

FACT SHEET

Overview of Japan

Geography	
Land area	<ul style="list-style-type: none"> • Japan has a total land area of 364 485 sq km, comprising the main islands of Hokkaido (北海道), Honshu (本州), Shikoku (四國), Kyushu (九州) and Okinawa (沖繩), as well as more than 6 800 smaller islands of varying sizes. • Tokyo is the capital of Japan and seat of the government. It is also one of the 47 prefectures of the country. In Japan, each prefecture elects its own governor and legislature.
Demographics	
Population	<ul style="list-style-type: none"> • Japan is an ethnically and linguistically homogeneous society with an estimated population of about 127.4 million as at 1 July 2013. Nevertheless, there are about 2 million registered foreign residents living in Japan, of whom the two largest ethnic groups were Chinese and Korean.
Elderly population	<ul style="list-style-type: none"> • As at 1 July 2013, 31.6 million or 24.8% of the total population were aged 65 or above and the corresponding elderly dependency ratio was 39.9.⁽¹⁾
Employed population	<ul style="list-style-type: none"> • The total workforce amounted to 65.9 million as at end-June 2013, of which the number of employed and unemployed persons stood at 63.3 million (96.1%) and 2.6 million (3.9%) respectively.
Economy	
Gross Domestic Product ("GDP")	<ul style="list-style-type: none"> • Japan's economy was the 3rd largest in the world in 2012, with an estimated GDP of US\$5,964 billion (HK\$46,257 billion). • At US\$46,736 (HK\$362,484), Japan's GDP per capita ranked 13th in the world in 2012.

Note: (1) Elderly dependency ratio refers to the number of persons aged 65 and above per 100 persons aged between 15 and 64.

Economy (cont'd)	
Economic structure	<ul style="list-style-type: none"> • The estimated GDP composition by sector in 2012 was: <ul style="list-style-type: none"> (a) agriculture (1%); (b) industry (26%); and (c) services (73%). • Japan's services sector, particularly its financial services industry, is a key growth driver employing about 70% of the total workforce. Tokyo is one of the world's three leading financial centres alongside New York and London. • The industrial sector is also an important contributor to Japan's economy, supported by electrical appliances and electronics, automobile, shipping, iron and steel, optical and precision equipment, machinery and chemical industries. In recent years, Japan's manufacturing sector has lost some of its competitiveness to China, South Korea and other lower-cost economies. In response, many Japanese companies have transferred their manufacturing production abroad and invested overseas to take advantage of lower production costs and stronger demand.
Recent economic performance	<ul style="list-style-type: none"> • During the 1960s-1980s, Japan achieved one of the highest economic growth rates in the world. However, it went into a prolonged period of economic stagnation after its stock and real estate prices fell sharply in the early 1990s. • While the long-awaited economic recovery that began in the early 2003 had pulled Japan out of recession in the ensuing years, Japan lost its growth momentum in late 2007 from the slowdown in world trade. The outbreak of the global financial crisis in 2008 further weakened Japan's economy, with its GDP down by 1.0% in 2008 and 5.5% in 2009. • The Japanese government subsequently implemented two stimulus packages and Japan's economy rebounded to grow by 4.7% in 2010 as a result. However, due to the Great East Japan earthquake and tsunami in March 2011, Japan's nascent recovery came to a halt and its GDP declined by 0.6% in 2011.

Economy (cont'd)	
Recent economic performance (cont'd)	<ul style="list-style-type: none"> • Japan's economy improved in the first half of 2012 as a result of spending on reconstruction activity. However, it slowed down sharply in the second half as the boost from reconstruction spending faded and political disputes between Japan and China escalated. Overall, Japan's GDP grew by 1.9% for 2012 as a whole. • Recently, the International Monetary Fund raised its 2013 GDP growth forecast for Japan to 2.0% from the 1.6% predicted earlier in April 2013. The revision reflects the improving consumer and business confidence boosted by the fiscal package introduced in early 2013, the monetary easing policy aiming at 2% inflation target, a weakening yen and a recovery in world trade.
Tax rate structure	
Individual income tax	<ul style="list-style-type: none"> • Individual income taxes in Japan consist of (a) a national income tax, (b) a special income tax for reconstruction, and (c) prefectural and municipal taxes on individual income. • The progressive rates of the national income tax with respect to the taxable income are: <ul style="list-style-type: none"> (a) ¥1,950,000 (HK\$155,000)⁽²⁾ or below: 5%; (b) ¥1,950,001–¥3,300,000 (HK\$155,000–HK\$263,000): 10%; (c) ¥3,300,001–¥6,950,000 (HK\$263,000–HK\$553,000): 20%; (d) ¥6,950,001–¥9,000,000 (HK\$553,000–HK\$716,000): 23%; (e) ¥9,000,001–¥18,000,000 (HK\$716,000–HK\$1,433,000): 33%; and (f) ¥18,000,001 (HK\$1,433,000) or above: 40%. • The special income tax for reconstruction is an additional income tax levied from 2013 to 2037 for reconstruction with respect to the Great East Japan earthquake. The tax rate is at 2.1% of the amount of national income tax. • The prefectural and municipal taxes on individual income comprise a flat-rate component (i.e. ¥4,000 (HK\$318)) and an income-related component (i.e. 10% of income).

Note: (2) Based on the average exchange rate of HK\$0.0796 per Japanese Yen in June 2013.

Tax rate structure (cont'd)	
Corporate income tax	<ul style="list-style-type: none"> • Corporate income taxes comprise (a) national corporate tax, (b) local inhabitant taxes, (c) local enterprise tax, and (d) special local corporate tax imposed by the nation. • On national corporate tax, Japanese companies with share capital exceeding ¥100 million (HK\$8 million) are subject to a tax rate of 25.5%. For small and medium enterprises with less share capital, a special tax rate of 15% is available for their first ¥8 million (HK\$637,000) of taxable income and the rest of taxable income is subject to the tax rate of 25.5%. All of these companies are also required to pay a 10% surtax levied on the national corporate tax payable for three financial years beginning from 1 April 2012, which increases the national corporate tax rates to 16.50% and 28.05% respectively during the period. • The local inhabitant taxes, which are levied by both prefectures and municipalities, vary depending on the scale and location of the business. They comprise: <ul style="list-style-type: none"> (a) a corporate tax levy imposed as a percentage of national corporate tax; and (b) a per capita levy determined based on the amount of share capital and the number of employees of a company. • The local enterprise tax, which is levied by prefectures, comprises an income-based portion and a factor-based portion. The latter is determined by factors such as the amount of share capital, rental payable and personnel cost. • Japanese companies are also required to pay the special local corporate tax⁽³⁾ which is levied as a percentage of the local enterprise tax. The percentage varies with the amount of share capital of the company paying the tax.
Effective tax rate ⁽⁴⁾	<ul style="list-style-type: none"> • For a company located in Tokyo with share capital more than ¥100 million (HK\$8.0 million), its effective tax rate is 38.01% for three financial years beginning from 1 April 2012, which will be reduced to 35.64% after the period.

Notes: (3) The special local corporate tax is collected by the national government and reallocated to local governments to rectify the uneven distribution of local tax revenue.

(4) The effective tax rate is the net tax rate in respect of corporate income after considering the deductible nature of the local enterprise tax and the special local corporate tax.

Historical background	
End of Japan's closed-door policy	<ul style="list-style-type: none"> • In 1603, after decades of civil war, Tokugawa Shogunate (a feudal military-led government) ushered in a long period of relative political stability and isolation from foreign influence. For 250 years, this policy enabled Japan to enjoy stability and a flowering of its indigenous culture. • Following the conclusion of the <i>Treaty of Kanagawa</i> with the United States ("US") in 1854, Japan opened its ports and began to intensively modernize and industrialize its country (i.e. the Meiji Restoration). During the late 19th and early 20th centuries, Japan became a regional power.
World War II	<ul style="list-style-type: none"> • Japan's rapid rise led to wars with China (1894-1895) and Russia (1904-1905) respectively, as well as the annexation of Korea in 1910. Japan occupied Manchuria in 1931 and launched a full-scale invasion of China in 1937. In 1941, the Japanese forces launched a surprise attack on the US naval base at Pearl Harbor in Hawaii, triggering the entry of the US into World War II. • In 1945, the US planes dropped two atomic bombs on Japan, the first on Hiroshima (6 August) and the second on Nagasaki (9 August). On 15 August 1945, Emperor Hirohito (裕仁) announced Japan's unconditional surrender to the US. Japan was then placed under the US control and all of its armed forces were disbanded.
Post-war developments	<ul style="list-style-type: none"> • After World War II, the Emperor retains his throne as a symbol of national unity whereas elected politicians hold actual decision-making power. In addition, Japan experienced a swift post-war recovery to become a major economic power. However, it experienced a sharp economic slowdown in the early 1990s and fell into a prolonged period of subdued economic performance after three decades of unprecedented growth.

Political background**Government leadership**

- Japan was under the rule of the Liberal Democratic Party ("LDP") almost uninterruptedly from 1955 to 2009, except during the period between 1993 and 1996.
- Under the leadership of the Prime Minister Taro Aso (麻生太郎), the ruling LDP government was defeated by the Democratic Party of Japan ("DPJ") in the election of the House of Representatives in August 2009. DPJ formed a coalition government with the People's New Party and the Social Democratic Party in the Diet (Parliament of Japan) following the 2009 election.
- Yukio Hatoyama (鳩山由紀夫), a DPJ Member of the House of Representatives, took over the position of Prime Minister in September 2009 and was succeeded consecutively by two DPJ Members of the House, Naoto Kan (菅直人) from June 2010 to September 2011 and Yoshihiko Noda (野田佳彦) from September 2011 to December 2012. Noda was the sixth Prime Minister in the five years since the departure of the former Prime Minister Junichiro Koizumi (小泉純一郎), a LDP member who was in power from 2001 to 2006.
- In mid-November 2012, Noda dissolved the House of Representatives and called an early election in December of the same year. He had been under pressure to call an election for months and agreed to do so in return for LDP's support on electoral reform and a deficit-financing bill.
- After three years in opposition, LDP won the early election held on 16 December 2012 and subsequently formed a ruling coalition with New Komeito. DPJ became the major opposition party in the House of Representatives after losing power to LDP. LDP's victory also brought the return of its party leader Shinzo Abe (安倍晋三) to premiership. Abe was previously elected as the Prime Minister in 2006 but stepped down a year later.

Government structure	
The Emperor	<ul style="list-style-type: none"> • Japan is a constitutional monarchy, where the Emperor is the head of state without any governing power. He performs "only such acts in matters of state" as provided for in the <i>Constitution</i> upon the advice and approval of the Cabinet. His duties include: <ol style="list-style-type: none"> (a) appointing the Prime Minister and the Chief Justice of the Supreme Court; (b) promulgating legislation, Cabinet orders, treaties and constitutional amendments; (c) convoking the Diet, dissolving the House of Representatives and proclaiming the election of the Diet; (d) granting amnesties, reprieves and pardons; and (e) awarding honours and performing ceremonial functions. • Emperor Akihito (明仁), the current Emperor of Japan, has been on the throne since his father Emperor Hirohito passed away in 1989.
Executive Branch	<ul style="list-style-type: none"> • Executive power is vested in the Cabinet, which is collectively responsible to the Diet. The Prime Minister heads the Cabinet and appoints individuals, usually Members of the Diet, as Ministers to serve in the Cabinet. • The Prime Minister is elected by a simple majority of Members in both Houses of the Diet. If the two Houses disagree on the designation of the Prime Minister and no agreement can be reached by a joint committee of both Houses, or if the House of Councillors (the Upper House of the Diet) fails to make designation within 10 days after the House of Representatives (the Lower House) has made a designation, the decision of the House of Representatives prevails. • As the head of the Executive branch, the Prime Minister is empowered to: <ol style="list-style-type: none"> (a) appoint and remove other Ministers; (b) preside over Cabinet meetings; (c) submit bills to the Diet; (d) report to the Diet on domestic and foreign issues; (e) supervise and control the administration; and (f) serve as the Commander-in-Chief of Japan's Self-Defence Forces.

Government structure (cont'd)	
Legislative Branch	<ul style="list-style-type: none"> • In Japan, the Diet consists of the House of Representatives and the House of Councillors. The bicameral Diet is "the sole law making organ of the state" as stipulated under Article 41 of the <i>Constitution</i>. The <i>Constitution</i> also empowers the Diet to: <ul style="list-style-type: none"> (a) review and approve the national budget; (b) elect the Prime Minister; (c) require the Prime Minister and other Cabinet Ministers to appear before the Diet to provide answers or explanations; (d) conduct investigations in relation to the government, and demand the presence and testimony of witnesses and the production of records; (e) initiate motions to amend the <i>Constitution</i>; and (f) impeach judges convicted of criminal or irregular conduct. • While the House of Representatives and the House of Councillors have similar powers, the former is constitutionally more powerful. The <i>Constitution</i> provides that decisions of the House of Representatives override those of the House of Councillors, when there is irreconcilable difference between the two Houses in their resolutions regarding bills, draft budget, treaties or designation of the Prime Minister and such difference cannot be resolved by a joint committee of both Houses.
Judicial Branch	<ul style="list-style-type: none"> • The <i>Constitution</i> provides for the establishment of the Supreme Court as the court of final appeal. The Supreme Court administers eight high courts, 50 district courts, 50 family courts and 438 summary courts.

Election of the House of Representatives	
Frequency	<ul style="list-style-type: none"> The election of the House of Representatives is held once every four years, unless it is dissolved earlier. The last election was held in December 2012, in which DPJ lost three-quarters of its 230 seats in the Lower House to finish with just 57. Its rival LDP captured 294 seats in the 480-member House of Representatives. Together with the 31 seats won by New Komeito, the LDP-Komeito coalition controls more than two-thirds of Lower House seats that would enable it to override the Upper House on stalled legislation. The next election will take place in 2016.
Election method	<ul style="list-style-type: none"> The House of Representatives consists of 480 Members elected by universal suffrage. Among them, 300 are elected under a single-seat constituency system based on a simple majority vote. The other 180 Members obtain their seats through a proportional representation system, under which the country is divided into 11 constituencies and the allocation of seats is based on the share of the votes received by the political parties in the constituencies. Each voter can cast two separate votes, one for a candidate in his or her local constituency and the other for a political party under the proportional representation system. In June 2013, an electoral reform bill was passed into law by a two-thirds majority in the House of Representatives after the House of Councillors has not taken a decision on the bill within 60 days.⁽⁵⁾ The bill proposes to reduce the number of seats from 300 to 295 in the single-seat constituencies and rezone some of these constituencies.

Note: (5) The bill was passed according to the Article 59 of the *Constitution*. Under the Article 59, the more powerful Lower House can override the Upper House by a two-thirds majority vote if the latter does not vote on a bill approved by the former within 60 days after receipt of the bill.

Election of the House of Representatives (cont'd)	
Current political group division	<ul style="list-style-type: none"> • The composition of the House of Representatives by political group is as follows: <ol style="list-style-type: none"> (a) LDP (294 Members); (b) DPJ and Club of Independents (56 Members); (c) Japan Restoration Party (53 Members); (d) New Komeito (31 Members); (e) Your Party (18 Members); (f) Japanese Communist Party (eight Members); (g) People's Life Party (seven Members); (h) Social Democratic Party (two Members); and (i) independents (11 Members). • Bunmei Ibuki (伊吹文明) has been the Speaker of the House of Representatives since December 2012.
Election of the House of Councillors	
Frequency	<ul style="list-style-type: none"> • Members of the House of Councillors are elected for a six-year term, with half of them or 121 seats being elected every three years. The House of Councillors cannot be dissolved. • The last election was held on 21 July 2013, in which the ruling LDP along with its coalition partner New Komeito controlled 134 seats in the 242-member House of Councillors. This result enables the ruling coalition to control both Houses and puts an end to the "twisted Diet", under which the Upper House was previously controlled by the opposition parties. The major opposition party DPJ and its ally, the Shin-Ryokufukai, lost almost one-third of their total 86 seats to control only 58 seats in the House after the election. • The next election is scheduled to be held in 2016 to return half of the seats.
Election method	<ul style="list-style-type: none"> • The House of Councillors consists of 242 Members elected by universal suffrage. Among them, 146 Members are elected from the 47 prefectures (i.e. electoral districts) based on a simple majority voting system. The other 96 Members are returned from a single nationwide list by proportional representation. • Each voter can cast two separate votes, one for a candidate in his or her electoral district and the other for a candidate under the nationwide proportional representation system.

Election of the House of Councillors (cont'd)	
Current political group division	<ul style="list-style-type: none"> • The composition of the House of Councillors by political group is as follows: <ol style="list-style-type: none"> (a) LDP (114 Members); (b) DPJ and the Shin-Ryokufukai (58 Members); (c) New Komeito (20 Members); (d) Your Party (18 Members); (e) Japanese Communist Party (11 Members); (f) Japan Restoration Party (nine Members); (g) Social Democratic Party (three Members); (h) New Renaissance Party and Group of Independents (three Members); (i) People's Life Party (two Members); and (j) independents (four Members). • LDP's Masaaki Yamazaki (山崎正昭) was elected the President of the House of Councillors on 2 August 2013.
Ties with Hong Kong	
Trade	<ul style="list-style-type: none"> • Importance of Japan to Hong Kong's external trade in the first half of 2013: <ol style="list-style-type: none"> (a) 3rd largest trading partner; (b) 3rd largest export market; and (c) 2nd largest source of import.
Tourism	<ul style="list-style-type: none"> • In the first half of 2013, the number of visitor arrivals from Japan to Hong Kong decreased by 22.3% to 504 479, representing 2.0% of the total tourist arrivals during the period.
Investment	<ul style="list-style-type: none"> • As at June 2012, Japanese companies established 219 regional headquarters, 456 regional offices and 543 local offices in Hong Kong. • In 2011, Japan was the 6th largest source of inward direct investment in Hong Kong. The Japanese investment at market value totalled US\$24.5 billion (HK\$191.4 billion) at end-2011.

Ties with Hong Kong (cont'd)	
Working Holiday Scheme	<ul style="list-style-type: none"> • The bilateral Working Holiday Scheme between Japan and Hong Kong was established in 2010, which opens the way for young people from Japan and Hong Kong to learn about each other's cultures during holiday travels where they can undertake limited employment and study. • Under the scheme, both Japan and Hong Kong put in place a quota allowing 250 young people aged 18-30 to obtain a working holiday visa each year. Working holiday makers can visit and stay in the host country/territory for up to 12 months, and take up short-term employment and/or study courses.
Local Japanese population	<ul style="list-style-type: none"> • In 2011, there were over 21 000 Japanese residing in Hong Kong.

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