

REGULATORY REFORM

Drastic structural reform, a new driving force for growth

Faced with economic stagnation since the end of the bubble economy in the early 1990s, Japan has increasingly focused on regulatory reform as a driving force for growth. Since the mid-1990s the government has initiated a wide-ranging series of measures aimed at promoting regulatory reform in Japan's economy, society, and government. The need for reform has been further emphasized by fundamental changes taking place in the social and economic environment in the early years of the new millennium, changes such as: even-faster-than-expected aging of the Japanese population, worsening environmental problems, acceleration of the information technology revolution, and evolution of the industrial structure due to economic globalization.

In 1995 the government formulated the Plan to Promote Deregulation, which included 1,091 deregulation items in the following 11 categories: (1) land and housing; (2) information and telecommunications; (3) distribution; (4) transport; (5) standards, certification, and imports; (6) finance, securities, and insurance; (7) energy; (8) employment and labor; (9) pollution, waste, and environmental protection; (10) dangerous materials, disaster protection, and public safety; and (11) other. This plan was revised in both 1996 and 1997, with the latter revision adding a twelfth category, education, and bringing the total number of items to 2,823.

With the expiration of the time period covered by the 1995 plan, in 1998 the government established the Three-Year Program for Promoting Deregulation, which included new measures as well as not-yet-implemented measures from the previous plan. The goals of this three-year plan were to carry out a drastic structural reform of Japan's



Post Office

The Japan Post Group came into being following privatization in 2007.

society and economy, to create a free and fair socio-economic system that is fully opened to the international community and based on the rules of self-responsibility and market principles, and to shift emphasis in public administration from ex ante facto regulations to ex post facto monitoring of compliance with general rules. Three new categories—competition policies, healthcare and welfare,

and legal affairs—were added to the 12 deregulation categories in the previous plan, and a total of 624 items were defined. This three-year program was revised in 1999 and 2000.

In March 2001 the government defined the Three-Year Program for Promoting Regulatory Reform, with the term “deregulation” used in previous plan titles being replaced by “regulatory reform.” This program covered 554 regulatory reform items in 15 specific fields, including law, finance, education, medical care, employment, distribution, and energy. It also included 104 cross-sector reform items covering areas such as information technology, the environment, competitiveness, standards certification, and qualification systems.

In April 2001 the Council for Regulatory Reform was established as part of the Cabinet Office to act as an advisory body of the prime minister over a three-year term. The first two reports prepared by the council served as the basis for revisions made to the three-year program in 2002 and 2003. The 2002 revised program focused on the six areas of medical care, social welfare and childcare, employment, education, the environment, and urban redevelopment; and the 2003 revised program incorporated a new emphasis on facilitating the creation and optimal utilization of special zones for structural reform. The council’s final report, issued in December 2003, summarized the results of past reform efforts and set forth issues to be tackled in the future. From 2004, the discussion of regulatory reform within the government was handled by the Council for the Promotion of Regulatory Reform (2004–2007) and the new Council for the Promotion of Regulatory Reform (2007–2010); and since March 2010 that regulatory and systematic reform is being handled by the committee set up by the Government Revitalization Unit.

Special Zones for Structural Reform

Special zones for structural reform are specially designated geographical areas in

which—as a result of the implementation of regulatory exceptions consistent with local characteristics—it is possible to carry out activities which are prohibited on a nationwide basis by laws and ordinances. Plans for such activities are to be compiled through the initiative of local governments and private sector corporations. The objectives of the zones are to revitalize regional economies through deregulation and to showcase successful examples of structural reform for possible later implementation on a nationwide basis. The Bill on Special Zones for Structural Reform was passed in December 2002, and the system went into effect in April 2003. As of March 2010, the government had approved a total of 1,104 of these special zones. Included were special education zones in which private corporations are able to run schools and universities, special agricultural zones in which private corporations are able to engage in farming, and special international exchange zones in which visa regulations on foreign researchers are relaxed.

Communications and Broadcasting

Regulatory reform in the data communications sector goes back to the 1985 privatization of Nippon Telegraph and Telephone (NTT), the largest domestic carrier. Since then, newly established new common carriers (NCCs) have managed to secure a large share of the long-distance communications market. Keen competition among the NCCs, along with technological innovation, has contributed to significant declines in telephone charges.

Mobile telephone use has undergone spectacular growth in the past decade. The handset rental system was switched to outright sales in 1994, in 1996 regulations covering the introduction of new service fee plans were relaxed, and in 1998 authorization procedures for mobile phone use were greatly simplified and application fees were reduced. Such reforms set off a boom in mobile communications, with the number of subscribers jumping from 2.13 million in March 1994 to 112.18 million in March 2010.



Mobile telephones
Affordable rates and a wide variety of services have spurred sales of mobile telephones. (Photo courtesy of Getty Images)

As a result of deregulatory measures in 1997, NTT was allowed to enter the international call market, and Kokusai Denshin Denwa (KDD), the primary international carrier, was allowed to enter the domestic market. Rules were drawn up for network connections, and the ban on public-private-public line connections that had been in force was lifted. In addition, in 1998 regulations were abolished concerning foreign ownership of primary telecommunications companies, with the exception of NTT and KDD. In July 1999, NTT was broken up into two local companies, Nippon Telegraph and Telephone East Corporation and Nippon Telegraph and Telephone West Corporation, and one long-distance company. The intense competition resulting from deregulation continues to spur reorganization in the industry, one example being the merger of KDD and two NCCs in October 2000 to create KDDI Corporation.

Growth in Internet use for business and personal communications is another development supported by deregulation in the communications industry. As of December 2009, the number of Internet users stood at 94.08 million, or 78.0% of the population. The proportion of households with a broadband Internet connection was 76.1%. The usage rate for fiber-optic cables grew to 54.2% as more users switch to fiber-optic broadband Internet.

A 1999 revision of the Broadcasting Law made it possible to broadcast various types of data as part of the digital signal even if that data is unrelated to the program's image and sound content. Digital broadcasting of television and radio was gradually introduced between 2003 and 2006, and analog TV broadcasting will cease in 2011.

Finance

Based on the concept of "free, fair, and global," the Japanese government implemented radical reforms in the financial market—the so-called "Big Bang." Regulatory reforms in this sector have been aimed at facilitating the participation of private

investors in Japan. An amendment to the Securities and Exchange Law removed barriers between the banking, securities, and insurance fields, thereby enhancing the attractiveness, competitiveness, and vigor of the securities market. The ban on holding companies was lifted, and the scope of operations was enlarged for security houses and banks.

With the amendment of the Foreign Exchange Control Law that went into effect in April 1998, foreign exchange was totally liberalized. This enabled enterprises and individuals to freely transact deals and settle accounts with their foreign counterparts. December 1998 saw the implementation of a series of financial system reform laws that included provisions deregulating stock commissions and non-life insurance premiums, removing restrictions on over-the-counter securities derivatives, and permitting the sales of investment trust products in banks. Regulatory reform measures implemented since 2001 have enabled banks to do over-the-counter sales of a variety of insurance products.

Other Sectors

Distribution industry: The Large-Scale Retail Store Law was passed in 1974 to protect small independent retailers. Its restrictions were relaxed in three revisions that took place during the 1990s. The number of applications for opening large-scale stores jumped from 794 in 1989 to 1,667 in 1990, and peaked at 2,269 in 1996. The Law Concerning Measures by Large-Scale Retail Stores for Preservation of the Living Environment was enacted in 1998 and went into effect in 2000, replacing the Large-Scale Retail Store Law. The new law shifted the focus from protecting existing small stores to protecting the local living environment.

In 1996 the system regulating rice sales was changed from a restricted permission system to a registration system in which anyone can participate, and in 1999 the registration procedures were further simplified. Rules that cover the granting of licenses for



**Tokyo Stock
Exchange**

liquor sales were greatly liberalized in 1993, and remaining population and distance criteria were eliminated in 2000. General pharmaceutical goods had once only been sold at licensed pharmacies staffed with a pharmacist, but starting in 1999 some goods once designated as prescription medicines, such as vitamins, were categorized as “quasi-drugs” so that they could be sold at drugstores and other stores besides pharmacies. Starting in 2009, low-risk pharmaceuticals have been allowed to be sold by registered retailers, expanding the lineup of pharmaceuticals sold at supermarkets and convenience stores. The use of self-service pumps by gasoline stations was permitted in 1998.

Transport: Regulations on the domestic airline business have been revised, particularly those related to the adjustment of supply and demand. Regulations on double and triple tracks were abolished in April 1997 to encourage competition among airline companies. Also in 1997, new companies were accommodated when increased arrival and departure slots were created by a new runway at Haneda Airport. As a result, two new airline companies, Skymark Airlines and Air Do, were able to begin flights in 1998. Since 2000 airline companies have been able to set fares at their own discretion, and this has led to the introduction of a variety of discount fares plans and an overall reduction in fares.

Land and housing: The volume ratio for high-rise residential building promotion areas was raised, and in measuring the volume ratio for condominiums, steps and halls for common use were dropped from the items to be counted in the volume. This measure substantially increased the volume that could be used for living space itself. A 1998 revision to the Architectural Standards Law permitted designated private organizations to perform building inspections previously performed only by local government bodies.

Health care and welfare: Private-sector initiatives have been introduced, including measures allowing the incorporation of service businesses (both profit and non-profit) that provide care for the elderly. In the past,

public services have been predominant in this area. The official drug-pricing system has also been revised. Since 2000 private corporations have been able to operate childcare facilities whereas before only municipal governments and social welfare corporations were able to do so.

Education: Regulatory reforms implemented in 2000 permitted individuals without teaching credentials or work experience in education to be employed as school principals in public schools. This has enabled the skills of people with a wide range of private sector experience to be utilized in the public school system. Subsequent reforms have relaxed requirements for the establishment of private elementary and junior high schools, and have made it easier for graduates of international and ethnic high schools in Japan to take the entrance examinations of national universities.