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## **REGULATORY REFORM SHOULD BE REAFFIRMED AS THE TOP PRIORITY IN ABENOMICS' THIRD ARROW**

***Hiroko Ohta***

- Regulatory reform is important for overcoming low productivity and a rigid labor market.
- The Council for Promotion of Regulatory Reform set up in September of this year will tackle key regulatory reform during its three-year term.
- Collaboration with the National Strategic Special Zone system will pave the way for difficult regulatory reform.

*The views expressed in this piece are the author's own and should not be attributed to The Association of Japanese Institutes of Strategic Studies.*

Two of the largest issues currently facing the Japanese economy are that productivity is low and that a rigid labor market is not making full use of the human resources available. Both of these are closely connected with regulatory reform. This paper will discuss the kinds of regulatory reform needed to overcome these two issues.

To boost productivity, regulatory reform is especially needed in two areas. The first area comprises those sectors in which market entry by private corporations is restricted, such as medical care, nursing care, child care, and agriculture. Although information symmetry mandates some form of regulation in these sectors, competition has heretofore been excessively restricted and this has perpetuated inefficiency. Despite the fact that these sectors are likely to see greater demand and employment as Japan's population ages, reforms have made little headway for many years due in part to strong political opposition; this has resulted in what is known as "bedrock regulation."

The second area comprises those sectors in which ICT and other new technologies have given rise to new services unimaginable just a few decades ago. What is required in adapting to the IoT, renewable energies, and the sharing economy, for example, is not only deregulation but the creation of new rules as well.

Next, regulatory reform supporting the movement of labor into growth sectors is important for reforming the labor market and encouraging greater use of human resources. Japan's postwar employment system has essentially been one of lifelong employment, with little provision for job changes or mid-career hiring. As changing jobs thus puts workers at a disadvantage, human resources are not being put to best use even as the workforce shrinks due to aging.

Now let's examine how the Council for Promotion of Regulatory Reform launched in September will seek to address regulatory reform in these sectors.

First, it has created two working groups to address "bedrock regulations": one on agriculture, and another on medical/nursing/child care. Recommendations for agricultural sector reforms pertaining to raw milk distribution and agricultural cooperatives have already been formulated, and reforms aimed at improving agricultural productivity are being implemented.

Efforts will also be undertaken during the Council's term (until around June 2017) to develop regulatory reforms for the nursing care service sector.

Government ministries and agencies, which have been slow to incorporate ICT, will be a key focus of regulatory reforms promoting the introduction of new technologies throughout the Council's term. In Japan, numerous applications must still be submitted in writing or in person, and tedious administrative procedures have been a source of great dissatisfaction among foreign companies. The Administrative Procedures Task Force and the Working Group on Investment, etc., will be tackling this issue.

The appointment of a Minister for Working-style Reform is one sign of how important reform of the labor market is for the Abe administration. The Council for Promotion of Regulatory Reform will focus on "labor mobility," as it has continued to do since the previous Council for Regulatory Reform. Recommendations were made by the previous Council to establish employment rules for regular employees with defined duties and to establish a system for dispute resolution when employment is terminated, but these recommendations have yet to be sufficiently put into practice. The Council will be following up on these and pursuing regulatory reforms designed to facilitate the smooth movement of labor.

None of the aforementioned regulatory reforms will be easy. One means of advancing them would be closer collaboration with the National Strategic Special Zone system. As the Council for Promotion of Regulatory Reform and the Council on National Strategic Special Zones report to the same minister in the present cabinet, such collaboration has become all the much easier.

The Council for Promotion of Regulatory Reform's three-year term ending in 2019 will be a critical period for the Japanese economy, so regulatory reform should be reaffirmed as the top priority in Abenomics' third arrow (growth strategy) and efforts accelerated. 

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