

JAPAN

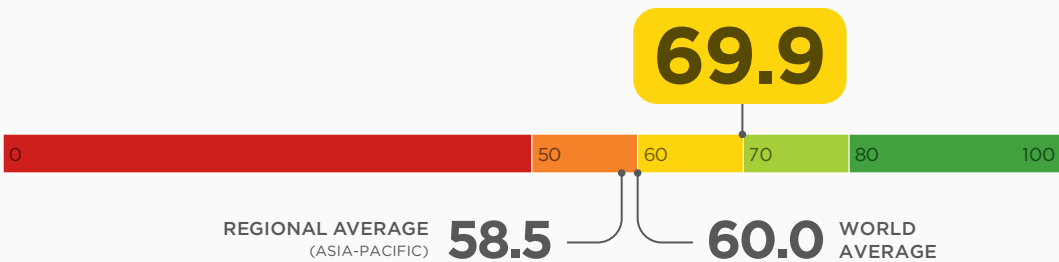
Japan's economic freedom score is 69.9, making its economy the 35th freest in the 2022 *Index*. Japan is ranked 6th among 39 countries in the Asia-Pacific region, and its overall score is above the regional and world averages.

Economic growth in Japan slowed to zero in 2019, turned negative in 2020, and rebounded in 2021. Economic freedom had been expanding slowly, but with higher scores for **property rights** and **judicial effectiveness** just barely outpacing declines in **business freedom** and **labor freedom**, Japan has managed to record only a 0.3-point overall gain of economic freedom since 2017 and is currently at the top of the "Moderately Free" category. The rule of law remains strong, but **fiscal health** is extremely weak.

IMPACT OF COVID-19: As of December 1, 2021, 18,358 deaths had been attributed to the pandemic in Japan, and the government's response to the crisis ranked 62nd among the countries included in this *Index* in terms of its stringency. The economy contracted by 4.8 percent in 2020.

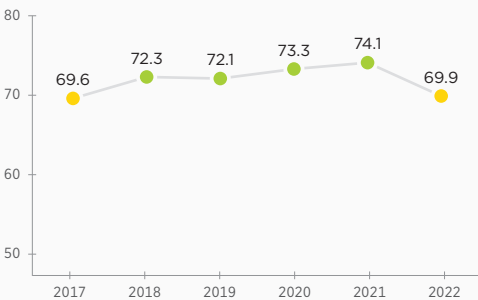


ECONOMIC FREEDOM SCORE



HISTORICAL *INDEX* SCORE CHANGE (SINCE 1995): -5.1

RECENT FREEDOM TREND



QUICK FACTS

POPULATION:
125.8 million

GDP (PPP):
\$5.3 trillion
-4.8% growth in 2020
5-year compound annual growth -0.3%
\$42,248 per capita

UNEMPLOYMENT:
3.0%

INFLATION (CPI):
0.0%

FDI INFLOW:
\$10.3 billion

PUBLIC DEBT:
256.2% of GDP

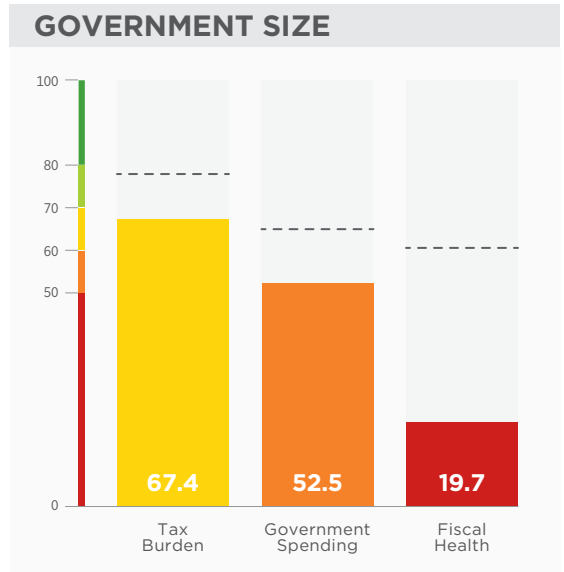
2020 data unless otherwise noted. Data compiled as of September 2021

BACKGROUND: Japan has long been a global economic power. In September 2020, Shinzo Abe resigned as prime minister, having set a record as the longest-serving Japanese leader. His successor, former Chief Cabinet Secretary Yoshihide Suga, lasted only a year before declining to seek reelection. Former Foreign Minister Fumio Kishida was elected in October 2021 vowing to maintain Japan's foreign and security policies. Suga was heavily criticized for Japan's slow response to the COVID-19 pandemic, but Kishida faces an improved COVID situation and is vowing to implement strong fiscal stimulus measures to reinvigorate Japan's sluggish economy. The public wants strong reforms to remedy Japan's endemic economic problems but fears the upheaval that such measures could cause.

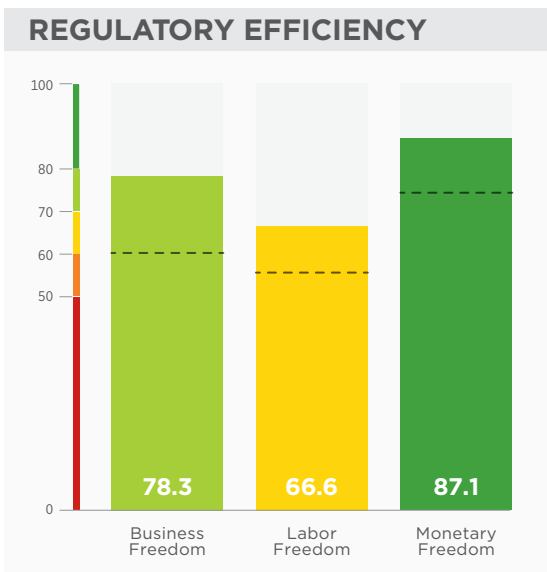
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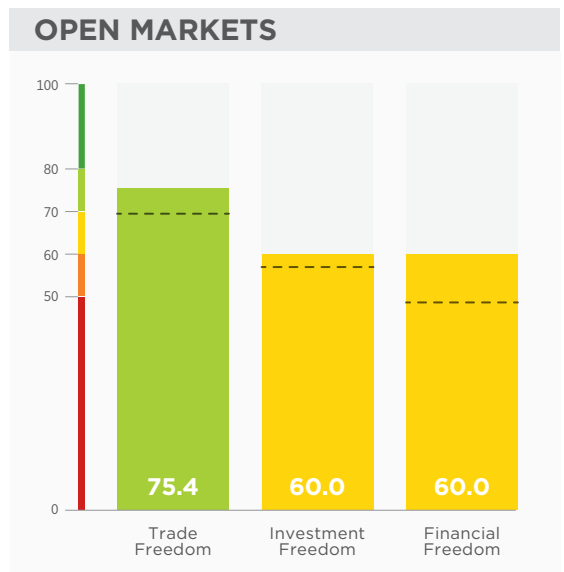
Secured interests in real property are recognized and enforced effectively. Japan's judiciary is independent and fair. Levels of corruption are low, but close relationships among companies, politicians, and government agencies foster an inwardly cooperative business climate that is conducive to favoritism. *Amakudari* (granting retired government officials top positions within Japanese companies) is common in some sectors.



The top individual income tax rate is 40.8 percent, and the top corporate tax rate is 23.9 percent, which local taxes and an enterprise tax can increase significantly. The overall tax burden equals 32.0 percent of total domestic income. Government spending has amounted to 39.8 percent of total output (GDP) over the past three years, and budget deficits have averaged 6.1 percent of GDP. Public debt is equivalent to 256.2 percent of GDP.



Most state-owned enterprises have been privatized. The third phase of power-sector reforms took effect in 2020. Due to the shrinking labor force, a law was revised to ask companies to "make efforts" to employ workers between 65 and 70 years old. The government has doubled the value of subsidies aimed at promoting electric vehicles on condition that such vehicles are charged with renewable energy including solar power.



Japan has 18 preferential trade agreements in force. The trade-weighted average tariff rate is 2.3 percent, and 401 nontariff measures are in effect. The government screens foreign investment in some sectors. The financial sector is competitive, but state involvement persists. The government has expanded the volume of concessional loans, which are interest free without collateral, primarily for small and medium-size firms affected by the pandemic.