
INTERNATIONAL TRADE DEVELOPMENTS

Deregulation in Japan: Status and Benefits

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Despite numerous deregulation plans over the years, Japan's economy remains highly regulated. Foreign companies face bureaucratic delays and regulations in attempting to enter or operate in the market. Nonetheless there has been some progress towards deregulation and a July 2001 study estimates that deregulation has created economic benefits worth about \$127 billion during 1989-2000. Additional benefits will depend on the leadership of the Prime Minister.

Under the WTO, Japan has been urged to bring its standards, regulations and tariffs into line with those of other major trading partners. Although harmonization is taking place in some sectors, the pace of change is very slow. Despite various plans by Japan to deregulate its market, thousands of statutes and regulations continue to control many sectors of the economy. Foreign companies face bureaucratic delays and uncertainties that add to the cost of doing business in Japan. The Japanese bureaucracy is plagued by outdated techniques, poor facilities, and excessive paperwork that makes interaction with foreign companies cumbersome.² This article provides an overview of recent regulatory reform efforts by the Japanese Government and reviews the benefits to the economy of such efforts.

Overview of Recent Deregulation Efforts

In 2001, there were a series of both unilateral and bilateral deregulation measures put into effect, beginning with the adoption of a new Three-Year Regulatory Reform Promotion Plan by Japan's Cabinet on March 30, 2001. The plan was in response to structural changes in Japan—including globalization, an aging

society, the information technology (IT) revolution, and growing environmental problems. The purpose of the plan was to promote regulatory reforms that will achieve sustainable growth, produce a fair economic society with a high level of transparency, give citizens more choice, and produce an open international economy. The three-year plan adopted a cross-cutting approach to deregulation, identifying common goals and common themes. Some of the cross-cutting themes included putting the interests of citizens first and emphasizing the need for transparency, fairness, accountability, competition, and policy evaluation. In addition, the plan included measures for revising the commercial code and for revitalizing the secondary housing market—two areas of interest to the United States. The plan supported U.S. efforts to implement reforms in the financial sector. Other sectors that were mentioned included: accounting measures, guidelines for internet sales of insurance products, medical device and pharmaceutical insurance reimbursement, and competition policy.

The plan was organized in three parts. The first part included common themes that span across all reform measures. The second part specified individual topics that cut across sectors such as information technology, the environment, competition policy, technical standards approval, and the licensing system. The third part examined individual sectors.

As part of the plan's implementation, it is to be revised annually based on the deliberations of the Comprehensive Regulatory Reform Conference

¹ The views expressed in this article are those of the author. They are not the views of the U.S. International Trade Commission (USITC) as a whole or of any individual Commissioner.

² American Chamber of Commerce in Japan, 1997 *United States-Japan Trade White Paper*, 1997, pp. 14-16.

(CRRC),³ in addition to submissions from foreign and domestic interests. Ministries and agencies were to be required to justify any decisions not to accede to requests received from domestic or foreign interests. The Cabinet Office would be responsible for monitoring implementation of the plan and reporting back to the CRRC.

The plan was criticized by the Japanese media and the Federation of Economic Organizations (Keidanren) as being a setback for regulatory reform. Keidanren complained that many of the requests for regulatory reform that it had submitted in October 2000 were not included. Keidanren said the plan was particularly weak in the area of medical services and the retail sector.⁴ From the U.S. perspective, the plan had mixed results. For example, the plan did not include a proposal to scrap the holding company for the Nippon Telegraph and Telephone (NTT) Group. The plan supported reform of the energy sector, but did not mention an independent regulator.⁵ The plan addressed some U.S. concerns regarding medical device and pharmaceutical insurance reimbursement, and third-party medical accreditations, but did not provide specific steps for achieving these.

In addition to the unilateral steps by the Government of Japan such as its three-year plan, bilateral efforts on deregulation have also been underway for a number of years. The United States has promoted deregulation in Japan in the belief that it will strengthen the foundations of the Japanese economy, increase business and employment opportunities throughout Japan, open Japan's markets to its trading partners, and improve the standard of living of the Japanese people.⁶

One important bilateral effort, the Fourth Joint Status Report under the Enhanced Initiative on Deregulation and Competition Policy, was released on June 30, 2001.⁷ The report proposed measures in several sectors: telecommunications, information technology,

energy, housing, medical devices, pharmaceuticals, financial services, competition policy, Commercial Code reform, legal reform, goods distribution, and transparency. The study provided background information, accomplishments, and benefits to the United States in each of the areas. For example, in the area of telecommunications, the study first discussed how NTT's control of 99 percent of subscriber lines and of 60 percent of mobile customers has hampered Japanese consumer access to innovative, low-cost services, particularly relating to fixed line Internet access. To address such problems, Japan was expected to enforce "dominant carrier regulation" and similar such measures designed to strengthen safeguards to prevent NTT from discriminating against competitors. These steps were expected to improve access opportunities for U.S. firms to Japan's telecommunications sector. Overall, the measures in the Fourth Joint Status Report represented progress in Japan's ongoing efforts to streamline and reduce the regulations that affect its economy.⁸ The measures were intended to improve market access for competitive goods and services, enhance consumers interests, increase efficiency, and promote economic activity.⁹

In July, Japan adopted additional deregulation measures. The Council for Regulatory Reform (CRR) announced deregulation proposals for six sectors. The CRR preliminary report covered six areas: the medical sector, welfare, employment and labor, environment, urban renewal, and education. The CRR report set forth the CRR's schedule for the remainder of 2001. The CRR held hearings with interested parties between early September and mid-October. The hearings were to give interested parties an opportunity to request that the CRR take up issues of particular concern. Hearings were held with: doctors' associations, healthcare management groups, economic private sector groups, foreign entities (including the United States and the EU) and relevant ministries. The council is to have follow-up discussions with interested parties. It is expected to review the recommendations of the sectoral working groups, together with progress on the implementation of the three-year plan. An advisory report was prepared in early November and submitted to the Prime Minister. This scenario allowed the United States to make a comprehensive submission of deregulation proposals in the fall of 2001, as has been done in previous years or to make piecemeal submissions on individual sectors at different times.¹⁰

Most recently, on October 14, 2001, the United States presented 47 pages of wide-ranging recommen-

³ The Comprehensive Regulatory Reform Conference (CRRC) was established on March 27, 2001 as part of the Cabinet Office that offers opinions directly to the Prime Minister. The CRRC has 12 or 13 members, and is responsible for managing implementation of the plan.

⁴ U.S. Department of State telegram, "Japan - Transparency, Crosscutting Take Center Stage in New Three-Year Regulatory Reform Promotion Plan," message reference No. 02528, prepared by U.S. Embassy, Tokyo, Apr. 12, 2001.

⁵ *Ibid.*

⁶ USTR, "Submission by the Government of the United States to the Government of Japan Regarding deregulation, Competition Policy, and Transparency and Other Government Practices in Japan," Oct. 7, 1998.

⁷ The Enhanced Initiative was agreed in June 1997 by former President Clinton and Prime Minister Hashimoto at the Denver G-8 Summit, establishing a bilateral forum to address deregulation and market access issues in Japan. This initiative focused initially on four principal sectors: telecommunications, housing, financial services, and pharmaceuticals. In addition, the initiative addressed structural issues in the areas of competition policy, distribution, transparency, and other government practices.

⁸ USTR, "Fourth Joint Status Report Under the U.S.-Japan Enhanced Initiative on Deregulation and Competition Policy," June 30, 2001.

⁹ *Ibid.*

¹⁰ U.S. Department of State telegram, "Japan - Deregulation Schedule - Implications for the EPG," message reference No. 05145, prepared by U.S. Embassy, Tokyo, July 27, 2001.

dations to Japan aimed at further deregulating the economy, increasing competition and opening markets in Japan. The recommendations focus on key sectors and cross-cutting areas that Japan has identified as important for reform including information technologies, telecommunications, medical, energy and competition policy. The proposals are to be discussed at bilateral meetings under the Regulatory Reform Initiative which began in July 2001, in coming weeks.¹¹

Benefits of Deregulation

Recently, there have been two studies attempting to measure the effects of deregulation on the economy. In April 2001, Japan's Cabinet Office reported on the results of a survey covering six sectors of the economy to measure the effect on productivity of increased competition due to regulatory reform. The sectors covered in the study were telecommunications, aviation, electricity, manufactured gas ("town" gas), banking, and the retail sector. The study concluded that regulatory reform had enhanced competition in these sectors resulting in greater productivity while lowering so-called "inefficiency rates."¹² A separate study from the Ministry of Public Management reported that by the end of March 2001, Japan had implemented 72 percent of the reforms proposed during the 1998-2001 three-year regulatory reform plan.¹³

In July 2001, a Cabinet Office study estimated that deregulation in 13 sectors generated economic benefits worth about 15.7 trillion yen (\$127 billion) during the period 1989 to 2000.¹⁴ This is about 4 percent of Ja-

pan's FY2000 national income. The Cabinet Office study covered the following areas: domestic and international telecommunications; domestic civil air, railroad, taxi, and truck transportation; automobile transportation registration and inspection systems; electricity; manufactured gas; petroleum products; equity share transaction fees; rice; and beverages. The greatest gains were realized in the domestic telecommunications, truck and rail transportation, electric power utilities, and petroleum products sectors, which generated 12.4 trillion yen or about 75 percent of the total benefits in the sectors surveyed. The report noted that the growth rate in user benefits ultimately increased in the domestic telecommunications sector during 1989-2000 because the effect of the "drastic" reduction in cell phone fees was widely spread. Sectors with smaller markets such as the taxi business and manufactured gas experienced relatively smaller price reductions and therefore relatively smaller user benefits as measured by the study. The report concludes that since user benefits generated by regulatory reform have been quite substantial, regulatory reform should be seen as a valuable tool to improve the quality of living during severe economic conditions.¹⁵

Prospects for Further Reform

The future of regulatory reform is mainly dependent on the will and leadership of the Prime Minister. Strong will is required to overcome the opposition of the bureaucracy to regulatory reform. Prime Minister Koizumi is known for being very pro-reform; however, the LDP's coalition partner—Komeito—may restrain his reform efforts. Within society, there are contradictory signals. On the one hand, the agricultural sector opposes further regulatory reform. On the other hand, Japanese consumers understand the benefits of deregulation and view further liberalization as essential.¹⁶ From the U.S. perspective, deregulation of the Japanese economy is essential for returning the Japanese

¹¹ USTR, "United States Presents Wide-Ranging Reform Proposals to Japan," press release no. 01-83, Oct. 16, 2001. The United States and Japan began three-day expert-level talks under the Regulatory Reform Initiative on Nov. 6, 2001.

¹² The report computes "inefficiency rates" by examining how much of the productivity of individual companies varies within an industry. The report posits that in competitive, non-regulated industries, companies with relatively low productivity cannot compete and therefore would not exist, but in regulated industries that restrict new entrants and control prices, companies with low productivity are protected. Thus, in regulated industries companies with high productivity and those with low productivity can exist side-by-side. Wide variations in the degree of productivity among companies are therefore a common characteristic of such regulated industries. The report uses the degree of productivity variation to compute the "inefficiency rate" of an industry. Based on this concept, as more competition is introduced to an industry through deregulation, non-productive companies are forced to drop out and the "inefficiency rate" drops accordingly.

¹³ U.S. Department of State telegram, "Japan - Productivity Gains from Dereg - The GOJ Gives Itself a Passing Grade," message reference No. 02790, prepared by U.S. Embassy, Tokyo, Apr. 24, 2001.

¹⁴ The report refers to changes in "consumer surplus" to indicate the benefits from regulatory reform. Consumer surplus is defined as the difference between the highest price consumers are willing to pay for goods and services and the

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actual price consumers pay. This indicates the level of satisfaction consumers will receive through transactions. As prices and charges decline and consumption rises because of regulatory reform, consumer surplus will increase.

¹⁵ U.S. Department of State telegram, "Japan - It's Official: Deregulation Benefits Consumers," message reference No. 05114, prepared by U.S. Embassy, Tokyo, July 26, 2001.

¹⁶ U.S. Department of State telegram, "Deregulation - Gloomy Prognoses from Keidanren and Tokyo University," message reference No. 02154, prepared by U.S. Embassy, Tokyo, Mar. 30, 2001.

economy to sustainable growth and expanding market access for U.S. and other foreign companies exporting and operating in Japan. As Deputy USTR Richard Fisher has said concerning deregulation, “. . . [it] will be a long-term process of putting one foot in front of

another, and we will have to monitor and watch carefully.”¹⁷

¹⁷ “U.S. Views Japan Deregulation Package as Positive,” *Washington Trade Daily*, May 18, 1998.