

Competition Policy and Regulatory Reform in Japan

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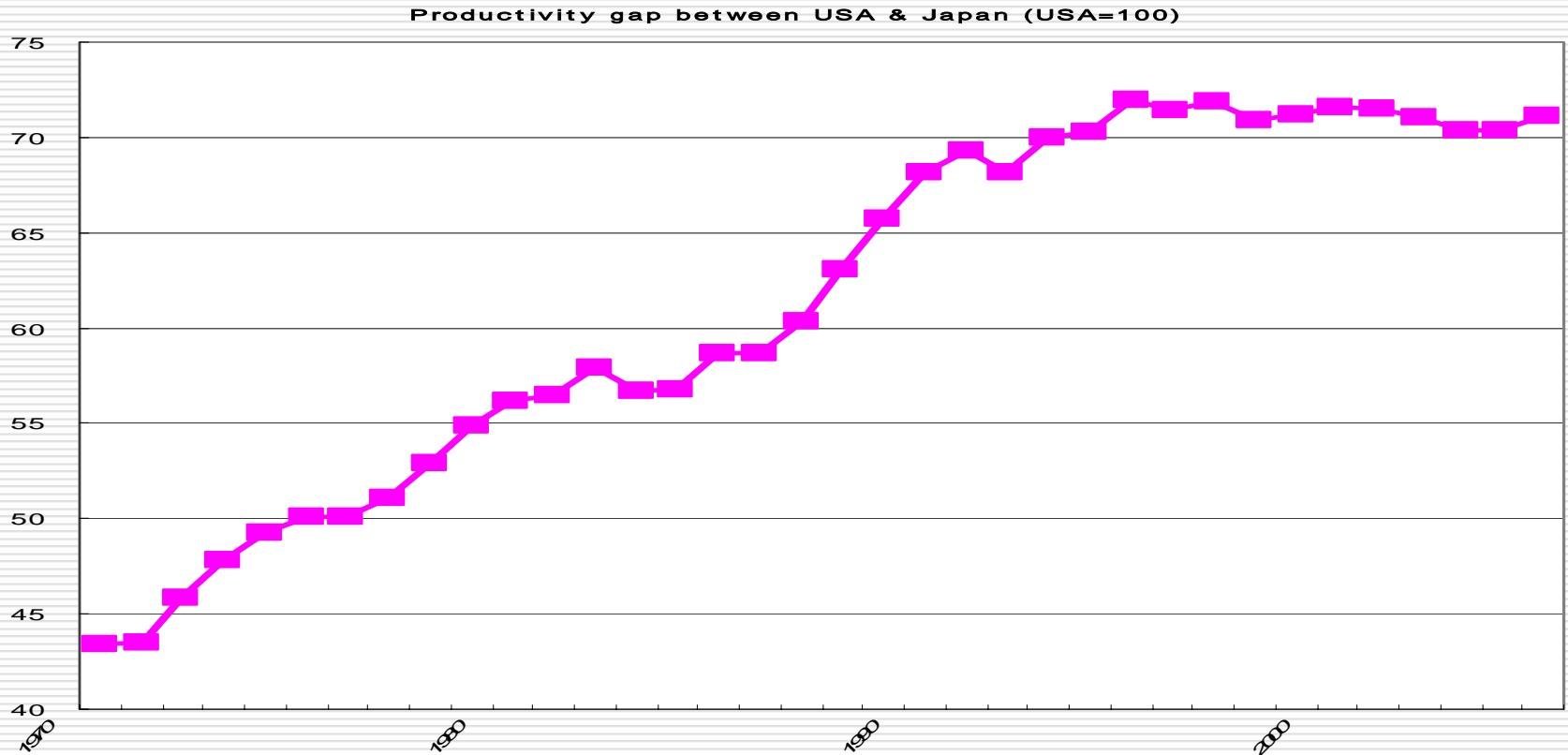
A new growth strategy through improving productivity of industries

- ❑ Sources for Japan's economic stagnation
- ❑ Low productive service sectors due to a lack of competition or entry barriers
- ❑ Particularly, social service sector like education or health care services
- ❑ Competition policies for consumers
- ❑ Regulatory reform to stimulate competition among various producers

Long-run economic stagnation and deflation since the early 1990s

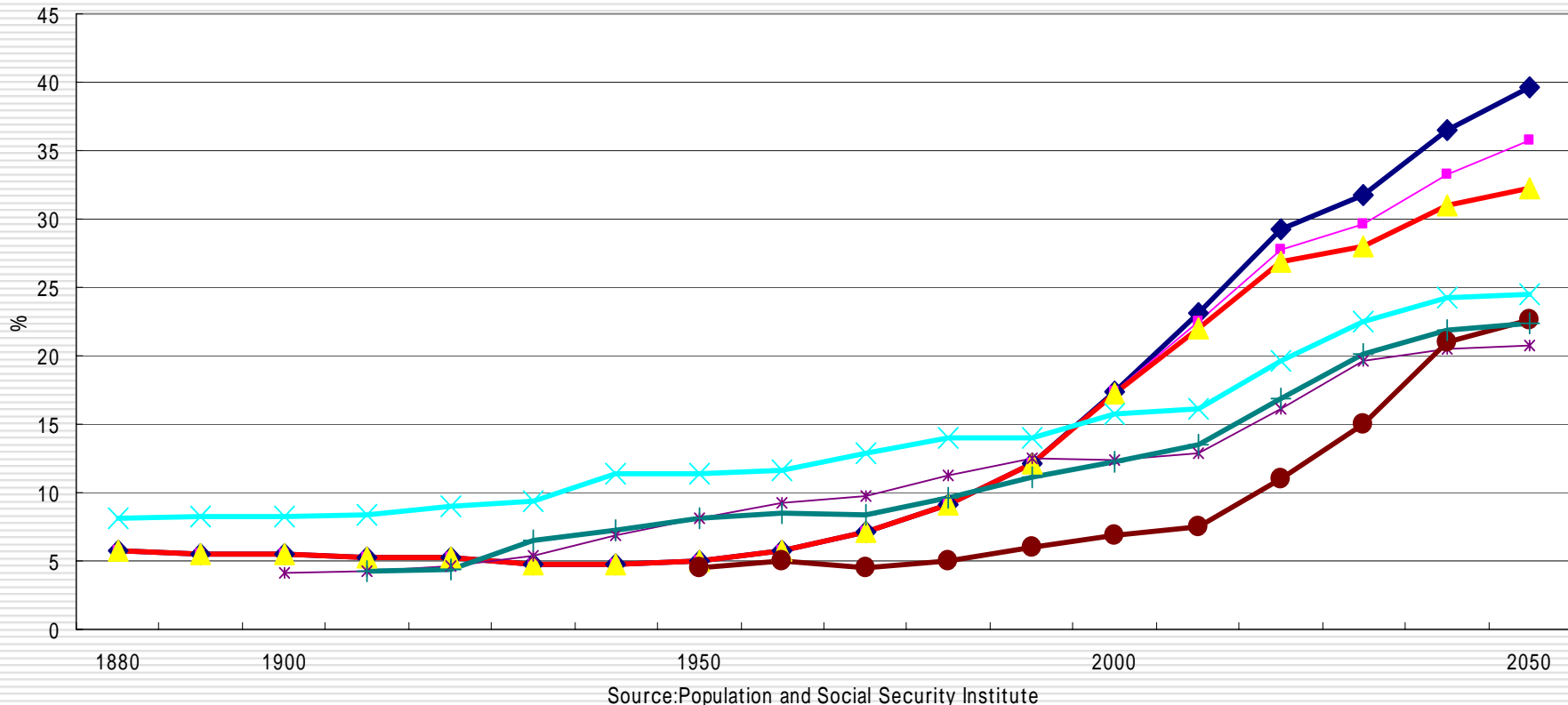


Stagnating Japan's productivity growth vis-à-vis the United States since 1990s



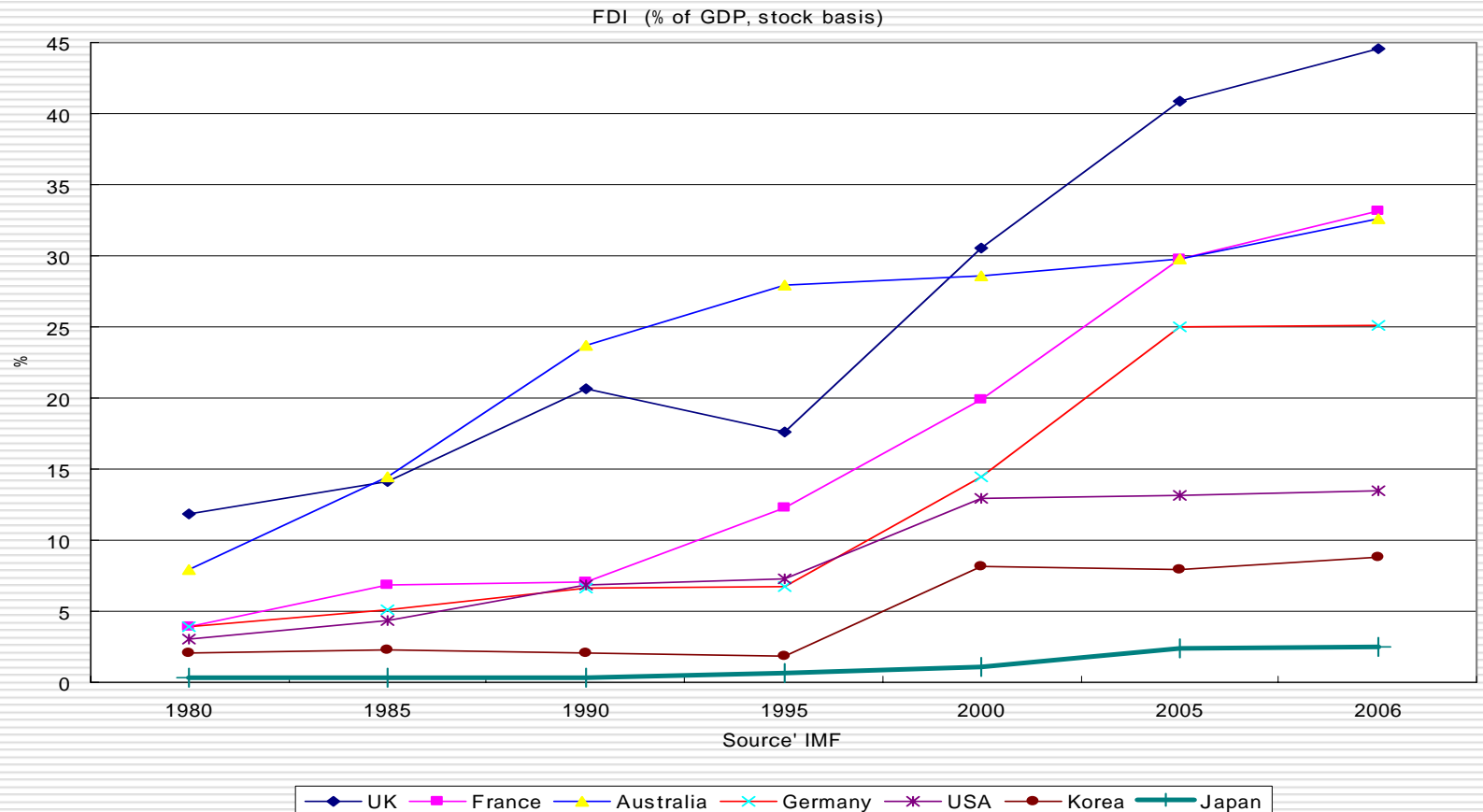
Accelerating speed of Japan's aging with declining fertility and increasing longevity

International Comparison of the Ratio of the Elderly

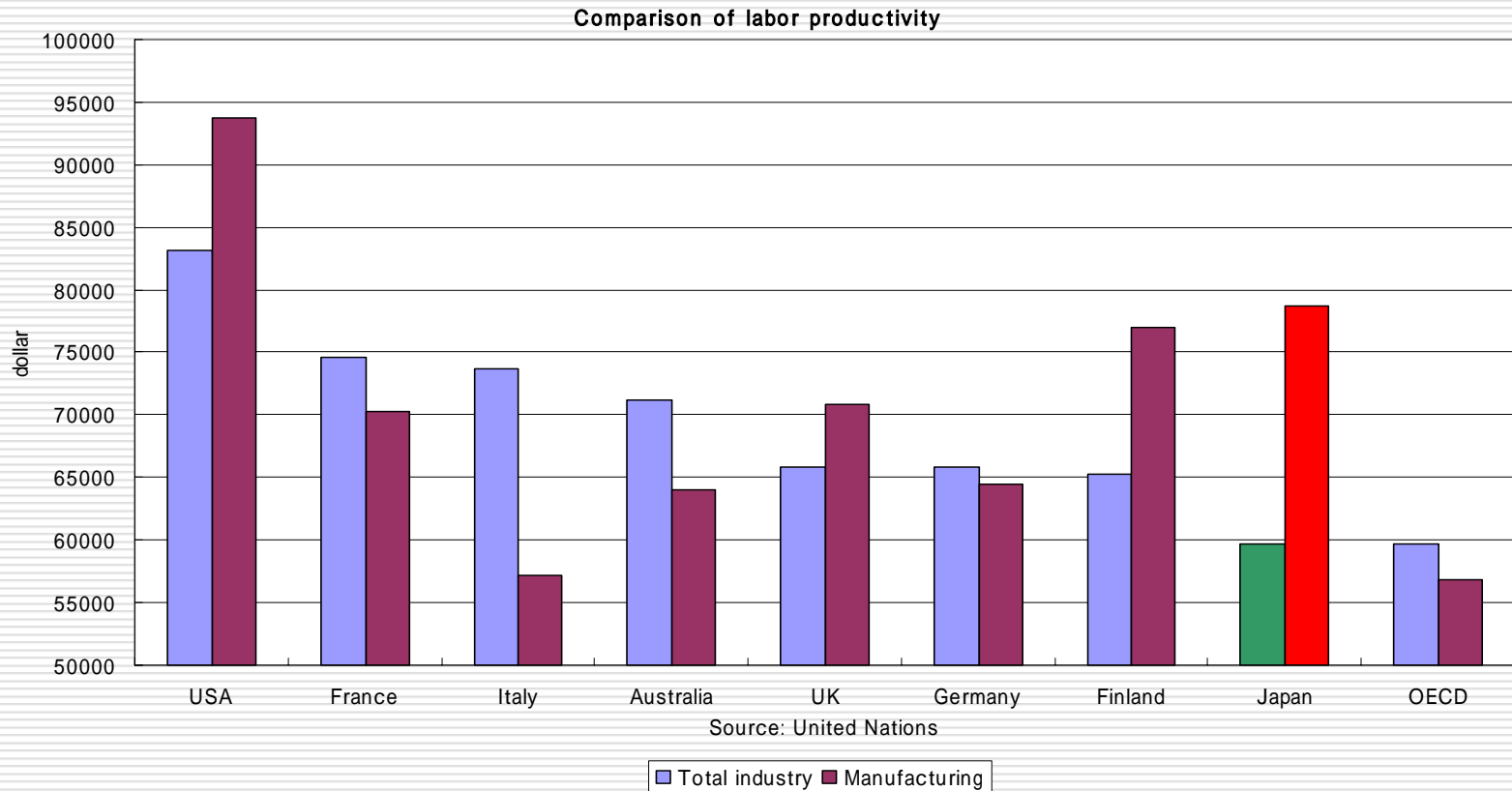


Source: Population and Social Security Institute

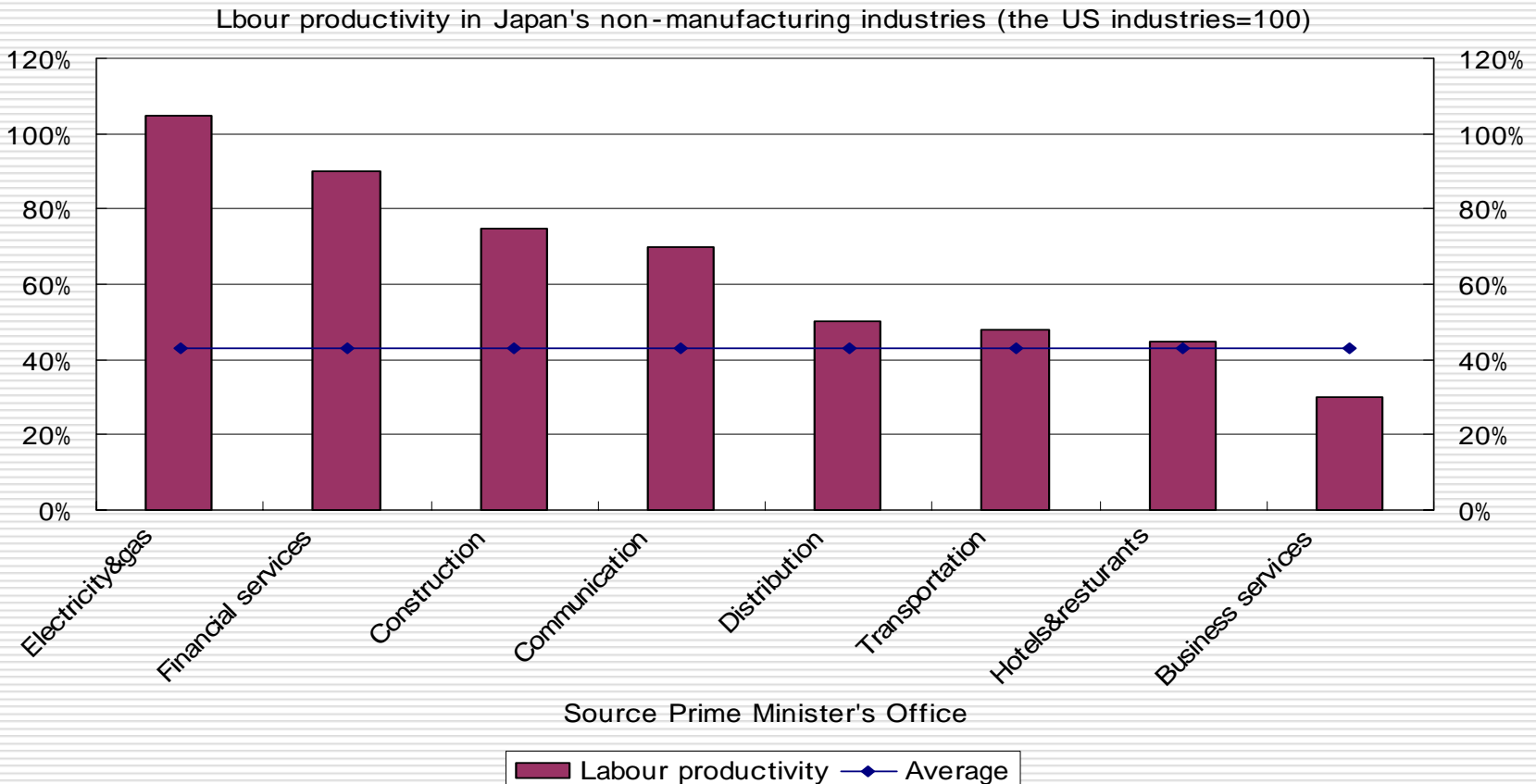
Low by international standards level of inflows in foreign direct investments



Tales of two economies in Japan; Highly productive manufacturing and low productive agriculture and service sectors



Particularly, the distribution, transportation and health care service sectors



Protection of small firms in the distribution sector

- ❑ Restriction of large-scale retailers
- ❑ Protection of city-center small shops
- ❑ Low property taxes on land helps inefficient firms to survive
- ❑ Subsidies or tax expenditures for the protection of small firms
- ❑ More emphasis on productivity improvement through encouraging venture capital and franchised chain of small shops

Regulation on “unfair competition”

- ❑ In theory, protection of consumers by preventing the monopoly of the market through predatory pricing;
- ❑ De facto protection of small liquor shops, gas stations, home electronic appliance retailers etc;
- ❑ Consumers are benefited by the price competition unless new entrants to the market are prevented

Government procurement arrangements for protecting small firms

- ❑ Maintaining public procurement for small firms particularly in construction;
- ❑ Dividing public works into small lots by sacrificing the productivity
- ❑ Local governments limit the tendering opportunities to local firms, i.e. de facto cartel initiated by the local authorities

Effective penalty for cartels

- ❑ Current scheme; surcharges should not exceed unlawful gains through cartels;
- ❑ In that case, the actual gains exceed the expected surcharges;
- ❑ In order to suppress the incentives for cartels, the expected penalties have to be at least equal to the expected gains divided by the probability to be caught by the authorities

Competition policies and regulatory reform for the interest of consumers

- ❑ Market competition, rather than government regulations, is more important for the consumers` interests
- ❑ Competition is important not only between firms, but any types of producers
- ❑ Various barriers to the entry of foreign firms in the domestic markets, or corporate firms in the so-called “non-profit sectors (hospitals, colleges, farms)

Limiting the entry of corporate firms in the hospital management

- ❑ Corporate firms are not allowed to manage hospitals (as they are not non-profit);
- ❑ Definition of “non-profit” in the medical law is “not issuing dividends”;
- ❑ Payments of interest and dividends are both capital costs for the firm;
- ❑ Logic of Islamic bank prohibiting interests
- ❑ “Non-profit” has to be interpreted as the obligation for fair supply of services

Merits of stimulating competition in the health service markets

- ❑ Improving the quality of hospital management by the division of labor between doctors and managers;
- ❑ Scale merits of hospital management through merger and acquisitions of small hospitals and clinics;
- ❑ Corporate brand of hospital groups is useful for consumers under the asymmetry of information between patients and doctors

Corporate firms are not allowed to buy farming land

- ❑ Principle of “Farming lands are only for farmers” in the agricultural law;
- ❑ Entry barriers to efficient producers for large-scale farming;
- ❑ Japan Agricultural Cooperatives (JA) which organizes not only farming, but distribution, banking and insurance, is waved for Anti-Monopoly Law.

Lack of equal playing fields in the education and welfare services

- ❑ Subsidies or tax wave to private schools are only granted to non-profit organization admitted by the government;
- ❑ Subsidies or tax wave to nursing care homes or nursery schools are only granted to non-profit organization admitted by the government;
- ❑ From subsidies to non-profit organization to vouchers to consumers for stimulating the competition

Market testing on public business

- Introduction of competitive bidding in the public sector;
- Government business in printing, transportation, housing, insurances and job-matching services;
- While maintaining the government' responsibility, testing the comparative advantages vis-à-vis the private sector.

In summing up...

- Competition policies now include those not only between firms, but between
 - a) domestic vs foreign firms,
 - b) non-profit institutions vs corporate firms,
 - c) public vs private firms
- Regulatory reform needed for free competition on the level playing fields