

JAPAN

Priorities supported by indicators

Reduce producer support to agriculture (2005, 2007, 2009)

Recommendations: Scale back the level of support to agriculture, while shifting its composition away from market price support towards direct support for farmers, to reduce distortions to production.

Actions taken: The government introduced three direct payments in 2007, including support based on historical planted area, output payments (differentiated according to product quality) and compensation for income loss, as part of the effort to concentrate support on more efficient farms.

► **Reform employment protection legislation for regular employment (2005, 2007, 2009)**

Recommendations: Reduce employment protection for regular workers while expanding the coverage of social insurance to include more non-regular workers, thus reducing the gap in labour costs.

Actions taken: A 2008 law aims at more balanced treatment with regular workers, although it may discourage their hiring.

► **Further liberalise services (2005, 2007, 2009)**

Recommendations: Strengthen competition policy and impose heavier penalties for violations. Ease entry restrictions and zoning regulations. Promote competition in network industries by improving the interconnection framework, unbundling vertically-integrated activities and creating independent regulatory bodies. Facilitate the entry of foreign workers.

Actions taken: A strengthened anti-monopoly act took effect in 2006. Two agreements in 2008 allow some foreign nurses and care workers to work in Japan on a temporary basis. However, new zoning regulations limit the entry of large stores in suburban areas. No action taken on network industries.

Other key priorities

► **Remove restrictions on foreign investment (2005, 2007, 2009)**

Recommendations: Ensure that the M&A market is fully open to all firms and limit foreign ownership restrictions based on national security and strategic reasons.

Actions taken: The revision of the Corporation Law and the decision to permit the deferral of related capital gains taxes in 2007 is facilitating cross-border M&As by allowing “triangular mergers”.

Reform the tax system (2009)

Recommendations: The tax system should rely more on indirect taxes to generate revenue, while cutting the corporate tax rate, broadening the base of direct taxes and strengthening property taxation.

Actions taken: No action taken.

Improve the framework for innovation (2007)

Recommendations: Encourage innovation by improving framework conditions. Upgrade the education system by further reducing regulation and removing entry barriers for foreign universities.

Actions taken: The 2007 “Innovation 25” plan enhances the mobility of researchers, expands the use of competitive research grants and extends visas for foreign researchers.

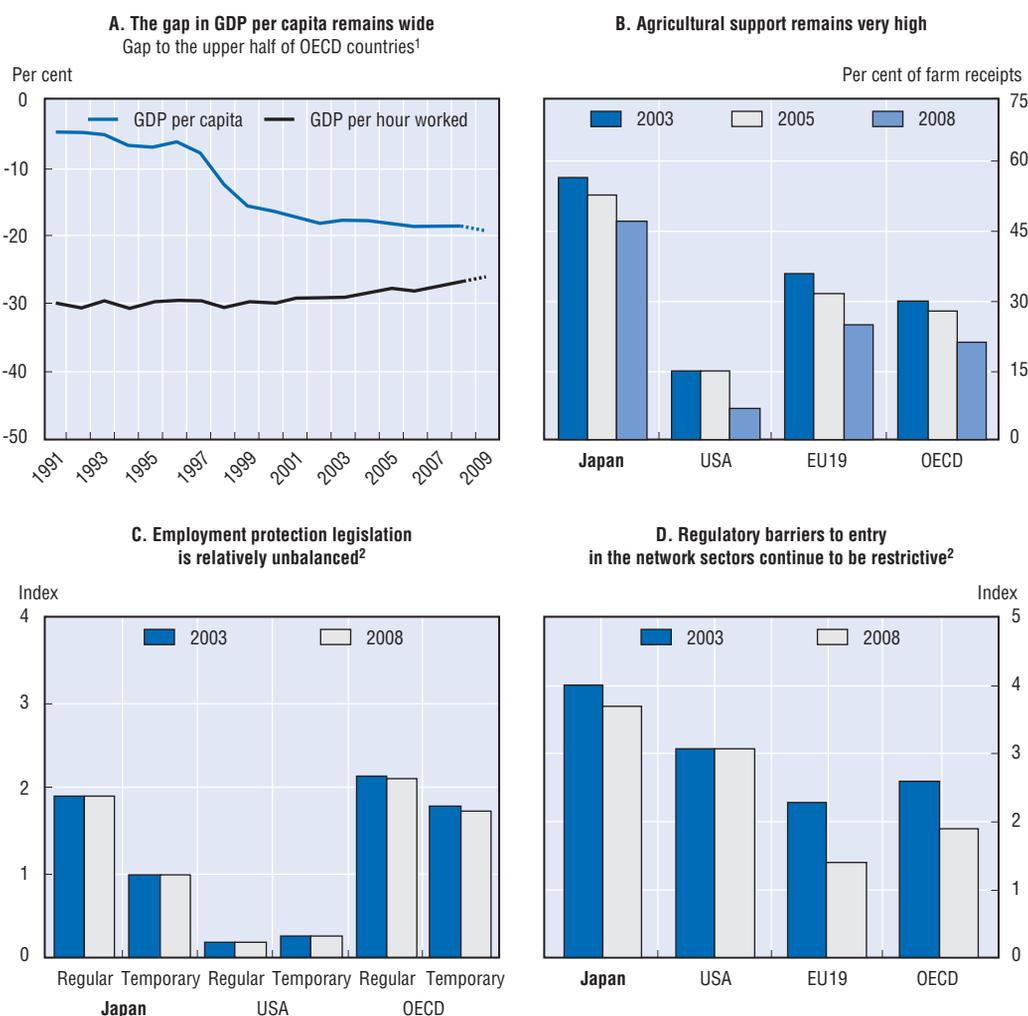
Reform the financial sector (2005)

Recommendations: Resolve the non-performing loan (NPL) problem, require banks to strengthen their capital and reduce the role of public financial institutions.

Actions taken: Major banks significantly reduced NPLs. Five public financial institutions were combined into the “Japan Finance Corporation” in 2008, and their activities were scaled back prior to the financial crisis.

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- The income gap relative to the best-performing countries has continued to widen somewhat as gains in productivity have been offset by a fall in labour input.
- There has been some progress in priority areas. Direct payments to farmers have been introduced and the anti-monopoly act has been strengthened. In addition, there have been steps to facilitate cross-border M&As and improve the innovation framework. However, little has been done in the areas of taxation and regulation of network industries. Overall, the pace of reform has been slow.
- Some reforms in other areas have taken place recently in the financial sector.



1. Percentage gap with respect to the simple average of the upper half of OECD countries in terms of GDP per capita and GDP per hour worked (in constant 2005 PPPs). The gaps for 2009 are OECD estimates, based on the *OECD Economic Outlook*, No. 86.

2. Index scale of 0-6 from least to most restrictive.

Source: Chart A: OECD, *National Accounts and Economic Outlook 86 Databases*; Chart B: OECD, *Producer and Consumer Support Estimates Database*; Chart C: OECD, *Employment Outlook Database*; Chart D: OECD, *Product Market Regulation Database*.

StatLink  <http://dx.doi.org/10.1787/786611566183>