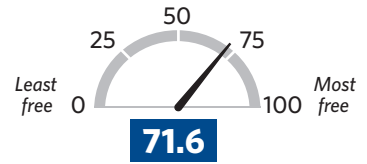


JAPAN

Economic Freedom Score



World Rank: **22** Regional Rank: **7**

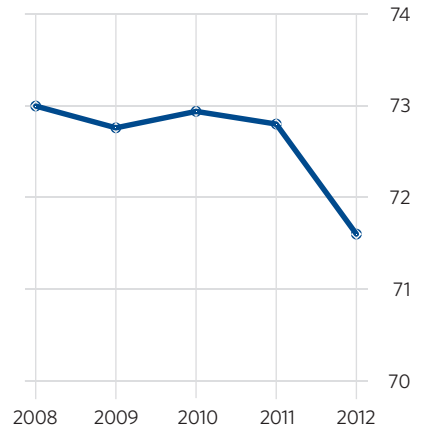
Japan's economic freedom score is 71.6, making its economy the 22nd freest in the 2012 *Index*. Its score is 1.2 points lower than last year, with a particularly significant decline in the control of government spending. Japan is ranked 7th out of 41 countries in the Asia-Pacific region.

The Japanese economy benefits from relatively good levels of economic freedom in all areas. The foundations of economic freedom are solidly in place, supported by an effective judicial framework, a very low level of inflation, and the almost complete absence of corruption.

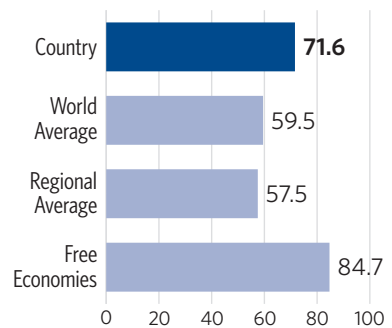
Nonetheless, Japan's overall progress in moving toward greater levels of economic freedom has been uneven in the absence of a strong political push from the country's leadership, and the economy remains stagnant. Large and growing public debt has taken a toll on private-sector economic activity, preventing more dynamic growth. Disparities in productivity between different segments of the economy continue to widen. The financial sector is modern and well developed, but it remains subject to growing political interference, as shown by the delay in reorganizing the state-owned postal savings system. Although the export-oriented economy has long benefited from global trade, non-tariff barriers continue to hurt overall trade freedom. Japan has lagged behind other countries in pursuing bilateral trade agreements.

BACKGROUND: Following 55 years of Liberal Democratic Party rule, the Democratic Party of Japan won a historic victory in August 2009, capturing both houses of parliament and installing Yukio Hatoyama as prime minister. Hatoyama resigned abruptly in June 2010 and was succeeded by Finance Minister Naoto Kan, who was replaced in September 2011 by Yoshihiko Noda. The massive March 2011 earthquake and tsunami has strained an economy that, though the world's third largest, has struggled with slow growth and stagnation for two decades. A brief period of economic expansion under Prime Minister Junichiro Koizumi was driven primarily by exports, but 20 years of government taxation and failed stimulus spending have left the economy about the same size as it was in 1992.

Freedom Trend



Country Comparisons



Quick Facts

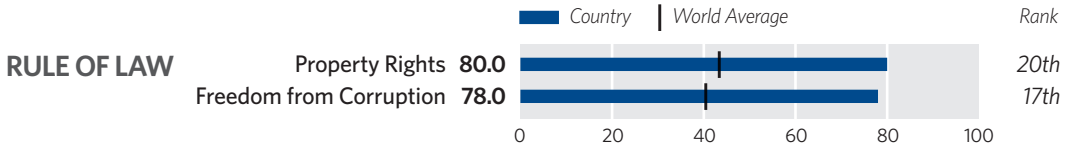
- Population:** 127.5 million
- GDP (PPP):** \$4.3 trillion
- 3.9% growth in 2010
- 5-year compound annual growth 0.1%
- \$33,805 per capita
- Unemployment:** 5.1%
- Inflation (CPI):** -0.7%
- FDI Inflow:** -\$1.2 billion
- Public Debt:** 220.0% of GDP

2010 data unless otherwise noted.
Data compiled as of September 2011.

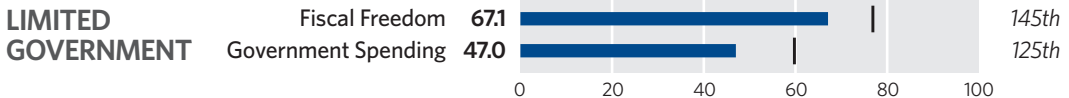
How Do We Measure Economic Freedom?

See page 455 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

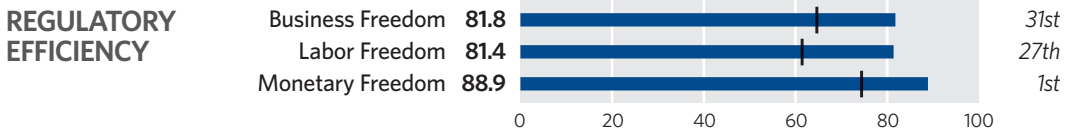
THE TEN ECONOMIC FREEDOMS



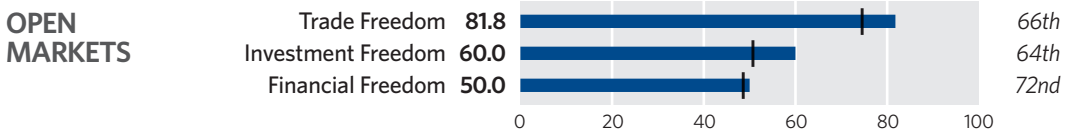
The judicial framework is solid, providing secure protection of real and intellectual property. The court system is independent of political interference but lacks efficiency. Obtaining and protecting patents and trademarks can be time-consuming and costly. The courts do not discriminate against foreign investors, and contracts are highly respected. A relatively nominal level of corruption has been one of Japan’s key institutional assets.



The top income tax rate is 40 percent, and the standard corporate tax rate is 30 percent, which local taxes and an enterprise tax can increase significantly. Other taxes include a value-added tax (VAT) and an estate tax. The overall tax burden amounts to 28.1 percent of total domestic income. Government spending is equivalent to 42 percent of GDP. The budget deficit has fallen below 10 percent of GDP, but public debt remains over 200 percent of GDP.



The process for establishing and running a business is relatively streamlined. However, bureaucracy is sometimes stifling, and entrepreneurial growth is discouraged by structural problems unaddressed by reforms. The labor market functions well, but a propensity for lifetime employment guarantees and seniority-based wages impedes the development of a more flexible labor market. Inflation has been minimal.



The trade weighted tariff rate is 1.6 percent, but layers of non-tariff barriers raise the cost of trade. Foreign investment is formally welcome, and inward investment is subject to few restrictions. However, foreign acquisition of domestic firms is inhibited by overregulation and a slow court system. The financial system remains vulnerable to political influence. Reform of the state-owned postal savings system has been derailed since late 2009.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.1	Business Freedom	-2.0	Trade Freedom	-0.8
Freedom from Corruption	+1.0	Government Spending	-11.7	Labor Freedom	+0.3	Investment Freedom	0
				Monetary Freedom	+1.0	Financial Freedom	0