining experience. On the other hand, in the event they continue to work on a part-time basis for a long period with little experience in regular employment, it is difficult for them to find employment from then onward. This is because mid-career recruits who have reached a certain age are generally deemed to have immediate capabilities, while those who have little experience in regular employment are often not provided with educational training opportunities, and thus limiting the opportunities for mid-career recruitment.

As of 2018, the size of the population bracket aged 35 to 44, which is the center of the "employment ice-age" generation, is 16.89 million. Looking at the employment situation of this generation, the number of regular staff and employees is 9.16 million, that of non-regular staff and employees is 3.71 million, and that of the non-labor force population is 2.19 million (**Chart 8**).

² Source: Council on Economic and Fiscal Policy (April 10, 2019) Materials 2 -2

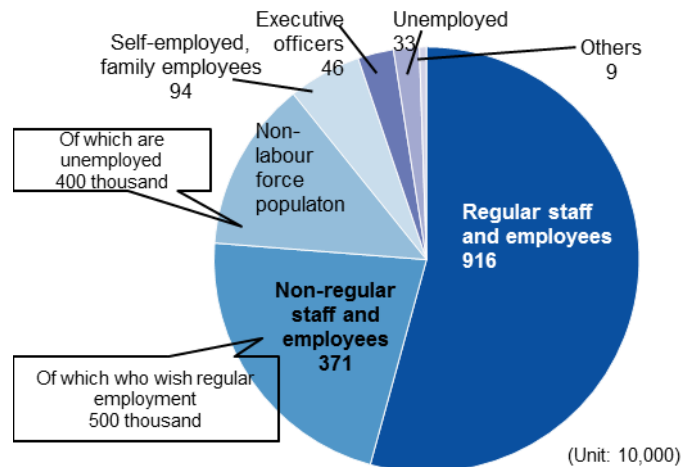
Chart 7: Trends in the number of unemployed graduates



- Note: 1. Based upon Ministry of Health, Labour and Welfare, Ministry of Education, Culture, Sports, Science and Technology "Survey on employment status of university graduates" (in Japanese), and Ministry of Education, Culture, Sports, Science and Technology "Survey on employment (offer) of prospective high school graduates" (in Japanese).
2. Figures are for those seeking employment whose place of employment has not been determined (Universities, etc. as of April 1 and high schools as of the end of March).
3. The number of unemployed persons at universities, etc. is estimated by multiplying the number of expected graduates estimated from the Ministry of Education, Culture, Sports, Science and Technology "School basic survey" (in Japanese) by the results of the "Survey on employment status of university graduates" (job-seeking rate and employment rate).

Source: Made by MHRI based on Council on Economic and Fiscal Policy, (April 10, 2019), material 2-2

Chart 8: State of employment of the "employment ice-age" generation (aged 35 to 44) (2018)



- Note: 1. Non-regular employees include part-time workers, temporary workers, contract employees, employees on short-term contracts, and others.
2. "Of which who wish regular employment" responded that the main reason for their current employment status (non-regular) was that "there are no available employment as regular staff or employee". It is assumed that there are also other potential persons wish to work in regular employment.
3. "Unemployed" refers to people in the non-labor force population who do not engage in domestic work or attend school. They include long-term unemployed persons who wish to work but are not looking for work due to various reasons, and persons who need more careful support towards social participation.
4. "Other" refers to employees whose positions are unknown (no responses).

Source: Made by MHRI based on Council on Economic and Fiscal Policy, (June 11, 2019)

Of the 3.71 million non-regular staff and employees, approximately 500 thousand are currently working as non-regular employees, although they wish to work as regular employees. By gender, approximately 210 thousand are men and approximately 280 thousand are women). Of the 2.19 million people in the non-labor force population, approximately 400 thousand are unemployed and do not engage in household chores or go to school. By gender, approximately 260 thousand are men and approximately 140 thousand are women³. While the total number of full-time employees is approximately 900 thousand, the *Basic Policy 2019* aims to increase the number of regular employees by approximately 300 thousand in three years.

(3) Evaluation of the support measures for the "employment ice-age" generation

Measures for the "employment ice-age" generation attracted attention around 2003, but even now, more than 15 years after that, no solution has been reached. Under these circumstances, the government has come up with employment measures for the "employment ice-age" generation with specific targets in a three-year intensive support program. It is not easy to increase the effectiveness of the measures.

First of all, it is important that the contents of the support program be clearly understood and communicated to those who need support. It is also necessary to devise ways to ensure that necessary information on means of access to support is accurately provided and to create an environment that is easy to use.

Cooperation not only by the government but also by the private sector will be indispensable. While the *Basic Policy 2019* calls for the strengthening of incentives for enterprises through the provision of various subsidies to the review and the utilization of private-sector know-how, calls for more active cooperation from the business community should also be considered.

As shown in **Chart 7** above, even after the "employment ice-age" generation, there are many people who are unemployed among those who graduated from university during the period from March 2010 to March 2011⁴. Even though this generation is still around 30 years old and has many opportunities to challenge again, thus setting them apart from the "employment ice-age" generation, it is necessary to take measures as soon as possible before they grow older.

4. Regional revitalization shifting from the first phase to the second phase

The first phase of regional revitalization, one of the pillars of the Abe administration's

³ Totals do not match due to rounding

⁴ Those who were affected by the global financial crisis following the collapse of Lehman Brothers

policies, took place between FY2015 and FY2019. In order to strongly promote regional revitalization in the second phase, which is scheduled to begin in FY2020, the government has taken up regional revitalization in greater detail in its *Basic Policy 2019* than in previous years. Thus, we shall review the transition of policies related to regional revitalization from 2014, when regional revitalization was first incorporated in the *Basic Policy*, to the present and confirm the characteristics of regional revitalization in the *Basic Policy 2019*, and consider future issues.

(1) Regional revitalization under the *Basic Policy* thus far

Regional revitalization was first included in the *Basic Policy* of 2014. In January 2014, the Council on Economic and Fiscal Policy, which is responsible for formulating the *Basic Policy*, established a special research committee (the *Sentaku suru mirai iinkai*). In its interim report (May 2014), the Council cited the "rapid population decline and super-aging population" of Japan as a whole and raised concerns regarding the possibility that many local governments would face extinction⁵.

In light of these factors, the *Basic Policy 2014* stressed the importance of disseminating the results of Abenomics to local governments and taking measures to enable them to identify medium- and long-term prospects for regional economies (dubbed "Local Abenomics"). By creating attractive jobs in Non-Tokyo area by utilizing local resources and creating a flow of people from the Tokyo area, where the birth rate is low, to the Non—Tokyo area, where the birth rate is high, it was decided to aim at regional revitalization to curb the population decline in both Non-Tokyo area and Japan as a whole.

The subsequent *Basic Policies* focused on specific measures for regional revitalization. The *Basic Policy 2015* recommended that each local government formulate a comprehensive strategy for local economies by utilizing the central government's regional economic analysis system, in order to promote highly productive industries in Non-Tokyo area and create workplaces that are attractive to young people and people in their prime years. In addition, it was pointed out that the key is to cooperate of local governments suited to the household economics of the inhabitants.

The main pillars of the *Basic Policy 2016* were the Japanese version of the DMO (DMO is an abbreviation of "Destination Management Organization," which is an organization responsible for the utilization of tourism resources and the development of tourist areas), revitalization of regional industries such as regional trading companies, restraints upon the concentration of students in large cities, and relocation of government institutions to Non-

⁵ Local governments where the number of women aged 20 to 39 will decrease by half between 2010 and 2040. Defined by the Japan Policy Council in 2014. It was warned that about half of cities, towns and villages fall under the category of the cities, towns and villages that may disappear in the future.

Tokyo area. As for the cooperation of local governments, the formation of a coordinated central urban area composed of the central cities of Non-Tokyo area and the surrounding municipalities was incorporated.

As a more powerful measure to correct the unipolar concentration in Tokyo, the government's *Basic Policy 2017* includes a policy of not allowing universities to increase the number of students in the 23 *ku*-areas (wards), and an experiment on satellite offices of central government ministries and agencies. In terms of the coordinated central urban area, the *Basic Policy 2017* set forth the promotion of area management including a Japanese version of the BID (“BID” is an abbreviation of Business Improvement District, which engages in redevelopment and maintenance/management of the city center by means of contributions collected from stakeholders).

The *Basic Policy 2018* placed emphasis upon the promotion of relocation of corporate headquarters functions to Non-Tokyo area as well as emigration support according to the life stage of residents, with emphasis on promoting UIJ turns* and startups and employment by women and the elderly in Non-Tokyo area in order to rectify the unipolar concentration of businesses in Tokyo. The *Basic Policy 2018* also set out that the central cities of regional economies, such as prefectural capitals, will be designated as core cities, making them attractive footholds for businesses, people and universities.

* A “U turn” refers to a return back to rural areas after an initial move from a rural area to a large city, an “I turn” refers to a move either from a large city to a rural area or from a rural area to other rural area, and a “J turn” refers to a move from a rural area to a large city followed by a move from a large city to a mid-size city near the initial rural area.

(2) Regional revitalization under the *Basic Policy 2019*

The main measures for regional revitalization in the *Basic Policy 2019* reflecting the foregoing developments are as shown in **Chart 9**. Compared with the matters stated on

Chart 9: Principal items of regional revitalization in the *Basic Policy 2019*

- Rectification of unipolar concentration in Tokyo and creation of new flow of people to rural areas (Increase in "related population")
- Revitalization of local industries (Regional revitalization through revitalization of tourism, revitalization of agriculture, forestry and fisheries, and incorporation of overseas vitality)
- Support for small and medium-sized enterprises and small business owners
- Promotion of decentralization reform
- Formation of convection-promoted national land
- Promotion of Okinawa

Source: Made by MHRI based upon *Basic Policy on Economic and Fiscal Management and Reform 2019*, (Cabinet Decision on June 21, 2019)

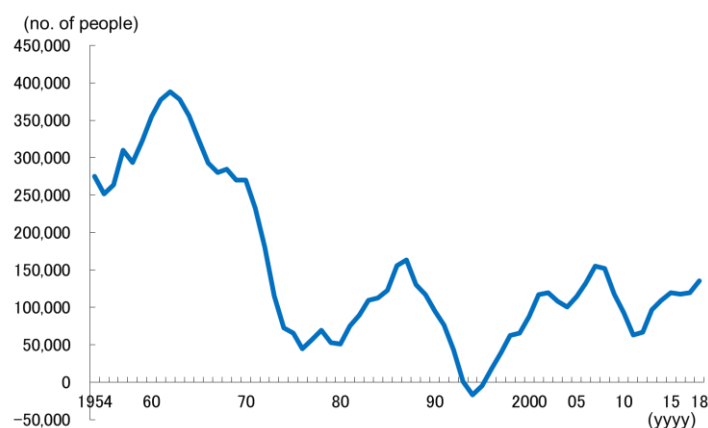
regional revitalization in the past *Basic Policies*, the characteristics of the *Basic Policy 2019* are as follows.

First, it states explicitly that the second phase of regional revitalization will begin in FY 2020, and emphasizes providing focused support to pioneering municipalities that are willing to tackle regional issues through AI (artificial intelligence) and IoT (Internet of Things).

Second, many of the measures related to population movement are based upon a long-term perspective. It is proposed that the functions of high schools, technical colleges, and universities should be strengthened as human resources development institutions that are required in the region so that more young people can stay in Non-Tokyo area when they enter university or graduate from university. In addition, it was stated that it was necessary to increase the number of "related population" that continuously and variously relate to a specific region such as volunteers and lead to the settlement of people in the future.

As for the promotion of core cities, which came to be incorporated from the *Basic Policy 2018*, the *Basic Policy 2019* set forth the promotion of urban revitalization and the establishment of community-based enterprises through collaboration among industry, academia, Financial institution, and government. A greater emphasis was placed on compact town development concentrating local life functions for the safety and security of the elderly people and child-raising families, with an awareness of small local governments. Furthermore, one of the major characteristics of this year's *Basic Policy* is the stronger emphasis on "taking in overseas vitality" than in previous years. In addition to early support for multilingual and cashless services, the *Basic Policy 2019* deals with matters

Chart 10: Changes in net migration in the Tokyo area (Japanese)



Source: Made by MHRI based upon Ministry of Internal Affairs and Communications, Statistics Bureau, *Report on Internal Migration in Japan Derived from the Basic Resident Registration* (annual reports)

such as the development of experience-based accommodations such as *shirohaku* (castle stays) and *terahaku* (temple stays), revitalization of snow resorts, popularization and expansion of vacation rentals, and tourism promotion such as IR (integrated resorts), and overseas exports of local products.

(3) Challenges facing regional revitalization evidenced by past *Basic Policies*

Initially, measures to facilitate the migration of young people out from the Tokyo area, where the birth rate is low, to Non-Tokyo area, where the birth rate is high, through the creation of jobs in Non-Tokyo area, was set forth as the starting point of regional revitalization. However, since the number of people moving into the Tokyo area continued to exceed the number of people moving out from the Tokyo area (**Chart 10**), there are no signs of a decline in "net migration".

This may be due to the lack of a perspective to create jobs in Non-Tokyo area which are desirable from the view point of young women, despite the fact that the main source of migration is women who are becoming increasingly well-educated. In the past, the mainstream measures for regional revitalization were promotion measures for jobs in manufacturing and construction, such as attracting factories and expanding public works projects; jobs which may be more attractive for men. The central and local governments must step up efforts to promote the service industry that are desirable for young women.

Next, one of the major challenges facing regional revitalization is that the basic local governments that promote regional revitalization and the economic zone of residents do not necessarily coincide. Even though the effect of regional revitalization can be enhanced by the cooperation of local governments belonging to the same economic zone, a lack in cooperation among local governments is leading to a competition to attract residents with neighboring local governments.

In particular, one of the major trends in population migration is the migration to Tokyo of young people from the central cities of regional economies which has been a traditional magnet for young people from neighboring municipalities. It is necessary to stop the population outflow to the Tokyo area by creating jobs for young people in such central core cities by the economic zone as a whole in cooperation with neighboring municipalities.

Furthermore, the importance of regional economic promotion utilizing foreign countries as a means of regional revitalization is increasing. As emphasized in the *Basic Policy 2019*, there are rising expectations toward the increase in number of foreign tourists, foreign workers, exports to foreign countries and foreign investment in Non-Tokyo area. As for foreign workers in particular, a new status of residence was established this fiscal year, and the acceptance of foreign workers has been expanded in bid to address the labor shortage caused by the declining population. Given the start of qualification examinations,

the number of foreigners working in a variety of occupations is expected to increase in the future. However, there are still many issues to be solved, such as improving the environment for harmonious coexistence with the local community and providing institutional benefits such as social insurance. Furthermore, since foreign workers tend to be drawn to large cities, it is important to promote the retention of workers in various regions from the viewpoint of regional revitalization. The creation of regions that are easy to work and live in for foreigners will be a key point.

5. Conclusion

As mentioned before, the *Basic Policy 2019* is the seventh of its kind drawn up by the second Abe administration. Among the various measures incorporated in the *Basic Policies* to date are those that have been effective in expanding inbound demand/tourists, corporate governance reform, and the deregulation of electricity retailing. However, economic and fiscal revival under the Abe administration is only a job half done, as it cannot be said that Japan's growth potential has clearly increased over the past seven years and the deadline to achieve its fiscal target has been put off. Under these circumstances, the government cannot escape the impression that the measures in the *Basic Policies* are turning more and more lackluster. On the other hand, since continuation and implementation are important facets of policy measures, the next task will be the steady implementation and achievement of results of the measures contained in the *Basic Policy 2019*.

Japan's population decline will accelerate further in the future, and the situation will be particularly severe in Non-Tokyo area. Amid growing concerns over labor shortages, in addition to expanding the acceptance of foreign workers, which was prioritized in last year's *Basic Policies*, the promotion of employment for the elderly and the creation of stable employment and job opportunities of the "employment ice-age" generation in the *Basic Policy 2019* are high priority measures. Along with work-style reforms and productivity enhancement through the use of technology, it is hoped that the *Basic Policy 2019* will maintain and improve Japan's growth potential in the face of a declining population. In Non-Tokyo area, where the effects of population decline are spreading, it will be a good time to strengthen efforts from FY2020, when the second phase of regional revitalization begins. Further efforts to create attractive regions that can curb the outflow of young people will be necessary while taking advantage of measures included in the *Basic Policy*.