

# The Effects of Immigration on Japan: A Computable General Equilibrium Assessment

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As a result of the aging population and the falling birthrate, the labor force population in Japan will continue to decline in the next decades and it is likely to decrease per capita income. To address this problem, the Japanese government is considering relaxing restrictions on foreign labor and lively discusses the accepting foreign laborers. The current Japanese law imposes strong restrictions on unskilled foreign labor and relaxing it will lead to the inflow of foreign unskilled labor into Japan. However, there are a few studies that analyze its possible quantitative effects.

Since the liberalization of foreign labor has been an important issue in policy debates, we try to analyze quantitative impacts of foreign labor liberalization on the Japanese economy using a computable general equilibrium model. Our model is a recursive dynamic model from 2010 to 2020 with 32 sectors. We categorize the two types of labor, skilled and unskilled labor. In the main scenario, we assume that two millions of unskilled foreign labors will flow into Japan over a decade.

The main results of the analysis are summarized as follows. Wage of unskilled labor decreases by 2.5 % due to the inflow of foreign labor. In contrast, wage of skilled labor increases by 0.3% and rental price increases by 1.3%. In the impacts on macroeconomics indicators, GDP increases by 1.7%, the income and consumption of Japanese increase by 1.3%. Sensitivity analysis shows that most of the above results are robust to different setups of scenario and model. But when we consider the case of the inflow of skilled labor and limiting sectors that accepts foreign labor, we obtain quite different results from the main scenario.

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