

Japan: Will elites finally shift gears in the Reiwa era of “beautiful harmony”?

In May 2019, the ascension of Emperor Naruhito to the throne of Japan saw the closing of the Heisei era, meaning “achieving peace”. Starting in 1989 – the same year the Nikkei reached its peak – the Heisei period turned out peaceful, maybe even excessively so at a time when the disruptions associated with the 4th Industrial Revolution created new value elsewhere. With peace and stability being one of Japan’s strengths, we aptly see it rank at the top in Indicators for external peace, measured by *Battle-related deaths* (BRD, iii.8), and internal peace, measured by the *Homicide rate* (HOM, iii.8). Overall Japan sits in 8th place, slightly ahead of its Asian peers.

Japan’s analysis requires deep contextual understanding. In some areas where Japan scores well, such as in the Firm Dominance Pillar (ii.5), there might be factors not fully captured, like interlocking shareholdings. For instance, and as mentioned in the North East Asia special regional analysis (Section 4.4), the power of Japan Inc. seems reflected in the operative part of the Abenomics program. This effectively depreciated the yen, and in turn increased the profits of Japanese companies, but not their competitiveness (as seen in export market shares). This could be construed as an indirect subsidy or a form of corporate rent seeking at the cost of the general public.

40 Also of note, is that Japan started massive Value Extraction at the end of the 1990’s with low interest rate (and ZIRP) policies. Yet today, and in light of similar policies by central banks in advanced economies (especially by the ECB), such Value Extraction does not stand out from its developed nation peers in the Capital Rent Pillar (iv.11).

The Giving Income Pillar (iii.7) seems to reflect, correctly, Japanese politicians’ preference toward regional income re-distribution. On the other hand, the Taking Income Pillar (iii.8) ranks Japan 2nd in

Tax revenue as a % of GDP (DTR, iii.8). While commendable, it points to an imbalance between government revenue and outlays. Hence, ranking 29th on *Government debt as a % of GDP* (DBT, iii.9), Japan is burdened with the industrial world’s largest public debt, sitting in 2019 at double its USD 5trn economy¹². Value is extracted from the patient Japanese population and from future generations – an extreme view would see low fertility rates as a protest of sorts against rent seeking by elites.

Japan could grow by further opening up. A lot, for instance, would be gained by improving on *Trade freedom* (TRF, iv.10), where it currently ranks 18th, and on *Economic globalization* (EGL, iv.10) where it ranks 15th. Japan already showed commendable leadership with the ambitious CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership) trade deal, which over the long run might compensate for lost corporate earnings hit by the trade conflict between the U.S. and China, its 2 most important export markets.

Raising productivity is a priority for Japan’s elites, and the labor market is hence an important space that brings together demographics and growth. The Labor Rent Pillar (iv.12) sees Japan performing very well including a low *Unemployment rate* (UEM, iv.12). However, labor turnover is low, and upward mobility of non-regular workers is limited, meaning that the extent of subtle but persistent distortions might be underestimated. Moreover, demographic trends threaten to create serious labor shortages in the future, with the number of workers set to deplete by almost 8 million in 2030¹³. While Japan scores rather low on all 3 EQx gender Indicators, if the Prime Minister’s “Abenomics is womenomics” is truly implemented and Japan breaks with tradition here, the country will witness a growth and productivity boost in the coming years.

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Visual 30: Japan performance overview by EQx Pillar vs overall distribution

