JAPAN

Priorities supported by indicators

Strengthen competition in non-manufacturing sectors (2007, 2009, 2011)

Recommendations: Accelerate regulatory reform in network sectors, while strengthening competition policy. Follow through on the privatisation of Japan Post, as outlined in the 2005 law.

Actions taken: The privatisation of Japan Post Bank and Japan Post Insurance, which was to be completed by 2017, has been suspended. The 2010 revision of the Broadcast Act integrates broadcasting services and communications.

Break down labour market dualism (2007, 2009, 2011)

Recommendations: Reduce effective employment protection for regular workers, while increasing the social insurance coverage of non-regular workers and upgrading training programmes for them.

Actions taken: A 2008 law encouraged balanced treatment of part-time workers relative to regular workers, although this may discourage their hiring. The government relaxed the eligibility conditions for employment insurance in 2009 and 2010 from one year of work to 31 days.

Reduce producer support to agriculture (2007, 2009, 2011)

Recommendations: Scale back the high level of agricultural protection and shift its composition away from price support towards direct support to farmers, in order to reduce distortions to trade and production and facilitate regional economic integration.

Actions taken: The government implemented a direct income support programme for farmers in 2011 covering certain products, including rice, wheat and soy, with spending of 0.1% of GDP.

Other key priorities

Lower restrictions on FDI (2007, 2009, 2011)

Recommendations: Improve the FDI climate by further liberalising trade, lowering barriers to investment and ownership, accelerating reforms of administrative procedures and relaxing labour regulations.

Actions taken: The government decided to implement the "Inward Investment Promotion Programme" in 2010 to accelerate FDI through a cut in the corporate tax rate, deregulation of investment procedures, and incentives such as preferential tax treatment and subsidies.

Reform the tax system (2009, 2011)

Recommendations: Implement a comprehensive tax reform that broadens direct tax bases, while relying primarily on the consumption tax for additional revenue.

Actions taken: The government widened the tax base in 2010 by abolishing or reducing 41 special tax measures. The government is also considering doubling the consumption tax rate to 10% by the mid-2010s and cutting the corporate tax rate from 40% to 35%.

Improve the framework for innovation (2007)

Recommendations: Enhance co-operation between university, government and research institutes. Boost the share of public research funds for universities that is allocated competitively.

Actions taken: The third Science and Technology Basic Plan for 2006-10 increases the role of tertiary education in innovation, in part by policies to promote technology licensing by universities.

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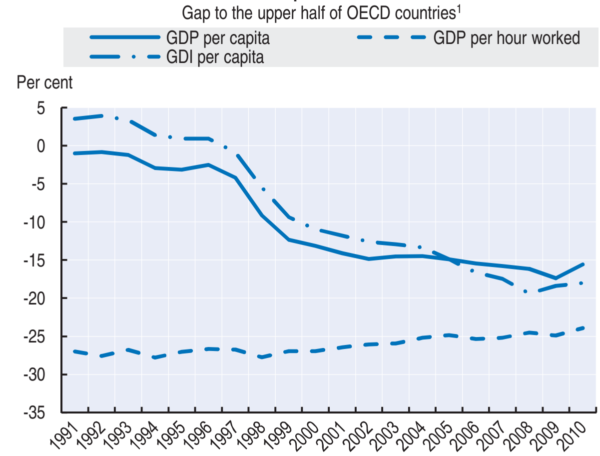
- The GDP per capita gap relative to the upper half of OECD countries has failed to narrow over the past decade, as relative productivity gains have been offset by a decline in labour input towards the OECD average. Average labour productivity remains 20% below the top half of OECD countries, while labour utilisation is slightly above.
- Key reforms in priority areas have included the introduction of (less harmful) direct income support to farmers and the expansion of social insurance coverage of non-regular workers. In addition, the corporate tax rate has been reduced, although it is still above the OECD average. However, less progress has been made in reforming regulations on FDI and network industries.
- In other areas, a subsistence allowance for workers not covered by employment insurance who participate in vocational training was introduced as part of the "*second safety net*" in 2009 and made permanent in 2011.

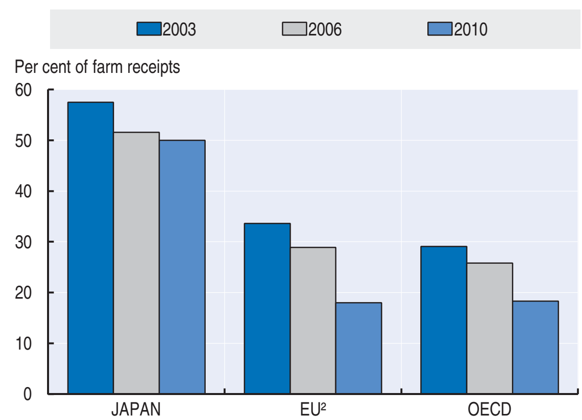
Performance and policy indicators

A. Despite a slight reduction recently the gap in GDP per capita persists

Gap to the upper half of OECD countries[1]

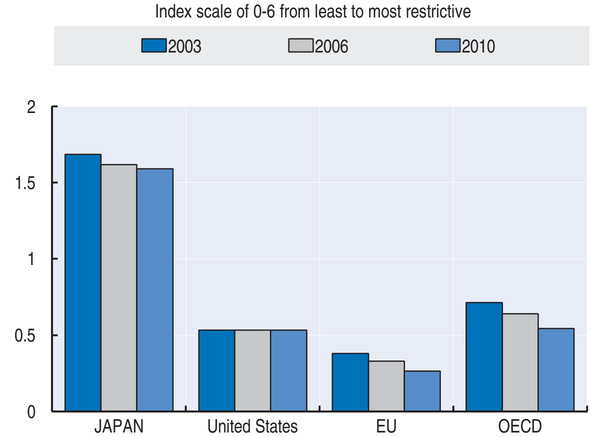


B. Producer support to agriculture has declined but remains very high



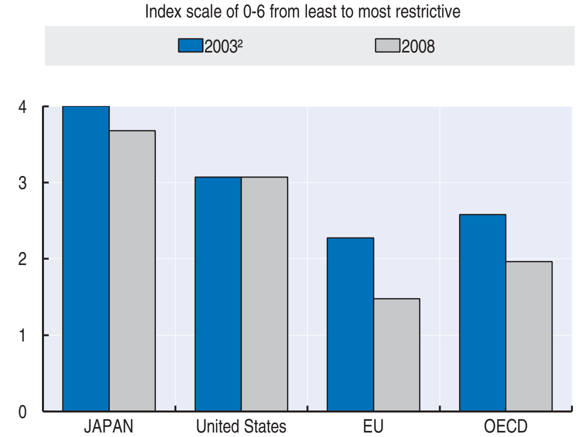
C. Barriers to foreign direct investment remain among the highest among OECD countries[3]

Index scale of 0-6 from least to most restrictive



D. Regulatory barriers to entry in the network sectors continue to be restrictive

Index scale of 0-6 from least to most restrictive



1. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).
2. Average of European countries in the OECD. EU and OECD averages exclude Chile, Estonia, Israel and Slovenia in Panel D.
3. The OECD FDI regulatory restrictiveness index looks only at statutory restrictions and does not assess the manner in which they are implemented.

Source: Chart A: OECD, *National Accounts and Economic Outlook No. 90 Databases*; Chart B: OECD, *Producer and Consumer Support Estimates Database*; Chart C: *http://www.oecd.org/investment/index*; Chart D: OECD, *Product Market Regulation Database*.

StatLink http://dx.doi.org/10.1787/888932565509