

# **Special Zones for Structural Reform**

**Kazuyoshi Kaneko**

**Minister of State for  
Special Zones for Structural Reform**

2004.9.8



# Regulatory reform is a priority component of Koizumi 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

## Achievements of Special Zones for Structural Reform

**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**



## Special Zone for Education



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 for Agriculture



**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 Agriculture



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 Zone for Industrial Renovation



### Special Zones for Industrial Renovation Utilizing Technology Concentration

Mie Prefecture, Yokkaichi 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 for International Logistics



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)  
: 28 (2007) 35 (2012)
- Economic effect per year : about 240 billion yen (2007) 410 billion yen (2012)
- Job creation : about 5,600 (2007) 10,800 (2012)





## Priority issues

- 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**

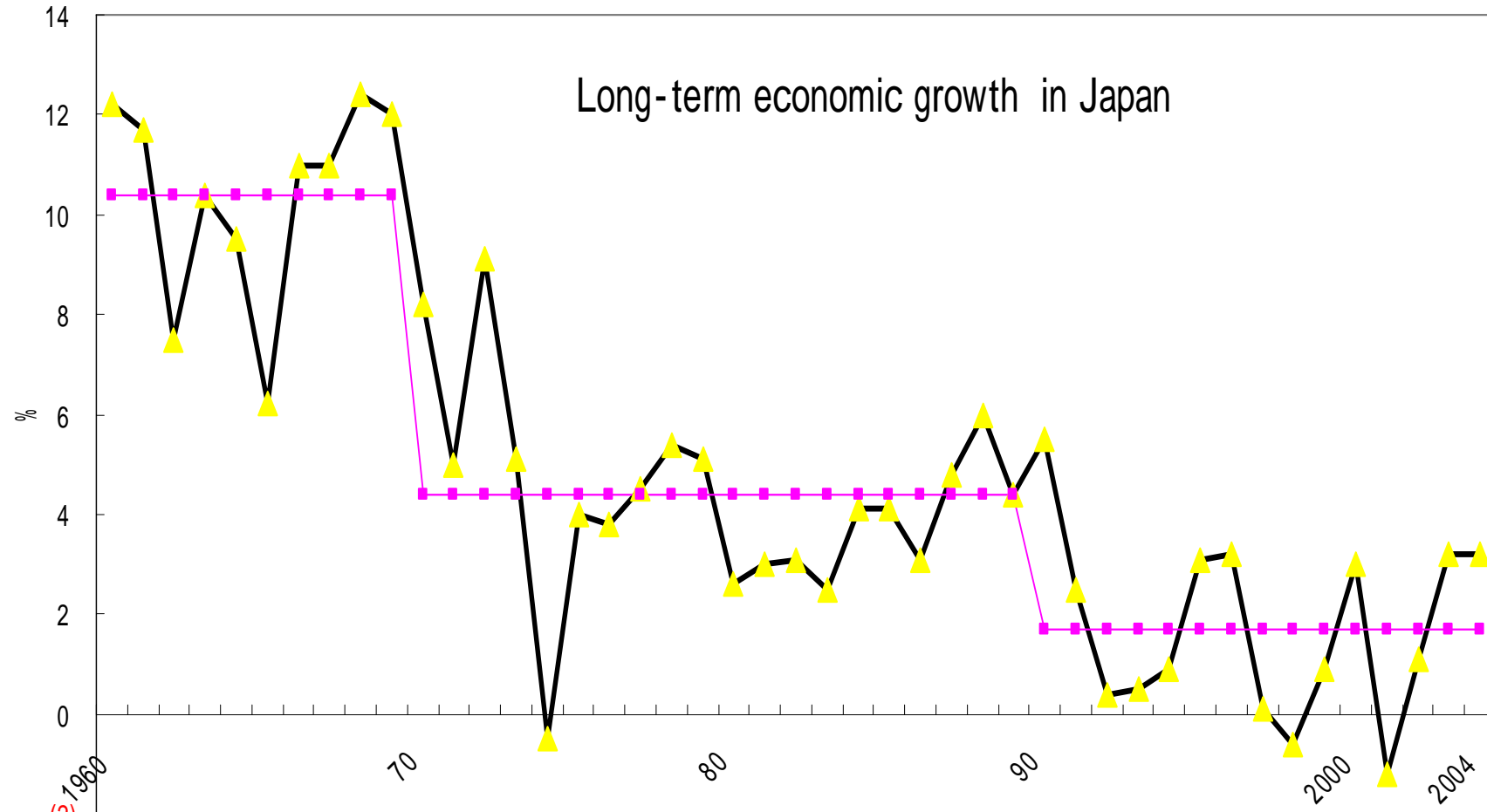
# **Japan's New Special Zones for Regulatory Reform**

**September 8, 2004**

**Naohiro YASHIRO**

**Japan Center for Economic Research**

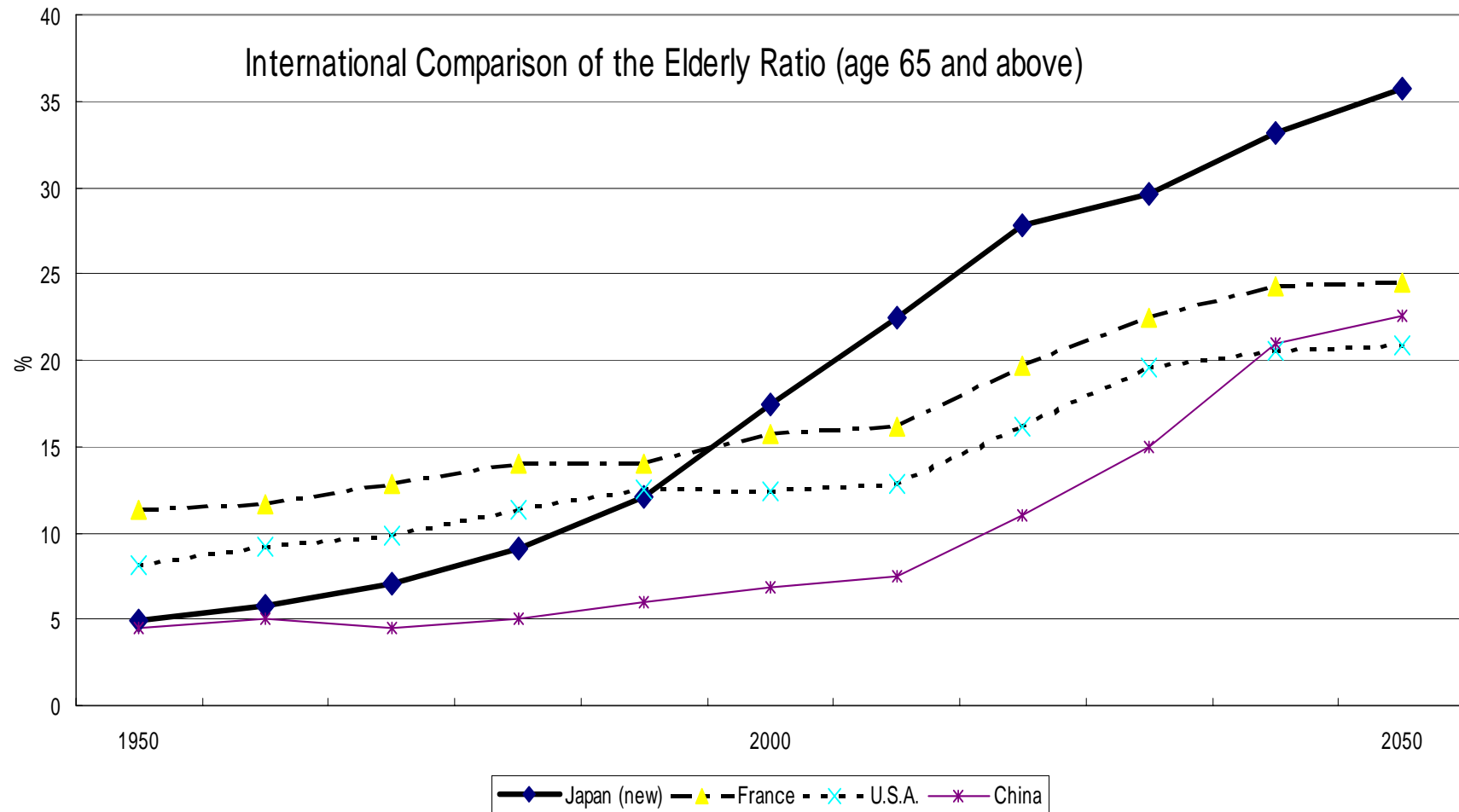
# So-called the “Lost Decade” of Japan



(2)

Projections in 2003-2004 are based on JCER

# 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.

**Increase in consumers surplus due to  
the regulatory reform in the 1990s**

<b>Sector</b>	<b>Fiscal year</b>	<b>Consumers surplus in 2002</b>
Telecommunications	Cellar phones	17,205
	Domestic airlines	2,739
	Railways	2,390
Trabsportations	Taxis	52
	Trucks	38,763
	Auto inspections	8,298
Enargy	Electricity	24,811
	Gas	1,674
	Petro products	22,714
Financial services	Commissions on stockes	3,850
	Non-life insurance	2,742
Foods & drinks	Rice sales	11,709
	Alcoholic bevarages	5,465
Retail prices	Cosmetics	926
<b>Total consumers' surplus</b>		<b>143,338</b>
		<b>(11.3% of N I)</b>

# 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 Minister'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

	2002.8	2003.1	2003.7	2003.1	Total
Number of proposals	426	651	280	338	1695
Number of proposers	249	412	188	223	1072
of which					
Local authorities	231	248	112	121	712
Private firms & individuals	18	164	76	102	360
A. Realized in special zones	93	47	19	17	176
B. Realized in nation-wide	111	77	29	33	250
C. Not realized & others	222	527	232	288	1269
$(A+B)/(A+B+C)$	47.9	19.0	17.0	14.8	25.1

## 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

Major fields of Special Zones	2002.8	2003.1	2003.7	2003.11	Total
International activities	15	0	2	1	18
Industry-university cooperation	25	8	2	2	37
IT & Industry	17	0	4	4	25
Agriculture	28	9	17	30	84
Education	17	16	8	32	73
People's life	20	11	24	12	67
Others	0	3	15	7	25
<b>Total</b>	<b>122</b>	<b>47</b>	<b>72</b>	<b>88</b>	<b>329</b>

# Process of Establishing Special Zones;

## (3) Assessment

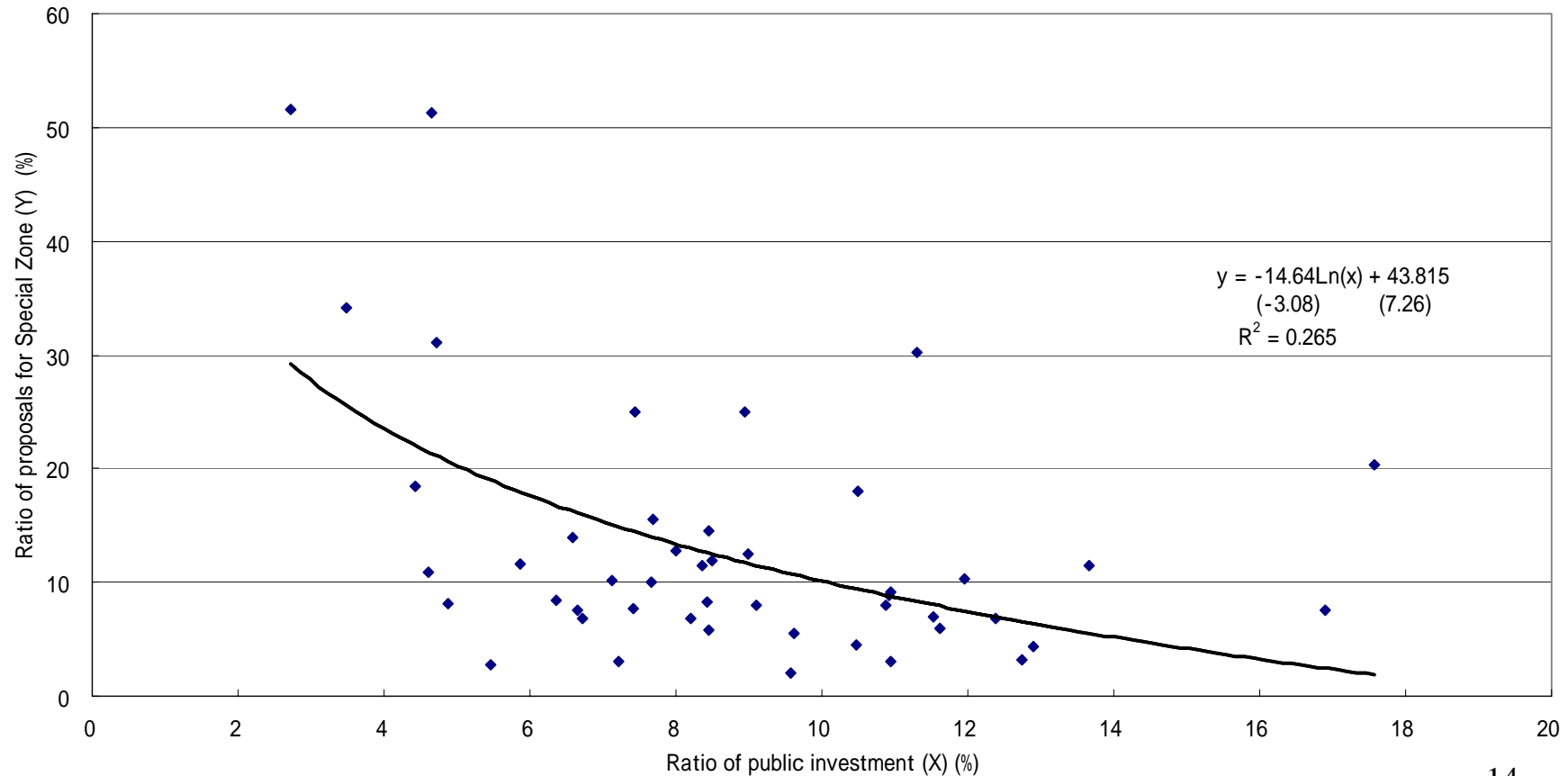
- Careful assessment of the Special Zones is required for the nation-wide implementation;
- The criteria is whether there is an evidence for demerits with SZ, rather than the merits;
- If no evidences for both merits and demerits with SZ, the regulatory reform is to be implemented nation-wide, i.e. the 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

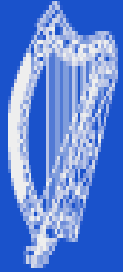
Ratios of Special District Proposals and Public Investment  
(2003)



# 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.





Department of the Taoiseach  
Roinn an Taoisigh



# ***SPECIAL AREA ZONES – THE IRISH EXPERIENCE***

**APEC HIGH LEVEL CONFERENCE, TOKYO,  
8<sup>th</sup> SEPTEMBER 2004**

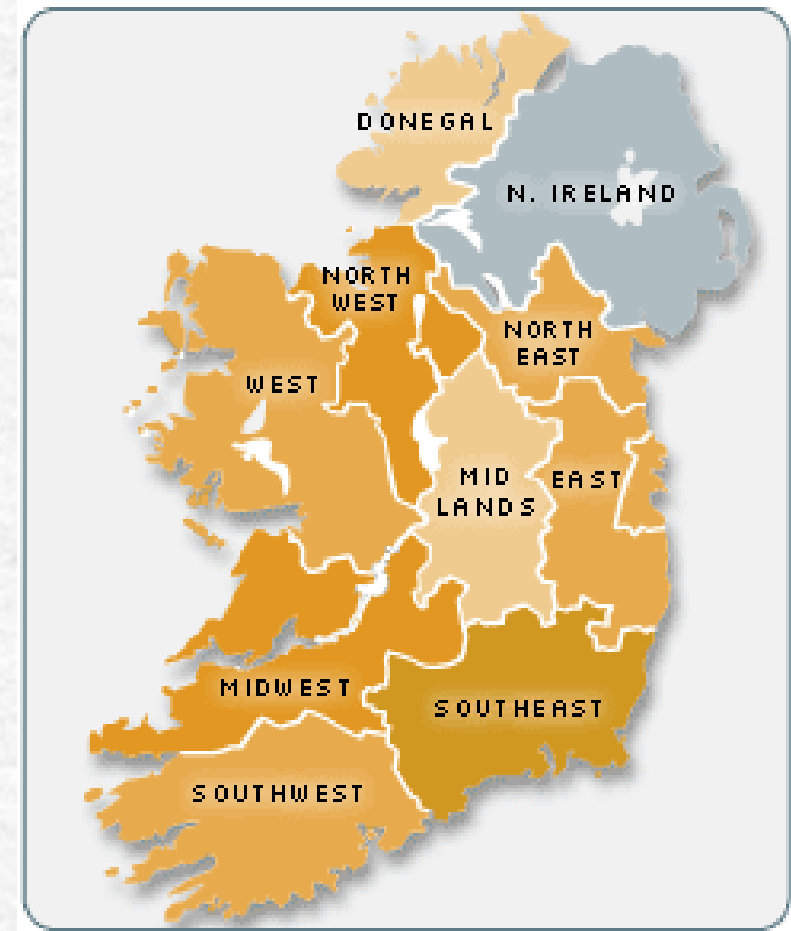
George J. Shaw

Department of the Taoiseach (Prime Minister), Ireland

# Facts about Ireland

Slide 1

- Independent Sovereign State, Member of EU
- Population: 3.9million  
(Dublin: 1million)
- Area: 70,282 km<sup>2</sup>
- Temperate climate:  
Winter 4°C; Summer 16°C
- Unemployment 4.4%
- Inflation 2.3%
- Current Account Balance €1.7bn  
(2003 figure €1.2bn)



# Shannon Free Zone

Slide 2

- 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.

Slide 3

- 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

Slide 4

- ☛ 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

Slide 6

- 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)

Contd.....

# Key Steps ..... Contd

- 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.



# White Paper on Regulation

Slide 7

## "Regulating Better"

### 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?

# Single Regulator

Slide 8

## 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.

# Social Partnership


Slide 9

- In 1987, **The National Economic and Social Council (NESC) Strategy Document**;  
“A Strategy for Development 1986 – 1990” the blue print.
- 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.

# The LINK

Slide 10

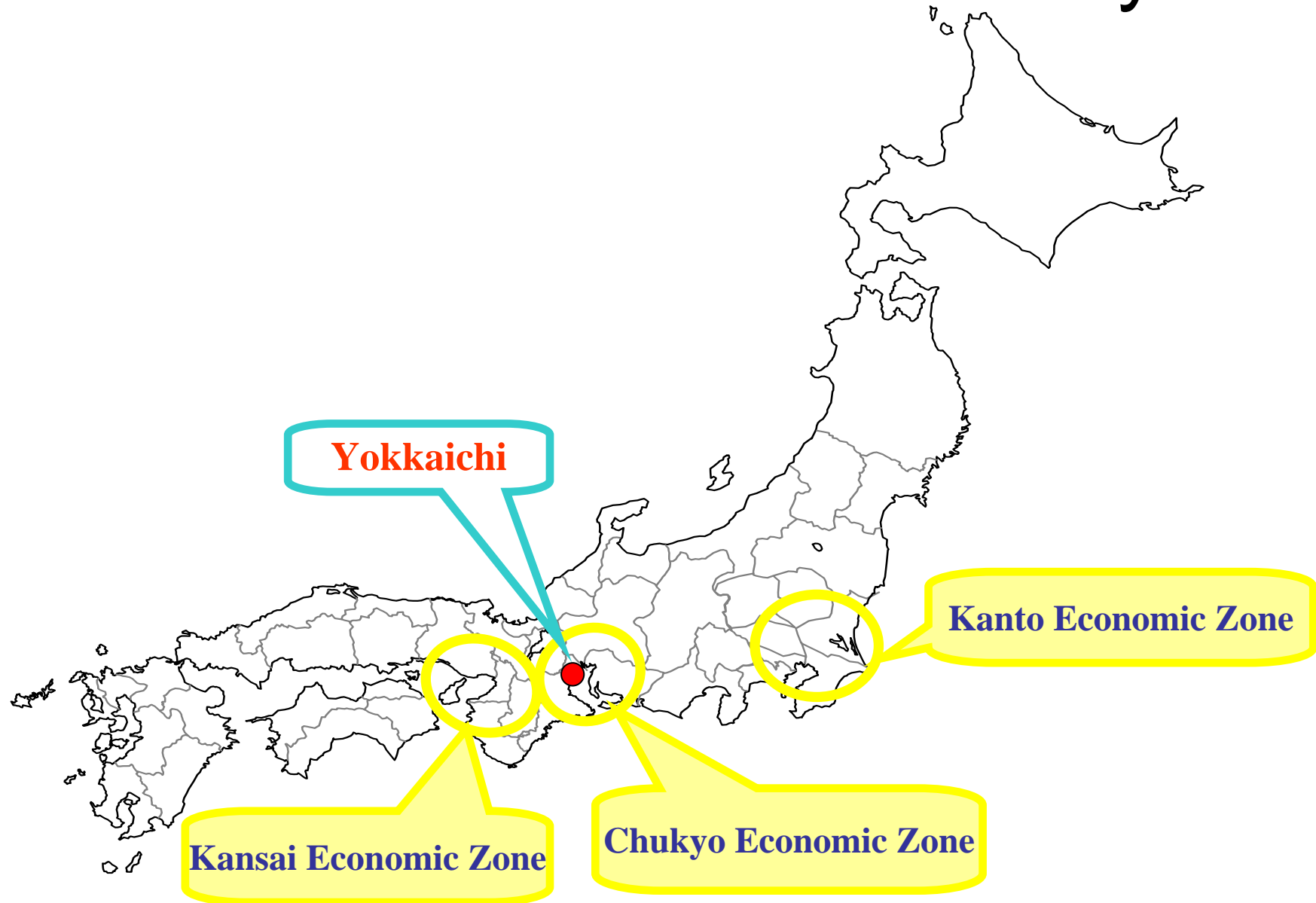
- IFSC, (the zone) IFSRA (the regulator),  
Regulatory Reform, Social Partnership
- Driven by Prime Ministers Office



**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 City (around the waterfront)







# Trends of petrochemical industry in Japan (1)

## Trends of ethylene production

Decrease in domestic demand

Increase in imports of inexpensive general-purpose products from overseas

Overseas transfer of domestic production bases for auto industry, electric industry, etc.

Decrease in foreign demand

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

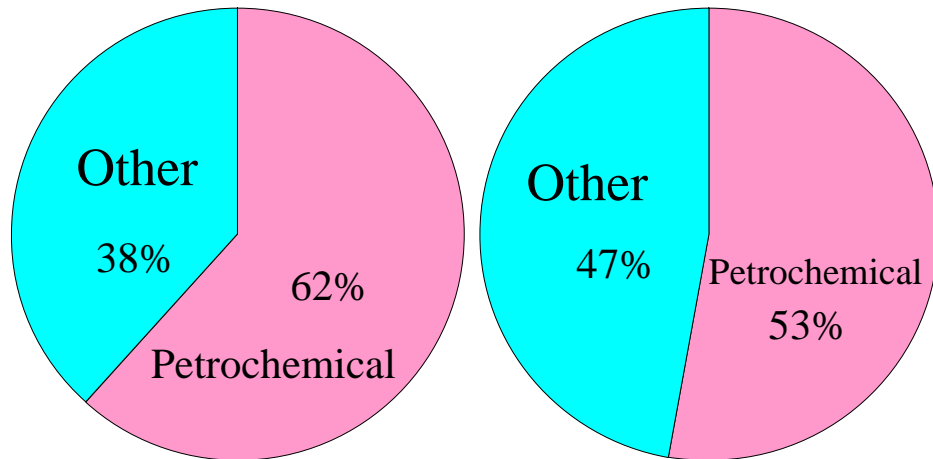
Rationalization of regulations

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]

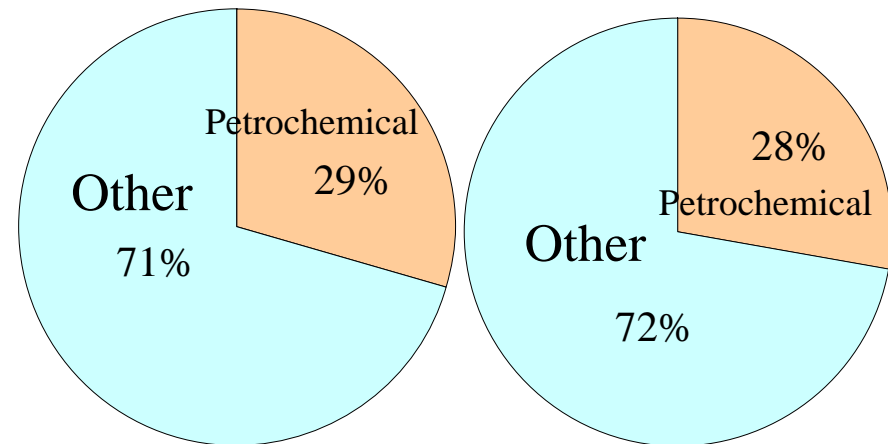


1989  
 \1,742.1 billion\*  
 (including \1,074 billion from  
 petrochemical industry)

2001  
 \1,714.5 billion\*  
 (including \904.3 billion from  
 petrochemical industry)

## Pillar of local employment

[Number of employees]



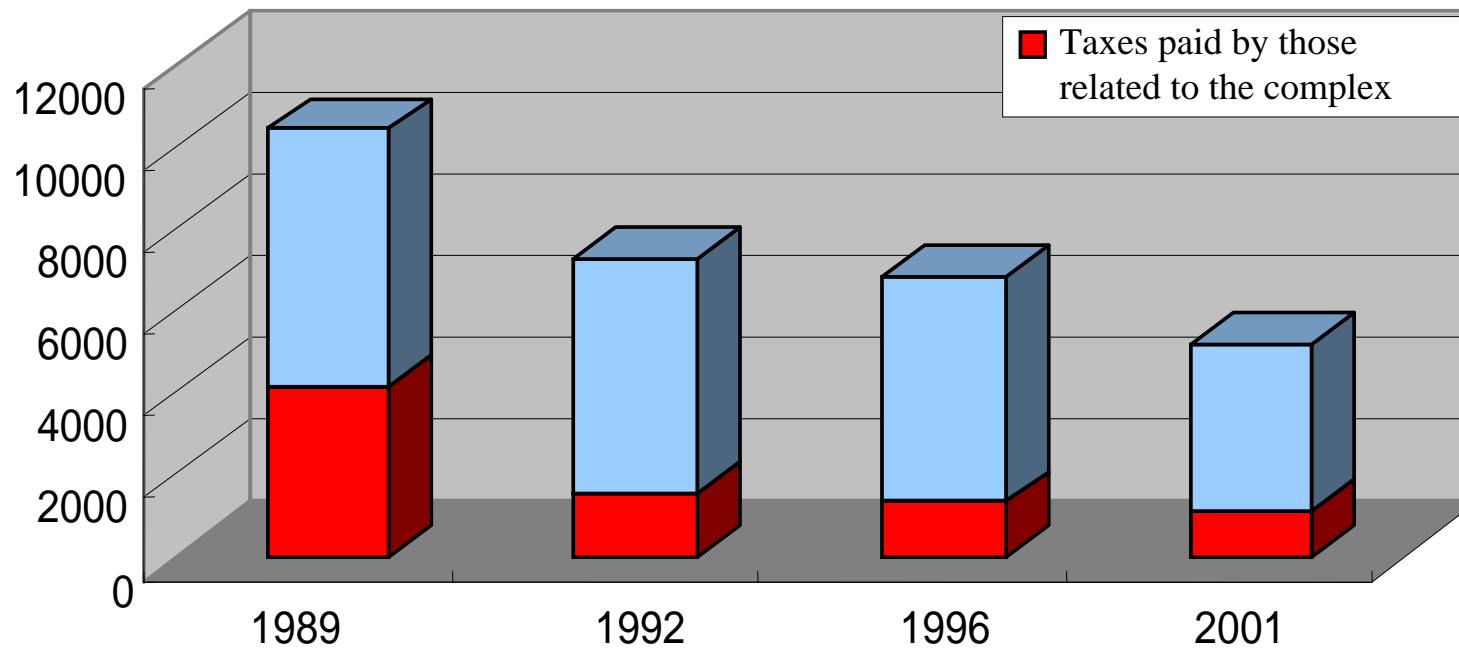
1989  
 40,878 employees  
 (including 12,033 employees  
 in petrochemical industry)

2001  
 32,589 employees  
 (including 9,027 employees  
 in petrochemical industry)

\*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)



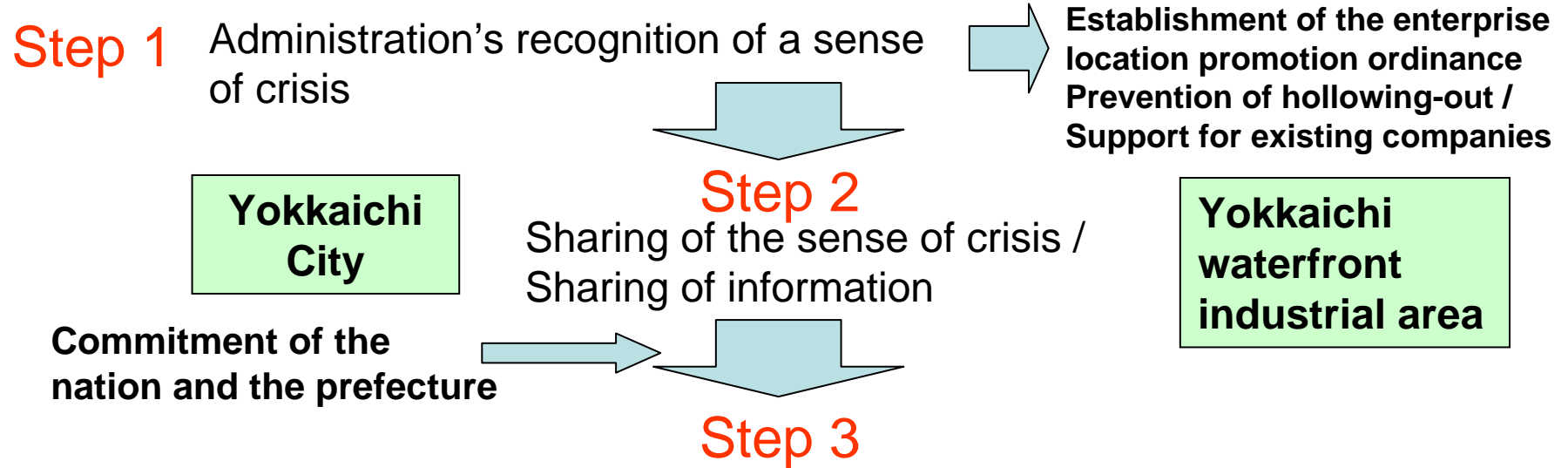
\4.1 billion  
\10.4 billion in total

\1.6 billion  
\7.3 billion in total

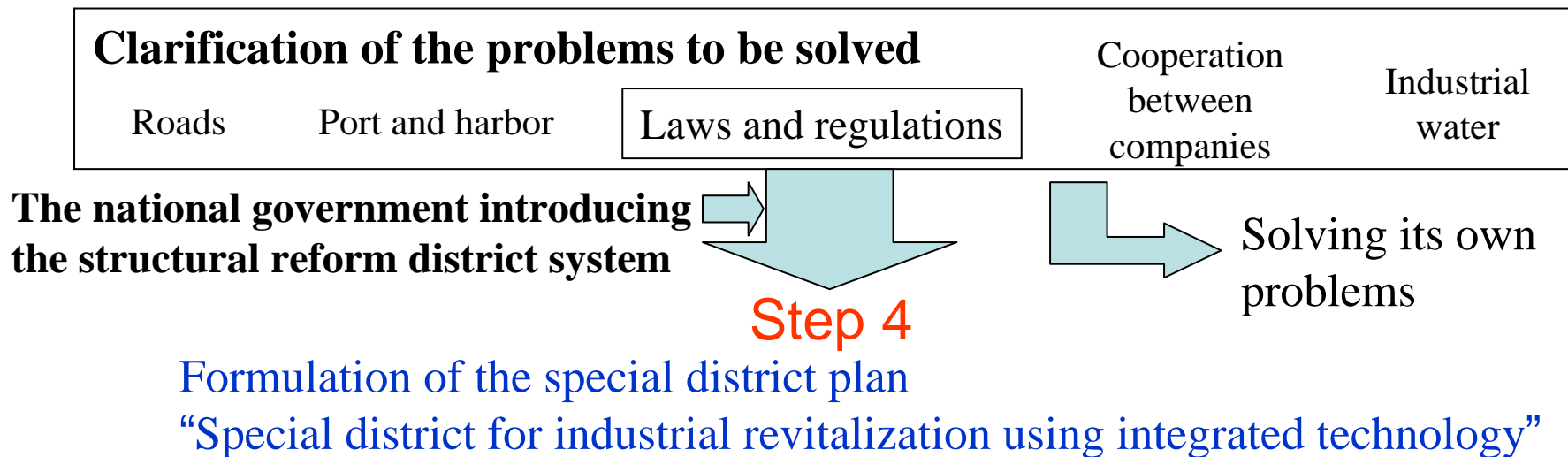
\1.3 billion  
\6.8 billion in total

\1.1 billion  
\5.2 billion in total

# Progress toward the formulation of the special district plan



## Inauguration of Waterfront Revitalization Program Review Commission



# 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

Fiscal year	Number of businesses	Fixed assets invested (million yen)
FY 2000	14 businesses by 8 firms	13,719
FY 2001	9 businesses by 9 firms	8,569
FY 2002	14 businesses by 8 firms	23,595
FY 2003	7 businesses by 6 firms	28,344
Total	44 businesses by 23 firms	74,572

## Outline of Yokkaichi City Waterfront Industrial Area Revitalization Program Review Commission

### [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



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

### [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\*

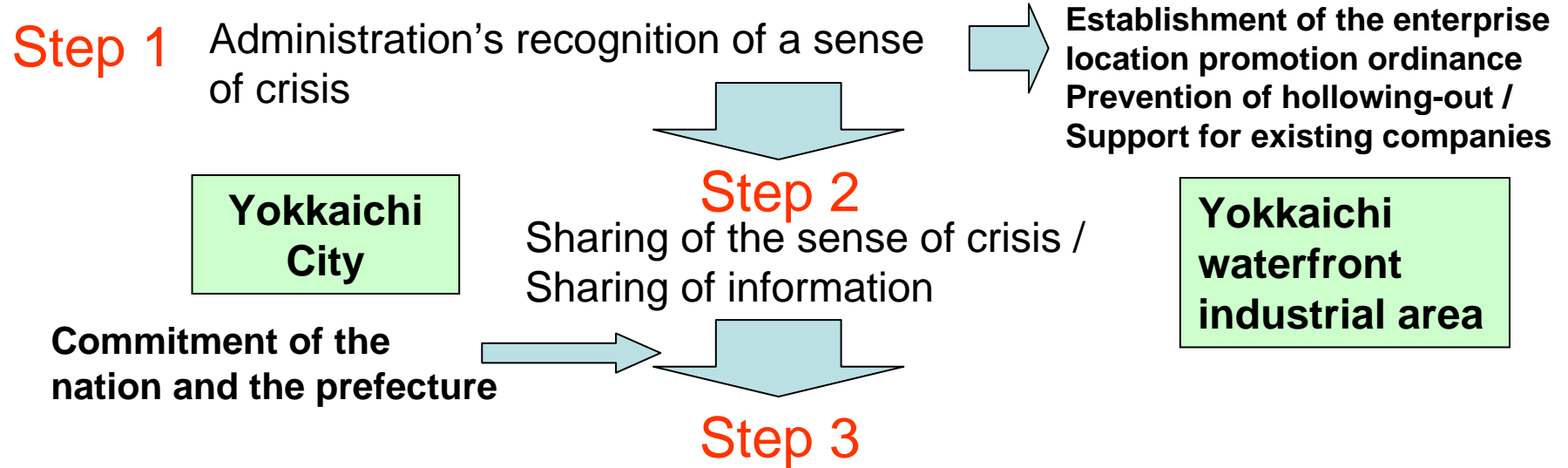
(\* The marked four companies joined on November 29, 2002.)

Governmental Organizations: Yokkaichi City; Mie Prefecture; Chubu Bureau of Economy, Trade and Industry; Chubu Regional Bureau; Yokkaichi Port Authority

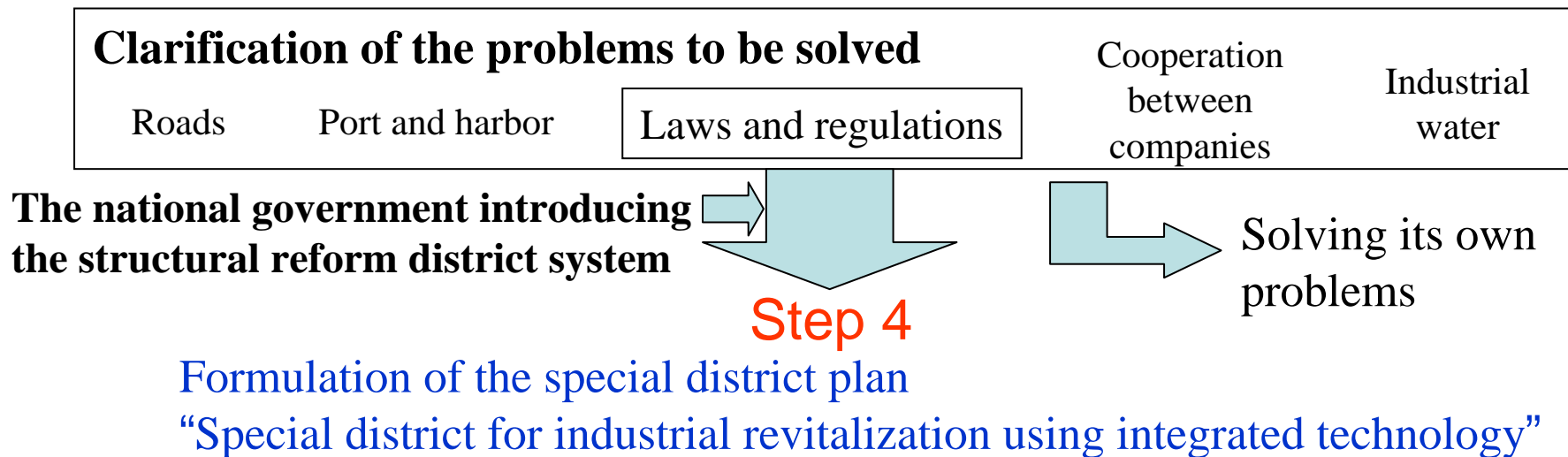
Organization: Yokkaichi Chamber of Commerce and Industry

Observer: Development Bank of Japan

# Progress toward the formulation of the special district plan

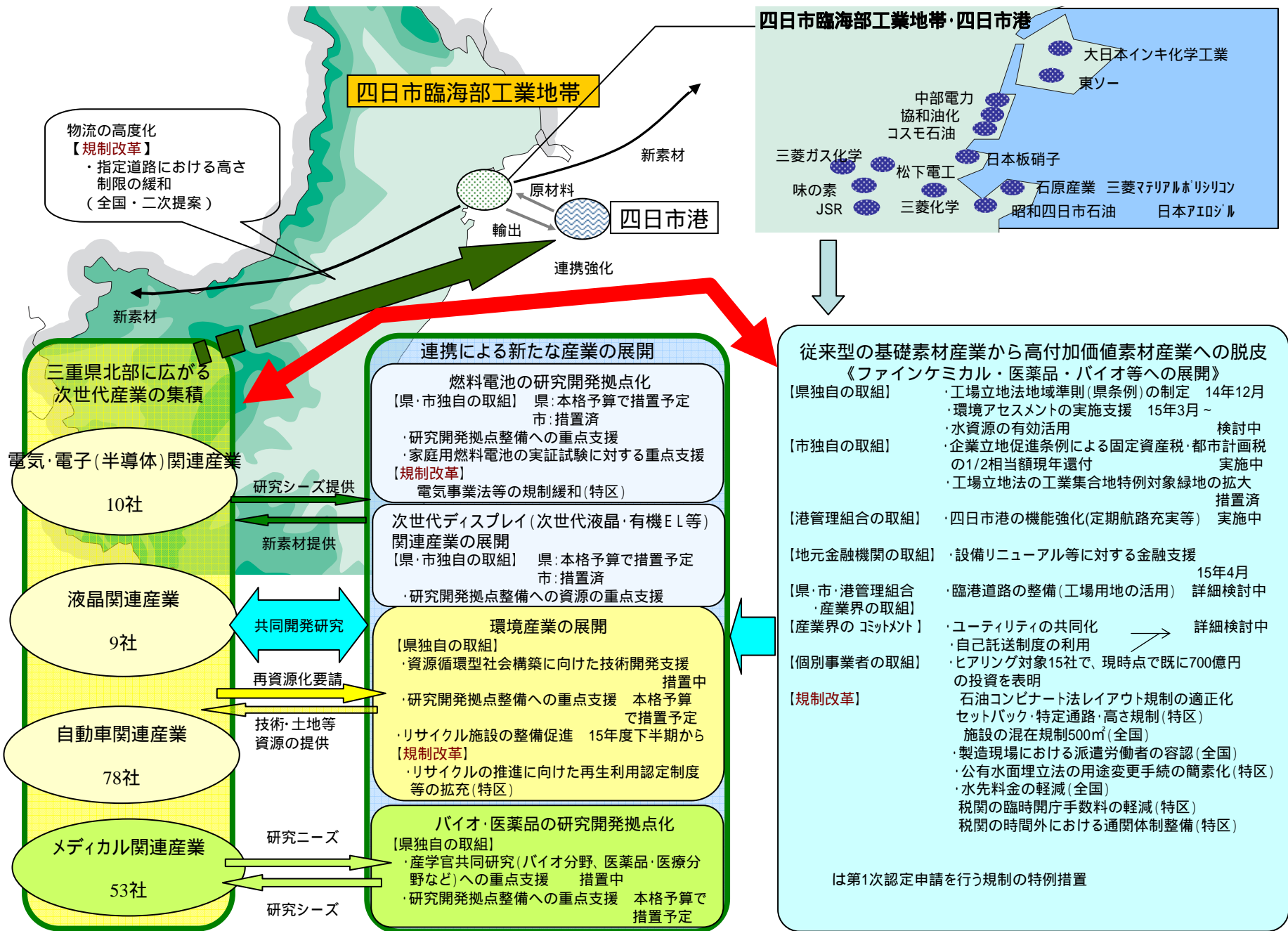


## Inauguration of Waterfront Revitalization Program Review Commission



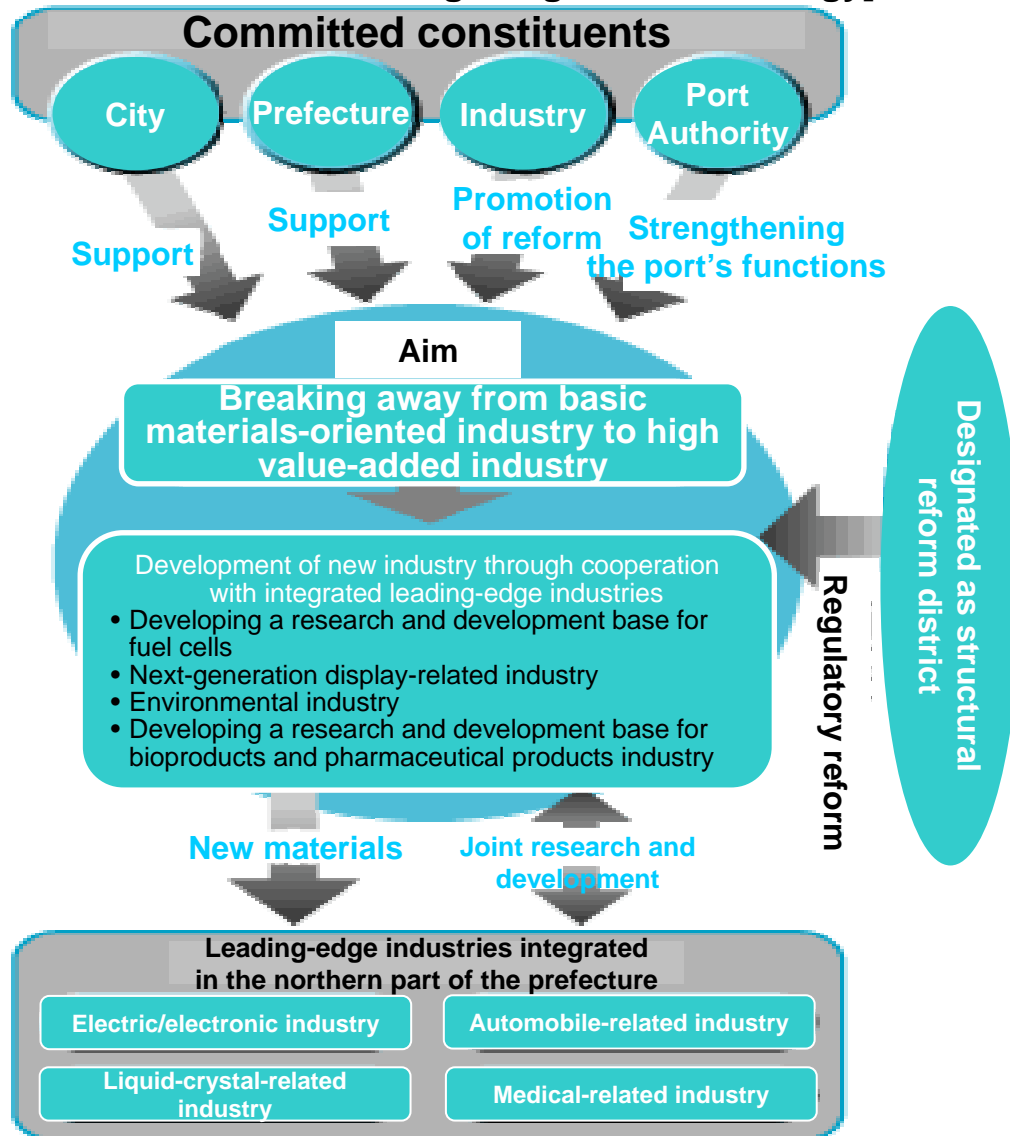


# - 三重県技術集積活用型産業再生特区 -



# Special district for industrial revitalization using integrated technology

[Flow of the scheme for the 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

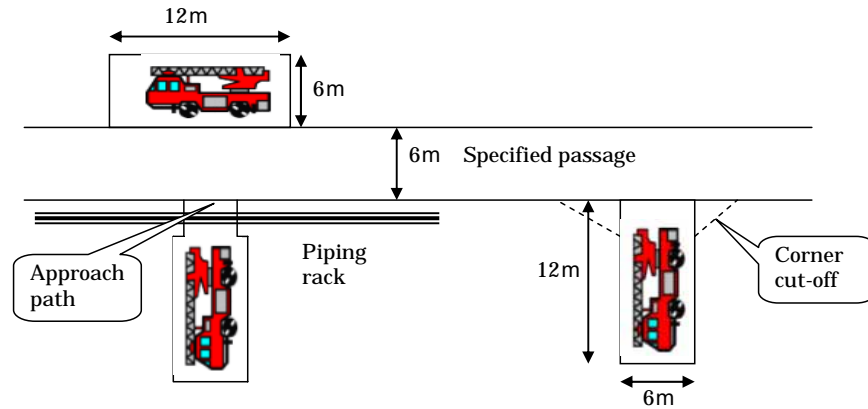
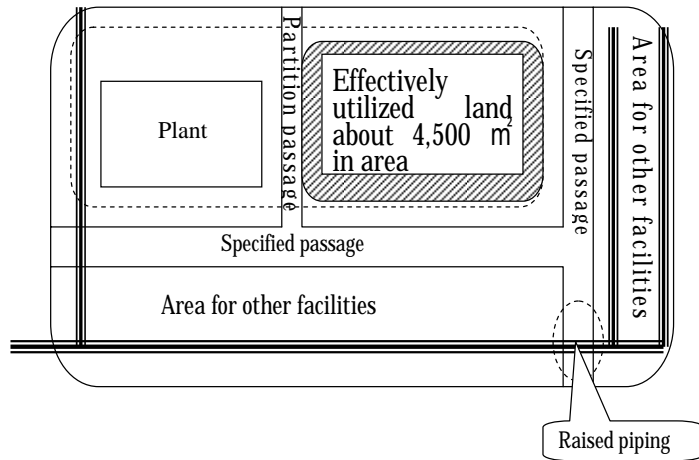
- (1) Reserving vacant lot for fire-fighting
- (2) Providing water curtain and other fire prevention equipment
- (3) Providing alternative routes for fire-fighting



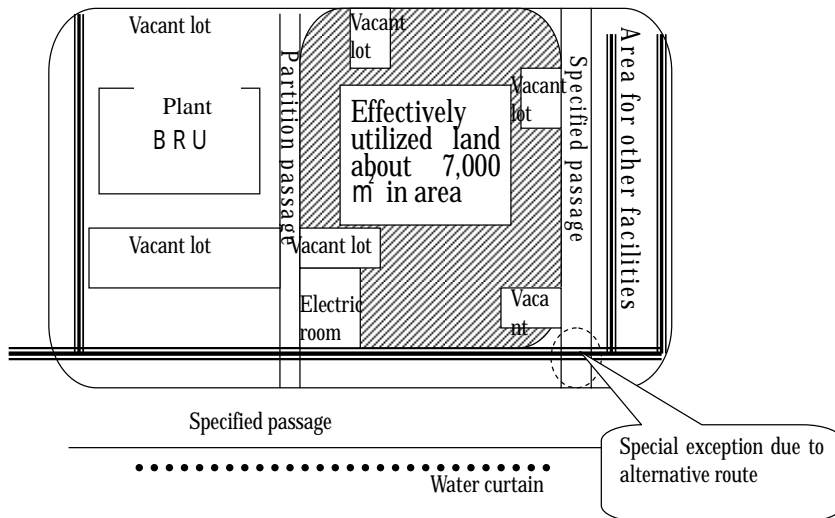
# Vacant lot and alternative routes for fire-fighting

## Vacant lot for fire-fighting

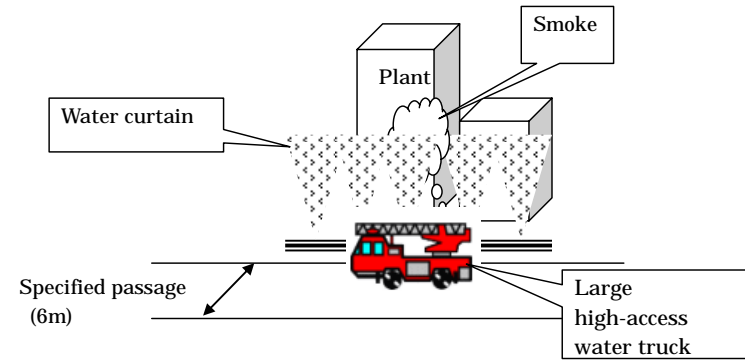
Existing regulation Effectively utilized land about 4,500 m<sup>2</sup> in area



Special exception to the regulation Effectively utilized land about 7,000 m<sup>2</sup> in area



# Water curtain facility



# Economic effect of the special district

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

	Total investment amount (billion yen)	Economic ripple effect (billion yen)	Effect on employment creation (number of employees)
Planned investment in plant and equipment, investment in R&D, etc.	70	30	1,800
[Reference] Renewed investment amount (per year)	15	20	1,200

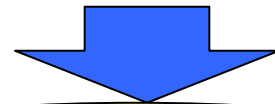
Increase in annual shipment value

	Total shipment value (billion yen)	Economic ripple effect (billion yen)	Effect on employment creation (number of employees)
Increase in annual shipment value	40	10	300

# 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

Targets of investment	Amount of investment (thousand yen)
Research on fuel cells	50,000
Research on next-generation displays	750,000
Research on bio-products/pharmaceuticals	48,600
Research on high value-added products	1,420,000
Total	2,268,600