



Commentaries on the Signature Project: "Addressing Labor Shortages Due to Low Birth Rates and Aging Population in the APEC Region"

Demography, Trade, and Social Policy: Comparisons with a Hundred Years Ago

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SUMMARY

- As the term “aging Asia” coined by Keiichiro Oizumi (2007) suggests, low birth rates and aging populations are now common issues for many APEC economies.
- With labor shortages consequently worsening, social policies aimed at improving labor quality have become increasingly important. Meanwhile, strengthening social policies has the effect of supporting moderate globalization.
- This paper examines the connections among demography, trade, and social policy, and argues that today’s low birth rates and aging populations make it more likely that trade wars will be prevented, based on comparisons with the world a hundred years ago. We should bolster welfare states worldwide, not only to enhance labor productivity but also to maintain the free trade system.

Free Trade and Social Policy

There is a close relationship between trade and social policy. To maintain free trade, social policy needs to be reinforced. Bunji Suzuki, a pioneer of the Japanese labor union movement who attended the Paris Peace Conference in 1919, understood this well. “When one country actively pursues social policies while another country has few or no social policies, the country with better social policies may temporarily suffer in a trade war. There are two strategies to mitigate this risk. One is to raise protective tariffs to shield against the influx of foreign goods. The other is to force competing countries to implement the same level of social policies” (Suzuki 1920: 5). This understanding was shared by all those involved in the establishment of the International Labour Organization (ILO). To prevent the tendency toward protectionism and maintain the free trade system, it was necessary to unify social policy standards internationally and level the playing field. Specifically, this required improving Japan’s social policies to the same level as those in Europe, which was the hidden aim of founding the ILO.

A hundred years later, analogous dynamics between social protection and trade policy emerged. While there is a populist backlash against free trade in the United States, European populism is not anti-free trade, according to international economist Dani

Rodrik. The reason is that “Europe has long had strong social protections and a generous welfare state. Most countries of Europe, being smaller than the US, are much more open to trade. But openness to trade has been accompanied by much greater redistribution and social insurance. A number of empirical analyses have shown that there is a direct link between exposure to trade and expansion of public transfers” (Rodrik 2018: 17). If workers exposed to international competition were given adequate social protection, they would not oppose free trade, which is why the welfare state is needed to protect free trade.

The Tariff War of a Hundred Years Ago

The Trump tariffs are said to be comparable to those imposed under the Smoot-Hawley Tariff Act (1930) nearly a century ago. The Smoot-Hawley Tariff Act triggered a trade war that ultimately contributed to the outbreak of a real war. However, the current world situation differs from that of a hundred years ago. Let us compare the worlds of 1930 and 2025 by focusing on the connections among demography, trade, and social policy.

The world in 1930:

1. All economies had young populations, and emerging economies had a surplus of labor; the idea of enhancing labor quality through social policy was relatively underdeveloped.
2. All economies faced export competition in feeding their expanding populations. This led to the rise of protectionism as a way to combat export pressures from other economies, resulting in conflicts between economic blocs.
3. There was a significant disparity between the social policies of advanced economies and those of emerging economies. Efforts to mitigate protectionism by improving the social policies of emerging economies ultimately proved unsuccessful.

The world in 2025:

1. Many economies, including those in the Global South, are experiencing a decline in birth rates. As a result of labor shortages caused by low birth rates, social policies aimed at enhancing labor quality are becoming important.

2. As birth rates decline, *ceteris paribus*, export pressures are expected to decrease. This shift will enable each economy to focus on development through domestic demand, supported by what Rodrik (2011) refers to as moderate globalization.
3. As a result of low birth rates and aging populations, social policies in emerging economies are also improving. By addressing the North-South gap in social policies, protectionism can be mitigated.

A hundred years ago, stronger forces were pushing for protectionism, which maintained international disparities intact rather than improving social policies to level the playing field. Today, however, social policies in emerging economies are improving, and it is possible to protect free trade by strengthening welfare states worldwide, including those in the Global South.

Universal Health Coverage

In the United States, widening inequality has polarized society, forming a support base for anti-free trade populism. This is how the Trump tariffs emerged. There is not only economic but also social inequality related to social protection, including healthcare and long-term care services. By improving social protection and reducing social inequality, we can prevent the spread of anti-free trade populism.

Whether universal health coverage (UHC) can be achieved will be crucial. According to the World Health Organization (WHO), UHC means that all people have access to the full range of quality health services they need, when and where they need them, without financial hardship. Though several indicators have been proposed to measure the achievement of UHC in individual economies, public health expenditure as a percentage of total health expenditure is the most reliable proxy indicator. Using data for 2022, let us compare the status of UHC in APEC and EU economies (WHO, *Global Health Observatory*. Domestic general government health expenditure as percentage of current health expenditure).

Economies having achieved UHC (public expenditure ratio >70%)

APEC: Brunei, Japan, New Zealand, Australia, Canada, Russia

EU: Luxembourg, Sweden, Czechia, Croatia, Denmark, Finland, Germany, Cyprus, Slovakia, Romania, Austria, Ireland, France, Belgium, Estonia, Italy, Spain, Slovenia, Poland, Hungary

Economies approaching UHC (public expenditure ratio >60%)

APEC: Thailand, Chinese Taipei, Peru, Korea

EU: Netherlands, Malta, Lithuania, Latvia, Bulgaria, Portugal

Economies far short of UHC (public expenditure ratio <60%)

APEC: Papua New Guinea, Singapore, United States, China, Mexico, Indonesia, Malaysia, Chile, Philippines, Vietnam

EU: Greece

APEC economies overall have yet to achieve universal health coverage on par with their EU counterparts. To protect free trade, the universal extension of healthcare and other forms of social protection must be promoted internationally.

Labor Shortages and Long-term Care Services

As populations age and birth rates decline, labor will become increasingly scarce and partially replaced by artificial intelligence. Will there be a labor shortage or surplus in the future? How will this relate to free trade and social policy?

Labor demand over the long run is difficult to predict, as it depends not only on demographic changes but also on technological progress. However, while most of the white-collar “bullshit jobs” described by anthropologist David Graeber (2018) will

eventually be replaced by artificial intelligence, essential occupations such as care work and green jobs will not be easily automated.

For example, long-term care services determine the well-being of the elderly. If care workers cannot work comfortably, the quality of care service cannot be guaranteed. If care work is not joyful and rewarding, not only the care workers but also the elderly and their families will suffer. Decent work is about personal development and social integration as much as it is about wages and working conditions.

In Japan, long-term care insurance helps cover the costs of nursing care. Thanks to this insurance, nursing care work in Japan can be humane employment filled with gratitude and recognition, as noted one care worker at a nursing home: “When I do something small, like letting them look outside or helping them change clothes, and they thank me with a bow, it makes my heart melt. Even though it’s not something they need to thank me for, those moments are when I feel the most refreshed” (interview with a 54-year-old female care worker in Nagoya, August 20, 2024).

Care work is based on a delicate balance. Amid concerns about labor shortages due to population aging, the Japanese government is promoting the introduction of foreign care workers. This must be done prudently and with careful management to avoid undermining working conditions. If labor-saving measures using AI make progress in the long run, care work offers valuable opportunities for decent employment. Maintaining good working conditions for such jobs also underpins the free trade system.

Conclusion

Free trade benefits all economies, but it can harm workers who are exposed to international competition, creating room for protectionism to take hold. Instead of relying on tariffs, however, we can safeguard people’s livelihoods through social policies. We should strengthen social protection worldwide, both to ensure people’s lives and to protect free trade against protectionism. An urgent task for the international community today is therefore to consider the global conditions that will enable the well-being of all peoples.

References

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