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From the Desk of...

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Japan: with its aging population and shrinking workforce, is it an economy heading for terminal decline? Dr. Yuwa Hedrick-Wong, Economic Advisor to MasterCard International and Global Demographics, concludes otherwise.

March 2007: Jim Rogers, co-founder with George Soros of the Quantum Hedge Fund, was quoted recently as saying, "if the current birthrate continues, which is the lowest in the major developed countries, there will be no Japanese. Who will pay Japan's enormous public sector debt?" Rogers is not alone. Many question the viability of Japan's economic future because of its rapidly ageing population, and the fact that its labor force is set to shrink by an average of some 0.7% per year in the coming decade. An ageing population, a shrinking labour force, a rising dependency ratio -- more retirees and young children depending on fewer productive workers -- would supposedly combine to send Japan's economy into terminal decline.

I have been analysing Japan's long term economic prospects and conclude otherwise. Given a projected shrinkage of the labor force of 0.7% per year, a growth rate of real GDP per worker of 3.2% is required to achieve a real GDP growth rate of 2.5% per year. Two key factors are identified as potentially very powerful in driving Japan's labor productivity; a rising competitive intensity of Japanese companies, especially the domestic oriented and smaller firms, and a revival of innovative capacity led by Japan's large companies. In addition, two other factors could effectively compensate for the projected shrinkage of the labor force, namely the rising participation rate in the labor force of women and engaging the elderly more among its highly skilled knowledge workers.

Two scenarios are constructed in assessing the extent to which Japan could achieve the required 3.2% annual growth in real GDP per worker, and they represent two ends of a spectrum of most likely outcomes. It appears that Japan's real GDP growth could range from 2.4% to 3.1% per year in the coming decade; an impressive range by any measure.

Japan's labour productivity is being driven by rising competitive intensity of Japanese companies, a revival in innovative capacity and greater participation of women and the elderly

A strong Japanese economy will impact on the rest of Asia very positively. Japan's structural relations with the region's key economies today are very different from two decades ago. Japan now imports a great deal more from the rest of Asia, and its leading companies have invested massively in building capacity in markets such as China, Indonesia, Malaysia, Thailand, and Vietnam. An economically strong Japan will be a much more powerful engine of growth of the whole of Asia than ever before.

About Yuwa Hedrick-Wong

Dr. Yuwa Hedrick-Wong is Economic Advisor to MasterCard International and Chief Economist and Director of Asian Demographics. He is a highly respected commentator, writer and economist based in Singapore. He heads the MasterIntelligence Knowledge Panel and writes for the MasterCard quarterly *Insights*.

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>> Read more: "*The Sun Also Rises: Japan's Long Term Growth Prospects and Regional Implications*" MasterCard Insights Report 1Q 2007 is available at www.insightbureau.com/HedrickWong.html