

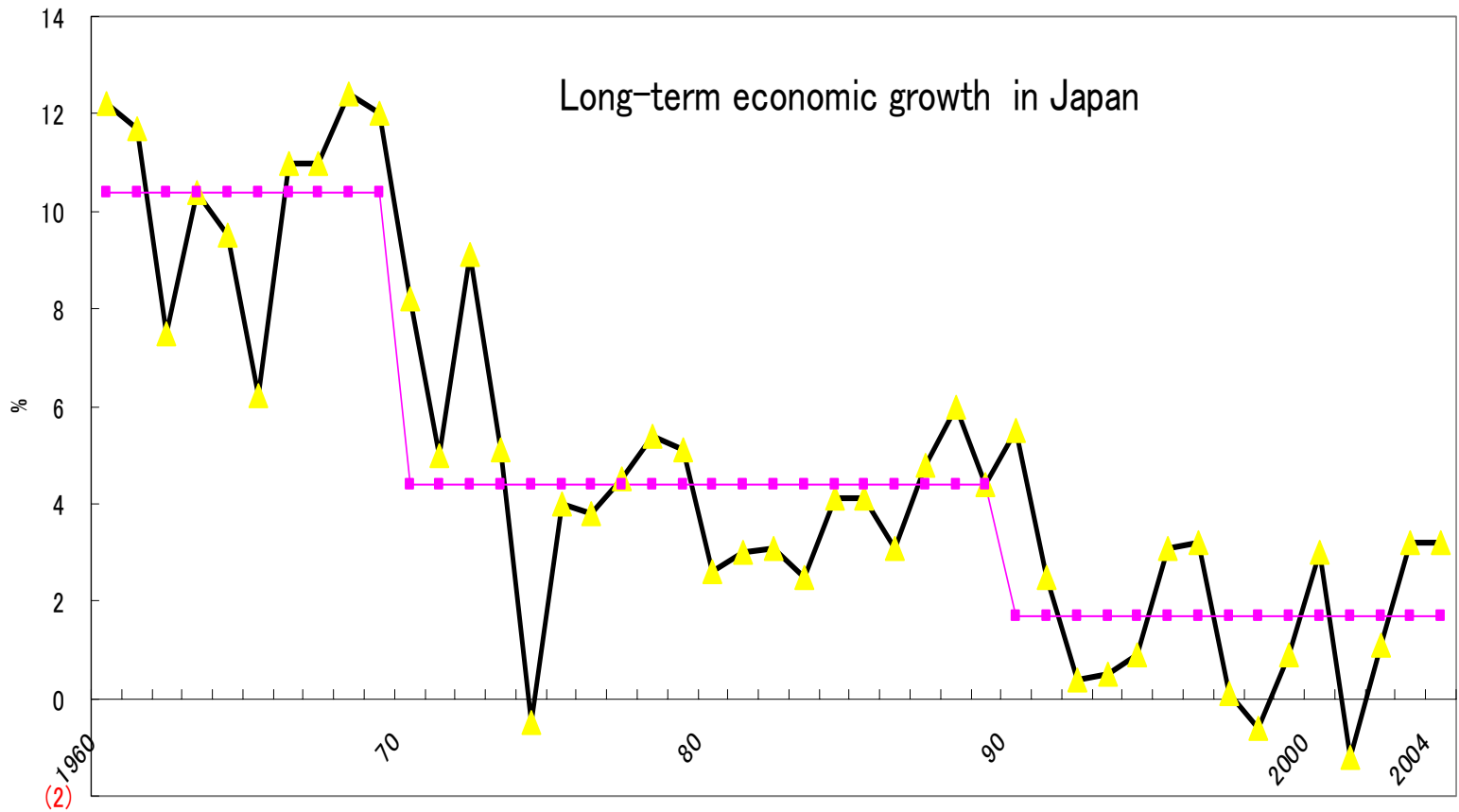
Japan's New Special Zones for Regulatory Reform

September 8, 2004

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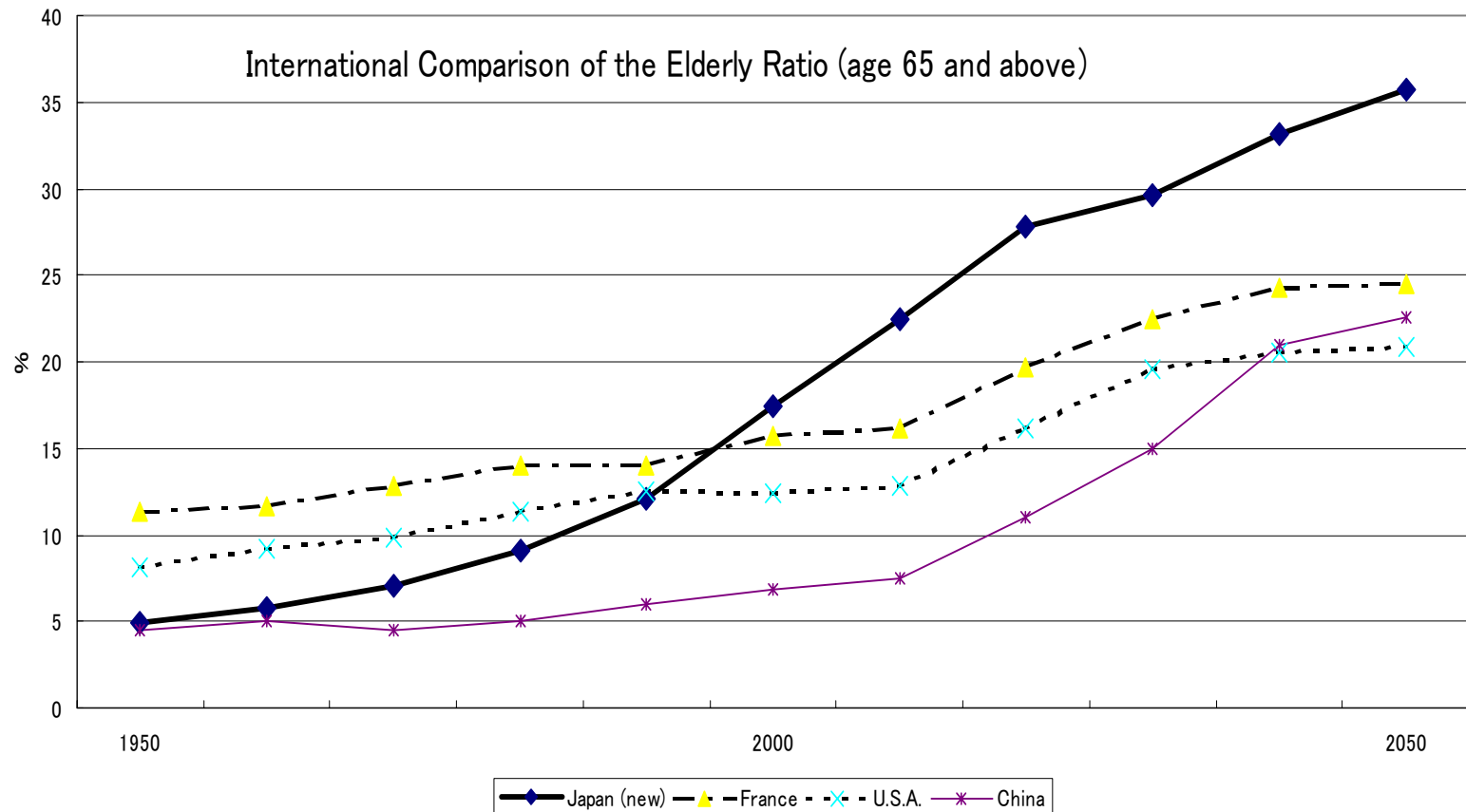
Japan Center for Economic Research

So-called the “Lost Decade” of Japan



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

Sector	Fiscal year	Consumers surplus in 2002
Telecommunications	Cellar phones	17,205
	Domestic airlines	2,739
	Railways	2,390
Trabsportations	Taxis	52
	Trucks	38,763
	Auto inspections	8,298
	Electricity	24,811
Enargy	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
Total consumers' surplus		143,338
		(11.3% of N I)

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 relaized & 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
Total	122	47	72	88	329

Process of Establishing Special Zones;

(3) Assessment

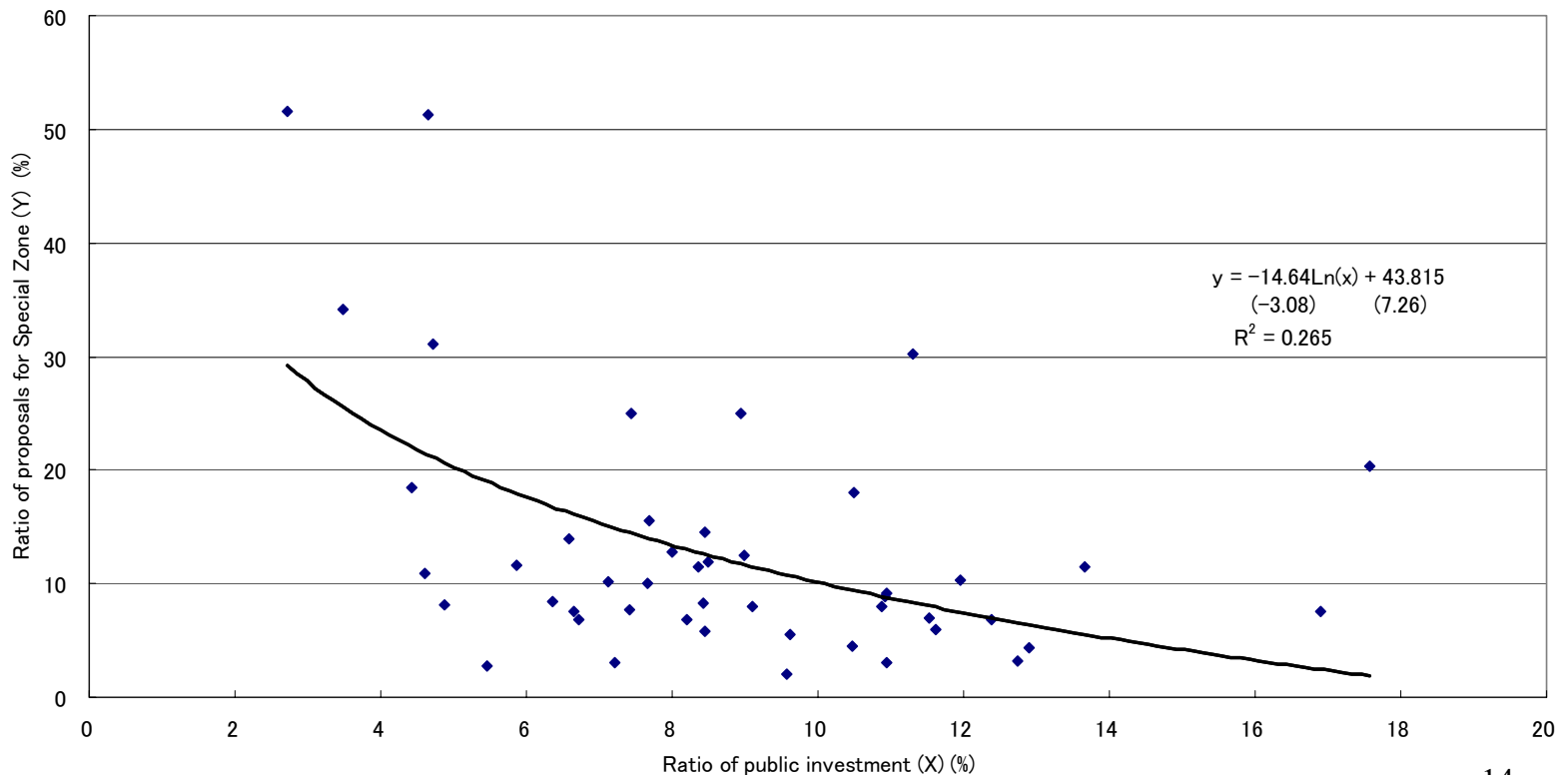
- Careful assessment of the Special Zones is required for the nation-wide implementation;
- The criteria is whether there is an evidence for demerits with SZ, rather than the merits;
- If no evidences for both merits and demerits with SZ, the regulatory reform is to be implemented nation-wide, i.e. the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