

JAPAN

Japan is emerging from a decade of economic stagnation, but is left with a large GDP-per capita gap vis-à-vis the best performing countries due to a major productivity shortfall.

Priorities supported by indicators

Further liberalise retail and professional services

Restrictive regulations hinder competition in retail distribution and professional services, resulting in low productivity in these sectors.

Actions taken: Against the background of past relaxation of regulations on the opening of large-scale retail stores, new zoning regulations introduced in 2007 for suburban areas could lead to entry barriers for larger stores.

Recommendations: Ease policies such as entry restrictions and zoning regulations that may have the effect of favouring small and less productive retail stores compared with new large-scale stores. Expand the range of qualifications that permit foreign personnel to work in Japan and increase the number of sectors where foreign workers are allowed to include non-technical areas, such as caring for the elderly.

Reform employment protection legislation for regular employment

Uncertainty about the definition of unfair dismissal applied by courts has made the requirement for dismissals less transparent and this could have discouraged the hiring of regular workers. The strictness of employment protection for regular workers has increased the proportion of non-regular workers, raising both efficiency and equity concerns.

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

Recommendations: To remove judicial uncertainty that discourage the hiring of regular workers, more precise and transparent statutory guidelines should be established. Reduce employment protection for regular workers, thereby lowering the incentives to circumvent strict conditions by hiring non-regular workers.

Reduce producer support to agriculture

Support for agricultural producers is still almost double the OECD average, boosting farm income but maintaining excess resources in low-productivity activities.

Actions taken: Beginning in 2006, the government has made limited changes, shifting towards a multi-commodity system in which support will be concentrated on larger, more efficient farms. Companies have been allowed to rent and manage agricultural land.

Recommendations: Further reduce the level of support to agriculture, while shifting its composition away from market price supports and towards direct support for farmers to reduce the distortion of trade and production decisions.

Other key priorities

- Encourage innovation by improving framework conditions, including by removing obstacles to the development of venture capital markets. Upgrade the education system through further reducing regulation and removing entry barriers to foreign universities.
- Raise productivity through higher foreign direct investment: remove obstacles that potential investors may face by fully opening the M&A market to foreign firms and by easing product market regulations, especially in the service sector and network industries.