

Comments on
“Implementing Structural Reforms in Abenomics:
How to Reduce the Cost of Doing Business in Japan”
by Professors Jamal Ibrahim Haidar and Takeo Hoshi

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Key Performance Indicators

- KPIs were set for “Creating New Businesses” and other policy areas in the *Japan Revitalization Strategy: JAPAN is BACK* approved by the Cabinet on June 14, 2013. Among them was the following.
 - Japan to be in the top three OECD member economies in the World Bank’s “Ease of Doing Business” ranking by 2020.
- Since then, however, the ranking has fallen from 15th in 2013 and 2014 to 19th in 2015.
- The Paper addresses the important issue of how to achieve the KPI.

Rankings of the Kind

- *Global Competitiveness Report 2014-15* by The World Economic Forum
 - 5th among the OECD member economies
- *World Competitiveness Scoreboard 2015* by the International Institute for Management Development (IMD)
 - 20th among the OECD member economies
- *Labor Productivity in 2013* by the Japan Productivity Center (JPC)
 - 22nd among the OECD member economies

Rankings of the Kind (continued)

- Product Market Regulation (PMR) indicators for 2013 by Koske et al. (2015)
 - 16th among the OECD member economies
- TFP distance from frontier analysis (for 2000-2007 average) by Dabla-Norris et al. (2015)
 - In the manufacturing sector, for instance, Japan places at 15th among the 16 G20 countries covered.

“Ease of Doing Business 2015”

- Selected 10 Areas -

- Starting a business
- Dealing with construction permits
- Getting electricity
- Registering property
- Getting credit
- Protecting minority investors
- Paying taxes
- Trading across borders
- Enforcing contracts
- Resolving insolvency
- (There is, in fact, an eleventh area which is not included in the calculation of the ranking; to be mentioned later.)

“Ease of Doing Business 2015”

- New Features -

- The ranking is based on the distance to frontier score.
 - Japan’s DTF score is 74.8.
- Some indicators have been expanded to include, or strengthen, components on the quality of regulation and the strength of institutions.
 - Expansion is in the area of “getting credit”, “protecting minority investors”, and “resolving insolvency”.
- The coverage has been expanded to include the second largest business city in economies with a population of more than 100 million.
 - For Japan, Osaka has been included.

(1) Comment on the Data

- Due to the progress in the policy front, data collected by the World Bank need to be updated (cut off date is said to be June 1, 2014).
- Examples
 - A change in the corporate tax rate: 25.5 percent → 23.9 percent from April 1, 2015 (Table A7)
 - A change in consumption tax rate: 5 percent → 8 percent from April 1, 2014 (Table A7)
 - Introduction of Corporate Governance Code by the TSE in June 2015, and Stewardship Code by FSE in February 2014 (Table A6)

(1) Comment on the Data (continued)

- Due to the progress in the policy front, the reform measures recommended by the authors may also need to be modified.
- Examples
 - Opening of an one-stop shop for business registration (“Tokyo One-Stop Business Establishment Center”) on April 1, 2015 (Reform 2.1.3).
 - Creation of an electronic system for submission and processing of customs and port procedures (“Nippon Automated Cargo and Port Consolidated System”) on February 2010 (Reforms 2.8.1 and 2.8.2).

(2) Comment on the Coverage

- While the “Ease of Doing Business” covers many critical areas, there are others that may need to be considered.
- “Cost of obtaining licenses” is suggested by the authors.
- There are two other potentially important areas.
 - Availability of funds (especially to startups)
 - Rigidity of the labor market regulations
- Consequently, “Ease of Doing Business” may only be partially covering measures that ease doing business in Japan.

(2) Comment on the Coverage (continued)

- “Labor market regulations” is included in the areas covered by the “Ease of Doing Business”.
 - However, for some reason, it is not considered when the ranking is calculated.
- Requests for reform are often made by foreign companies (Invest Japan (2014)).
 - “Ensuring the flexibility and transparency in employment agreement and termination rules”
 - “Easing of regulations regarding dispatched workers”

(2) Comment on the Coverage (continued)

- There are also papers arguing for the reform of labor market duality which reduces TFP.
 - Aoyagi and Ganelli (2013)
- On the other hand, empirical studies are not conclusive about the impact of labor market regulations on productivity.
 - “Labor market regulations is not found to have statistically significant effects on Total factor productivity, possibly owing to difficulty in measuring the degree of labor market flexibility across countries”. (IMF (2015))

(3) Comment on the Implementation

- As the authors point out, for the implementation of recommended reforms, (a) whether they require legal changes, and (b) whether they face strong resistance, are important elements to be considered.
- Another dimension that could be considered is whether the private sector incurs a large cost as a result of the reform.
 - Among Group III and IV, reforms for “getting credit” and “paying taxes” (and the already achieved reform 2-1-3) should be more popular in the private sector than those for “protecting minority investors”.

(3) Comment on the Implementation (continued)

- It may also be important to consider the sequencing of the implementation of reform measures.
 - “Protecting minority investors” ahead of others may result in discouraging investment etc.
- Finally, in order to overcome the difficulties, making use of the “National Strategic Special Zones” framework can be an option.
 - Reforms confined to the zones will be implemented in an experimental manner. The reforms will be extended to the whole nation if they are proven to be effective.

Thank you for your attention.

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