

# JAPAN

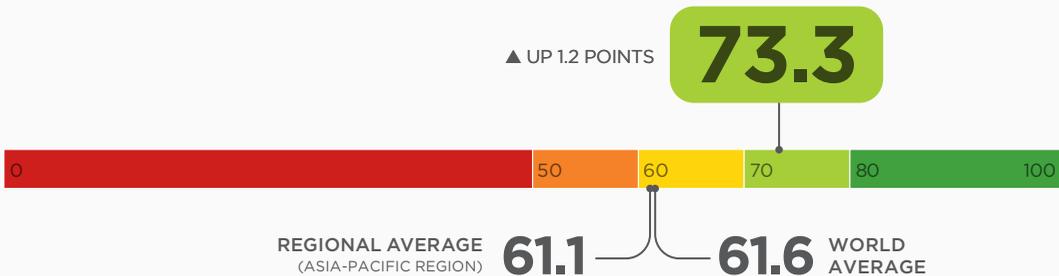
Japan's economic freedom score is 73.3, making its economy the 30th freest in the 2020 *Index*. Its overall score has increased by 1.2 points due primarily to an improvement in **fiscal health**. Japan is ranked 8th among 42 countries in the Asia-Pacific region, and its overall score is well above the regional and world averages.

The Japanese economy typically hovers in the lower ranks of the mostly free category. GDP growth has been constrained for many years as well.

The chief culprit holding back greater economic freedom in Japan has been too much government spending. To address fiscal issues, the government is focused on reducing the cost of pensions in an aging society by introducing social security reforms to raise the labor force participation rate and extend the retirement age to 70. More fundamental structural reforms will be required to eliminate cronyism and boost entrepreneurship.



## ECONOMIC FREEDOM SCORE



HISTORICAL *INDEX* SCORE CHANGE (SINCE 1995): -1.7

## RECENT FREEDOM TREND



## QUICK FACTS

**POPULATION:**  
126.5 million

**GDP (PPP):**  
\$5.6 trillion  
0.8% growth in 2018  
5-year compound annual growth 1.0%  
\$44,227 per capita

**UNEMPLOYMENT:**  
2.5%

**INFLATION (CPI):**  
1.0%

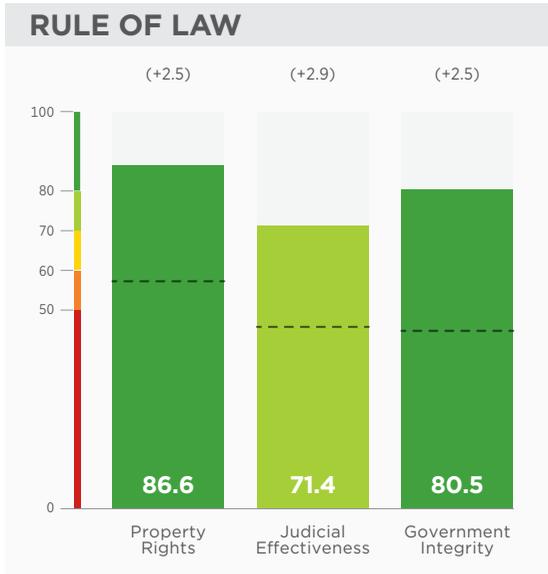
**FDI INFLOW:**  
\$9.9 billion

**PUBLIC DEBT:**  
237.1% of GDP

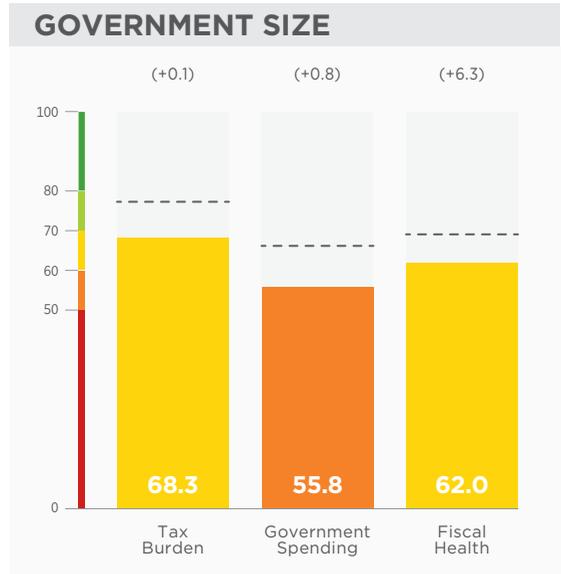
2018 data unless otherwise noted. Data compiled as of September 2019

**BACKGROUND:** A longtime global economic power and Western ally, Japan has had a history of revolving-door leadership in recent years. Prime Minister Shinzo Abe, in office since 2012 and elected to a historic third term in 2017, has provided much-needed political stability and in late 2019 became Japan's longest-serving prime minister. The public wants deeper reforms to remedy Japan's endemic economic problems but fears the upheaval that such measures would cause. The government's "Abenomics" policy implemented monetary easing and fiscal stimulus, but structural reform is still needed to encourage long-term economic growth. Security concerns include North Korea's nuclear and missile threats and China's claims of sovereignty in the East and South China Seas.

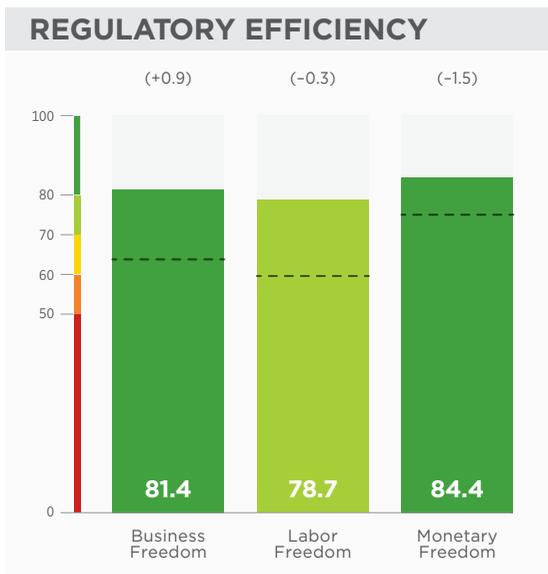
# 12 ECONOMIC FREEDOMS | JAPAN



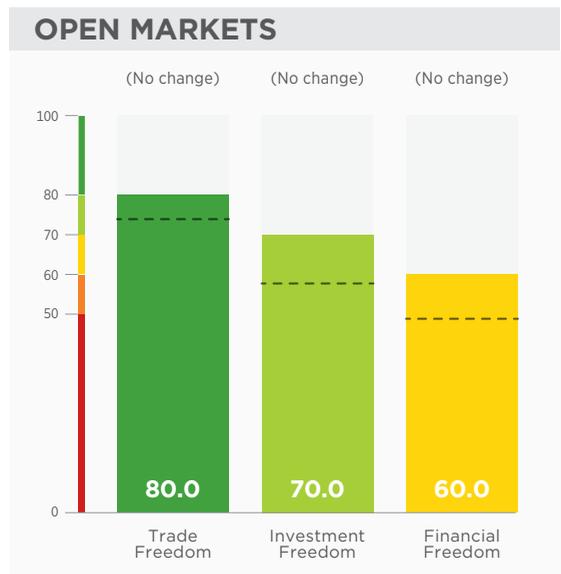
Property rights are enforced effectively. Japan's independent judiciary applies commercial laws consistently. Levels of corruption are low, but close relationships among companies, politicians, and government agencies foster an inwardly cooperative business climate that is conducive to corruption. The traditional practice of *amakudari* (granting retired government officials top positions within Japanese companies) is common in multiple sectors.



The top personal income tax rate is 40.8 percent. The top corporate tax rate is 23.9 percent, which local taxes can further increase. The consumption tax has been raised. The tax burden equals 30.6 percent of total domestic income. Government spending has amounted to 38.4 percent of the country's output (GDP) over the past three years, and budget deficits have averaged 3.4 percent of GDP. Public debt is equivalent to 237.1 percent of GDP.



Traditionally weak corporate governance has been improved. The legal and regulatory systems are generally fair and balanced. Unemployment was near a 25-year low in March 2019. Most measures in the Workstyle Reform package bills, which revised eight labor laws, took effect in April 2019. The Japanese government offers many subsidies, tax credits, and other incentives to attract foreign investment.



The total value of exports and imports of goods and services equals 34.6 percent of GDP. The average applied tariff rate is 2.5 percent, and 390 nontariff measures are in force. A May 2019 measure expanded the list of business activities in which foreign investments are subject to prior notification requirements. The financial sector is vulnerable to political influence. Reform of the state-owned postal savings system has been delayed.