

## JAPAN

The income gap relative to the best performing countries remains large, principally owing to a major productivity shortfall in services. Some structural reform has taken place through the “Special Zones” programme, although further nation-wide reform is needed, especially in the following areas.

### Priorities supported by indicators

#### **Ease regulations in network industries**

Competition in network industries is limited, with Japan scoring worst among OECD countries on the OECD’s indicator measuring legal restrictions on entry, the degree of vertical integration and the independence of sectoral regulators. This has an adverse impact on productivity in these industries and in the economy more generally.

**Actions taken:** The division of Japan Post into four companies in 2007 is the first step in its privatisation. Competition was increased in the gas sector in 2007 by reducing the threshold for allowing consumers to choose their suppliers. Following the Asian Gateway Initiative, Japan has reached bilateral agreements with seven countries and regions to increase the number of flights, carriers and entry points. The regulation setting a floor under the price of airplane tickets was abolished in March 2008.

**Recommendations:** Establish independent regulators to promote competition in both electricity and gas sectors, and further expand the share of consumers allowed to freely choose their suppliers. Remove remaining regulatory obstacles to the operations of new entrants and actively pursue the unbundling of vertically-integrated incumbents through legal separation. Introduce market mechanisms in the allocation of landing slots at airports to fully utilise capacity and reduce entry barriers, and promote the privatisation of airport management. Complete the privatisation of Japan Post in the medium term.

#### **Reduce producer support to agriculture**

Support for agricultural producers is still double the average in the OECD area, keeping resources in low-productivity activities, while distorting trade and maintaining consumer prices of agricultural products far higher than world prices.

**Actions taken:** No actions taken since 2007 when the government introduced three new direct payment schemes, in part to concentrate support on larger, more efficient farms, and the system of administered prices for wheat and barley was relaxed. The share of market price support in total producer support to agriculture remained very high at 93% during 2005-07.

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

#### **Reform employment protection legislation for regular employment**

The rise in the proportion of non-regular workers, from 27% in 2001 to 34% in 2007, deters on-the-job training that promotes growth and the take-up of new technology. It also creates equity concerns, given the limited coverage by the social security system of such jobs and their precarious nature.

**Actions taken:** No action has been taken to ease employment protection for regular workers as the 2008 Labour Contract Law simply incorporated judicial precedents into the law. The implementation of the law on part-time workers (the largest category of non-regular workers) in 2008 aims in part at achieving more balanced treatment between part-time and regular workers, although it may discourage the hiring of part-time workers.

**Recommendations:** Reduce employment protection for regular workers, thereby lowering incentives to circumvent strict conditions for dismissal by hiring non-regular workers. Expand the coverage of social insurance systems to include more non-regular workers, thus reducing the gap in labour costs, while improving their training opportunities.

### Other key priorities

- **Tax reform.** The tax system should rely more on indirect taxes to generate revenue, while cutting the corporate tax rate and broadening the base of direct taxes to eliminate provisions that distort the allocation of capital and discourage labour supply.
- **Foreign investment restrictions.** To encourage greater foreign direct investment, ensure that the M&A market is fully open to all firms, limit foreign ownership restrictions that are based on national security and strategic reasons, and ease product market regulations, especially in the service sector and network industries.

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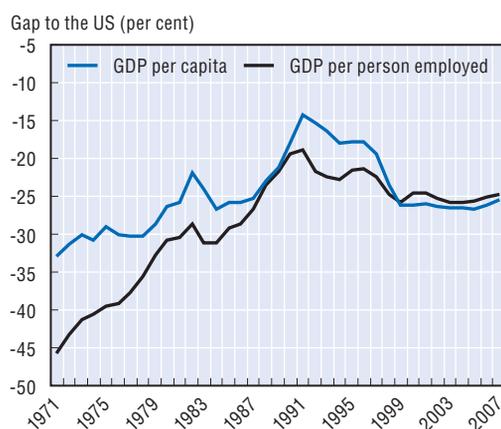
## Structural indicators

Average annual trend growth rates, per cent

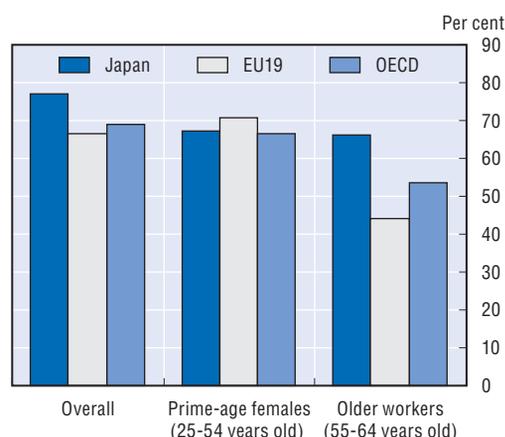
	1997-2007	1997-2002	2002-2007
GDP per capita	1.1	0.9	1.2
Labour utilisation	-0.7	-0.9	-0.5
of which: Employment rate	-0.2	-0.2	-0.2
Average hours	-0.4	-0.7	-0.2
Labour productivity	1.8	1.9	1.7
of which: Capital intensity	0.6	0.8	0.4
Multifactor productivity	1.2	1.1	1.3

Source: Estimates based on OECD Economic Outlook, No. 84, Vol. 2008/2.

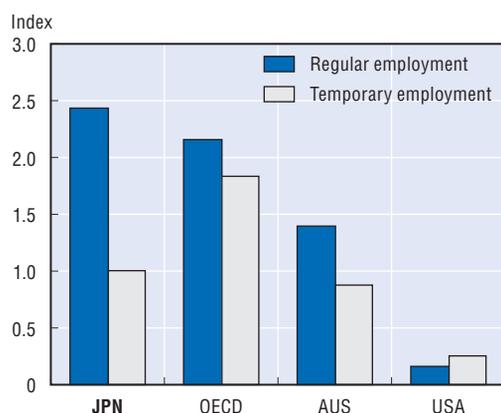
**A. Gaps in GDP per capita and productivity remain persistent<sup>1</sup>**



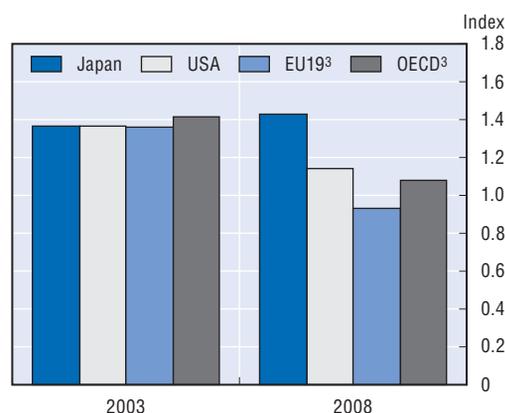
**B. Employment rates are high but only close to average for females, 2007**



**C. Employment protection legislation is restrictive, 2006<sup>2</sup>**



**D. Legal barriers to entry in network industries have increased<sup>2</sup>**



1. Percentage gap with respect to US GDP per capita and per person employed (in constant 2000 PPPs).

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

3. Excluding Greece, Ireland and the Slovak Republic.

Source: Chart A: OECD National Accounts Database; Chart B: OECD Labour Force Statistics Database; Chart C: OECD (2004), OECD Employment Outlook and OECD estimates; Chart D: OECD, Product Market Regulation Database.

StatLink  <http://dx.doi.org/10.1787/533853331362>