## Japan

**Weak productivity weighs on Japan's GDP per capita.** Japan's GDP per capita is close to the OECD average and about a quarter below the average of the most advanced OECD countries. This reflects a weak productivity performance: productivity, measured by GDP per hour worked, is 12% below the OECD average and the gap has widened since the crisis. On the other hand, the rising participation of women in the labour force is supporting employment despite the decline of the working age population.

**A relatively high-income country with weak productivity but above average employment**

| JAPAN | Pre-crisis 2003-08 | Post-crisis 2011-16 |
|---|---|---|
| *Levels* | | |
| **GDP per capita**** | 34958 (33712)* | 36367 (35776)* |
| **GDP per hour worked**** | 38.1 (41.6)* | 40.7 (45.6)* |
| **Employment rate, %** | 69.6 (66.4)* | 72.1 (66.8)* |
| | | |
| *Average annual growth rate* | | |
| **GDP per capita** | 1.1 (2.8)* | 1.4 (1.4)* |
| **GDP per hour worked** | 0.9 (2.0)* | 1.0 (1.1)* |
| **Employment** | 0.0 (1.6)* | 0.9 (1.0)* |

*Note:* * Unweighted OECD average in parenthesis.
** USD, constant 2010 PPPs and constant prices.
*Source*: OECD, National Accounts, Productivity, Labour Force Statistics and Income Distribution Databases.

**Japan is a relatively open economy, but less exposed to foreign trade and investment than other OECD economies, even adjusting for its size.** Japan's tariffs are low on average and it has signed or concluded 18 regional agreements, including the TPP-11 and the EU-Japan EPA, and has begun negotiations for agreements including with China and Korea, and the Comprehensive Economic Partnership (RCEP). Burdens associated with border procedures and restrictions on FDI are close to the OECD median, with FDI restrictions affecting more heavily air transport and fixed telecoms. Restrictions on trade in services are among the lowest, with legal services the only of 22 sectors scoring higher than the OECD average on the STRI. Air transport and broadcasting services also score relatively high but still below OECD average. Services account for 18% of Japan's gross exports, but for more than half of value-added exports. This contribution of services to exports is however at the lower end in the OECD. The share of domestic value added that meets foreign final demand and the import content of exports are much lower than the OECD average, suggesting an overall limited GVC integration. Reflecting the low amount of foreign investment compared to other OECD economies, there were just 3,109 foreign-owned enterprises, accounting for just 1.1% of private labour force employment in 2014. Moreover, the export intensity of foreign-owned enterprises in Japan is relatively low.

**Japan is less exposed to trade and investment than other OECD economies**
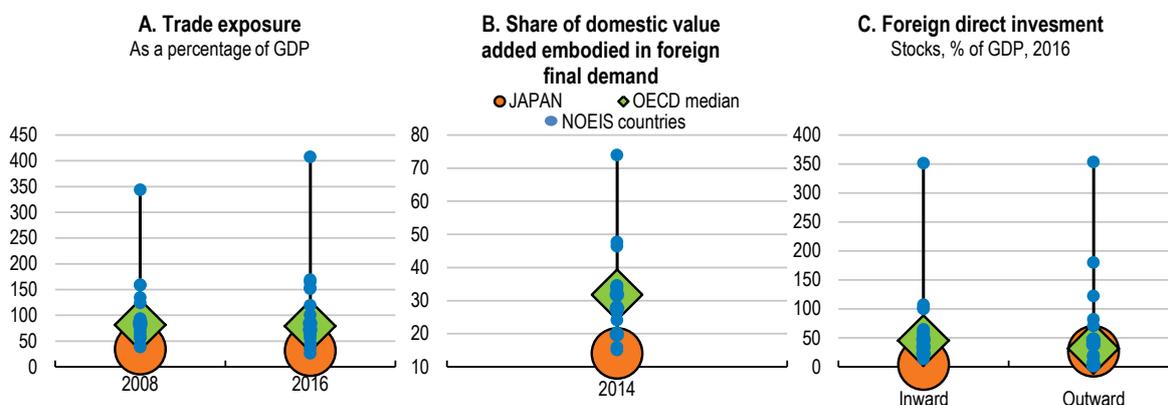


*Source:* Panel A: OECD, Economic Outlook Database and World Bank, World Integrated Trade Solution; Panel B: OECD, TIVA Nowcast estimates Database; Panel C: OECD, Foreign Direct Investment Database and UNCTAD.

**Policies are relatively supportive of trade and FDI**
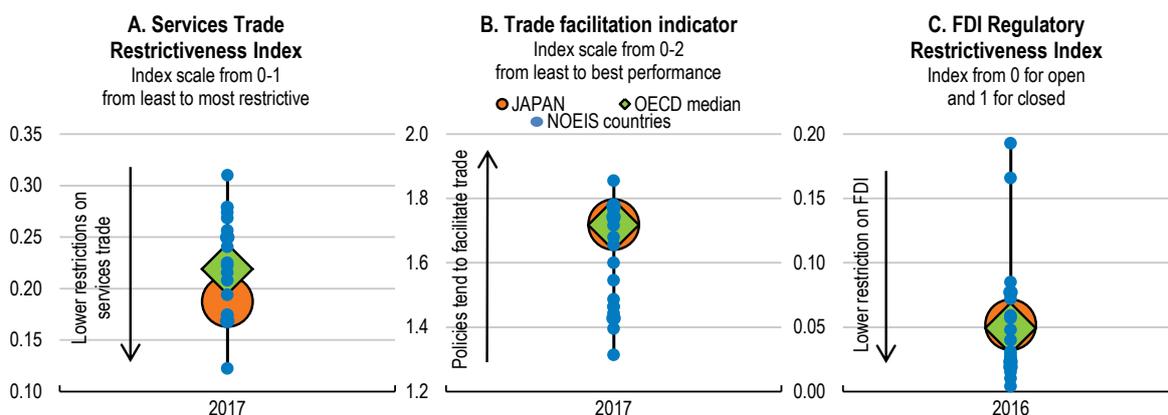


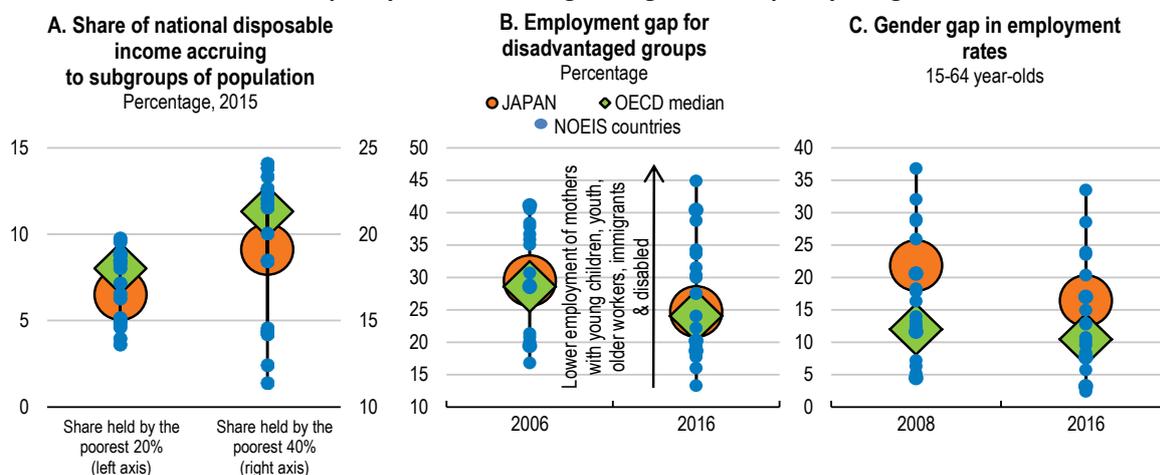*Source:* Panel A: OECD, Services Trade Restrictiveness Index Database; Panel B: OECD, OECD, Trade Facilitation Indicators Database; Panel C: OECD, FDI Regulatory Restrictiveness index database.

**Income inequality is slightly higher than the OECD median and gender inequality remains a major challenge.**
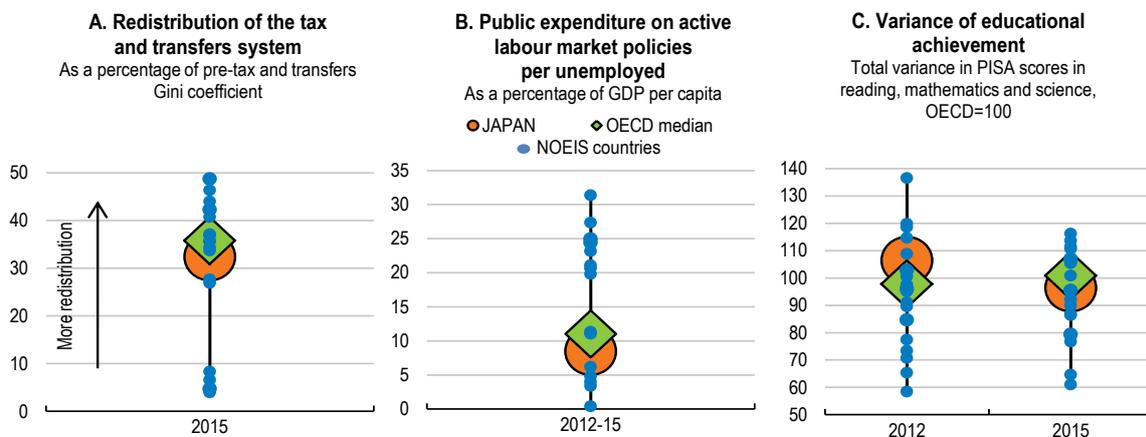The share of national income accruing to low income groups is slightly lower than the average of the OECD. While employment rates among the traditionally disadvantaged groups – mothers with young children, immigrants, youth, disabled or older workers - are lower than those of prime-age males, the gap is close to the OECD average. The main source of income inequality is the entrenched dualism of the labour market: non-regular workers account for more than a third of total employment; they hold low-paid and precarious jobs, receive limited social protection coverage and training. Public spending on activation is also relatively low. The variance in education outcomes has narrowed and is below the OECD average. Moreover, the impact of student socio-economic backgrounds on their performance at PISA is lower than in other OECD countries, suggesting an overall high equity in access to education. Employment rates and hours worked are much lower for women than for men, although the gap has significantly narrowed. Access to affordable childcare is still more limited than in many other OECD countries, although the government has significantly increased capacity and plans to introduce free childcare for children between the ages of 3 and 5. Moreover, the gender gap in annual labour income is the third highest in the OECD, as are the gender gap in earnings of full-time employees.

**Income inequality is above average and gender inequality is high**



**A. Share of national disposable income accruing to subgroups of population**
Percentage, 2015

**B. Employment gap for disadvantaged groups**
Percentage
● JAPAN  ◆ OECD median
● NOEIS countries

**C. Gender gap in employment rates**
15-64 year-olds

*Source*: Panel A: OECD, OECD, Income Distribution Database and World Bank, World Development Indicators Database; Panel B: OECD (2018), OECD Jobs Strategy Analytical Volume, forthcoming; Panel C: OECD, Labour Force Statistics Database and ILO, Key Indicators of the Labour Market.

**Policies are moderately redistributive and support for activation is limited**



**A. Redistribution of the tax and transfers system**
As a percentage of pre-tax and transfers Gini coefficient

**B. Public expenditure on active labour market policies per unemployed**
As a percentage of GDP per capita
● JAPAN  ◆ OECD median
● NOEIS countries

**C. Variance of educational achievement**
Total variance in PISA scores in reading, mathematics and science, OECD=100

*Source*: Panel A: OECD, OECD, Income Distribution Database; Panel B: OECD, OECD, Public expenditure and participants stocks on Labour Market Programmes on Labour Market Programmes and Economic Outlook Databases; Panel C: OECD, PISA 2015 Results (Volume I): Excellence and Equity in Education, Annex B1.7 Results (tables): Immigrant background, student performance and students' attitudes towards science.

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# METADATA ANNEX

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*Economic openness*

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- **Trade exposure** is defined as exports and imports over GDP.
- **The share of domestic value added embodied in foreign final demand** is defined as domestic value added, from industry, meeting foreign final demand, as a percentage of industry value added. It can be considered as a measure of an industry's reliance on foreign final demand. Here, the denominator is value added adjusted to be consistent with final demand (both domestic and foreign).
- **Foreign Direct Investment stocks** are defined as the total level of direct investment at a given point in time, usually the end of a quarter or of a year. The outward FDI stock is the value of the resident investors' equity in and net loans to enterprises in foreign economies. The inward FDI stock is the value of foreign investors' equity in and net loans to enterprises resident in the reporting economy. For the Netherlands, FDI stock data exclude positions to and from resident Special Purpose Entities (SPEs); SPEs are entities whose role is to facilitate the internal financing of the MNE but that have little or no physical presence in an economy. Excluding such entities from the FDI statistics provides a better measure of the FDI of the country that is having a real impact on its economy.

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*Trade and FDI*

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- **The Services Trade Restrictiveness Index (STRI)** identifies which policy measures restrict trade. It provides policy makers information and measurement tools to improve domestic policy environment, negotiate international agreements and open up international trade in services. It can also help governments identify best practice and then focus their domestic reform efforts on priority sectors and measures. The index presented is a geometric average of all sectors and takes value from 0 to 1, where 0 is completely open and 1 is completely closed.
  *Data are missing for Argentina and Peru.*
- **Trade facilitation indicators (TFIs)** identify areas for action and enable the potential impact of reforms to be assessed and help governments to improve their border procedures, reduce trade costs, boost trade flows and reap greater benefits from international trade. The index takes values from 0-2 (least to best performance). The index presented is a simple average over 11 dimensions of the TFI.
  *Data are missing for Iceland.*
- **The FDI regulatory Restrictiveness Index** is gauging the restrictiveness of a country's foreign direct investment rules by looking at four main types of restrictions: foreign equity restrictions, discriminatory screening or approval mechanisms, restrictions on key foreign personnel and operational restrictions. Implementation issues are not addressed and factors such as the degree of transparency or discretion in granting approvals are not taken into account. The index takes values between 0 for open and 1 for closed.

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*Inequality*

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- **The share of national disposable income held by the poorest 20% and 40%** is defined as the share of income that accrues to subgroups of population indicated by deciles or quintiles.
  *For the poorest 20%, data refer to 2014 for Argentina, Germany, Hungary, Luxembourg; 2012 for Japan.*
- **The employment gap for disadvantaged groups** is expressed as a percentage of the benchmark group (prime-age male workers). Disadvantaged groups include mothers with young children, youth (15-19 years old) excluding those in full-time education or training, older workers (55-64 years old), non-natives and people with disabilities.
  *Data are missing for Colombia and Costa Rica in 2006 and for Peru in 2006 and 2016.*
- **The gender gap in employment rates** is defined as the difference between employment to population ratios of men and women aged 15-64.
  *Data refer to 2010 and 2014 for Argentina.*

*Redistribution, activation and inequality of opportunities*

- **The redistribution of the tax and transfers system** is measured as the difference between pre-tax and transfer and post-tax and transfers Gini coefficients, relative to the pre-tax and transfer Gini coefficient. The Gini coefficient measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. The coefficient takes the value of 0 in the case of perfect equality and 100 for perfect inequality.
  *Data refer to 2014 for Germany, Hungary, Luxembourg and Peru; 2012 for Japan. Data are missing for Argentina and Colombia.*

- **Public expenditure on active labour market policies per unemployed** are measured by all social expenditure (other than education) which is aimed at the improvement of the beneficiaries' prospect of finding gainful employment or to otherwise increase their earnings capacity. It includes spending on public employment services and administration, labour market training, special programmes for youth when in transition from school to work, labour market programmes to provide or promote employment for unemployed and other persons (excluding young and disabled persons) and special programmes for the disabled. Data are expressed as a percentage of GDP per capita. Original data can be accessed under: http://stats.oecd.org/Index.aspx?DataSetCode=LMPEXP. *Data are missing for Argentina, Colombia, Costa Rica and Peru. For Canada, data include federal expenditures on programmes implemented by the provinces and territories, but do not generally include the provinces' and territories' additional or complementary funding of these programmes.*

- **Differences in PISA mean scores (average of mathematics and science) between natives and first and second generations of immigrants**. PISA assesses the extent to which 15-year-old students, near the end of their compulsory education, have acquired key knowledge and skills that are essential for full participation in modern societies
  *Data are missing for Japan, Poland and Peru. For Argentina, data refer to the region of the capital city of Buenos Aires.*

- **The variance of educational achievement** is measured as the total variance in PISA scores in reading, mathematics and science, compared to the OECD (OECD=100). The Programme for International Student Assessment (PISA) assesses the extent to which 15-year-old students, near the end of their compulsory education, have acquired key knowledge and skills that are essential for full participation in modern societies. The variance components in mathematics, sciences and reading were estimated for all students in participating countries with data on socio-economic background and study programmes. The variance in student performance is calculated as the square of the standard deviation of PISA scores in reading, mathematics and science for the sample of students used in the analysis.
  *For France, average of PISA scores in mathematics and reading only in 2015. For Argentina, data refer to the region of the capital city of Buenos Aires.*