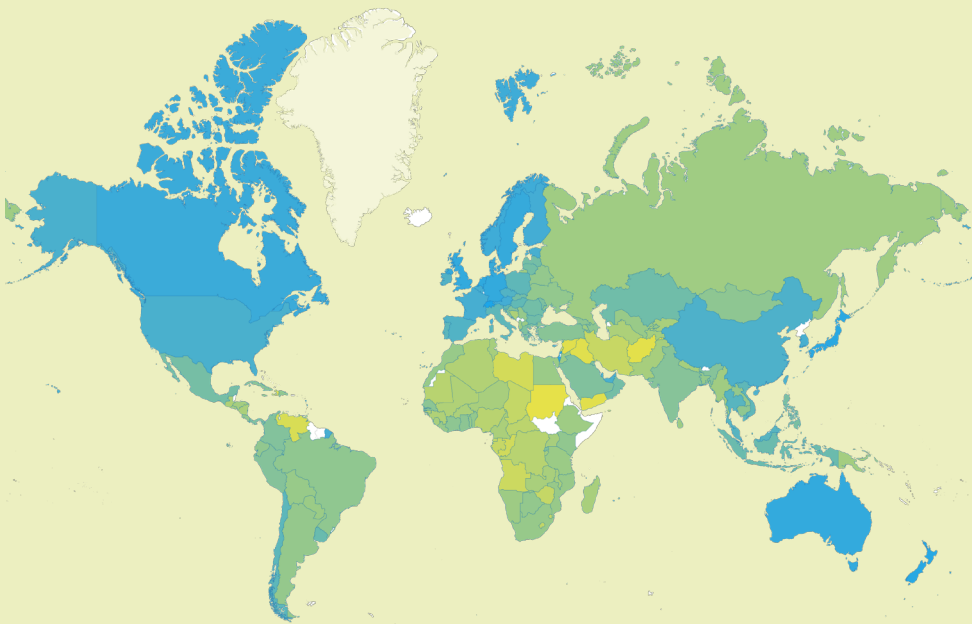


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# ELITE QUALITY REPORT 2023

Japan's jump to the top of the rankings: A potential critical juncture in the making?

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## Japan: Could a jump to the top of the rankings be a critical juncture in the making?

Japan made a massive jump from its EQx2022 ranking of # 18 to # 4 in the EQx2023. This surge has mainly been driven by a radical improvement in the country's performance in the Creative Destruction Pillar (iv) and its overall macroeconomic performance. These conclusions were reached as a result of quantifying the contribution of each of the individual EQx Indicators as follows: first, by denoting Japan's score with respect to specific Indicators in 2022 and 2023 as X22 and X23, respectively. Then, by expressing X's weight in the overall index in 2022 as SX. Finally, X's contribution to the change in the overall score, which we call CX, can be estimated as:  $CX = SX \cdot (X23 - X22)$ . As long as the weights do not vary substantially from year to year, this approach provides a reasonably good approximation of a specific Indicator's contribution to the overall change in a country's score.

74 Japan's overall EQx score rose from 61.2 to 65.3. While notable contributors to the improvement, whose CX is equal to or is above 0.10, include such Indicators as % of discriminatory government interventions as % of total interventions (flow) (DGI, iv.10, 0.15) or Global Cybersecurity Index (GCI, iii.8, 0.10). Most of the uplift comes from two broad areas: Creative Destruction (ii.4) and macroeconomic performance. Interestingly, over 20% of the 4.1 point overall increase in Japan's score is explained by Billionaire's creative destruction (BCD, ii.6, 0.84). Also, Index of Women Entrepreneurs (IWE, ii.6, 0.15) and Venture capital finance (VCK, ii.6, 0.10) made sizable differences. Japanese business insiders have enjoyed a long period of dominance but new types of entrepreneurs with innovative ideas have recently emerged, including many women. These improved scores for Creative Destruction (ii.4) may be reflecting this new trend. At the same time, however, we should note that the levels for these Indicators are not necessarily that high: for example, Japan is still only ranked # 42 in the Index of Women Entrepreneurs (IWE, ii.6). Japan may have benefited from the fact that it previously had so much room for growth. Going forward, the country will need to engage in more serious reforms if it wishes to build on the current momentum.

On the macroeconomic side, three Indicators saw big gains and impact: *Delta real wage vs labor productivity increases* (WLP, iv.12, 0.46), *Gold demand as % of GDP* (GOL, iv.11, 0.20), and *Youth unemployment rate* (YUN, iv.12, 0.12). It may have also helped that the *Financial Markets Index* (FMI), the data for which was missing in 2022, emerged as a huge point-getter for Japan in 2023 (iv.11, rank # 1). Output contraction due to the COVID-19 pandemic was severe in Japan, but its labor and financial markets experienced relatively minor disruptions. This was largely thanks to a mixture of aggressive fiscal spending, ultra-loose monetary policy and governmental support for the banks.

Nevertheless, policies that resulted in Value Creation in the final year of the pandemic could become extractive, and 2023 has started with considerable challenges to Japan's macroeconomic stability. With *Inflation* (DOI, iv.11, rank # 1) finally creeping up, the central bank might need to adjust its extremely accommodative policy stance. But, with accumulated Government debt (DBT, iii.9, rank # 141) running at around 250% of GDP, such a move could jeopardize fiscal sustainability. It could also damage the bank's own balance sheet, as it holds over half of the government bonds. The private financial sector still owns around 40% of the debt, and a sudden loss in its value could upset the market. A highly sophisticated coordination effort between fiscal, monetary and financial regulatory agencies will be needed for Japan to maintain its current status as a country with "Very High Quality Elites".

The question now is whether after three extremely challenging decades, Japan is poised to embark on a new path where political elites are committed to inclusive policies in pursuit of Value Creation with business elites embracing creative destruction and its associated elite circulation in the market arena. The analysis above shows that there are grounds to believe that Japan's good showing in the EQx2023 is not a historical accident but a potential inflection point.

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# Japan

## EQx2023 Country Scorecard

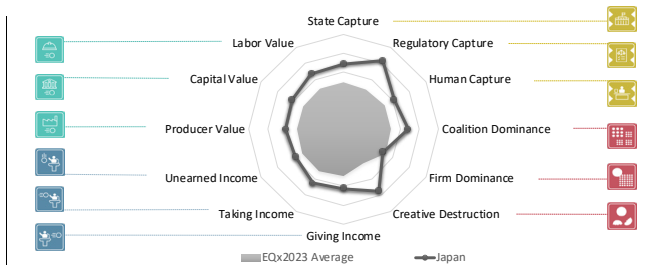
Population **125.7 million**  
 GDP (nominal) **4'941 billion USD**  
 GDP per capita **39'313 USD**



<b>Level 1 – Index</b>	<b>EQx Rank / 151</b> <b>4</b>	<b>EQx Score</b> <b>65.3</b>	<b>NextGen VCB Rank</b> <b>Rank 19</b>	<b>Very High Quality Elites</b>
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<b>Level 2 – Sub-Indices &amp; Index Areas</b>	<b>EQx Sub-Indices</b>				<b>EQx Index Areas</b>							
	<b>Power</b>		<b>Value</b>		<b>Political Power (i)</b>		<b>Economic Power (ii)</b>		<b>Political Value (iii)</b>		<b>Economic Value (iv)</b>	
	Rank / 151	Score	Rank / 151	Score	Rank / 151	Score	Rank / 151	Score	Rank / 151	Score	Rank / 151	Score
	14	68.9	3	63.5	18	71.6	9	67.6	3	62.3	7	64.1

<b>Level 3 – Pillars</b>		Rank / 151	Score
<b>Political Power (i)</b>	State Capture	21	69.2
	Regulatory Capture	8	83.6
	Human Capture	41	61.6
	Coalition Dominance	8	68.2
	Firm Dominance	93	48.3
	Creative Destruction	14	75.3
	Giving Income	10	62.4
	Taking Income	8	65.3
	Unearned Income	24	58.2
	Producer Value	25	61.2
<b>Economic Power (ii)</b>	Capital Value	12	62.5
	Labor Value	10	67.8



<b>Level 4 – EQx Indicators</b>		Rank / 151	Score
<b>State Capture (i.1)</b>	COR Political corruption	18	86.5
	COC Control of corruption	15	93.6
	OPG Open government	23	77.9
	RTC Government's responsiveness to change	29	68.0
	EPR E-Participation Index	1	100.0
	PFJ Press freedom	55	59.7
	NJK Nr. of journalists killed per 1 million people (2yrs avg.)	1	62.5
	PDE Political decentralization	1	100.0
	ADE Administrative decentralization	36	69.4
	PGL Political globalization	54	61.2
<b>Regulatory Capture (i.2)</b>	WPI Women's Power Index	119	27.3
	MOB Social mobility (upward) (dev. fm optimum)	18	74.8
	INE Top 10% share of pre-tax national income	66	53.9
	GWL Gini coefficient on net national wealth dist. - level	42	66.0
	GWG Gini coefficient on net national wealth dist. - 3-year growth	76	51.7
	GIL Gini coefficient on income dist. - level	44	64.2
	GIC Gini coefficient on income dist. - 1-year growth rate		
	ECR Ease of challenging regulations	16	81.2
	CGP Constraints on government power	21	77.7
	REQ Regulatory quality	16	86.3
<b>Human Capture (i.3)</b>	REN Regulatory enforcement	16	92.6
	PRI Property rights	10	91.5
	CRO Crony capitalism	11	65.3
	INO Informal output as a % of GDP	4	94.4
	GSI Global Slavery Index	1	74.9
	FDP Forcibly displaced population as % of population	2	56.5
	HRI Human Rights Index	29	75.2
	AFI Academic Freedom Index	36	62.8
	GRI Religion - Government Restriction Index	6	84.4
	LIN LGBT+ inclusiveness	52	62.9
<b>Coalition Dominance (ii.4)</b>	WSB Women self made billionaires	11	60.7
	WBL Women, business and the law	84	52.1
	WMA Proportion of women in senior and middle mgmt positions (	101	5.5
	IEE Top 3 industries exports as % of exports	39	68.4
	IEO Top 1 industry exports as % of exports	37	69.0
	IVA Top 3 industries as % of VA	38	61.9
	HHI Domestic market diversification	69	61.1
	ECI Economic Complexity Index	1	100.0
	PUE Public employees as a % of total employment	33	69.2
	MIL Military expenses as % of GDP (dev. fm optimum)	95	50.8
<b>Firm Dominance (ii.5)</b>	UNI Unionization rate (dev. fm optimum)	57	59.2
	BSN Barriers in service & network sectors	10	72.5
	CRA Criminal actors	56	58.3
	SME SMEs per 1,000 people	14	62.7
	FAM Family business revenues as percentage of GDP	30	32.5
	BIW Billionaires' wealth as % of GDP	99	54.2
	FKG Top 10 firms market cap as % of GDP	30	58.4
	FRG Top 3 firms revenues as % of GDP	40	55.0
	FRR Top 30 firms revenues as % of GDP	38	33.0
	ENT Entrepreneurship	22	76.4
<b>Creative Destruction (ii.6)</b>	GSE Governmental support to entrepreneurship	18	76.3
	VCK Venture capital finance	36	51.6
	VCA Venture capital availability	15	84.8
	RND R&D as a % of GDP	6	88.0
	EXR Firm exit ratio		
	BCD Billionaire's creative destruction	11	97.6
	IWE Index of Women Entrepreneurs	42	42.3
	LEW Life expectancy women	1	93.3
	LEM Life expectancy men	3	93.0
	VAX COVID-19 vaccination rate	32	56.6
<b>Giving Income (iii.7)</b>	COM COVID-19 mortality rate, age-adjusted	69	61.6
	COF COVID-19 fatality rate, age-adjusted	5	61.1
	COV COVID-19 excess deaths, age-adjusted	7	67.5
	CLS COVID-19 lost schooldays	2	85.4
	SCI UHC Service coverage index	11	81.6
	PTR Pupil-teacher ratio	45	66.4

<b>Giving Income (iii.7)</b>	EDU School life expectancy	47	63.6
	PIS PISA mean scores	4	80.3
	UNV Top universities	35	33.9
	GEE Government education expenditure	104	34.9
	OSI Online Service Index	10	83.1
	NRI Network Readiness Index	13	87.2
	INT Internet access	28	70.9
	FSQ Global Food Security Index - availability, quality & safety	3	86.8
	GPS Expenditure on general public services as % of GDP (dev. fm	11	65.0
	GEX General government expenditure as % of GDP (dev. fm opti	64	50.7
<b>Taking Income (iii.8)</b>	SNT Subsidies and transfers as % of expenses	108	19.3
	REG Regional redistribution as % of government budget	129	13.3
	SUB Death rates from substance use per 100,000 people	9	88.6
	BRD Battle-related deaths per 100,000 people	1	54.2
	HOM Homicide rate	59	56.9
	SUI Suicide rate per 100,000 people	129	30.5
	DTR Tax revenue as % of GDP (dev. fm optimum)		
	DCT Corporate tax rate (dev. fm optimum)	78	47.8
	DPS Delta public vs private sector salaries		
	FDE Fiscal decentralization	11	79.9
<b>Unearned Income (iii.9)</b>	GCI Global Cybersecurity Index	12	86.7
	GEG Gender education gap (dev. fm optimum)	10	72.6
	CRM Criminal markets	28	73.9
	DBT Government debt as % of GDP	141	0.0
	NRR Natural resources rents as % of GDP	16	82.7
	GPA Green patents	1	100.0
	EPI Environmental Performance Index	22	79.7
	DER Deforestation Rate	65	55.6
	FUS Fertilizer usage kg per hectar	113	46.0
	TLP Terrestrial land protected	23	77.0
<b>Producer Value (iv.10)</b>	CDO CO2 emissions (metric tons per capita)	135	28.4
	AIR Air quality index	15	72.4
	HAZ Hazardous Waste per capita		
	WPC Waste collected per capita	46	54.7
	MWR Municipal Waste Recycling Rate	35	49.2
	FIS Fishing consumption as % of population	139	0.0
	MET Red meat consumption kilograms per capita	95	35.8
	PAT Nr. of patent applications per 100,000 people	1	100.0
	FBH Financial burden of healthcare	89	50.9
	HEI Health Efficiency Index	8	78.6
<b>Capital Value (iv.11)</b>	DMS Density of medical staff	12	96.2
	FSA Global Food Security Index - affordability	16	76.6
	FDS Inward FDI as a % of GDP, Stock	148	39.2
	BTF Barriers to FDI	29	62.1
	OFB Open for business	38	50.9
	EGL Economic globalization	45	64.1
	TRF Trade freedom	60	61.3
	IPM Share of imports targeted by protectionist measures (flow)	27	67.8
	IPS Share of imports targeted by protectionist measures (stock)	60	59.4
	DGI Share of discriminatory government interventions as % of totc	78	63.5
<b>Labor Value (iv.12)</b>	DGS Share of discriminatory government interventions as % of totc	143	7.8
	DOI Inflation (dev. fm optimum)	1	60.3
	DEF GDP deflator index growth rate (dev. fm optimum)	6	59.1
	DNI Neutral interest rate (dev. fm optimum)	11	60.7
	FMI Financial Markets Index	1	100.0
	GFC Gross capital formation	56	53.2
	DMA M&A as % of investment - 3 yrs rolling avg. (dev. fm optimum)	32	54.0
	GOL Gold demand as % of GDP	1	100.0
	UNC Unicorns per 1 million people	20	32.6
	BSG Billionaires self-made nr. per 1 million people	31	43.1
BSM Billionaires self-made as % of total billionaires	18	66.7	
<b>Labor Value (iv.12)</b>	LPG Labor productivity growth	47	51.5
	WLP Delta real wage vs labor productivity increases	2	73.0
	LFP Labor force participation rate	63	55.9
	LFR Labor force participation ratio - male vs female	84	54.0
	UEM Unemployment rate	18	72.4
	YUN Youth unemployment rate	12	79.1
	BRN Human flight and brain drain	25	77.3

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