

“The Demographic Dilemma: Examining the Security Implications of Japan’s Aging Society”

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The international system in 2050 will look significantly different than it does today as the most powerful states struggle to face the reality of population aging. “By 2050 at least 15% of the citizens in these states will be over 65,”¹ and nowhere is this struggle more profound than in Japan, where more than a third of the population (37.8%) will be past the retirement age.² The compounded effect of low birth rates and high life expectancy will result not only in population aging but also in population decline and economic stagnation. This “demographic dilemma” will create broad ramifications for Japanese security policy, encouraging Japan to rethink its defense posture and adapt its military forces to stave off relative decline in power.

The first and most obvious implication of an aging Japanese population is the constraint placed on economic growth. Labor force productivity will continue to rise due to advances in technology, but the size of the labor force will decline while the number of retirees skyrockets, creating a greater relative burden for each worker to bear. In 2000 there existed 3.6 members of the working population to support each member of the elderly (65 and older), but that ratio will decrease to just 1.2 workers per retiree by 2050.³ Older people may be more active in the labor force in Japan than in any other OECD country,⁴ but the elderly are also typically considered to

¹ Mark L. Haas, “A Geriatric Peace? The Future of U.S. Power in a World of Aging Populations,” *International Security*, Vol. 32, No. 1, Summer 2007 p. 112.

² “World Population Prospects: The 2008 Revision Population Database,” The United Nations Population Division, <<http://esa.un.org/unpp/p2k0data.asp>>.

³ “Japan’s financial situation in the future?” 2008 General Account, Ministry of Finance, Government of Japan <http://www.mof.go.jp/zaisei/con_04.html>.

⁴ Haas, op cit, p. 119.

be more risk-averse and conservative with their investments, which will further exacerbate Japan's historical inability to promote entrepreneurs and which will further limit economic productivity. Finally, a declining population will reduce the size of Japan's tax base just as an aging population creates a greater demand for expanded social services, such that by 2040 public benefits (pensions and health care) are expected to make up 27% of GDP (an increase of 15% over 2003 levels).⁵

An adverse labor-retiree ratio, decreases in investment, and the need for greater social services to support an increased elderly demographic may not cause GDP to contract, but anemic growth is likely for the foreseeable future. This situation presents itself at a difficult time for Japan given the current security environment in East Asia with the immediate threat of North Korea and the mid- to long-term threat of a rising China.⁶ Japan must be more effective with the tools that it already has at its disposal, and tough choices will have to be made to further enable Japan to actively respond to growing security challenges in the region.

First, Japan will need to shift the focus of its defense industry towards efficiency and must cease heavily protecting domestic production capacity. This industry is highly inefficient, and has historically cost Japan at least three times as much as that of its foreign counterparts.⁷ New weapons systems, such as advanced fighters and ballistic missile defense (BMD), are becoming more advanced and subsequently more expensive, yet Japan's ability to increase the allocation of resources for defense is diminishing. Efficiency must therefore be prioritized and can be accomplished by forcing domestic arms producers to become more competitive in the global marketplace. Existing ineffectiveness largely stems from Japan's "Three Principles"

⁵ Richard Jackson and Neil Howe, "The 2003 Aging Vulnerability Index: An Assessment of the Capacity of Twelve Developed Countries to Meet the Aging Challenge," *CSIS*, March 2003, p.7.

⁶ See Christopher W. Hughes, *Japan's Remilitarization*, London: Routledge, 2009, p. 30.

⁷ Arthur Alexander, "Of Tanks and Toyotas: An Assessment of Japan's Defense Industry," Rand, 1993, p. vi.

policy, which includes an export ban on all arms equipment as well as a limited import policy meant to avoid foreign reliance and strengthen domestic production.⁸ The import and export of arms will be a sensitive issue to push through the Japanese Diet, but the potentially significant gains in efficiency made possible by relaxing restrictions will be necessary if Japan hopes to maintain its security position.

Second, the “demographic dilemma” will present Japan not only with fiscal limitations imposed by the elderly but also with a substantially diminished recruitment pool for the Self Defense Forces (SDF). Attracting skilled workers will also be more challenging, as a declining labor force means that private sector demand for existing workers will be high, and the already socially unpopular image of SDF employment stands to become even less enticing under a budget crunch. A slimmer, more mobile, and more technologically advanced force is the most likely direction for the SDF, though the number and types of missions that these forces are deployed on will be highly constrained. Disaster response, ODA-related exercises, and UN peacekeeping operations may be gaining in popularity and international prestige, but an aging population will only make it more difficult for Japan to pursue a strategy of either “boots on the ground” or “checkbook diplomacy.”

Finally, the combined effect of budget and manpower constraints will push Japan to attempt to strengthen the US-Japan Alliance. The United States, thanks to high levels of immigration, stands to “weather the storm” of demographic transformation and emerge relatively unscathed. Reports today are quick to suggest a possible multipolar international system by 2050, but from a demographic viewpoint US prominence stands to grow not only in *absolute* terms but also *relative* to other great powers (including China), who will be weakened by aging

⁸ A few exceptions do exist under the US-Japan Alliance.

populations. Unfortunately for the US, demographic realities also make it unlikely that Japan will become a more “normal” member in the alliance. Japan can potentially contribute more if it can achieve greater economies of scale with its defense production and modernize its military forces, but in the short term the constraints Japan faces will make it less willing to pay its share for military technologies like BMD, to contribute troops to overseas US efforts in Iraq and Afghanistan, or even to continue high levels of host nation support. These are depressing realities, but unless current trajectories can be reversed through ambitious policymaking, budgetary and manpower restraints will only compel Japan to rely more heavily on the United States for its defense.

In conclusion, an aging society will profoundly influence the framework for discussion on security issues in Japan. Declining birth rates, high life expectancy, and adverse labor-retiree ratios will place both budgetary and manpower constraints on Japan’s power potential. Assuming that Japan as a rational state does not want to decline in security relevance or capacity, these constraints will put pressure on the Japanese government to relax arms restrictions and increase domestic production efficiency, to streamline the SDF, and to work hard to prolong the benefits afforded by the US-Japan Alliance. The security implications Japan faces are formidable, but there exists the potential that the “demographic dilemma” can provide the impetus for change needed to mobilize the Japanese government to take appropriate action.