

JAPAN

Labour productivity decelerated during Japan's decade of economic stagnation, thus widening the income gap with the leading OECD countries.

Policy priorities

Further liberalise services

Challenge and recommendations: To enhance competition and promote innovation in the service sector, it was recommended that: i) the enforcement of competition law be further strengthened and heavier sanctions imposed; ii) the regulatory regime applicable to special zones be extended nationwide; and iii) competition in network industries be promoted.

Actions taken: The revised Anti-monopoly Act, which raises the surcharge rate (for large manufacturers) from 6 to 10% of sales of the goods concerned during the period of law infringement and which authorises a leniency programme, took effect in January 2006. It has been decided to extend nation-wide selected regulatory reform measures that apply in the special zones. The free choice of electricity provider has been expanded from around one-third of consumers in April 2004 to about two-thirds in April 2005.

Reduce producer support to agriculture

Challenge and recommendations: To improve economy-wide efficiency and reduce food prices for consumers, it was recommended that the level of support to agriculture be reduced – while shifting its composition from market price support to direct payments – and that the entry of joint-stock companies be allowed on a nation-wide basis.

Actions taken: The government decided to allow the entry of joint-stock companies into agriculture on a nation-wide basis on leased land. The 2005 Free Trade Agreement with Mexico included some agricultural products. Other actions are pending the outcome of the Doha trade round.

Ease employment protection

Challenge and recommendations: To reduce dualism in the labour market and facilitate restructuring of the corporate and financial sectors, it was recommended that a comprehensive approach, including a reduction of employment protection for regular workers, be adopted.

Actions taken: No measures have been taken to ease employment protection for regular workers.

Reform the financial sector

Challenge and recommendations: To further improve the functioning of the financial system, it was recommended that the role of public financial institutions be scaled back, while requiring banks to resolve the non-performing loan problem and strengthen their capital base to overcome the remaining weaknesses in the banking sector.

Actions taken: While the major banks exceeded the government's target of reducing by about half the non-performing loan ratio between March 2002 and March 2005, such a target has not been applied to regional banks yet. The Diet passed a bill in October 2005 to privatise Japan Post in October 2007.

Remove impediments to foreign direct investment

Challenge and recommendations: In order to strengthen competition and bring in new technology and methods of production, it was recommended that the government follow through on its action plan aimed at doubling the stock of FDI over five years.

Actions taken: Revisions to the Commercial Code to facilitate mergers and acquisitions by foreign companies using their Japanese subsidiaries passed the Diet in June 2005.