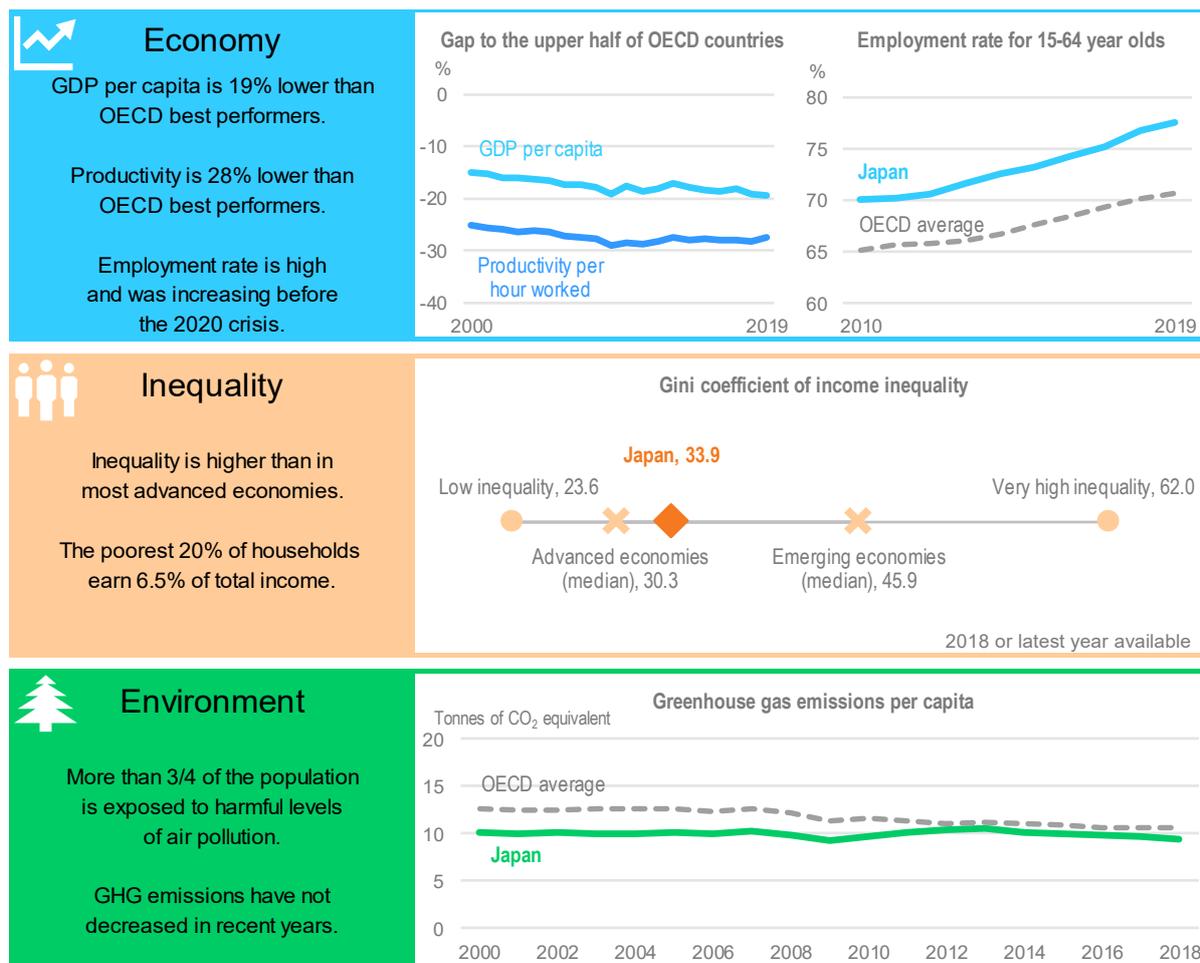


Japan

Mindful of the strong population ageing already underway, the COVID-19 recovery strategy needs to enhance labour force participation and spur business dynamism. Moreover, significant potential to expand use of digital technologies, in both the public and the private sector as well as education, should be seized.

Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs).

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality. The latest available data for Japan is 2015.

Environment: Greenhouse gas (GHG) emissions include emissions or removals from land-use, land-use change and forestry (LULUCF). A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment Database and United Nations Framework Convention on Climate Change (UNFCCC) Database.

StatLink  <https://stat.link/7xq90i>

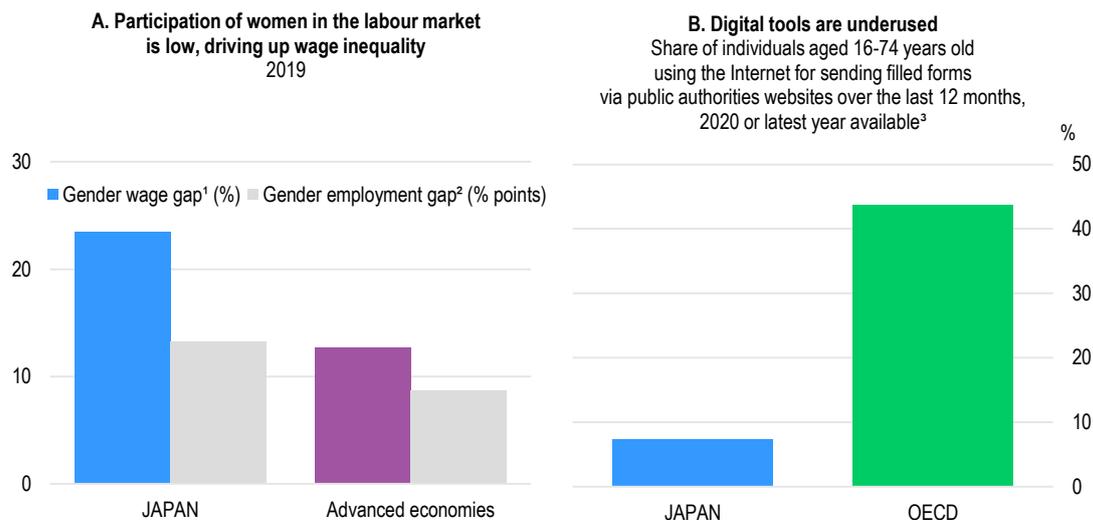
Enhancing labour force participation and business dynamism

Improving resilience and inclusiveness of the labour market requires **policies to support labour force participation** of all available talent. Flexible working styles, including online work with adaptable hours or multiple occupations, should be encouraged. To draw on the large pool of talent among women, social security system rules and childcare provision need to improve (Figure 1A). Enhancing recurrent education and job training will foster labour market mobility, and pursuing digital transformation will make it easier to diversify working arrangements while also enhancing labour productivity.

Boost competition and investment to raise productivity growth that has long been anaemic. Reforming the insolvency framework and expanding access to entrepreneurial training and finance can foster business dynamism, helping a stronger recovery from the pandemic. The reforms tried out in the National Strategic Special Zones should be extended nationwide, and entry barriers on service imports and inward foreign direct investment reduced. In agriculture, greater use of digital technologies would allow shifting away from commodity-specific subsidies to enhancing effectiveness. Easing the regulations on the ownership of farmland by non-agricultural corporations would help optimise land use.

To sustain growth in the face of global competition in an increasingly information rich and digital era, **education needs reform**. Improvements in digital infrastructure should be expedited and the service tailored to the student's needs and abilities. Also, curriculums of science, technology, engineering and mathematics should be enhanced.

Vulnerabilities and areas for reform



1. 2019 or latest year available. The gender wage gap is unadjusted and is defined as the difference between median earnings of men and women relative to median earnings of men. Data refer to full-time employees and to self-employed.

2. Gender employment gap for working-age population.

3. 2018 for Japan.

Source: Panel A: OECD, Gender and Labour Force Statistics Databases; Panel B: OECD, Information and Communication Technology Database.

StatLink  <https://stat.link/f36cv2>

Further **reforms to the tax system** would underpin stronger growth. The effective corporate tax rate could be lowered further, while raising the taxation of capital gains and dividends. Harnessing digital technologies to ease tax procedures and tax collection would improve the efficiency of tax collection (Figure 1B). Once

the recovery is firmly on the way, establishing a pathway of small increases in the consumption tax rate, would make the tax system more growth-friendly and enhance long-term fiscal sustainability.

Implementation of **planned measures to reduce greenhouse gas emissions and dependence on fossil fuels, should be coupled with promotion of research and development** in these areas and deployment of renewable energy. There is also ample scope to raise energy efficiency and for the government to encourage green financing and investment, including as part of government stimulus during the recovery.

Japan: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Labour market: Support the employment of all available talents, allowing various work styles	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> In 2020, laws were revised to expand the eligibility for employee insurance for small firms and temporary workers gradually, starting from 2022. <input checked="" type="checkbox"/> In 2020, laws were revised to promote prolonging or abolishing compulsory retirement ages in firms and to expand options for the pensionable age. 	<ul style="list-style-type: none"> <input type="checkbox"/> Improve the social security system, rules and child-care provision to support workers with different working arrangements. <input type="checkbox"/> Enhance adult learning and job training to improve mobility and productivity. <input type="checkbox"/> Promote the digital transformation to support different types of working arrangements and to boost productivity, via enhancing subsidies and/or tax incentives to private firms and public investment towards e-government.
Competition and regulation: Ease entry barriers and raise productivity, especially in services, agriculture and SMEs	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> The Foreign Exchange and Foreign Trade Act was revised in 2020, easing in-advance application for some transactions. <input checked="" type="checkbox"/> The Basic Plan for Food, Agriculture and Rural Areas was revised in 2020, to strengthen the agricultural production base and the sustainability of rural areas. 	<ul style="list-style-type: none"> <input type="checkbox"/> Boost business dynamism by reforming the insolvency framework and expanding access to entrepreneurial training and finance. <input type="checkbox"/> Reduce entry barriers on service imports and inward foreign direct investment. <input type="checkbox"/> Reorient support from commodity-specific agricultural subsidies to enhancing effective agriculture by harnessing digital technologies, while easing the regulations on the ownership of farmland.
Education and skills: Provide equal and improved education opportunities to all students	
*New priority *	<ul style="list-style-type: none"> <input type="checkbox"/> Enhance the curriculum for STEM areas and active learning and increase the number of students in STEM areas in universities. <input type="checkbox"/> Expand digital infrastructure and provision of effective software so that every student can enjoy online-communication and education, which can be tailored to the needs and abilities of the student.
Tax system: Improve the efficiency of the tax system for sustainable growth and public finances	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> The consumption tax rate was raised from 8% to 10% in October 2019 (this was first to be implemented in 2015 and subsequently postponed twice). 	<ul style="list-style-type: none"> <input type="checkbox"/> Establish a pathway of small increases in the consumption tax rate. <input type="checkbox"/> Lower the corporate tax rate further, while raising taxation of capital gains and dividends. <input type="checkbox"/> Promote the use of internet and digital technologies for tax procedures by improving user interface of systems and providing incentives such as easing deadlines.

2019-2020 Reforms	Recommendations
Environmental policy: Step up research and development and financing for meeting GHG emission goals	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> A long-term strategy under the Paris Agreement was elaborated in 2019 to promote green innovations and finance, and an Environment Innovation Strategy in 2020, with action plans for each technology area. <input checked="" type="checkbox"/> The “Act on special measures concerning procurement of electricity from renewable energy sources by electricity utilities” was revised in 2020, introducing new measures to support renewable energy from 2022. <input checked="" type="checkbox"/> A net-zero emission target by 2050 was announced in October 2020, and the new Green Growth Strategy was published in December 2020, increasing the ambition of the previous plans. 	<ul style="list-style-type: none"> <input type="checkbox"/> Enhance and steadily implement strategies for the Paris Agreement and the Environment Innovation Strategy, including by stepping up the promotion of research, development and deployment of renewable energy and encouraging greater energy efficiency with government supports, such as subsidies and where appropriate additional tax incentives. <input type="checkbox"/> Encourage green financing and investment with guidelines and/or rules for disclosure. <input type="checkbox"/> Establish price signals, including through environmentally-related taxation, an emission trading scheme, or other market-based mechanisms, to encourage investment across the economy in efficient and low-carbon technologies to achieve environmental goals.

Recent progress on structural reforms

Successive Japanese governments have long recognised a number of the country’s structural weaknesses and have sought to push ahead with some of the needed reforms. However, reform implementation has been modest at times, with overarching high-level ambitions but less practical time schedules and performance indicators. The coronavirus pandemic exposed other weak points and has highlighted the need for new reforms and the urgency to implement them. The government is working on a roadmap for the post-COVID economy to bring about a digital transformation and a greener society.