

Implementing Structural Reforms in Abenomics: How to Reduce the Cost of Doing Business in Japan *

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ABSTRACT

Improving the environment for business is an important part of the growth strategy of Abenomics. As the KPI (Key Performance Indicator) for this effort, the Abe Administration aims to improve Japan's rank in the World Bank Doing Business Ranking from the #15 (in 2013 Report) among high-income OECD countries to one of the top three. In the last two years, Japan's ranking has slipped to #19, so the goal of becoming a top three moved further. This paper clarifies what it takes for Japan to be among top three countries in terms of ease of doing business. By looking at details of the World Bank Doing Business ranking, we identify various reforms that Japan could implement to improve the ranking. Then, we classify the reforms into four groups depending on whether the reform requires legal changes and whether the reform is likely to face strong political resistance. By just doing the reforms that do not require legal changes and are not likely to face strong political opposition, Japan can improve the ranking back to 15th if the conditions in the other countries did not change. To be in the top 3, Japan would need to implement all the reforms including some of those that require changing the laws *and* are likely to face strong political resistance, even under the assumption that the other countries do not reduce the cost of doing business. The experience of the past two years shows that this assumption is unrealistic. Thus, in order to be one of the top three countries among OECD countries in terms of ease of doing business, Japan would most likely need to carry out all the reforms identified in this paper.

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1. Introduction

Abenomics made a good start. After the Liberal Democratic Party (LDP) came back to power in December 2012 and Prime Minister Shinzo Abe announced the new economic policy package dubbed “Abenomics,” the economic conditions in Japan improved. More aggressive monetary policy introduced by the Bank of Japan under the leadership of Governor Haruhiko Kuroda seemed to be ending the chronic deflation. The GDP growth was substantially higher than it was expected before the start of Abe administration.¹ After the consumption tax rate increase by 3% (from 5% to 8%) on April 1, 2014, however, the economic slowdown was more serious than many expected. In the fall of 2014, the BOJ further expanded the monetary policy to help the ailing economy. Abe Administration also decided to postpone another consumption tax increase (from 8% to 10%) that was planned for October 1, 2015.

Will the slowdown in 2014 turn out to be just a temporary setback for Abenomics? Can Abenomics eventually pull the Japanese economy out of the low growth that has characterized most of the last 20 years? The answer hinges on the success of the growth strategy part of Abenomics, which is referred to as the third arrow. Even if the first two arrows of Abenomics (bold monetary policy and flexible fiscal policy) eventually turn out to be successful, the best they can achieve is to fix the demand shortage and eliminate the output gap. The growth strategy is supposed to address issues for Japan’s long-term growth. In order for Japan to escape the long-term stagnation and achieve a higher potential growth, the growth strategy part of Abenomics needs to be successful.

The growth strategy is not a new invention of the Abe administration. Two administrations (led by the Democratic Party of Japan (DPJ)) that immediately preceded the Abe administration also formulated their own growth strategies. In both cases, the prime ministers were forced out before the growth strategy was fully implemented.

There is one thing new about the growth strategy in Abenomics: the planned use of Key Performance Indicator (KPI). KPIs are assigned to policy goals in the growth strategy and are used to measure the progress. Although many KPIs that have been proposed for Abe’s growth strategy are vague as Hoshi (2014) points out, there are a few that are clearly specified. The growth strategy has gone through two revisions, once in June 2014 and the most recent in 2015. In each revision, the status of existing KPIs was reviewed and several new KPIs were added.

This paper takes up a clearly specified KPI, examines what it would take for Japan to achieve the KPI, and proposes a path to accomplish the goal. The KPI that we focus on is the goal of improving Japan’s ranking in the World Bank Doing Business Ranking to increase “Japan’s international competitiveness.” The KPI states “Japan will be one of the top three countries

¹See Buiter and Rahbari (2013), Hausman and Wieland (2014), and Hoshi (2014) for more on Abenomics and its evaluations.

(currently 15th) in the business environment ranking for the developed countries reported by the World Bank in “Doing Business Report” by 2020.”²

Focusing on the business environment makes sense since there is a growing consensus in economic research that the quality of business regulation and the institutions that enforce it are a major determinant of employment creation, private sector development, and economic prosperity.³ For example, Haidar (2012) examined the link between regulatory reforms and economic growth in 172 countries using World Bank Doing Business data, and found that each regulatory reform is associated with a 0.15 percent increase in the real GDP growth rate on average. For Japan, Hoshi and Kashyap (2012) list reduction of cost of doing business as one of the important policy options to restart the growth.

This paper clarifies how much reform Japan needs to make to move from its 2015 ranking of 19th (among 31 high income OECD economies) to top three and presents a strategy to get there. To do this, we use the information in the 2015 Doing Business Report. Although the KPI was originally based on the 2013 Report, which ranked Japan as 15th among 31 high income OECD economies, Japan’s ranking dropped to 19th in the latest (2015) report. Since the government has not changed the original goal of moving to top three in the ranking, we formulate strategies to achieve that based on the latest information.

The paper is organized as follows. The next section studies where Japan is ranked in the 2015 Report in each of the ten areas that the World Bank Doing Business Project looks at to come up with the ranking. We also identify potential regulatory reforms in each area that would improve Japan’s ranking. Section 3 then examines the identified regulatory reforms from two perspectives: whether the reform requires any legal changes and whether the reform is likely to face strong political resistance. The reforms that are primarily administrative and are not likely to be political can be accomplished quickly. The reforms that require changes to prevailing laws and/or are likely to be political would take more time. We consider a sequencing of reforms that starts out with the simple administrative reforms followed by more in-depth reforms and examine how far Japan needs to go to move from 19th to 3rd in the World Bank Doing Business Ranking. Section 4 concludes.

2. Japan in the World Bank Doing Business Ranking: Current Standing and Potential Reforms

²Quoted from the original growth strategy documents. The ranking (15th among OECD) is from the 2013 ranking. Japan remained 15th in the 2014 ranking but slipped to 19th in the 2015 ranking.

³See Blanchard and Portugal (1998), Holmes (1998), Besley and Burgess (2004), Alesina et al. (2005), Klapper et al. (2006), Ciccone and Papaionnou (2007), Dabla-Norris et al. (2008), Klapper and Love (2010), and Haidar (2012) among others

Japan is ranked 29th overall among the 189 economies covered by the World Bank 2015 Doing Business Project, but 19th out of the 31 high income OECD economies.⁴ The ranking is compiled by the World Bank every year by looking at ten areas of doing business, many of which are critically influenced by government regulations. Japan is ahead of other countries in some areas such as protecting minority investors, trading across borders, enforcing contracts, and resolving insolvency. As shown in Table 1, Japan is ranked 17th, 14th, 16th, and 2nd among OECD economies respectively in these areas.⁵ Japan can do better, however, in the other areas. In the ease of starting a business, getting credit, registering property, and paying taxes, Japan is ranked 27th, 22nd, 23rd, and 30th among the 31 OECD economies respectively. This section reviews Japan's ranking in each of the ten areas and identifies some regulatory reforms that Japan can implement to improve its ranking.

2-1. Starting a business

Japan currently ranks 27th out of the 31 OECD economies on the ease of starting a business. It is estimated to cost 7.5% of Japan's income per capita (of 2013) to formally start a business in Tokyo. The process takes 8 procedures and requires 11 days in Tokyo. In comparison, an entrepreneur can start a business by following just one procedure, in a half day, and at a cost of 0.3% of income per capita in New Zealand. Similarly, starting a business requires only 3 procedures and 2.5 days in Australia. It costs only 0.4% of income per capita to start a business in Canada.

Table A1 shows the details of the information collected by the World Bank to evaluate the procedures, time, and costs required to start a business in Tokyo. There are several reforms that Japan can implement to reduce the number of steps, the monetary cost, and the time to start a business in Japan. Here we consider the following four reforms.

- *Eliminate the requirement for a company seal (reform 2.1.1)*
- *Make business registration administrative rather than judicial (reform 2.1.2)*
- *Create one-stop shop for business registration (reform 2.1.3)*
- *Cut registration fees (reform 2.1.4)*

Eliminate the requirement for a company seal: Currently, an entrepreneur is required to make a company seal and register it. These two procedures take about 4 days. The company seal is required, per Article 20 of the Commercial Registration Act. The associated fee is about ¥10,000 for machine-carved seal or ¥20,000 for hand-carved seal. The entrepreneur or a company representative must register the company seal and obtain the certificate of seal registration from the Ward office in person. The certificate then must be submitted to the Legal Affairs Bureau at the Ministry of Justice. The fee is approximately ¥400 per certificate of seal registration but

⁴World Bank Doing Business 2015 Report.

⁵ Throughout the paper, we refer to OECD as the set of 31 OECD high income countries, not to the set of 34 OECD members. The latter (34 member) group includes Chile, Mexico, and Turkey.

varies from ward to ward. The requirement is a legacy of the old business practice where a seal symbolized the legal identity of a business and authenticated all its contracts.

Make business registration administrative rather than judicial: To apply for registration, an entrepreneur submits a duly completed application form, along with supporting documents including the certificate of seal registration and the Articles of Incorporation to the Legal Affairs Bureau headquarter or any of its branch offices in major cities (Tokyo, Yokohama, Osaka, Nagoya, Kobe, and Fukuoka). Once the filed documents are reviewed and approved, the company applies for the issuance of a company registration certificate. Normally, a judicial scrivener completes the registration on behalf of the company. The whole process takes 4 days in Japan. The 2004 amendment to the Commercial Registration Regulations has made it possible for entrepreneurs to submit company registration applications online, but the time this legal process takes has not been shortened. Japan can reduce the time for business registration by making it a simple administrative process rather than judicial process. This changeover is straightforward and has been done in many countries less developed than Japan, including Serbia, Uganda, Bulgaria, and Honduras.

Create one-stop shop for business registration: Currently, the eight procedures that must be completed to start a business in Japan require an entrepreneur to visit almost as many regulators including the Ward Office (to obtain the certificate of seal registration), Ministry of Justice, District Tax Office, Municipality, Labor Standards Inspection Office, Japan Pension Service, and Public Employment Security Office. Cumbersome registration procedures mean more hassle for entrepreneurs. Creating one-stop shops for company registration has been a popular reform over the last decade in many countries. For example, Portugal combined company, tax and social security registrations in one building. A one-stop shop in Tokyo would allow entrepreneurs in Japan to register with all the above agencies in a single visit and can open their businesses faster.

Cut registration fees: It currently costs 0.7% of the official stated capital or ¥60,000, whichever is higher, to register the company at the Legal Affairs Bureau of the Ministry of Justice in Japan. This amount (¥60,000) is equivalent to 7% of Japan's income per capita. The cost in Denmark is only 0.2% of its income per capita. Registration fees account for the bulk of the direct monetary cost to start a business in Japan. By reducing registration fees to ¥1,700 (0.2% of income per capita: level of Denmark), Japan can substantially cut the cost to start a business.

Many authors have taken interest in the impact of business entry reforms. For example, Branstetter et al. (2014) evaluated the consequences of a recent regulatory reform in Portugal, which substantially reduced the cost of firm entry. They found that the reform resulted in increased firm formation and employment. Also, Bruhn (2011) estimated the economic effects of

a reform that simplified business entry regulation in Mexico. Using micro-level data, she found that the reform increased the number of registered businesses by 5%.⁶

2-2. Dealing with construction permits

Japan stands at 19th out of 31 OECD economies on the ease of dealing with construction permits. This indicator measures what it takes to comply with formalities to build a warehouse in Japan. These formalities currently require 12 procedures compared to 7 in Sweden, 197 days compared to 29 days in Korea,⁷ and direct monetary cost of 0.6% of warehouse value compared to 0.1% in Slovak Republic. Instead of making the process cheaper, Japan made dealing with construction permits more costly by increasing inspection fees in 2012.

It would not be a good idea to do away with construction permits completely because sound regulation of construction helps protect the public from faulty building practices. Moreover, enhancing public safety, well-functioning building permit and inspection system can also strengthen property rights and contribute to the process of capital formation.⁸

Table A2 shows the details of the information collected by the World Bank to evaluate the procedures, time, and costs associated with dealing with construction permits in Tokyo. Japan can reduce the cost for entrepreneurs to deal with construction permits without compromising building safety. The reform measures that we consider are:

- *reduce number of procedures to get a construction permit (reform 2.2.1)*
- *reduce the time to issue a construction permit (reform 2.2.2)*

Reduce number of procedures to get a construction permit: A company in Japan must complete 12 steps to legally build a warehouse, according to the World Bank Doing Business database through information collected from experts in construction licensing, including architects, civil engineers, construction lawyers, construction firms, utility service providers and public officials who deal with building regulations. These procedures include acquiring permits/consents from local authority, neighborhood, Building Department of Government of Tokyo, Labor Control Office, Japan Building Center, and Land and Building Registry.

Some of these procedures are redundant and can be merged with other ones. For example, currently the builder needs two separate procedures to receive intermediate and final inspections from Japan Building Center and another procedure to obtain completion certificate.

Japan can benefit from the experience of various OECD countries that reduced the number of construction licenses. In Germany some simple construction projects no longer require a permit. Instead, the builder only notifies the municipality when construction starts.

⁶Djankov (2009) included an earlier literature survey on the effects of making business entry easier.

⁷ Korea stands at 3rd respectively out of 31 OECD economies on the ease of dealing with construction permits.

⁸ World Bank (2013)

Inspectors show up at the site once the project has begun. After this reform the time to comply with licensing and permit requirements fell from 165 days to 133. In France the number of licenses required for construction projects was reduced from 11 to 9. In Sweden, only 9 procedures are required, too. Elsewhere in Europe, Spain no longer requires an installation license on top of the building license, cutting the number of procedures by one.

Reduce the time to issue a construction permit: Japan can reduce the number of days to deal with construction permits by (1) introducing statutory time limits and (2) scaling back inspections for small construction projects. The procedures to get approvals from the Japan Building Center and Labor Control Office account for the bulk of time required -- 130 out of 197 days -- to deal with construction permits. Two other procedures to get approvals from Japan Building Center and Water and Sewage Services account for another 45 days. Japan can reduce the number of days to deal with construction permits by introducing statutory time limits.

In France, the average amount of time to get a construction permit was reduced by one month by requiring the building inspectorate to visit and issue a declaration of work completion within 3 months. In addition, the government can introduce “silence is consent” rules for issuing building licenses. For example, Spain set the maximum time for approval at 90 days and adopted the “silence is consent” rule at the same time. Similarly, the Netherlands introduced a 45-day limit.

Another reform that will reduce the time it takes to issue a permit is to adjust inspections to the size and nature of the project. Smaller projects could receive less scrutiny, lowering compliance costs and allowing regulators to focus their energy on more complex projects. Korea implemented such reform in 2006. It exempted small construction projects from the requirement to apply for an advance building permit.

2-3. Getting electricity

Japan currently ranks 9th on the Ease of Getting Electricity indicator. This indicator tracks the number of procedures, the time, and the direct monetary cost necessary for a business to obtain a permanent electricity connection for a newly constructed warehouse. Getting access to electricity to a warehouse in Japan requires 3 procedures, takes 105 days although it costs a negligible amount of money. It takes only 17, 18, and 22 days in Germany, Korea, and Iceland, respectively.⁹

Table A3 shows the details of the information collected by the World Bank to evaluate the procedures, time, and costs associated with obtaining access to electricity in Tokyo. While Japan performs well on the number of procedures and the direct monetary cost, it can implement the following reform to improve its ranking:

⁹ Germany, Korea, and Iceland currently rank 2nd, 1st, and 5th, respectively, on the Ease of Getting Electricity indicator.

- *Reduce the number of days it takes to get electricity by 80 days by improving efficiency of the process (reform 2.3.1)*

Reduce the number of days it takes to get electricity by 80 days by improving efficiency of the process: Japan can reduce the time between submitting application to TEPCO and getting connection works. After an initial contact with TEPCO on construction date and effective date of contract, it currently takes 93 days before electricity connection works start. After an average of 93 days of waiting, TEPCO takes 11 more days to carry out connection works and install a meter.¹⁰

Examples from the rest of the world show that it is possible to increase the efficiency of utilities' internal processes and reduce the electricity connection delays. Malaysia, Mexico, and Turkey made getting electricity easier by improving communications with contractors, introducing electronic document management systems and increasing staff and resources for inspections. In Burundi the electricity utility Regideso ended its monopoly on the sale of transformers and other equipment needed for electricity connections. Since June 2012 the change has decreased the time to obtain a connection by 30 days because customers can now import materials instead of buying them from Regideso if the materials are not in the company's stock. The utility also opened a center that combines all the internal services of the utility involving new connections. Mexico's electricity utility, Comisión Federal de Electricidad, streamlined the process for obtaining electricity, offered training to contractors and implemented a geographic information system (GIS) that maps the electricity network. This commitment has paid off: the time to obtain a new electricity connection in Mexico City dropped from 291 days in 2009 to 85 in 2013.

2-4. Registering property

Japan is currently ranked 23rd on the ease of registering property. Doing Business records the full sequence of procedures necessary for a business to purchase property from another business and transfer the property title to the buyer's name. The transaction is considered complete when it is opposable to third parties and when the buyer can use the property, use it as collateral for a bank loan or resell it.

Registering property in Tokyo requires 6 procedures, takes 13 days and costs 5.8% of the property value. More than 30 countries made it easier to register property since 2006. Japan was not one of them, although its property registration process is relatively complicated compared to other OECD countries. It is easier to register property in New Zealand than anywhere else in the world. The entire process can be completed in 2 online procedures at a monetary cost of 0.1% of the property value. Lawyers certify land transfer documents for their clients and submit them electronically for registration. Confirmation is returned within minutes. In general, the cost of

¹⁰Since the data were collected in 2013 and 2014, one might wonder if the long delays in Japan may reflect TEPCO's troubles after its nuclear power plant accidents following the earthquake and Tsunami of March 2011. But it is not the case. The delay was already long before 2011. For example, in the 2010 ranking, the total number of days it typically took from application to the end of connection works were 105 days.

registering property is lower by 26% on average in common law compared with civil law countries, a result largely driven by differences in non-notary costs of registering property.¹¹

Table A4 shows the details of the information collected by the World Bank to evaluate the procedures, time, and costs associated with registering property in Tokyo. To improve its ranking in this category, Japan can:

- *Reduce the time to register property by 7 days by introducing fast-track procedures (reform 2.4.1)*
- *Combine and eliminate some procedures for registering property (reform 2.4.2)*
- *Lower property registration fees (reform 2.4.3)*

Reduce the time to register property by 7 days by introducing fast-track procedures: An entrepreneur currently spends 7-10 days to file an application for registration at the Legal Affairs Bureau. The Legal Affairs Bureau registers the title under the name of the new owner. As registration is a requirement for perfection against third parties, reviewing the certified copy of the real property registry is generally sufficient for identifying any existing encumbrances over the real property. The parties may apply for registration by themselves. However, because of the complexity of filing, usually they retain a judicial scribe for registration.

The Legal Affairs Bureau may be in need of some structural reforms to reduce their respective delays but such reforms might require long-term efforts. In order to speed up registration in the meantime, the Legal Affairs Bureau could offer clients a choice of expedited procedures: pay a slightly higher fee and the registration is completed faster. It could offer expedited processing of 1-2 days, instead of waiting 7-10 days. Cases would be prioritized in a transparent manner, and those that prefer not to wait would be given an official way to speed up the process by 8-9 days in total. This type of scheme is offered in a number of countries around the world, from Singapore to Netherlands. Singapore introduced an online fast-track registration process for single transfers, enabling property transfers to be completed in one day. Simultaneously, the Legal Affairs Bureau can work on further reforms to reduce time for everyone – for example, by adopting shorter time-limits to process applications.

Combine and eliminate some procedures for registering property: Each party of the transaction must obtain a corporate registry certificate that has been issued within 3 months before the application. It can be obtained from a corporate registry office where the party is registered. The cost is ¥600 per copy (¥480 if obtained online). The seller also must obtain a certificate of its seal used for execution of the registration documents (issued within 3 months). It can be obtained from the Legal Affairs Bureau. The cost is ¥450 per copy (¥390 if obtained online). These two procedures can be combined, especially as the seller also needs to obtain yet another certificate of evaluation for property tax at a local tax office. Japan can also cut the requirement to obtain

¹¹ Amin and Haidar (2012)

stamps for stamp duty at a post office. Instead, the payment, if needed, can be made at the Legal Affairs Bureau.

Lower property registration fees: Currently, an entrepreneur in Tokyo must pay a registration and license tax of 1.75% of property value and a property acquisition tax of 4% of property value. The cost to register could be reduced significantly by replacing these taxes by a fixed fee. High percentage-based taxes may lead some entrepreneurs to resort to underreporting their property value to avoid paying the full amount or to avoid registration completely. As a result of such reform, Japan would be able to make the cost of registering property as low as 0.1% of property value, as in New Zealand, which is ranked 2nd in this category.

Many governments have reduced the cost of property registration by establishing a low fixed registration fee rather than charging entrepreneurs a percentage of the property value. In 2005, Slovakia abolished its 3% real estate transfer tax and set a low fixed fee for expedited registration at 8,000 Koruny (\$286). In 2007, Egypt and Poland adopted similar reforms. These reforms also ended up reducing fraud in reporting the value of property and increased tax revenues. Six months after Egypt replaced its 5.8% registration fee with a fixed fee of 2,000 Egyptian pounds (\$323), the revenues rose by 39%.¹²

2-5. Getting credit

Two types of frameworks can facilitate access to credit and improve its allocation: credit information systems and laws on collateral and bankruptcy. Credit information systems enable lenders to view a potential borrower's financial history (positive or negative). And they permit borrowers to establish a good credit history that allows an easier access to credit. Sound collateral laws enable businesses to pledge their assets as security to raise funds. The past research found strong creditors' rights specified in collateral and bankruptcy laws are associated with higher ratios of private sector credit to GDP.¹³

The World Bank Doing Business ease of getting credit index assesses the sharing of credit information and the legal rights of borrowers and lenders with respect to secured transactions using two indices. The depth of credit information index examines rules and practices affecting the coverage, scope and accessibility of credit information available through public credit registries and private credit bureaus. The strength of legal rights index measures whether certain features that facilitate lending exist within the collateral and bankruptcy laws of the country.

How well do the credit information system and law on collateral and bankruptcy in Japan facilitate the access to credit? Japan has a score of 6 (out of 8) on the depth of credit information index and a score of 4 (out of 12) on the strength of legal rights index. Higher scores indicate

¹²Haidar (2007 and 2008)

¹³Djankov et al (2007)

more credit information and stronger legal rights for borrowers and lenders. Japan is ranked 22nd among OECD economies on the ease of getting credit.

Table A5 shows the details of the information collected by the World Bank to evaluate the strength of credit reporting systems and the effectiveness of collateral and bankruptcy laws in facilitating lending in Tokyo. To improve its ranking on the ease of getting credit indicator, Japan can:

- Create a unified legal framework for secured transactions including creation, publicity and enforcement of security interests in movable assets (*reform 2.5.1*)
- Create a collateral registry in which all functional equivalents can be registered (*reform 2.5.2*)
- Reform bankruptcy law (*reform 2.5.3*)
- Establish a public credit registry for corporations (*reform 2.5.4*)

Create a unified legal framework for secured transactions including creation, publicity and enforcement of security interests in movable assets: Japan can improve collateral laws to make it easier for businesses to use their assets, especially movables, to secure credits. In what is considered to be the best practice, the businesses would be allowed to grant a non-possessory security right in a single category of movable assets (such as “machinery” or “inventory”) without requiring a specific description of the collateral. Security right also should extend to future or after-acquired assets and to the products, proceeds or replacements of original assets automatically. This reform would increase the strength of legal rights index by 3 points.

Create a collateral registry in which all functional equivalents can be registered: Japan can improve the system of registering collateral by creating a collateral registry in which all functional equivalents to security interests in movable assets (fiduciary transfer of title, financial leases, assignment or transfer of receivables, and sales with retention of title). The collateral registry should cover both incorporated and non-incorporated businesses, unified geographically, and with an electronic database indexed by debtor’s names. The collateral registry should also allow secured creditors to register, search, amend or cancel security interests online. This reform would increase the strength of legal rights index by another 3 points.

Reform Bankruptcy law: Japan can also improve the security rights of lenders in court-supervised restructuring by changing the bankruptcy law. More concretely, Japan can introduce automatic stay for creditors in court-supervised reorganizations (Corporate Reorganization or Civil Rehabilitation). Japan can also allow secured creditors to be paid first even before tax claims and employee claims when a business is liquidated. This reform would increase the strength of legal rights index by additional 2 points.

Establish a public credit registry for corporations: Japan has private sector credit bureaus that collect and distribute credit information on individuals, but does not have those for credit

information of corporations. To fill the gap, the government can create a public credit registry that collects and distributes credit information on corporations. With this change, the depth of credit information index for Japan will rise by 1 point. If Japan's credit bureaus also start providing credit scores as a value-added service to help banks and financial institutions to assess the creditworthiness of borrowers, that would increase the index by another point and bring it up to the full score (8/8), but we cannot come up with an effective government policy to achieve this.

By completing these 4 reforms, Japan would achieve full scores in strength of legal rights index (12/12) and increase depth of credit information index to 7/8. This would make Japan jump to the second among the OECD countries (and in the world) on the ease of getting credit.

Various recent studies have focused on the importance of creditor protection and credit information sharing. For example, Djankov et al. (2007) found that both creditor protection through the legal system and information sharing institutions are associated with higher ratios of private credit to GDP. In addition, Doblas-Madrid and Minetti (2013) investigated the impact of lenders' information sharing on firms' performance in the credit market using rich contract-level data from a U.S. credit bureau. They found that information sharing reduces contract delinquencies and defaults, especially when firms are informationally opaque.¹⁴

2-6. Protecting minority investors

The "protecting minority investors" indicator measures the transparency of related-party transactions, liability for self-dealing, and shareholders' ability to sue officers and directors for misconducts. Japan currently ranks 17th among the OECD countries on the strength of investor protection index. It scores 7/10 on the extent of disclosure index, 6/10 on the extent of director liability index, 8/10 on the ease of shareholder suits index, 7/10 on the extent of conflict of interest regulation index, 7/10.5 on the extent of shareholder rights index, 4.5/10.5 on the strength of governance structure index, and 4.5/9 on the extent of corporate transparency index. One of the most important potential problems in corporate governance is self-dealing: the use of corporate assets by company insiders for personal gain. Related-party transactions are the most common example. High ownership concentration and informal business relations can create the perfect environment for such transactions, which allow controlling shareholders to profit at the expense of the company's financial health. Company assets may be sold at an excessively low price to controlling shareholders, assets may be bought at an inflated price from controlling shareholders, or company loans are given to controlling shareholders on terms far better than the arms-length offers.

¹⁴See also Houston et al (2010), Haselmann et al. (2010), and Vig (2013) for related studies.

Economies with strong protections of minority investors would have clear and detailed rules on disclosure and duties for corporate directors. They would also have well-functioning court systems to allow minority shareholders to obtain judgments within reasonable time.

Empirical research shows that the level of investor protection matters for cross-country differences in income growth: countries with stronger protections tend to grow faster than those with poor investor protections.¹⁵ Moreover, stricter regulation against self-dealing is associated with large equity investment and less concentrated ownership.¹⁶ This is in line with the view that stronger legal protections make minority investors more confident about their investments and reduce the need for concentrated ownership to mitigate weaknesses in corporate governance.

Table A6 shows the details of the information collected by the World Bank to evaluate the strength of minority shareholders' protections in Tokyo. To further strengthen investor protections, Japan could:

- *Increase disclosure requirements (reform 2.6.1)*
- *Increase directors' liability (reform 2.6.2)*
- *Allow the plaintiff of a shareholder suit to request categories of documents without identifying specific ones (reform 2.6.3)*
- *Strengthen governance structure (reform 2.6.4)*
- *Enhance corporate transparency (reform 2.6.5)*
- *Improve shareholder rights (reform 2.6.6)*

Increase disclosure requirements: Japan currently scores 7/10 in the extent of disclosure requirements. By implementing the following three reforms, Japan can improve the score to perfect 10/10. First, Japan can require a resolution at both a board meeting and a general shareholders meeting to approve business transactions that entail a conflict of interest of a director and majority shareholders. Currently a resolution at the board level is sufficient. Second, a review by an external body for such transaction can be required before it takes place. Third, Japan can require immediate disclosure, to the public and/or shareholders, of transactions that entail a conflict of interest.

Increase directors' liability: Japan currently scores 6/10 on the extent of director liability. Japan can improve the score to 10/10 by implementing the following three reforms. First, Japan can give the judicial system the power to void a business transaction if the transaction is deemed unfair to minority shareholders or entails a conflict of interest. Second, directors can be required to pay the damages caused to the company and also repay the profit made from self-dealing. Third, a director at fault can be punished by fines and imprisonment.

¹⁵Haidar (2009)

¹⁶Djankov et al (2008)

Allow the plaintiff of a shareholder suit to request categories of documents without identifying specific ones: Japan already scores 8/10 on shareholder suits, but it can improve the score to 9/10 by allowing the plaintiff to request categories of documents from the corporate defendant without identifying specific ones.

Strengthen governance structure: Japan scores 4.5/10.5 on the strength of governance structure index. It can improve its score to 10.5/10.5 by implementing the following four reforms. First, Japan can bar CEOs from also serving as chairs of the board of directors. Second, it can require companies to have separate audit committees. Third, Japan can ask a potential acquirer to make a tender offer to all shareholders upon acquiring 50% of a company. Fourth, it can limit cross-shareholding between 2 independent companies to 10% of outstanding shares.

Enhance corporate transparency: Japan scores 4.5/9 on the extent of corporate transparency index. It can improve to 7.5/9 by implementing the following two reforms. First, Japan can require ownership stakes representing 10% to be disclosed. Second, it can make obligatory the disclosure of the compensation of individual managers.

Improve shareholder rights: Japan scores 7.5/10.5 on the extent of shareholder rights index. It can improve to 10.5/10.5 by (i) allowing shareholders to amend company bylaws or statutes with a simple majority and (ii) granting shareholders automatic subscription rights on new shares.

2-7. Paying taxes

The Doing Business paying taxes indicator measures the time and cost associated with paying all taxes and other mandatory payments as required by government. Japan is ranked 30 out of 31 in OECD, making this the lowest performing area for Japan. On average, a firm makes 14 tax payments a year, spends 330 hours a year preparing, filing, and paying taxes and pays 51.3% of profit as taxes.

Efficient tax administration can help encourage businesses to become formally registered thereby expanding the tax base and increase tax revenues. Administration that is unfair and capricious will bring the tax system into disrepute and weaken the legitimacy of government. Overly complicated tax systems are associated with high tax evasion. High tax compliance costs are associated with larger informal sectors, more corruption and less investment. Economies with simple, well-designed tax systems are able to help the growth of businesses and, ultimately, the growth of overall investment and employment.¹⁷ Also, measures of tax complexity have a significant inhibiting effect on the presence of FDI for a country pair: a 10% reduction in tax complexity is comparable to a one percentage point reduction in effective corporate tax rates.¹⁸ In

¹⁷Djankov et al (2010)

¹⁸Lawless (2013)

addition, a cut in the corporate tax rate by 10 percentage points could raise the annual growth rate of an economy by one to two percentage points.¹⁹

Table A7 shows the details of the information collected by the World Bank to evaluate what a typical startup company in Tokyo needs to do to pay all the required taxes and contributions.²⁰ Looking at the table, we can come up with the following two reforms that Japan can implement to improve its ranking on the ease of paying taxes.

- *reduce number of payments (reform 2.7.1)*
- *reduce corporate profit tax rate(reform 2.7.2)*

Reduce number of payments: While a company needs to make 3 tax payments in Hong Kong, 4 in Norway, and 5 in Singapore, it has to make 14 payments in Japan. In Norway, the 4 payments are corporate income tax, social security contribution, value added tax, and fuel tax. In addition to these 4 payments, a company in Tokyo must also pay inhabitants tax, a depreciable fixed assets tax, a fixed assets tax on land and building, employer paid employment and health insurancepremia, real property acquisition tax (for building expansion),business premises tax (on floor space), stamp tax (on contracts for land sale and building expansion), registration and license tax,automobile tax, and automobile tonnage tax.

Multiple taxations, where the same tax base is subjectto more than one tax treatments,appear to be making tax compliancecumbersome for taxpayers in Japan. Multiple taxations increase the cost of doing business for firms because it increases the number of payments and compliance time. Different forms have to be filled out, often applyingdifferent methods for calculating the tax.

Consolidating taxes would bea worthwhile reform. Tax offices can then distribute the revenuesamong government agencies. Slovakia did just that:its single social contribution tax funds health insurance,sickness insurance, old age pensions, disability insurance,unemployment benefits, injury insurance, guarantee insuranceand reserve fund contributions. In many countriesocial security agencies would be reluctant to part with their powers, especially if there is a chance that the central tax office will notgive them their share of revenues. To gain their trust, a formulaic allocation of revenues can be introduced so that there is little room for discretion.

Fifty-five economies have one tax per tax base. This keeps things simple. Having more types of taxes requires more interactions between businesses and tax agencies. It also complicates tax compliance.

Businesses in Korea no longer need to calculate numerous taxes on the same base. Starting with the 2010 tax year, property taxes and city planning taxes are being merged with

¹⁹Lee and Gordon (2005)

²⁰We believe that the number of fuel tax payments reported in the table (1) is not correct. The fuel tax is included in gas price that is paid at pump. Thus, companies do not pay fuel tax separately from their payment for fuel.

other taxes. And thanks to an effort aimed at unifying social security laws and administrations, businesses can now file and pay 4 labor taxes and contributions in a single payment. This freed them from the requirement to file additional returns and bear additional tax compliance costs.

Canada has harmonized and simplified its tax system. Beginning in the 2010 tax year, businesses are subject only to the federal harmonized sales tax, which replaced the former federal goods and services tax and provincial sales tax.

The time required to pay taxes estimates the number of hours it takes a typical company to gather data, analyze accounting information to highlight sensitive tax items, calculate tax liability, and submit payments. The process is estimated to take 330 hours in Japan but only 63 hours in Switzerland.²¹ By reducing the number of payments, Japan can also reduce the number of hours it takes a company to pay taxes.

More specifically, we consider the following reform to reduce the number of taxes. First, all the taxes levied on corporate profits (corporate income tax, enterprise tax, inhabitants tax, and restoration surtax) are combined into one. Similarly, all the contributions that are based on gross salaries that the firm pays to its employees (employer contributions to welfare pension insurance, health insurance, workmen's accident insurance, employment insurance, and child allowance) are combined into one. All the taxes on fixed assets (depreciable fixed assets tax, fixed assets tax, city planning tax, automobile tax, and automobile tonnage tax) are also combined into one. Two taxes for building expansion (real property acquisition tax and registration and license tax) are combined into one. Finally, the reform eliminates the stamp tax altogether. Then, the combined corporate income tax and the combined employee contribution are made to be collected at the same time once a year. In addition to this, the corporation will be paying taxes just three more times (combined tax on fixed assets, combined tax for building expansion, and the value added tax). Thus, the total number of tax payments will be reduced to four. We do not expect the preparation time for tax to be reduced proportionally. Somewhat arbitrarily, we assume the reform will reduce the preparation time for corporate income tax and employee contribution to health insurance by 33% because they are now collected at the same time, but the preparation time for the value added tax does not change. Under this assumption, the total time the firm spends to pay taxes will be reduced from 330 hours to 233 hours.

Reduce corporate profit tax rate: The total tax rate (as % of profit) is 21% in Canada and 25.9% in Ireland but 51.2% in Japan. While the marginal statutory corporate income tax rate is 3.9% in Canada and 12.4% in Ireland, it is 28.9% in Japan. And, the labor tax and contributions account for 12.5% in Canada, 12.1% in Ireland, and 18.1% in Japan. Japan could benefit from reducing the total tax rate.

²¹ For comparability purpose, the Doing Business Project takes a standard case/company in each country for each area. In estimating the time it takes to pay taxes, the standardized company is assumed to have a turnover of 1050 times income per capita.

Specifically, we consider the reform ends up reducing the total effective tax rate by 20% to 31.2%. The reform is much more drastic than that currently planned by the Abe administration. The government aims to reduce the effective tax rate by more than 5% in several years and by more than 10% in the long run. As the first step, the Cabinet tax reform plan for FY2015 calls for 2.51% reduction of the effective corporate tax rate for FY2015 and another 3.29% for FY2016.²²

2-8. Trading across borders

Japan is ranked 14th out of 31. The Doing Business trading across borders indicator measures the time and cost associated with exporting and importing a standardized cargo of goods by sea transport. The time and cost necessary to complete every official procedure for exporting and importing the goods are recorded. All documents needed by the trader to export or import the goods across the border are also recorded. In France and Ireland, only two documents (the bill of lading and customs declaration) are required to export or import. But, in Japan, one more document (the commercial invoice) is required to export and three more documents (cargo dispatch document, commercial invoice, and packing list) are required to import. And, while it takes 11 days to comply with all the procedures required to export or import goods in Japan, it takes only 6 days to comply with the procedures required to export and 5 days to comply with the procedures required to import in Denmark, United States, and Estonia. The cost associated with procedures required to export (import) is 29% (45%) lower in Hong Kong than in Japan.²³

Table A8 shows the details of the information collected by the World Bank to evaluate the number of documents, days, and costs required by a typical company in Tokyo to import and export. To improve its ranking on the ease of trading across borders, Japan can:

- *Allow electronic submission and processing* (reform 2.8.1)
- *Link agencies through an electronic single window* (reform 2.8.2)
- *Use risk-based inspections* (reform 2.8.3)
- *Improve transparency in trade regulation* (reform 2.8.4)

Allow electronic submission and processing: Electronic systems for filing, transferring, processing, and exchanging customs information have become an important tool for managing flows of information in complex trading systems. The newest web-based systems can allow Japanese exporters and importers to submit their documents from anywhere and to pay duties

²²Ministry of Finance Japan (2015) *Tax Reform (Main Points)*. (http://www.mof.go.jp/english/tax_policy/tax_reform/fy2015/tax2015a.pdf, accessed on April 12, 2015).

²³While trade facilitation does improve as the country size becomes smaller, the relationship between country size and trade facilitation does not appear to be driven by the fact that small countries trade more as a proportion of their GDP than the large countries. See Amin and Haidar (2014) for details.

online. Japan can update its regulatory framework to allow exporters and importers to take advantage of the new information technologies. Over the past 9 years, 119 economies have introduced or improved such systems. Today traders can submit all trade documents electronically in more than half of OECD high-income economies with no need to provide hard copies. For example, France speeded up and simplified its customs clearance procedures by introducing an electronic customs declaration and eliminating the need to submit certain documents. The Netherlands made importing easier by introducing a new web-based system for cargo release at the port terminals in Rotterdam. Spain also expanded the use of electronic submission of customs declarations.

Link agencies through an electronic single window: Increasingly, economies are going a step further by virtually linking not only traders and customs but all agencies involved in trade and transport through an electronic single-window system. In what is considered the best practice today, such a system allows traders to file standard information and documents through a single entry point to fulfill all import, export and transit-related regulatory requirements, and shares relevant information with all parties involved including private participants such as banks and insurance companies as well as public agencies such as immigration and vehicle registration authorities.

As of this writing, 71 economies around the world have implemented single-window systems of varying complexity.²⁴ In Singapore, the government established the world's first national single window for trade (TradeNet) in 1989, bringing together more than 35 border agencies.²⁵ Portugal also implemented an electronic single window for port procedures. The Korea Customs Service estimates that the introduction of a single-window system there brought some \$18 million in benefits in 2010, a part of the overall economic benefits that year of up to \$3.47 billion from the agency's trade facilitation efforts.²⁶ Indeed, for Korean-based companies such as Samsung and LG, achieving rapid and predictable turnaround times is an important source of their competitiveness.

Use risk-based inspections: Requiring imports and exports to undergo inspections (for tax, security, environmental, border control, and health and safety reasons) is often necessary. Done with a heavy hand, however, inspections can be a serious obstacle to efficient and predictable trades.

Over the years, customs administrations around the world have developed systems for establishing risk profiles of products that allow them to apply inspections in proportion to the potential risk. Investing in equipment is another way to help expedite the processing of cargo. Many economies have adopted the use of scanners to limit the need to physically open containers. In some countries, however, the use of scanners has led to further delays because customs agents

²⁴ World Bank Doing Business 2015 Database

²⁵ Singapore Customs Service. 2007. *Annual Report 2006/07*. Singapore. <http://www.customs.gov.sg/>

²⁶ See Korea Customs Service (2011)

scan all containers and mandatory scanning fees have added costs for traders. Efficient use of scanners in conjunction with risk-based profiling can strike the right balance in inspection, contributing to the efficiency of the trade process. Risk-based inspections are the norm in OECD high-income economies, but Japan has not adopted the practice. They are also becoming increasingly common elsewhere. Today 134 economies use risk-based inspections.

Improve transparency in trade regulation: Improving transparency in trade regulation by providing easy access to documentation of requirements and tariff schedules can reduce transactions costs for importers and exporters. The average customs clearance cost for exports as measured by Doing Business is 25.3% lower in those economies where documentation requirements are easily accessible.²⁷

Recent literature has emphasized the importance of trade facilitation in explaining trade, access to markets, and increases in per capita income. For example, Clark et al. (2004) found that ports efficiency is an important determinant of shipping costs and in bilateral trade. Also, Djankov et al. (2010) found that each additional day that a product is delayed prior to being shipped reduces trade by more than one percent. Put differently, each day is equivalent to a country distancing itself from its trade partners by about 70 km on average.

2-9. Enforcing contracts

Japan currently ranks 16th out of 31 on this index. The Doing Business Enforcing Contracts indicator measures time, cost and procedural complexity to enforce a debt in court between two local businesses. It takes 360 days (or nearly 1 year) from the moment a case is filed until the creditor receives payment and the average cost amounts to 32.2% of the value of the claim.

Effective commercial dispute resolution has many benefits. Courts can be important for entrepreneurs because they interpret the rules of the market and protect economic rights. Efficient and transparent courts encourage new business relationships because businesses know they can rely on the courts if a new customer fails to pay. Speedy trials are essential for small enterprises, which may lack the resources to stay in business while awaiting the outcome of a long court dispute.

Table A9 shows the details of the information collected by the World Bank to evaluate the ease of enforcing contracts in Tokyo. To improve its rankings on this indicator, Japan can:

- *Limit adjournments and make enforcement of judgments more efficient (reform 2.9.1)*
- *Introduce performance measures for judges (reform 2.9.2)*
- *Maintain specialized commercial court (reform 2.9.3)*
- *Expand case management systems and automation (reform 2.9.4)*

²⁷ World Bank Doing Business 2014 Database

Limit adjournments and make enforcement of judgments more efficient: Judges can limit adjournments. Frequent adjournments slow down contract enforcement in Japan. Adjournments are responsible for 280 days out of the 360 days that it takes to get trial and a judgment, and add another 60 days for enforcement. Time limits should be enforced to reduce long delays in court hearings.

Introduce performance measures for judges: Performance evaluation for judges could be introduced. There are several indicators for the judge performance used in other countries. One of them is the disposition rate, which is calculated by dividing the number of disposed cases (by issuing judgments or settling a case in mediation) by the number of incoming cases.

Maintain specialized commercial court: Austria and Belgium have stand-alone commercial courts. The U.K. and the U.S. have specialized commercial divisions within their courts. Specialized courts have been found to improve efficiency.²⁸ Creating specialized commercial courts can result in faster and less costly contract enforcements. One reason for the greater efficiency is that judges become expert in handling commercial disputes. Commercial courts often have less formal procedures. For example, use of oral arguments is permitted even where the general courts require written procedures.

Expand case management systems and automation: Japan could expand the use of case management that currently exists in minimal form and only in limited number of courts. Judicial case management involves monitoring and managing cases in the court docket from the filing of the claim until judgment is rendered. It has proved to be an effective tool for reducing procedural delays at court and for monitoring the performance of judges and court officers. By analyzing court workloads, case management systems can help predict trends and allocate resources strategically. Case management can be particularly successful when courts are computerized and when support functions (such as electronic filing, case tracking, document management, deadline reminders and scheduling of hearings) are all performed automatically. Currently 21 of the 189 economies covered by Doing Business allow electronic filing of the initial complaint in a commercial case. In 12 economies including Korea and Malaysia, the capacity has been introduced only after 2007.

The cost of enforcing contracts is a key determinant of market performance. For example, Bae and Goyal (2009) showed that banks respond to poor enforceability of contracts by reducing loan amounts, shortening loan maturities, and increasing loan spreads. Also, supported by panel data on Italian provinces and by cross-country evidence, Jappelli et al. (2005) showed that improvements in judicial efficiency reduce credit rationing and increase lending.

2-10. Resolving insolvency

²⁸ See Botero et al (2003).

The Doing Business resolving insolvency indicator identifies the main procedural and administrative bottlenecks in the bankruptcy process. Economies with good bankruptcy procedures can maximize the total value of recovered debt (to be divided among the debtor, the main creditors and possibly the shareholders) with the least cost. Economies with inefficient insolvency procedures have low recovery rates.²⁹ An efficient bankruptcy procedure helps keep economically viable firms in business and encourages creation of new firms, thereby promoting healthy competition in the economy.

Table A10 shows the details of the information collected by the World Bank to evaluate the strengths and weaknesses in existing insolvency regulations in Tokyo. Japan already ranks second in the world on this indicator. To improve its ranking on the ease of resolving insolvency, Japan can:

- *Promote specialized courts (reform 2.10.1)*

Promote specialized courts: Promoting specialized courts is among the most efficient ways to ensure that insolvency cases receive attention more quickly. It also improves the quality of the judicial system, because it allows judges to specialize in hearing insolvency cases and thus better equips them to make informed decisions. Japan could reduce the length of proceedings to shorter than 0.6 years by creating courts specialized in bankruptcy cases.

3. What would it Take for Japan to be in Top Three?

Overall, we have identified 31 reforms that Japan can carry out to reduce the cost of doing business. In this section, we classify each reform according to two dimensions. One is whether the reform requires legal changes or not. The other is whether the reform would face strong political resistance. Thus, we group the reforms into four groups as in Figure 1. It seems safe to assume that the reforms in Group I are much easier to implement than those in Group IV. Whether the reforms in Group II (legal changes that do not face strong political resistance) are easier to implement than those in Group III (administrative changes that face strong political resistance) is debatable, but we assume it is the case.

Table 2 summarizes our judgment about how each reform is classified along the two dimensions. Of the 31 reforms, we find 14 reforms to be just administrative changes and not likely to face strong political resistance. For example, allowing electronic submission and processing of export and import documents would entail only an administrative change in the process. Similarly, elimination of the requirement for company seal and judicial scrivener to complete the registration procedure on behalf of the company can be done without changing any existing law. Moreover, these reforms are not likely to face much political resistance because the

²⁹ See Crimizi et al (2012)

benefactors of the regulations (seal makers and judicial scriveners in this example) are not known for their political clout. Introducing fast-track procedures and combining certain procedures within the property transfer process at the Legal Affairs Bureau do not require legal changes and are not likely to face serious political resistance, either. Such reforms are classified into Group I.

Certain administrative reforms may face political resistance. We find 2 of the 31 reforms fall into this category. Creating a one-stop shop for business registration requires a collaborative effort from more than one government agencies (the Ward Office, Ministry of Justice, District Tax Office, Municipality, Labor Standards Inspection Office, Japan Pension Service, and Public Employment Security Office). These agencies would lose some of their powers in the consolidation process and hence would oppose the reform. Similarly, forcing TEPCO to make internal reforms to improve the efficiency in the process of getting an access to electricity can be a challenge. These reforms that are administrative in nature but are likely to face substantial political resistance are classified into Group III.

There are 15 reforms that require legal changes. Two of those (reduction of the business registration fee and reduction of the property registration fee) would not face strong political resistance. On the contrary, these fee reducing reforms are actually likely to be very popular. These are classified into Group II.

The remaining 13 reforms that require legal changes would be politically difficult. For instance, enhancing required disclosure, making it easier to sue directors, and opening company books for shareholder inspection would all involve changing the Corporate Law. We can easily expect strong opposition from many corporations. Similarly, reducing number of tax payments by consolidating some taxes and social security contributions require legal changes, and will face strong oppositions from the social security agencies that would lose some powers. These reforms are classified into Group IV.

Table 3 summarizes how all the reforms are classified into four groups. In terms of the number, 14 of the 31 reforms require only administrative changes and are not expected to face high political resistance. This is good news for the Japanese government. These reforms are relatively easy to implement.

Implementing just those reforms in Group I, however, is not sufficient to make Japan one of the top three countries in the ease of doing business ranking. Even if we assume all the other countries that are ranked higher than Japan currently do not do anything to improve their conditions for doing business, Group I reforms improve Japan's ranking to just #15, the ranking Japan held in the 2013 Report. Japan would leapfrog Switzerland, Austria, Portugal, and Netherlands, but would still be ranked lower than New Zealand, the U.S., Denmark, Korea, Norway, United Kingdom, Australia, and Finland.

Implementing all the reforms that are not likely to face tough political resistance (Groups I and II) would still be insufficient. It would improve Japan's ranking by just two more spots to

#13. Japan would jump ahead of Canada and Estonia but be still looking up New Zealand, the U.S., and Denmark.

Even when all the reforms except for the toughest ones (Group IV, which require legal changes and are expected to face high political resistance), Japan would be advanced only to 11th. Only if Japan embarked on the toughest reforms, Japan would come close to achieving the KPI of being ranked among top three.

For example, Japan can reach top six by implementing the “paying taxes” recommended reforms (2.7.1 and 2.7.2) in addition to Groups I, II, and III reforms. Also, it can reach top 5 by implementing the “protecting minority investors” reforms (2.6.1-2.6.6) in addition to Groups I, II, and III reforms. And, by implementing Groups I, II, and III reforms and the “getting credit” reforms (2.5.1-2.5.4), Japan can actually make it to top four.

Thus, these moves will not be sufficient, especially if the other countries do not stand still. The assumption that other countries will not do any reforms will certainly turn out to be false. That is why Japan needs to implement at least all the reforms in Groups I, II, and III, and most of IV, if it wants to be among the top three countries in the ease of doing business ranking. By implementing all the reforms in Groups I, II, III, and IV, Japan would rank #2 and increase its chance to be in top 3 substantially even if other countries reform, too.

4. Concluding remarks

Improving the environment for business is an important part of the growth strategy (Third Arrow) of Abenomics. As the KPI (Key Performance Indicator) for this effort, the Abe Administration aims to improve Japan’s rank in the World Bank Doing Business Ranking from #15 (in 2013 Report) among high-income OECD countries to one of the top three. Setting a clear target makes sense because the experience of business regulatory reforms elsewhere shows measuring and monitoring the progress of reform is important. For instance, Saudi Arabia used the doing business indicators as part of a scheme to measure its reform progress. In 2005, it set up a 5-year investment climate reform program and aimed to be among the top 25 in the doing business ranking by 2008.³⁰ The reform program was successful and Saudi Arabia was ranked 11th in the World Bank Doing Business 2011 report.

Although the goal may be clear, it is not yet clear how the Japanese government will try to improve its Ease of Doing Business ranking. This paper clarifies what it takes for Japan to be among top three countries in terms of ease of doing business. By looking at details of the latest World Bank Doing Business ranking, we identify various reforms that Japan could implement to improve the ranking. Then, we classify the reforms that we suggest into four groups depending

³⁰ See Belayachi and Haidar (2008)

on whether the reform requires legal changes and whether the reform is likely to face strong political resistance.

By just doing the reforms that do not require legal changes and are not likely to face strong political opposition, Japan can improve the ranking from the current 19th among high-income OECD countries to #15, where it were in 2013. To be in top 3 is much more difficult. Japan would need to implement all the reforms that we suggest including most of those that require changing the laws *and* are likely to face strong political resistance, even under the unrealistic assumption that the other countries do not reduce the cost of doing business. Thus, in order to achieve the KPI becoming one of the top three countries among high-income OECD countries in terms of ease of doing business, Japan would need to carry out all the reforms in Groups I, II, and III, and most likely all in Group IV as well.

Improving the ranking alone, however, would not guarantee increased business creation in Japan. This is because the Doing Business ranking does not look at all the aspects of cost of doing business. For example, to measure the difficulty of dealing with licenses, *Doing Business's* indicators examine the burden of obtaining a permit to build a warehouse. But firms must deal with licenses in many other areas as well including medical devices and drugs, radio stations, mines, bars, banks, insurance companies, airlines, and taxis depending on their business. The cost of doing business in those areas is not covered by the report's indicators. If Japan wants to reduce the cost of doing business generally, the government has to look at licensing procedures in these other areas, too. International benchmarks may be useful for getting an idea of achievable performance in a particular area, but the key is to improve in all the areas that matter, whether or not they are covered by existing global indicators.³¹

Finally, improving the business environment is just one of the many economic reform areas proposed in Abenomics. Achieving the KPI for this reform area alone would not be sufficient to restore the growth to Japan. Also, there is a social cost for implementing flexibility-enhancing structural reforms that need to be addressed.³² Thus, it will be important to have clear KPIs for other growth enhancing reform areas, too, and to achieve those. A problem of Abenomics is that it is not clear on how to achieve the KPIs in many reform areas even when they have clear KPIs. This problem still exists in the 2015 revision of the growth strategy. This paper shows a way to formulate a clear reform plan to achieve the KPI for improving the business environment in Japan. Similar exercises would be very useful in other reform areas as well.

³¹Hausmann (2013) argues that countries should not focus too much on improving their rankings. Instead, he argues, the countries should use the information as a catalyst for growth policy debates.

³² For example, see Boeri et al (2015) which highlights costs of labour market structural reforms

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World Bank Doing Business Database.

Table 1: Japan's performance and top 5 OECD economies in terms of ease of doing business

| | Japan ranking in the | | Ranking of the top 5 countries in OECD (from first to fifth) |
|-----------------------------------|----------------------|------|---|
| | World | OECD | |
| Starting a Business | 83 | 27 | New Zealand, Canada, Australia, Portugal, Belgium |
| Dealing with Construction Permits | 83 | 19 | Denmark, Germany, Korea, New Zealand, United Kingdom |
| Getting Electricity | 28 | 9 | Korea, Germany, Switzerland, Sweden, Iceland |
| Registering Property | 73 | 23 | New Zealand, Norway, Denmark, Slovak Republic, Estonia |
| Getting Credit | 71 | 22 | New Zealand, United States, Australia, Canada, United Kingdom |
| Protecting Minority Investors | 35 | 17 | New Zealand, United Kingdom, Ireland, Canada, Israel |
| Paying Taxes | 122 | 30 | Ireland, Canada, Denmark, Norway, United Kingdom |
| Trading Across Borders | 20 | 14 | Korea, Sweden, Ireland, Estonia, Denmark |
| Enforcing Contracts | 26 | 16 | Luxembourg, Iceland, Korea, Austria, Norway |
| Resolving Insolvency | 2 | 2 | Finland, Japan, Germany, United States, Korea |
| Ease of Doing Business | 29 | 19 | New Zealand, Denmark, Korea, Norway, United States, |

Note: The source of this information is the World Bank 2015 Doing Business Database.

Table 2: Expected impact and political resistance of recommended reforms

| Reform name | Reform type | Impact | Expected political resistance |
|---|--------------------|--|--------------------------------------|
| Starting a business | | | |
| <i>Eliminate the requirement for a company seal (reform 2.1.1)</i> | Administrative | . Cut 4 days, 2 procedures, and cost by 0.53% of income per capita. . Improve the rank on the ease of starting a business by 11 spots and the overall rank by 1spot | Low |
| <i>Make business registration administrative rather than judicial(reform 2.1.2)</i> | Administrative | . Cut 2days . Improve rank on the ease of starting a business by 10 spots and leave the overall rank unchanged | Low |
| <i>Create one-stop shop for business registration (reform 2.1.3)</i> | Administrative | . Cut 7 procedures and 10days . Improve the rank on the ease of starting a business by 22 spots and the overallrank by 1spot | High |
| <i>Cut registration fees (reform 2.1.4)</i> | Legal | . Cut cost by 6.8 % of income per capita . Improve the rank on the ease of starting a business by 1 spot andleave the overall rank unchanged | Low |
| Implementing reforms 2.1.1-2.1.4 would improve the rank on the ease of starting a business by 22 spots and the overall rank by 1 spot | | | |
| Dealing with construction permits | | | |
| <i>Reduce number of procedures to get a construction permit(reform 2.2.1)</i> | Administrative | . Cut 7 procedures . Improve the rank on the ease of dealing with construction permits by 8 spots andthe overall rank by 1spot | Low |
| <i>Reducethe timeto issuea construction permit(reform 2.2.2)</i> | Administrative | . Cut 130 days . Improvethe rank on the ease of dealing with construction permits by 8 spots and | Low |

| | | | |
|---|----------------|---|------|
| | | the overall rank by 1spot | |
| Implementing reforms 2.2.1-2.2.2 would improve the rank on the ease of dealing with construction permits by 17 spots and the overall rank by 2 spots | | | |
| Getting electricity | | | |
| <i>Reduce the number of days it takes to get electricity by 80 days by improving process efficiency(reform 2.3.1)</i> | Administrative | . Cut 80 days . Improve the rank on the ease of getting electricity by 4 spots and the overall rank by 1spot | High |
| Registering property | | | |
| <i>Reduce the time to register property by introducing fast-track procedures (reform 2.4.1)</i> | Administrative | . Cut 8 days . The rank on the ease of registering property andthe overall rank will not change | Low |
| <i>Combine and eliminate some procedures for registering property (reform 2.4.2)</i> | Administrative | . Cut 2 procedures (days will not change as those procedures are simultaneous) . Improve the rank on the ease of registering property by 7 spots and the overall rank by 1spot | Low |
| <i>Lower property registration fees (reform 2.4.3)</i> | Legal | . Reduce cost to 0.1 % of property value . Improve the rank on the ease of registering property by 11 spots and the overall rank by 1spot | Low |
| Implementing reforms 2.4.1-2.4.3 would improve the rank on the ease of registering property by 15 spots and the overall rank by 2 spots | | | |
| Getting credit | | | |
| <i>Create a unified legal framework for secured transactions including creation, publicity and enforcement of security interests in movable assets (reform 2.5.1)</i> | Legal | . Increase the strength of legal rights index by 3 points . Improve the rank on the ease of getting creditby 7 spots and the overall rank by 1 spot | High |
| <i>Create a collateral registry in which all functional equivalentents can be registered (reform 2.5.2)</i> | Legal | . Increase the strength of legal rights index by 3 points . Improve the rank on the ease of getting | High |

| | | | |
|--|-------|--|------|
| | | credit by 7 spots and the overall rank by 1 spot | |
| <i>Reform bankruptcy law (reform 2.5.3)</i> | Legal | . Increase the strength of legal rights index by 2 points . Improve the rank on the ease of getting credit by 7 spots and the overall rank by 1 spot | High |
| <i>Establish a public credit registry for corporations (reform 2.5.4)</i> | Legal | . Increase the depth of credit information index by 1 point . Improve the rank on the ease of getting credit by 7 spots and the overall rank by 1 spot | High |
| Implementing reforms 2.5.1-2.5.4 would improve the rank on the ease of getting credit by 17 spots and the overall rank by 3 spots | | | |
| Protecting minority investors | | | |
| <i>Increase disclosure requirements (reform 2.6.1)</i> | Legal | . Increase the extent of disclosure index by 3 points . Improve the rank on the protecting minority investors by 8 spots and the overall rank by 1 spot | High |
| <i>Increase directors' liability (reform 2.6.2)</i> | Legal | . Increase the extent of director liability index by 4 points . Improve the rank on the protecting minority investors by 10 spots and the overall rank by 1 spot | High |
| <i>Allow the plaintiff of a shareholder suit to request categories of documents without identifying specific ones (reform 2.6.3)</i> | Legal | . Increase the ease of shareholder suits index by 1 point . Improve the rank on the protecting minority investors by 7 spots and leave the overall rank unchanged | High |
| <i>Strengthen governance structure (reform 2.6.4)</i> | Legal | . Increase the strength of governance structure index by 6 points . Improve the rank on the protecting | High |

| | | | |
|---|----------------|---|------|
| | | minority investors by 11 spots and the overall rank by 1 spot | |
| <i>Enhance corporate transparency (reform 2.6.5)</i> | Legal | <ul style="list-style-type: none"> . Increase the extent of corporate transparency index by 3 points . Improve the rank on the protecting minority investors by 8 spots and the overall rank by 1 spot | High |
| <i>Improve shareholder rights (reform 2.6.6)</i> | Legal | <ul style="list-style-type: none"> . Increase the extent of shareholder rights index by 3 points . Improve the rank on the protecting minority investors by 8 spots and the overall rank by 1 spot | High |
| Implementing reforms 2.6.1-2.6.6 would improve the rank on protecting minority investors by 16 spots (to #1) and the overall rank by 2 spots | | | |
| Paying taxes | | | |
| <i>Reduce number of payments (reform 2.7.1)</i> | Legal | <ul style="list-style-type: none"> . Reduce number of payments (to 4) and hours needed to pay taxes (to 233) . Improve the overall rank by 1 spot but leave the rank on the ease of paying taxes unchanged | High |
| <i>Reduce corporate profit tax rate (reform 2.7.2)</i> | Legal | <ul style="list-style-type: none"> . Reduce profit tax rate to 31.2% from its current 51.3% . Improve the rank on the ease of paying taxes by 3 spots and the overall rank by 1 spot | High |
| Implementing reforms 2.7.1-2.7.2 would improve the rank on the ease of paying taxes by 6 spots and the overall rank by 1 spot | | | |
| Trading across borders | | | |
| <i>Allow electronic submission and processing (reform 2.8.1)</i> <i>Link agencies through an electronic single window (reform 2.8.2)</i> <i>Use risk-based inspections (reform 2.8.3)</i> | Administrative | <ul style="list-style-type: none"> . Reduce time, number of documents, and cost for cross-border trading to 5 days, 2 documents, and 600 USD, respectively . Improve the rank on the ease of trading across borders by 13 spots (to #1) and the | Low |

| | | | |
|--|----------------|---|------|
| <i>Improve transparency in trade regulation (reform 2.8.4)</i> | | overall rank by 1spot | |
| Enforcing contracts | | | |
| <i>Limit adjournments and make enforcement of judgments more efficient (reform 2.9.1)</i> <i>Introduce performance measures for judges (reform 2.9.2)</i> <i>Maintain specialized commercial court (reform 2.9.3)</i> <i>Expand case management systems and automation (reform 2.9.4)</i> | Administrative | . Reduce time to 150 days . Improve the rank on the ease of enforcing contracts by 5 spots and the overall rank by 1spot | Low |
| Resolving insolvency | | | |
| <i>Promote specialized courts (reform 2.10.1)</i> | Legal | . Improve the rank on the ease of resolving insolvency by 1 spots (to #1) but leave the overall rank unchanged | High |

Notes: “Impact” column shows what would happen when that reform alone without any other reforms was implemented. Thus, the impact on ranking is the marginal impact evaluated at the status quo. All rankings in Table 2 refer to OECD ranking (column 3 of Table 1

Table 3: Classification of Reforms for Japan

| | | Political resistance | |
|-------------|----------------|---|--|
| | | Low | High |
| Reform type | Administrative | 2.1.1 2.1.2 2.2.1 2.2.2 2.2.3 2.4.1 2.4.2 2.8.1 2.8.2 2.8.3 2.8.4 2.9.1 2.9.2 2.9.3 2.9.4 | 2.1.3 2.3.1 |
| | Legal | 2.1.4 2.4.3 | 2.5.1 2.5.2 2.5.3 2.5.4 2.6.1 2.6.2 2.6.3 2.6.4 2.6.5 2.6.6 2.7.1 2.7.2 2.10.1 |

Figure 1. Classification of Reforms

| | | Political Resistance | |
|--------------|---------------|----------------------|-----------|
| | | Low | High |
| Legal Change | Not Necessary | Group I | Group III |
| | Necessary | Group II | Group IV |

Appendix

Table A1. Procedures, time, and costs associated with starting a business in Tokyo

| No. | Procedure | Time | Costs |
|-----|---|--------------------------------------|---|
| 1 | Search the company name and obtain the certificate of seal registration from the Legal Affairs Bureau | 1 day | JPY 450 (each) |
| 2 | Make a company seal | 3 days | JPY 10,000 - JPY 20,000 |
| 3 | Register at the Legal Affairs Bureau of the Ministry of Justice | 3 days | 0.7% of the capital amount or JPY 60,000, whichever is higher |
| 4 | File the notification of company incorporation and the opening of a payroll office; and Apply for the approval of blue tax returns at the District Tax Office | 1 day | no charge |
| 5 | File the notification of commencement of business at the tax office of the municipal or prefectural government | 1 day | no charge |
| 6 | File the necessary labor insurance notifications and employment rules at the Labor Standards Inspection Office | 1 day | no charge |
| 7 | File the applications for health insurance and public welfare pension at the Japan Pension Service | Less than one day (online procedure) | no charge |
| 8 | File the company application for employment insurance at the Public Employment Security Office | Less than one day (online procedure) | no charge |

Table A2. Procedures, time, and costs associated with dealing with construction permits in Tokyo

| No. | Procedure | Time | Costs |
|-----|--|---------|-------------|
| 1 | Hold initial consultation with local authority | 24 days | no charge |
| * 2 | Obtain consent of neighborhood | 30 days | no charge |
| 3 | Obtain building permit from Japan Building Center | 70 days | JPY 225,000 |
| * 4 | Request and obtain workmen's compensation insurance proof from Labor Control Office | 60 days | no charge |
| 5 | Purchase and post statutory construction notice sign board | 1 day | JPY 50,000 |
| 6 | Submit construction method plan to local authority and obtain approval | 7 days | no charge |
| 7 | Submit project safety and health and resources recycling plan to local authority and obtain approval | 7 days | no charge |
| 8 | Receive intermediate inspection by Japan Building Center and obtain permit | 24 days | JPY 211,000 |
| 9 | Request and receive connection to water and sewage services | 21 days | no charge |
| 10 | Request and receive final inspection from Japan Building Center | 7 days | JPY 220,000 |
| 11 | Obtain completion certificate | 18 days | no charge |
| 12 | Register the building with the Land and Building Registry | 12 days | JPY 389,275 |

Table A3. Procedures, time, and costs associated with obtaining access to electricity in Tokyo

| No. | Procedure | Time | Costs |
|-----|---|-----------------|-------|
| 1 | Obtain discussion with Tepco on the actual construction date and effective date of contract | 1 calendarday | JPY 0 |
| 2 | Submit application at Tepco and await start of external connection works | 93 calendardays | JPY 0 |
| 3 | Tepco carries out connection works and installation of meter | 11 calendardays | JPY 0 |

Table A4. Procedures, time, and costs associated with registering property in Tokyo

| No. | Procedure | Time | Costs |
|-----|---|--|--|
| 1 | The seller obtains a certificate of evaluation for fixed asset tax of the real property at a local tax office | 1 day (simultaneous with Procedures 2, 3, and 4) | JPY 400 for land + JPY 400 for building |
| * 2 | Obtain stamps for stamp duty at a post office | 1 day (simultaneous with Procedures 1, 2, and 4) | JPY 80,000 |
| * 3 | Obtain a corporate registry certificate | Less than a day (online procedure simultaneous with Procedures 1, 2, and 4) | JPY 600 each copy or JPY 480 each copy online |
| * 4 | Obtain a certificate of Seller's seal impression (inkanshomei) | Less than a day (online procedure simultaneous with Procedures 1, 2, and 3) | JPY 450 each copy JPY 390 online |
| 5 | File an application at the Legal Affairs Bureau | 7-10 days | 2% of building value + 1.5% of land value evaluated for fixed asset tax (registration and license tax) |
| 6 | Payment of the real property acquisition tax | 1 day | 4% of property price evaluated for fixed asset tax |

Table A5. The strength of credit reporting systems and the effectiveness of collateral and bankruptcy laws in facilitating lending in Tokyo

| Depth of credit information index (0-8) | Privatecredit bureau | Public creditregistry | Score |
|---|-----------------------------|------------------------------|--------------|
| Are data on both firms and individuals distributed? | No | No | 0 |
| Are both positive and negative credit data distributed? | Yes | No | 1 |
| Are data from retailers or utility companies - in addition to data from banks and financial institutions - distributed? | Yes | No | 1 |
| Are at least 2 years of historical data distributed? (Credit bureaus and registries that distribute more than 10 years of negative data or erase data on defaults as soon as they are repaid obtain a score of 0 for this component.) | Yes | No | 1 |
| Are data on loan amounts below 1% of income per capita distributed? | Yes | No | 1 |
| By law, do borrowers have the right to access their data in the credit bureau or credit registry? | Yes | No | 1 |
| Can banks and financial institutions access borrowers' credit information online (for example, through an online platform, a system-to-system connection or both)? | Yes | No | 1 |
| Are bureau or registry credit scores offered as a value-added service to help banks and financial institutions assess the creditworthiness of borrowers? | No | No | 0 |
| Score ("yes" to either public bureau or private registry) | | | 6 |

Table A5 (continued)

| Strength of legal rights index (0-12) | |
|---|----------|
| Does an integrated or unified legal framework for secured transactions that extends to the creation, publicity and enforcement of functional equivalents to security interests in movable assets exist in the economy? | No |
| Does the law allow businesses to grant a non possessory security right in a single category of movable assets, without requiring a specific description of collateral? | Yes |
| Does the law allow businesses to grant a non possessory security right in substantially all of its assets, without requiring a specific description of collateral? | No |
| May a security right extend to future or after-acquired assets, and may it extend automatically to the products, proceeds or replacements of the original assets? | No |
| Is a general description of debts and obligations permitted in collateral agreements; can all types of debts and obligations be secured between parties; and can the collateral agreement include a maximum amount for which the assets are encumbered? | Yes |
| Is a collateral registry in operation for both incorporated and non-incorporated entities, that is unified geographically and by asset type, with an electronic database indexed by debtor's name? | No |
| Does a notice-based collateral registry exist in which all functional equivalents can be registered? | No |
| Does a modern collateral registry exist in which registrations, amendments, cancellations and searches can be performed online by any interested third party? | No |
| Are secured creditors paid first (i.e. before tax claims and employee claims) when a debtor defaults outside an insolvency procedure? | Yes |
| Are secured creditors paid first (i.e. before tax claims and employee claims) when a business is liquidated? | No |
| Are secured creditors subject to an automatic stay on enforcement when a debtor enters a court-supervised reorganization procedure? Does the law protect secured creditors' rights by providing clear grounds for relief from the stay and/or sets a time limit for it? | No |
| Does the law allow parties to agree on out of court enforcement at the time a security interest is created? Does the law allow the secured creditor to sell the collateral through public auction and private tender, as well as, for the secured creditor to keep the asset in satisfaction of the debt? | Yes |
| Score (number of "yes" responses) | 4 |

Table A6. The strength of minority shareholders protections in Tokyo

| Indicator | Score | Score Description |
|---|--------------|---|
| Extent of disclosure index (0-10) | 7 | |
| Which corporate body can provide legally sufficient approval for the Buyer-Seller transaction? (0-3) | 2 | Board of directors excluding interested members |
| Is disclosure by the interested director to the board of directors required? (0-2) | 2 | Full disclosure of all material facts |
| Is disclosure of the transaction in published periodic filings (annual reports) required? (0-2) | 2 | Disclosure on the transaction and on the conflict of interest |
| Is immediate disclosure of the transaction to the public and/or shareholders required? (0-2) | 1 | Disclosure on the transaction only |
| Must an external body review the terms of the transaction before it takes place? (0-1) | 0 | No |
| Extent of director liability index (0-10) | 6 | |
| Can shareholders sue directly or derivatively for the damage caused by the Buyer-Seller transaction to the company? (0-1) | 1 | Yes |
| Can shareholders hold the interested director liable for the damage caused by the transaction to the company? (0-2) | 2 | Liable if unfair or prejudicial |
| Can shareholders hold members of the approving body liable for the damage cause by the transaction to the company? (0-2) | 2 | Liable if unfair or prejudicial |
| Must the interested director pay damages for the harm caused to the company upon a successful claim by a shareholder plaintiff? (0-1) | 1 | Yes |
| Must the interested director repay profits made from the transaction upon a successful claim by a shareholder plaintiff? (0-1) | 0 | No |
| Can both fines and imprisonment be applied against the interested indrector? (0-1) | 0 | No |
| Can a court void the transaction upon a successful claim by a shareholder plaintiff? (0-2) | 0 | Only in case of fraud or bad faith |
| Ease of shareholder suits index (0-10) | 8 | |
| Before filing suit, can shareholders owning 10% of the company's share capital inspect the transaction documents? (0-1) | 1 | Yes |
| Can the plaintiff obtain any documents from the defendant and witnesses during trial? (0-3) | 3 | Any relevant document |
| Can the plaintiff request categories of documents from the defendant without identifying specific ones? (0-1) | 0 | No |
| Can the plaintiff directly question the defendant and witnesses during trial? (0-2) | 2 | Yes |
| Is the level of proof required for civil suits lower than that of criminal cases? (0-1) | 1 | Yes |
| Can shareholder plaintiffs recover their legal expenses from the company? (0-2) | 1 | Yes if successful |

Table A6 (Continued)

| Indicator | Score | Score Description |
|---|--------------|--------------------------|
| Extent of shareholder rights index (0-10.5) | 7.5 | |
| Can shareholders amend company bylaws or statutes with a simple majority? | 0 | No |
| Can shareholders owning 10% of the company's share capital call for an extraordinary meeting of shareholders? | 1.5 | Yes |
| Can shareholders remove members of the board of directors before the end of their term. | 1.5 | Yes |
| Must a company obtain its shareholders' approval every time it issues new shares? | 1.5 | Yes |
| Are shareholders automatically granted subscription rights on new shares? | 0 | No |
| Must shareholders approve the election and dismissal of the external auditor? | 1.5 | Yes |
| Can shareholders freely trade shares prior to a major corporate action or meeting of shareholders? | 1.5 | Yes |
| Strength of governance structure index (0-10.5) | 4.5 | |
| Is the CEO barred from also serving as chair of the board of directors? | 0 | No |
| Must the board of directors include independent board members? | 1.5 | Yes |
| Must a company have a separate audit committee? | 0 | No |
| Must changes to the voting rights of a series or class of shares be approved only by the holders of the affected shares? | 1.5 | Yes |
| Must a potential acquirer make a tender offer to all shareholders upon acquiring 50% of a company? | 0 | No |
| Is cross-shareholding between 2 independent companies limited to 10% of outstanding shares? | 0 | No |
| Is a subsidiary barred from acquiring shares issued by its parent company? | 1.5 | Yes |
| Extent of corporate transparency index (0-9) | 4.5 | |
| Must ownership stakes representing 10% be disclosed? | 0 | No |
| Must information about board members' other directorships as well as basic information on their primary employment be disclosed? | 1 | Yes for listed companies |
| Must the compensation of individual managers be disclosed? | 0 | No |
| Must financial statements contain explanatory notes on significant accounting policies, trends, risks, uncertainties and other factors influencing the reporting? | 1.5 | Yes |
| Must annual financial statements be audited by an external auditor? | 1 | Yes for listed companies |
| Must audit reports be disclosed to the public? | 1 | Yes for listed companies |

Table A7. Taxes and mandatory contributions that would be paid by a standard company in Tokyo

| Tax (contribution) | Payments (number) | Prep time (hours) | Statutory tax rate | Tax base | Total tax rate (% of profit) |
|---|--------------------------|--------------------------|---------------------------|---------------------------------|-------------------------------------|
| Corporate income tax | 1 | 155 | 25.5% | Taxable profit | 18.96% |
| Employer contribution to welfare pension insurance | 0 | | 8.56% | Gross salaries | 9.61% |
| Tokyo Metropolitan Enterprise Tax | 0 | | 9.10% | Taxable profit | 6.15% |
| Employer contribution to health insurance | 1 | 140 | 4.985% | Gross salaries | 5.62% |
| Inhabitants tax | 1 | | 5.2785% (+¥530,000) | Taxable profit | 3.8% |
| Employer contribution to workmen's accident insurance | 0 | | 1.9% | Gross salaries | 1.86% |
| Tokyo City depreciable fixed assets tax | 1 | | 1.4% | Net value of fixed assets | 1.65% |
| Tokyo City fixed assets tax (on land and building) | 1 | | 1.4% | Property value | 1.28% |
| Tokyo Metropolitan real property acquisition tax (for building expansion) | 1 | | 4% | 70% of building expansion value | 0.85% |
| Employer contribution to employment insurance | 1 | | 0.85% | Gross salaries | 0.83% |
| Tokyo City city planning tax (on land and building) | 0 | | 0.3% | Property value | 0.27% |
| Employer contribution to child allowance | 0 | | 0.15% | Gross salaries | 0.17% |

| Tax (contribution) | Payments (number) | Prep time (hours) | Statutory tax rate | Tax base | Total tax rate (% of profit) |
|-----------------------------------|--------------------------|--------------------------|---------------------------|---------------------------------|-------------------------------------|
| Registration and license tax | 1 | | 0.4% | 70% of building expansion value | 0.08% |
| National stamp tax | 1 | | ¥125,000 | Per contract | 0.05% |
| Tokyo Metropolitan automobile tax | 1 | | ¥67,100 | Fixed fee | 0.03% |
| National automobile tonnage tax | 1 | | ¥41,600 | Fixed fee | 0.02% |
| Value added tax | 1 | 35 | 5% | Value added | |
| Restoration surtax | 1 | | 2.55% | Taxable profits | |
| Fuel tax | 1 | | ¥34,140 per kiloliter | Fuel consumed | |
| Tax on interest income | 0 | | 20.315% | Interest income | |
| Total | 14 | 330 | | | 51.2% |

Table A8. Documents, time, and costs associated with trading across borders in Tokyo

| Nature of Export Procedures | Duration (days) | US\$ Cost |
|------------------------------------|------------------------|------------------|
| Documents preparation | 5 | 145 |
| Customs clearance and inspections | 2 | 75 |
| Ports and terminal handling | 2 | 250 |
| Inland transportation and handling | 2 | 445 |
| Totals | 11 | 915 |

| Nature of Import Procedures | Duration (days) | US\$ Cost |
|------------------------------------|------------------------|------------------|
| Documents preparation | 5 | 277 |
| Customs clearance and inspections | 2 | 135 |
| Ports and terminal handling | 2 | 250 |
| Inland transportation and handling | 2 | 445 |
| Totals | 11 | 1,107 |

| Export documents | Import documents |
|----------------------------|----------------------------|
| Bill of lading | Bill of lading |
| Commercial Invoice | Cargo dispatch document |
| Customs export declaration | Commercial invoice |
| | Customs import declaration |
| | Packing list |

Table A9. Procedures, time, and costs associated with enforcing contracts in Tokyo

| | |
|------------------------------|------|
| Time (days) | 360 |
| Filing and service | 20 |
| Trial and judgment | 280 |
| Enforcement of judgment | 60 |
| | |
| Cost (% of claim) | 32.2 |
| Attorney cost (% of claim) | 18.5 |
| Court cost (% of claim) | 13.3 |
| EnforcementCost (% of claim) | 0.4 |
| | |
| Procedures (number) | 32 |

Table A10. The strengths and weaknesses in existing insolvency regulations in Tokyo

| Indicator | Score |
|--|--------------|
| The average duration of bankruptcy proceedings. The time of the proceedings is recorded in calendar years and includes all appeals and delays. | 0.6 |
| The average cost of bankruptcy proceedings. The cost of the proceedings is recorded as a percentage of the estate's value. | 3.5 |
| The recovery rate calculates how many cents on the dollar secured creditors recover from an insolvent firm at the end of insolvency proceedings. | 92.9 |
| The index measures what type of proceedings (liquidation, reorganization or both) debtors and creditors can initiate and what standard is used to declare a debtor insolvent. | 3 |
| The index tests provisions on continuation and rejection of contracts during insolvency, avoidance of preferential and undervalued transactions and post-commencement credit. | 6 |
| The index measures whether and how creditors vote on a reorganization plan and what protections are available to dissenting creditors. | 3 |
| The index tests creditors' participation in and rights during liquidation and reorganization proceedings. | 2 |
| The index is the sum of four component indices: commencement of proceedings index, management of debtor's assets index, reorganization proceedings index and creditor participation index. | 14 |
| Commencement of proceedings index (0-3) | 3.0 |
| Management of debtor's assets index (0-6) | 6.0 |
| Reorganization proceedings index (0-3) | 3.0 |
| Creditor participation index (0-4) | 2.0 |

Table A10 (Continued)

Details of each index

| | |
|--|--|
| Commencement of proceedings index (0-3) | 3.0 |
| What procedures are available to a DEBTOR when commencing insolvency proceedings? | Debtor may file for both liquidation and reorganization |
| Does the insolvency framework allow a creditor to file for insolvency of the debtor? | Yes, a creditor may file for both liquidation and reorganization |
| What basis for commencement of the insolvency proceedings is allowed under the insolvency framework? | Both (a) and (b) options are available, but only one of them needs to be complied with |
| Management of debtor's assets index (0-6) | 6.0 |
| Does the insolvency framework allow the continuation of contracts supplying essential goods and services to the debtor? | Yes |
| Does the insolvency framework allow the rejection by the debtor of overly burdensome contracts? | Yes |
| Does the insolvency framework allow avoidance of preferential transactions? | Yes |
| Does the insolvency framework allow avoidance of undervalued transactions? | Yes |
| Does the insolvency framework provide for the possibility of the debtor obtaining credit after commencement of insolvency proceedings? | Yes |
| Does the insolvency framework assign priority to post-commencement credit? | Yes over ordinary unsecured creditors but not over secured creditors |
| Reorganization proceedings index (0-3) | 3.0 |
| Which creditors vote on the proposed reorganization plan? | Only creditors whose rights are affected by the proposed plan |
| Does the insolvency framework require that dissenting creditors in reorganization receive at least as much as what they would obtain in a liquidation? | Yes |
| Are the creditors divided into classes for the purposes of voting on the reorganization plan, does each class vote separately and are creditors in the same class treated equally? | Yes |
| Creditor participation index (0-4) | 2.0 |
| Does the insolvency framework require approval by the creditors for selection or appointment of the insolvency representative? | No |
| Does the insolvency framework require approval by the creditors for sale of substantial assets of the debtor? | No |
| Does the insolvency framework provide that a creditor has the right to request information from the insolvency representative? | Yes |
| Does the insolvency framework provide that a creditor has the right to object to decisions accepting or rejecting creditors' claims? | Yes |