Special Zones for Structural Reform

Minister of State for Special Zones for Structural Reform
1. Basic Concepts of Koizumi Cabinet

- Leave to the private sector that which can be done by the private sector
- Leave to local governments that which can be done by local governments

2. Main components of regulatory reform at present

**The opening of government-driven markets to the private sector**
- The opening of services provided by the public sector itself or markets with strong public involvement to the private sector will result in the improvement of services as well as the creation of new business opportunities
- Examination for introducing “market testing” as a method to promote the opening of public services to the private sector (selection of “model projects” during 2004)

**Special Zones for Structural Reform**
- Altered the concept that “regulations should be enforced uniformly throughout Japan” and introduced the Special Zones concept - geographically limited areas where certain regulations can be eased or lifted
- By showing successful examples of the Special Zones, regulatory exemptions will be expanded nationwide, and we can stimulate the Japanese economy as a whole
386 Special Zones have been approved throughout Japan (every prefecture) (2003.4〜2004.9)

Regulatory exemptions for Special Zones have been achieved in such fields as education, agriculture, and medical treatment, where conventional reform approaches have faced difficulties.

(Example)
- Establishment of diverse curriculum not based on the Course of Study
- Entry of other business corporations into the agricultural sector than Agricultural Production Corporations
- Entry of business corporations into the medical services sector on the premise that such services will be restricted to medical treatments not covered by public medical insurance
The city of Ota and the private sector together will establish a school integrating three all levels, elementary through high school. Classes are conducted entirely in English with the exception of national language class.

Special Zone of Ota for education in English

Ota City (Gunma Prefecture)

Allowing flexible curriculum not based on the uniform criteria set by Ministry of Education

The city of Ota and the private sector together will establish a school integrating three all levels, elementary through high school. Classes are conducted entirely in English with the exception of national language class.

Fostering internationally minded people with broader perspectives

:according to the plan
Special Zone of Shodoshima Uchinomi for Olive Production

Uchinomi town (Kagawa Prefecture)

Allowing farm management by a stock company

A business corporation cultivates and processes olives integrally which would create a new business and step up an effective use of idle farmland.

- Use about 6 hectare idle farmland by 2008
- Cultivation, processing, and tourism represent 400 million yen
Special Zone for Japanese Hometown Revitalization

Tono City (Iwate Prefecture)

- Flexible application of the Fire Service Law to guesthouses run by farmers
- Deregulation of requirements to manufacture unrefined sake, "doburoku"

Encourage community-based new businesses and promote regional revitalization

• Tourists to Tono city increased by 50% year-on-year (actual result)
• Set up 20 farm guesthouses (by 2007 fiscal year)
Special Zones for Industrial Renovation Utilizing Technology Concentration

Mie Prefecture, Yokkaitchi city, Yokkaichi Harbor Administration Union

Deregulation related to safety requirements in plants

By reinvesting in the existing petrochemical complexes under the regulatory exception, high value-added industries responding to the new era are clustered around the area.

- Amount of capital investment in 5 years: about 70 billion yen
- A 40-billion yen increase in output (by 2007)
- Job creation: about 300 (by 2007)
Special Zone of Kitakyushu for International Logistics
Kitakyushu City (Fukuoka Prefecture)

- Implementation of the round-the-clock customs clearance operation
- Reduction in the extraordinary agency - opening fees

“Hibikinada” opens 24hrs/day so that it would connect North America/Europe and North East Asia as a Hub port.

- The number of enterprises entering this area (cumulative sum)


Further P.R. of the Special Zones system among the private sector in particular

Identify obstacles to Special Zones, and solve them

Expand regulatory exemptions for Special Zones nationwide based on evaluations
Japan's New Special Zones for Regulatory Reform

September 8, 2004
Naohiro YASHIRO
Japan Center for Economic Research
So-called the “Lost Decade” of Japan
Rapid pace of the population aging puts strong pressure on the age-based society
Need for structural adjustments

• Dual structure of high-productive manufacture and low-productive service sectors;
• Contrary to competitive manufacturing, the service sectors are widely regulated;
• Opening up the protected agriculture, health, and education sectors should stimulate new demand and increase productivity;
• Regulatory reform and de-centralization are keys for structural adjustments.
<table>
<thead>
<tr>
<th>部门名称</th>
<th>部门人员</th>
<th>部门负责人</th>
<th>联系方式</th>
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<td>人力资源</td>
<td>王五</td>
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注：以上信息仅供参考，实际部门名称及人员信息请以公司实际情况为准。
Special Zones as a regulatory reform

- Established in 2003 as an endeavor to enhance nation-wide regulatory reforms
- Certain regulations are eased in geographically limited areas as a testing ground, and are to be implemented to at the national level;
- Because of the large degree of independence of ministries, an area-based approach of regulatory reform and decentralization can lead to original initiatives which might take longer;
- SZ is intended as a tool for speeding up of the nation-wide regulatory reform.
Major features of Special Zones

• National project based on local government initiatives for stimulating the competition between local governments for inducing private investment;

• No automatic fiscal incentives related to the establishment of the Special Zones are provided;

• Contrasted to the free trade zones in Ireland or China as a strong measure for inviting FDI, non-differences to domestic firms;
Process of establishing Special Zones;
(1) Providing the menu

• The Office for Special Zones under Prime Minster’s Cabinet collects the proposals from municipalities and the private sector, and negotiates with the ministries in charge of respective regulations.

• Based on the agreement, the law for listing various deregulation measures in the Special Zones is submitted to the Diet twice a year.

• Many proposals are accepted as the nation-wide regulatory reform, not through the special zones.
## Major results in the first round

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Process of Establishing Special Zones;
(2) Ordering the menu

• After the establishment of Special Zones, any municipality (not necessarily those who first proposed the idea) is eligible to establish the Special Zone by itself;

• No limits in the number of Special Zones to be established, as they are not considered to be a privilege of the special region;

• Increase of Special Zones are encouraged as de facto nation-wide regulatory reform.
Increasing number of Special Zones

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Process of Establishing Special Zones;  
(3) Assessment

• Careful assessment of the Special Zones is required for the nation-wide implementation;
• The criteria is whether there is an evidence for demerits with SZ, rather than the merits;
• If no evidences for both merits and demerits with SZ, the regulatory reform is to be implemented nation-wide, i.e. the burden of proof is on the regulating ministries;
• 26 SZ already assessed are to be implemented to nation-wide regulatory reform in September.
Implications to regulatory competition between municipalities

- SZ enhances the incentive of municipality to reform the regulations which are uniformly applied nation-wide regardless of the local differences;
- Shifting from the dependence on political efforts to induce public investment or subsidies to their own initiatives for attracting FDI or domestic firms in the SZ.
The more the region depends on public investment, the less likely it proposes SZ
Implications of Special Zones

• Social experiments of regulatory reforms to be implemented nation-wide with the ex post assessment;
• Shifting the authority of regulation from national ministries to local municipalities for regulatory competition;
• New tools for stimulating local initiative under centralized but fragmented regulatory authorities in Japan.
Facts about Ireland

- Independent Sovereign State, Member of EU
- Population: 3.9 million
  (Dublin: 1 million)
- Area: 70,282 km²
- Temperate climate:
  Winter 4°C; Summer 16°C
- Unemployment 4.4%
- Inflation 2.3%
- Current Account Balance €1.7bn
  (2003 figure €1.2bn)
Industrial development assisted by tax concessions and other initiatives

Incentives eroded over time

A leading business park in Ireland
Ireland an Objective One Region of the E.U.

- Development of economically lagging regions.
- Focus of Community assistance on Objective One regions
  - less than 75% of average EU per capita GDP
- Ireland treated as a single Objective One region before 2000.
- Ireland has secured above average transfers of structural funding while demonstrating a comprehensive package of government policies.
Irish Economy in 1980’s

- Unemployment: 17.5%
- Inflation: 12%
- Emigration highest since 1950’s
- Current budget deficit £1.5bn
The rationale behind the idea was that:

- World financial markets had become highly inter-dependent and operated on a round-the-clock basis;

- The technology to set up and run international data and fund management centres was creating an electronic market place; and

- global deregulation of financial services meant that an increasing range of these services was provided from beyond national boundaries.
Key Steps

- The full engagement from the outset of the Central Bank of Ireland, the prime regulator of the activities to be carried out in the Centre.

- The extension to the International Financial Services centre of the low corporate tax (10% on profits) then available, under Irish law only to manufacturing and some service activities.

- The setting up of a marketing team in the Investment Development Agency (IDA)
Certain special tax incentives were put in place to assist with the development of the Docklands area of Dublin.

The main Irish banks were engaged from the outset in the development.

A few leading international companies and institutions were persuaded at an early stage of the benefits of the centre and what it had to offer.
Six Principles Set Out:

- **Necessity** - is the regulation necessary? Can we make it easier and simpler?

- **Effectiveness** - is the regulation properly targeted? Is it still effective?

- **Proportionality** - is there a more effective way of achieving the objective? Do the advantages outweigh the disadvantages?

- **Transparency** - have we consulted with stakeholders prior to regulating?

- **Accountability** - is it clear who is responsible to whom and for what? Is there an effective appeals process?

- **Consistency** - is it consistent with other regulations in place?
Irish Financial Services Regulatory Authority

**Its role** is to oversee the operation of the financial services industry in Ireland. It has a statutory base and is appropriately funded and staffed to carry out its role.

**The reputation** of the Irish Financial Services Industry has been based on strong and appropriate regulations which has made Ireland both competitive and attractive as a location for financial services.

**Mission Statement**

To help consumers make informed financial decisions in a safe and fair market and to foster sound dynamic financial institutions in Ireland, thereby contributing to financial stability.

A series of social partnership agreements, commencing with the Programme for National Recovery (PNR).

Successive agreements provided for moderate wage increases supplemented by cuts in personal taxation and consensus on spending priorities in economic and social programmes.

Social Partnership grew from a shared recognition that the challenges facing Ireland could not be satisfactorily addressed by any one group acting alone.
IFSC, (the zone) IFSRA (the regulator), Regulatory Reform, Social Partnership

Driven by Prime Ministers Office
Industrial revitalization of waterfront industrial complexes and other industrial facilities taking advantage of designation as a special district for structural reform

Yokkaichi City
Location of Yokkaichi City

Yokkaichi
Kanto Economic Zone
Kansai Economic Zone
Chukyo Economic Zone
Yokkaichi City (around the waterfront)
Trends of the petrochemical industry in Japan (1)

Trends of ethylene production

- Decrease in domestic demand
- Decrease in foreign demand
  - Increase in imports of inexpensive general-purpose products from overseas
  - Overseas transfer of domestic production bases for auto industry, electric industry, etc.
  - Expanded production capacity in Asian countries

Movement toward selection of industrial complexes

One of the ethylene plants in the city has been suspended since 2001.
Trends of petrochemical industry in Japan (2)

Reduction of ethylene production

Land of high utility value
- Electricity
- Industrial water
- Physical distribution
- Proximity to major cities

Transformation of the industrial structure

Industry that continues to create value-added chemical materials
- High-tech parts for automobiles
- Electronic materials

Cooperation with growing industries such as auto industry and electric machinery industry

Reviewing the high cost structure

Administration’s roles
- Provision of preferential measures for site location
- Rationalization of regulations
- Cooperation between companies and bridging between companies and universities
Status of the petrochemical industrial complex in the city

Pillar of local industrial accumulation

[Industrial shipments]

- 1989: \1,742.1 billion* (including \1,074 billion from petrochemical industry)
- 2001: \1,714.5 billion* (including \904.3 billion from petrochemical industry)

Petrochemical: 62% Other: 38%

Petrochemical: 53% Other: 47%

Pillar of local employment

[Number of employees]

- 1989: 40,878 employees (including 12,033 employees in petrochemical industry)
- 2001: 32,589 employees (including 9,027 employees in petrochemical industry)

Petrochemical: 29% Other: 71%

Petrochemical: 28% Other: 72%

*Excluding shipments from companies having fewer than four employees
Revenues from city taxes paid by the corporations in the industrial complex

City taxes paid by local companies in the petrochemical complex in Yokkaichi City (million yen)
Progress toward the formulation of the special district plan

**Step 1** Administration’s recognition of a sense of crisis

- Establishment of the enterprise location promotion ordinance
- Prevention of hollowing-out
- Support for existing companies

**Step 2** Sharing of the sense of crisis
- Yokkaichi City
- Sharing of information

**Step 3** Inauguration of Waterfront Revitalization Program Review Commission

- Clarification of the problems to be solved
  - Roads
  - Port and harbor
  - Laws and regulations
  - Cooperation between companies
  - Industrial water

**Step 4** Formulation of the special district plan
- The national government introducing the structural reform district system
- Solving its own problems

"Special district for industrial revitalization using integrated technology"
Actual investment according to the enterprise location promotion ordinance of Yokkaichi City
(In effect in April 2000)

Number of businesses and amount of fixed assets invested on a fiscal year basis

<table>
<thead>
<tr>
<th>Fiscal year</th>
<th>Number of businesses</th>
<th>Fixed assets invested (million yen)</th>
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</thead>
<tbody>
<tr>
<td>FY 2000</td>
<td>14 businesses by 8 firms</td>
<td>13,719</td>
</tr>
<tr>
<td>FY 2001</td>
<td>9 businesses by 9 firms</td>
<td>8,569</td>
</tr>
<tr>
<td>FY 2002</td>
<td>14 businesses by 8 firms</td>
<td>23,595</td>
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<tr>
<td>FY 2003</td>
<td>7 businesses by 6 firms</td>
<td>28,344</td>
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<tr>
<td>Total</td>
<td>44 businesses by 23 firms</td>
<td>74,572</td>
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Outline of Yokkaichi City Waterfront Industrial Area Revitalization Program Review Commission

[Participants]
President: Professor Urayama, Faculty of Engineering, Mie University
Companies: AJINOMOTO CO.,INC.; ISHIHARA SANGYO KAISHA,LTD.; JSR Corporation; Showa. Yokkaichi Sekiyu.Co.,Ltd.; TOSOH Corporation; NIPPON AEROSIL CO.,LTD.; MATSUSHITA ELECTORIC WORKS,LTD.; Mitsubishi Chemical Corporation; MITSUBISHI GAS CHEMICAL COMPANY,INC.; Mitsubishi Materials Polycrystal Silicon Corporation; Nippon Sheet Glass Co.,Ltd*; Cosmo oil Co.,Ltd.*; Kyowa Yuka Co.,Ltd.*; DAINIPPON INK AND CHEMICALS,INCORPORATED*

(* The marked four companies joined on November 29, 2002.)
Governmental Organizations: Yokkaichi City; Mie Prefecture; Chubu Bureau of Economy, Trade and Industry; Chubu Regional Bureau; Yokkaichi Port Authority
Organization: Yokkaichi Chamber of Commerce and Industry
Observer: Development Bank of Japan

[Programming measures and projects that can be implemented through cooperation between companies and governmental organizations within 5 years and strengthening the competitiveness]

[Purpose]
• To prevent Yokkaichi City Waterfront Industrial Area from hollowing out
• To make effective use of personnel and technology accumulated in the area
• To strongly revive the area as a model of industrial society in the 21st century
Progress toward the formulation of the special district plan

Step 1  Administration’s recognition of a sense of crisis

Yokkaichi City

Step 2  Sharing of the sense of crisis / Sharing of information

Yokkaichi waterfront industrial area

Step 3  Commitment of the nation and the prefecture

Inauguration of Waterfront Revitalization Program Review Commission

Clarification of the problems to be solved

<table>
<thead>
<tr>
<th>Roads</th>
<th>Port and harbor</th>
<th>Laws and regulations</th>
<th>Cooperation between companies</th>
<th>Industrial water</th>
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The national government introducing the structural reform district system

Step 4  Formulation of the special district plan

“Special district for industrial revitalization using integrated technology”
Special district for industrial revitalization using integrated technology

- Breaking away from basic materials-oriented industry to high value-added industry
- Development of new industry through cooperation with integrated leading-edge industries
- Collaboration between the prefecture, the city, the port authority and industry
(1) Requesting preferential measures for the layout regulations under the Law on the Prevention of Disasters in Petroleum Industrial Complexes and other Petroleum Facilities

Facility layout project and other projects based on various security measures for business places in the designated disaster prevention district, including petroleum industrial complex

Approved alternative measures
(1) Reserving vacant lot for fire-fighting
(2) Providing water curtain and other fire prevention equipment
(3) Providing alternative routes for fire-fighting
Vacant lot and alternative routes for fire-fighting

Effectively utilized land about 4,500 m² in area

Effectively utilized land about 7,000 m² in area

Special exception due to alternative route

Specified passage

Corner cut-off
Water curtain facility

Water curtain

Plant

Smoke

Large high-access water truck

Specified passage (6m)
## Economic effect of the special district

### Investment in plant and equipment, investment in R&D, etc.

<table>
<thead>
<tr>
<th>Planned investment in plant and equipment, investment in R&amp;D, etc.</th>
<th>Total investment amount (billion yen)</th>
<th>Economic ripple effect (billion yen)</th>
<th>Effect on employment creation (number of employees)</th>
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<tr>
<td>[Reference] Renewed investment amount (per year)</td>
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### Increase in annual shipment value

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<th>Increase in annual shipment value</th>
<th>Total shipment value (billion yen)</th>
<th>Economic ripple effect (billion yen)</th>
<th>Effect on employment creation (number of employees)</th>
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Yokkaichi City’s private research institute location incentive scheme

- Target projects
  - Research on fuel cells
  - Research on next-generation displays
  - Research on bio-products and pharmaceutical products
  - Research aiming to transform from existing products to high value-added products

- Target requirements
  - A research organization should be newly established and its research facilities should be developed.
  - Acquisition cost for depreciation assets such as research facilities should be over ¥30,000,000.
  - There should be no delayed payment in city taxes.
  - etc.

- Content of incentive measures
  A subsidy of 5 to 10% of the acquisition cost for research facilities (house and depreciation assets) is to be offered up to ¥100 million.
**Investment planned for the special district**

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<tr>
<th>Targets of investment</th>
<th>Amount of investment (thousand yen)</th>
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<tr>
<td>Research on fuel cells</td>
<td>50,000</td>
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<tr>
<td>Research on next-generation displays</td>
<td>750,000</td>
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<tr>
<td>Research on bio-products/pharmaceuticals</td>
<td>48,600</td>
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<tr>
<td>Research on high value-added products</td>
<td>1,420,000</td>
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<td><strong>Total</strong></td>
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