



REFORM ON FREE TRADE REGULATION/POLICY FOR ECONOMIC COMPETITIVENESS; A Lesson Learned From Japan Experiences

OBJECTIVE

FROM JAPAN
EXPERIENCE



**LEARNING
FREE TRADE
REGULATION
/ POLICY**

FROM
ACADEMIC
PERSEPECTIVE



**FOR BETTER INDONESIAN
REGULATION/POLICY ON FREE TRADE**



OUT LINE

- PART I : BACKGROUND
- PART II : JAPAN EXPERIENCES
- PART III : LESSON LEARNED FROM JAPAN
- PART IV : PROPOSOL FOR INDONESIA
- ANNEX : READING MATERIALS

PART I

BACK GROUND

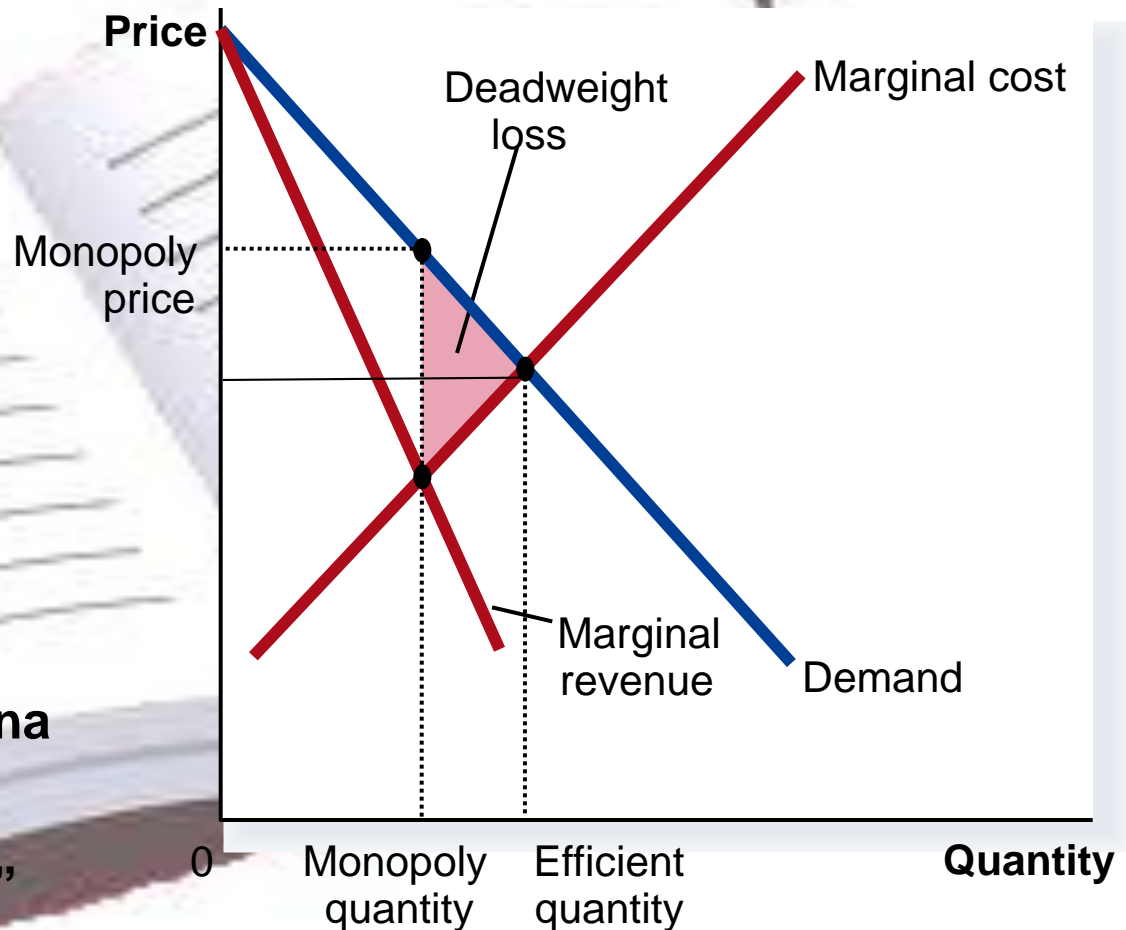


Adam Smith + his followers
(1776-2011)

THE MOST COMMON THEORY & THINKING

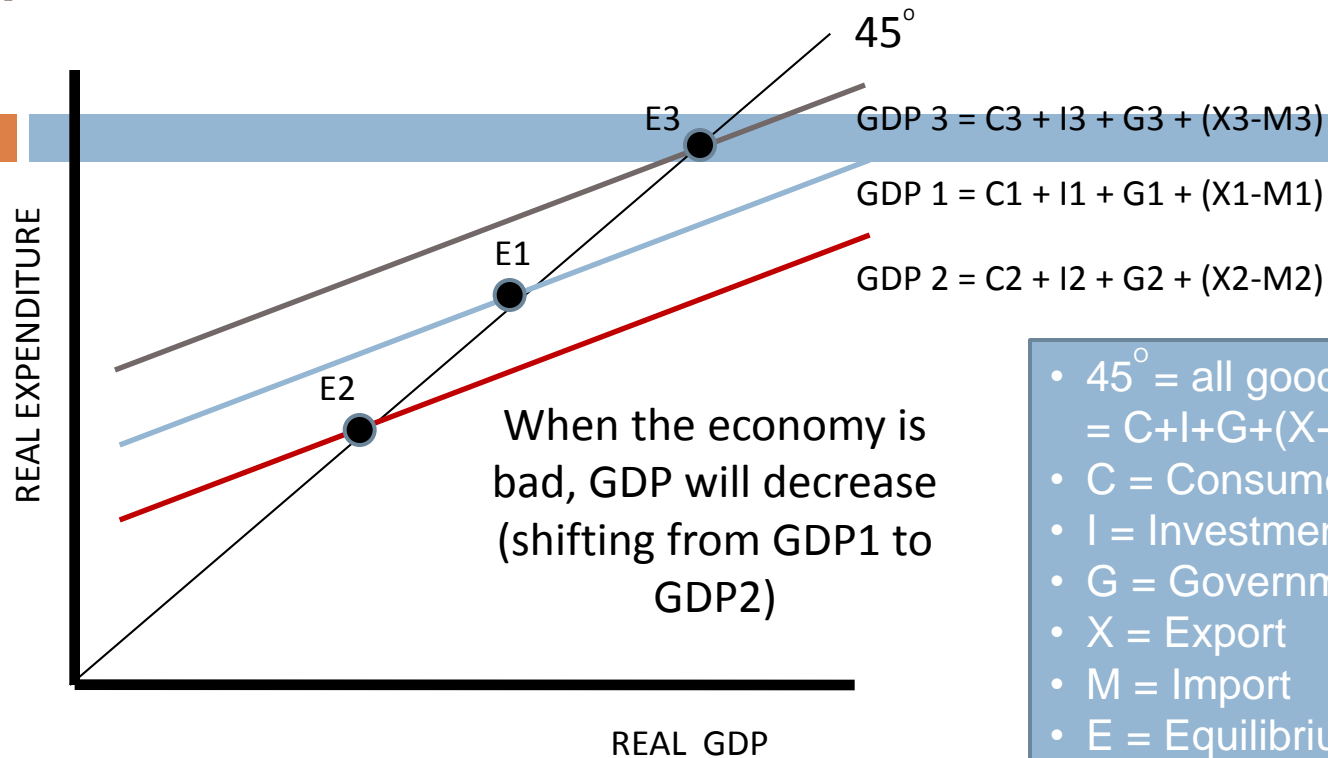
Economic growth and development have been promoted through regulatory policy's contribution to structural reforms, liberalization of product markets, international market openness, and a less-constricted business environment for innovation and entrepreneurship. (OECD, "**Regulatory Policy and the Road to Sustainable Growth**", 2010).

a heavier regulatory burden reduces growth and increases volatility (Norman V. Loayza, Ana María Oviedo Luis Servén, "**Regulation And Macroeconomic Performance**" World Bank, 2004)



THE MOST COMMON THEORY & THINKING TODAY

(2)



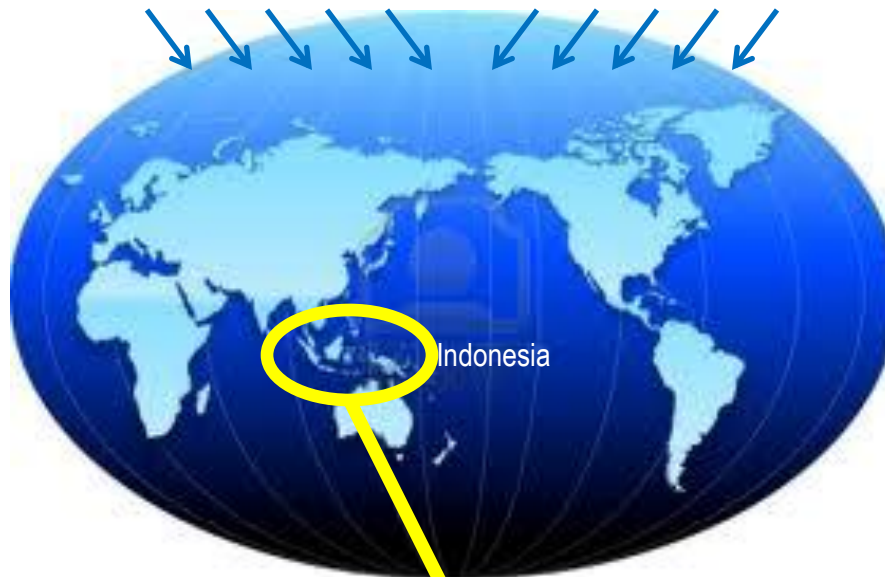
- 45° = all good + service produced = $C + I + G + (X - M)$
- C = Consumer expenditure
- I = Investment
- G = Government expenditure
- X = Export
- M = Import
- E = Equilibrium

To strengthen economy (effort to be in GDP1 or even to move further to be GDP3), the regulations should be

- friendly to business both for domestic companies and foreign companies. It will increase I + labor force (increasing labor = increasing people income = increasing C) as well as tax from the people & business (increasing tax = increasing government income = increasing G).
- encourage competitions among the companies so that the product price will be competitive (competitive price = increasing people purchase power = increasing C).

THE MOST COMMON IMPETUS/FORCE TODAY

Regulations create bottleneck for economics growth in 58 countries (Reyes Atarido, Mary Hallward-Driemeier & Carmen Pagé , “Business Environment and Employment Growth across Firms”, World Bank Policy Research Working Paper, 2009)



85% of local regulations were inconsistent with national laws and incomplete or distorting to economic activity (World Bank, “Doing Business in Indonesia” 2010)

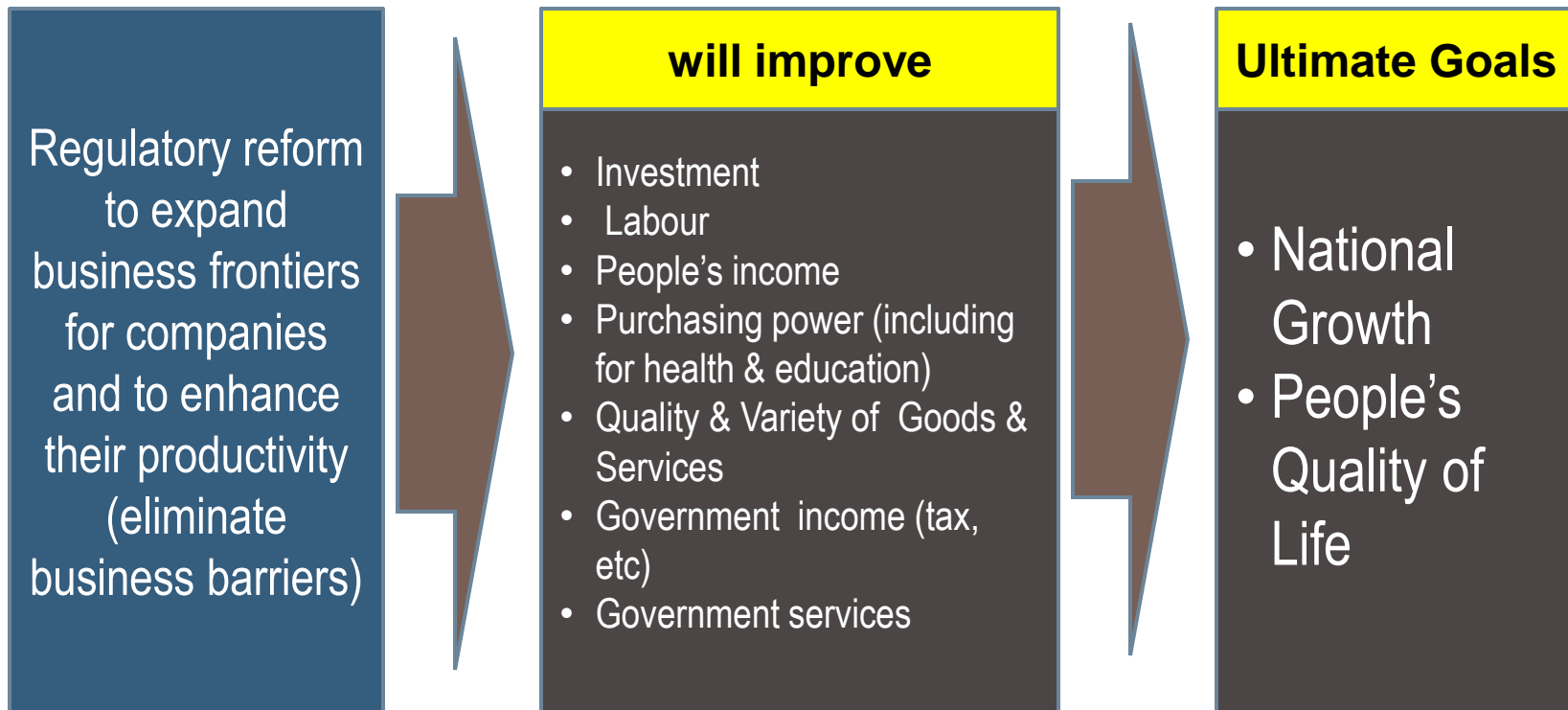
USA
British
etc

- IMF
- World Bank
- ADB
- OECD

Regulatory Reform for

- Open Market
- Competition
- Tariff Reducing

THE MOST COMMON IMPETUS/FORCE TODAY (2)



Research Questions

If Yes, What Does Japan Do?

2A

1

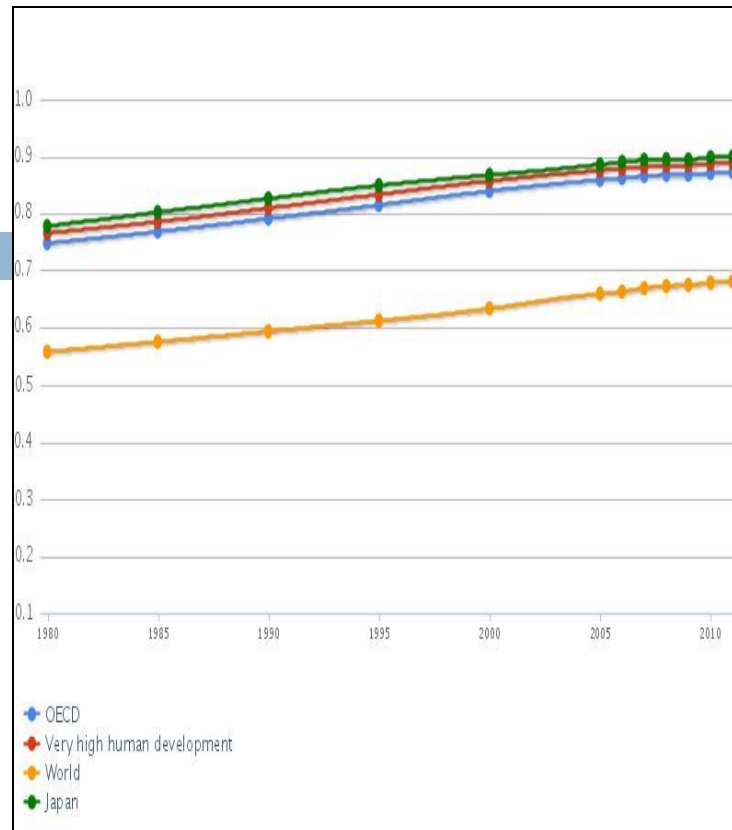
Does Japan as a wealth country follow today mainstream theory & thinking as mentioned before?

2B

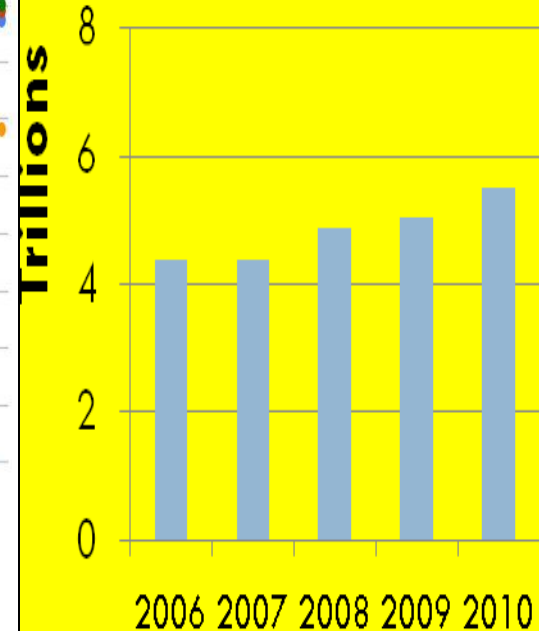
If No, What Does Japan Do?

3

So that Japan against mainstream theory, What's the logic argument ?



Japan GDP 2006-2010



Indicators	Japan	Indonesia
GDP (World Bank, 2010)	No. 3 = \$ 5,5 trillion	No. 17 = \$ 0.71 trillion
Income Per Capita (World Bank, 2010)	No. 13 = \$ 42, 130	No. 104 \$ 2,500
Human Development Index (UNDP, 2011)	No. 12 = 0.901	No. 124 = 0.617

PART II

JAPAN EXPERIENCES

Historical Background

□ Meiji Period

Vision : Rich Nation & Strong Army

Policy : state control to protect & promote domestic industries for developmental purpose & prosperity; sell product to US & Europe; discourage foreign investment & foreign loan.

1868

□ During & After World War I

Policy : Japan invite Foreign Direct Investment for electrical machinery, automobile & petroleum

Restriction : Domestic companies opposed and created cartel & domestic class struggle → “An Outline Plan for Reorganization of Japan”

1910s -
1930s

Policy change : Enacted Important Industry Control Law & Licensing Law to protect & promote key industries (aluminum, petroleum, automobile, synthetic fuel, steel, machine tool, aircraft) & support domestic firms to establish cartel.

1947

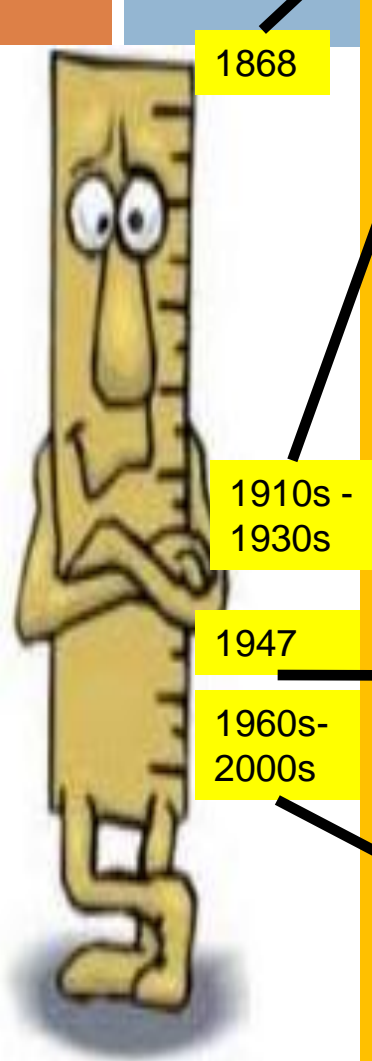
1960s-
2000s

□ After WW II (Japan forced by USA)

Policy : Enacted Anti Monopoly Law & Established Japan Free Trade Commission.

□ Globalization Movement & Neo Liberal Agenda : privatization, market openness, deregulation.

Policy : Reregulation (enhance government control over industry), selectively promotes competition & control business entry-exit



Historical Background (2)

- Since Meiji Period Japan believed that protection & promotion domestic companies & market is good for national growth.
- However during/after WW I the protection was weaker because Japan went FDI for transfer of technology
- After WW II the protection became weaker because of foreign intervention.
- Beginning 1960s Japan has tried to reregulate policy & regulation to strengthen government control over industry.

Does Japan as a wealth country follow today mainstream theory & thinking as mentioned before?

First Answer

- ❑ **NO, IN PRINCIPLE JAPAN PREFERS PROTECTION FOR THE INTEREST OF THE NATION**
- ❑ **HOWEVER AS A PART OF INTERNATIONAL COMMUNITY, JAPAN PUSHED FOR REGULATORY REFORM BUT WITH THE SLOWNESS STRATEGY** (Steven K Vogel, “Freer Markets, More Rules; Regulatory Reform in Advanced Industrial Countries”, Cornell University Press, 1996)

What Does Japan Do?

Second Answer

Meiji Period

Vision : To be Rich Nation & Strong Army

Policy : state control to protect & promote domestic industries for developmental purpose & prosperity

What Japan Did:

- Developed Domestic Industries & enhanced their international competitiveness in international market
- Increased trade surplus through increasing export (established direct export firm & inspected quality export of goods) & cut foreign import
- Increased productive power through the guidance & encouragement from the government officers
- Implemented protective tariff to protect domestic companies (especially infant companies)
- Cartelization among domestic companies (*keiretsu system* & *zaibatsu system*)
- Japan Trade Council Research on foreign market & sharing information
- discouraged foreign investment & foreign loan (learning from Turkey failed in managing foreign investment & loan).

What Does Japan Do?

Second Answer

During & After World War I

Policy : Japan invited Foreign Direct Investment for heavy industries such as electrical machinery, automobile, chemical, steel, & petroleum

Reason : It did not mean Japan purely opened the market. It was a strategy to catch the high technology

What Japan did:

- Reduced tariff as a strategy to attract foreign investment
- Did not prohibit domestic companies cartel to fight international companies, furthermore strengthened cartel & set them up.
- Developed better firm management technique and
- after that, promoted smooth industrial rationalization movement such as through Important Industry Control Law and Licensing Laws (Aluminum Industry Law, Petroleum Industry Law, Automobile Industry Law, Synthetic Fuel Law, Steel Industry Law, Machine Tool Industry Law, Aircraft Industry Law)

What Does Japan Do?

Second Answer

After World War II

Situation : Japan forced by USA

Policy : Following USA suggestions to open the market

What Japan did

- Enacted Anti Monopoly Law & Established Japan Free Trade Commission.
- Reduced tariff
- Reduced licensing system
- Dropped Foreign Capital Law
- However the enforcement of anti monopoly law and JFTC role did not work well & Ministry of International Trade & Industry policy strengthened domestic companies to be able to compete with foreign companies (Pin Lin, “The Evolution of Competition Law in East Asia”, Competition In East Asia, Routledge, 2005)
- Government did not give sanction to the domestic cartel (leniency program)

What Does Japan Do?

Second Answer

Globalization Movement (1)

Situation :

- Neo Liberal waked up 1960s and become dominant economics view since 1980s (Ha-Jonng Chan, “Bad Samaritans”, Bloomsbury Press, 2007)
- Neo Liberal Agenda : privatization, market openness, deregulation.

Policy :

- not deregulation but reregulation to enhance government control

What Japan do :

- controlled industry
- centralized regulatory authority
- selectively promoted competition & control of business entry-exit (telecommunication, finance, broadcasting, transportation) → domestic companies protested but government assured that they still exist & prosper through several policy :
 - Government doing R & D for companies
 - Soft loan especially for SMEs
 - Open access to international market (through several ways including government loan and grant to targeted countries)
 - Maintain zaibatsu, kieritsu & strenghten SMEs

What Does Japan Do?

Second Answer

Globalization Movement (2)

- strengthen relationship between government and domestic private sectors (amukadari)
- Human resources development
- encourage technology innovation to make Japanese companies more competitive in international market as well as productive & to increase export of goods & services
- Protected important sectors such as agriculture, fishing, and mining

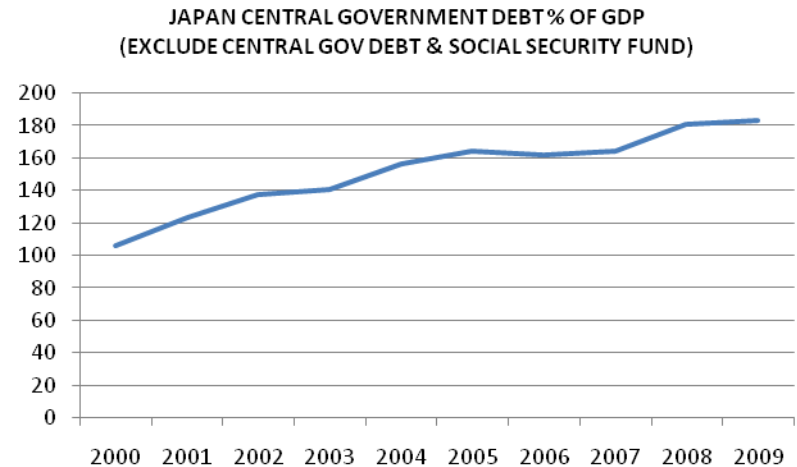
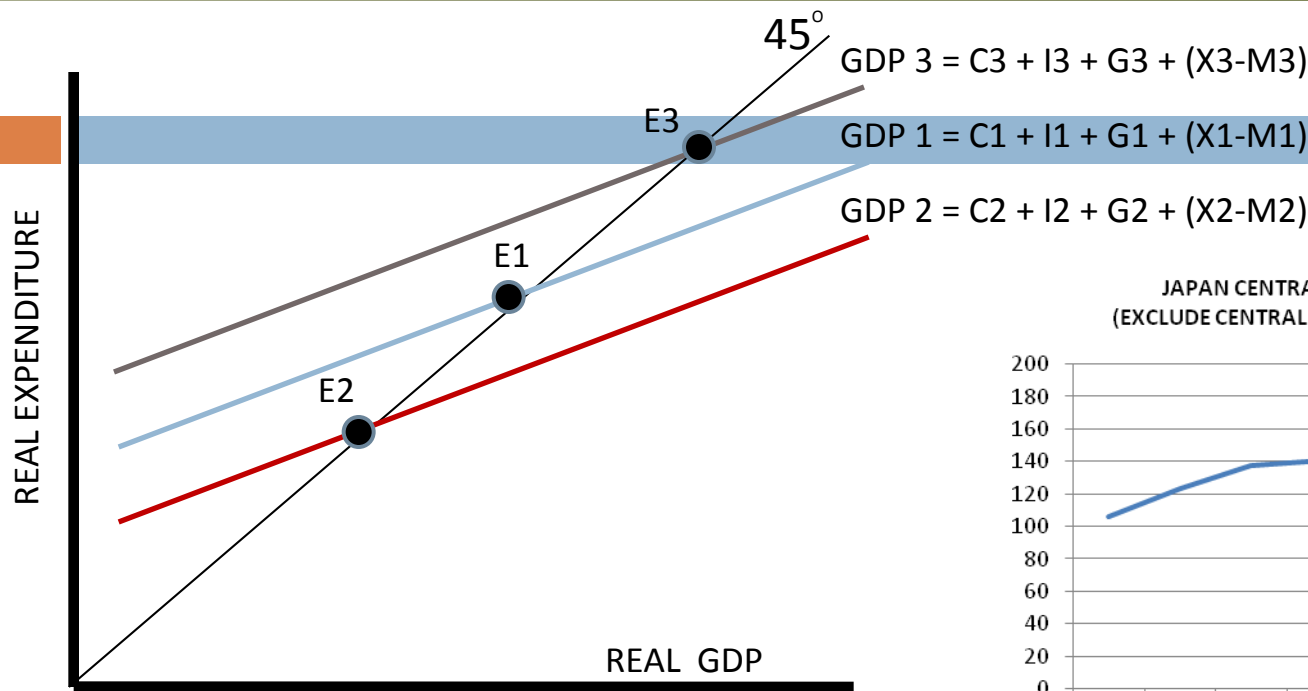
Table III-2 (cont'd) FDI Restrictiveness Index Scores by Country and Sector (closed = 1, open = 0)

	Iceland	India	Indonesia	Ireland	Israel	Italy	Japan	Korea
<i>Agri. & For. 1/</i>	0.300	0.451	0.125	0.225	0.100	0.000	1.000	0.375
<i>Fishing</i>	1.000	0.000	1.000	0.000	0.020	1.000	1.000	0.500
<i>Mining</i>	1.000	0.525	0.085	0.450	0.020	0.020	1.000	0.000
<i>Manuf. 2/</i>	0.300	0.026	0.075	0.000	0.020	0.000	0.070	0.000
<i>Electricity</i>	1.000	0.000	0.110	0.000	0.720	0.000	0.000	0.417
<i>Construction</i>	0.300	0.000	0.310	0.000	0.020	0.000	0.000	0.000
<i>Distribution 3/</i>	0.300	0.420	0.685	0.000	0.020	0.000	0.000	0.000
<i>Hotels & res.</i>	0.300	0.000	0.248	0.000	0.020	0.015	0.000	0.000
<i>Transport</i>	0.317	0.174	0.416	0.125	0.353	0.150	0.550	0.500
<i>Media</i>	0.300	0.600	0.746	0.000	0.270	0.363	0.000	0.400
<i>Telecom</i>	0.300	0.425	0.410	0.000	0.470	0.000	0.300	0.500
<i>Financial Serv. 4/</i>	0.317	0.248	0.143	0.009	0.057	0.018	0.000	0.020
<i>Business Serv.</i>	0.300	0.500	0.560	0.000	0.020	0.000	0.000	0.000
<i>Real Estate</i>	1.000	0.000	1.000	0.250	0.220	0.000	0.100	0.000
Total FDI Index	0.430	0.220	0.332	0.059	0.120	0.073	0.241	0.142

1/ Average score for Agriculture and for Forestry

So that Japan against mainstream theory, What's the logic argument ?

Third Answer



To maintain GDP1 (or going to GDP3), Japanese regulations & policy do not open the market widely which means that C & I are not growing highly because they rely on domestic transactions among domestic companies. Japan government prefers to increase

- G through several sources including tax & government debt. In 2009 the ratio of Japan Central Government debt to the GDP was 183,5% (The highest among OECD Countries), however most of debt comes from domestic bond (MoF of Japan)
- X through innovation & technology and also giving access to international market to make Japan companies more competitive in international market. Innovation & technology also make price more efficient and C increase
- Reduce M through zaibatsu, keiretsu

2011 & 2012 Plan

To face Lehman shock & to recovery from big earthquake (which is supposed to increase C, I, X, G), Japan will do 100 actions, such as

- R & D
- Loan for SMEs + loan restructuring
- Reduce tax for automobile, Nafta tax, & reexamine local corporate tax
- The central government, JETRO and local governments will work together to attract foreign firms to Japan in “All Japan” efforts by passing the “Asian Hub Promotion Bill” incorporating a reduction of corporate tax and quicker immigration procedures, granting business location subsidies, providing selective support through “Asian Hub Special Zones ” (aiming to set up such special zones at 3 locations by 2012), and pushing ahead with accepting skilled foreign human resources based on a “points program.” By strengthening collaborations between upstream and downstream sectors, the government will strive to create stronger, highly-efficient supply chains capable of addressing risk factors. In addition, a business environment for stable industrial activities is essential for creating stronger supply chains. To this end, the government will examine appropriate services for industrial safety purposes, aiming to further improve industrial safety.

2011 & 2012 Plan



- Expand international market through economic partnership
- supporting Japan companies in global business + developing global human resources (equip with high level linguistic & multicultural experiences)
- eliminating entry barriers in foreign nations

PART III

LESSON LEARNED FROM JAPAN

BAD SAMARITANS

- Economics & regulation theory of Neo Liberal thinking (regarding free trade & competition) is not always true. Japan experiences as evidence as well as the new thinking of Ha-Jong Chan (2007) regarding “Bad Samaritans, The Myth of Free Trade & The Secret History of Capitalism”
- Free trade & competition issue is promoted by certain developed countries for their own interest rather than to help developing/poor countries. They are saying “do as we say, not as we did” and act as “Bad Samaritans”, taking advantage of others who are in trouble.

Open vs Protection, Which one better?

There is nothing absolutely wrong or exact true with the theory & thinking. Every theory has its own advantages & disadvantages. How to choose appropriate theory depends on the problem & goals that we want to achieve (considering our weakness and strengths). Do not really fantasize to one theory. Japan, for example during Meiji Era and Globalization Movement era chosen protection, but after WWI chosen open market to grab high technology

PART VI

PROPOSAL FOR INDONESIA
BASED ON JAPAN
EXPERIENCE, LITERATURE
STUDY, & INDONESIA
SITUATION

Scope & Focus



- The scope of my proposal is limited for Government (executive) only (excluding the Diet (legislative) & Judiciary Body (judicative))
- To make my proposal focused, I follow Lawrence Friedman Approach on Law (Regulatory) System which are
 - Regulatory Structure (regarding the institutional aspect such as Government as well as its duties & roles)
 - Regulatory Substance (regarding the idea and the substance or content of policy & regulation)
 - Regulatory Culture (regarding the behavior of Government & its personnel)

INDONESIA SITUATION

- Forced by IMF to enacted competition law in 1999 & established Commission for The Supervision Business Competition as an independent body with the power to investigate, adjudicate, & enforce sanction.
- Indonesia can not run away from open market. Indonesia engaged to Asean Free Trade Area, Asean-China Free Trade Area, GATT, WTO, etc
- Forced by foreign donors to follow their policy, including using good & service from their own countries (especially for loan and credit export)
- Only a handful of domestic companies have competitiveness facing international companies (Many companies have no competitiveness, especially SMEs)

GOAL : STRENGTHEN DOMESTIC MARKET & DEVELOP DOMESTIC COMPANIES TO BE MORE COMPETITIVE

STRUCTURE	<p>Policy & Regulation should create</p> <ul style="list-style-type: none"> • Government through ministries & agencies become a strong central point for strengthening domestic market & developing domestic companies to be more competitive • Government has good & closed relationship with domestic companies • Government has comprehensive plan and is able to enforce the plan regarding to strengthen domestic market & develop domestic companies • Coordination among related agency & ministries developed and implemented effectively • The strengthening of Indonesian Chamber of Commerce & Industry • Review & replace all regulations (including local regulations) that hampering domestic business
SUBSTANCE	<ul style="list-style-type: none"> • Reregulation competition law inserting leniency clause & government control on KPPU • Pointing local content & price preference for domestic firm in Public Procurement Presidential Direction • Requiring high quality requirement for imported good & service • Drafting Important Industry Protection Law (selective competition) • Foreign loan reducing policy • Loan facility & subsidies policy for SMEs • R & D policy for better innovation • HR Development policy including link & match between industries & university/college • Access to international market policy
CULTURE	<ul style="list-style-type: none"> • Relationship between government & business has a tendency to be abusive, so that in order for policy & regulation running well, government (or staff) should act in a good manner for the interest of nations • Promote the importance of using domestic product to the citizen



Thank You Very Much
どうもありがとうございます
Terima Kasih
감사합니다

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- MoF website

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