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Japan's Economic Structural Reform: Regulatory
Reform and Special Zones for Structural Reform

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Japan's Economic Structural Reform: Regulatory Reform and Special Zones for Structural Reform

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Abstract

Since mid-80's, Japan's regulatory reform has been done under the context of administration reform. In particular, at the first stage, economic regulations and social regulations were divided in order to focus on the reform of economic regulation such as monopoly and market participation. Year 2001 was a turning point because all regulations started to be reviewed to improve the economic efficiency. At the year, Council for Regulatory Reform was established under the Cabinet Office. The Cabinet Office was newly established in the same year to promote basic economic and fiscal policies.

Although the border between the economic regulations and social regulations was deleted, the deregulation process faced deadlock. Special Zones for Structural Reform was introduced in 2002 to facilitate the regulatory reform. Namely, deregulation measures are implemented in a limited area, and if there is no problem, it will be developed into nationwide deregulation. This experimental trial was generally successful and many measures were developed into nationwide. On the other hand, we can observe main purpose is shifting from nationwide deregulation to regional vitalization, which was considered to be a second purpose at the first stage.

This paper collects information from the policy documents concerning to the policy change. As for the special zones, it gives consideration about the necessary things to success, using the information through case study in Kitakyushu-City.

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Introduction

In order to strengthen its economic structure, Japan is now undertaking structural reforms, in which deregulation plays a particularly important role. This paper will do an overview of developments in deregulation promoted by the new organizational setup initiated by the government. At the same time, the author would like to clarify, from the point of view of a social experiment, the significance of the introduction of special zones for structural reforms, as one newly adopted policy, and to consider the economic effects of deregulation.

1. Japan's Regulatory Reforms (Economic and Social Regulations)

The promotion of regulatory reforms up to the 1990s was instituted as part of administrative reforms. For example, prior to the Council for Regulatory Reform to be mentioned later, the 3-year plan (ratified on March 2001) for the promotion of deregulation was deliberated by the regulatory reform committee² which was set up within the administrative reform promotion headquarters. In short, this can be thought as putting focus to the manner of administrative system in transferring from an ex-ante regulation type of administration to an ex-post checking type of administration. Amidst this, the concept of regulation is clarified, and economic regulation and social regulation are clearly distinguished from each other. It is possible to think that the movement to eventually exclude ex-ante economic regulations has been brought to the center of regulatory reforms.

As Yashiro (2003)³ has pointed out, the separate usage of the terms “economic regulations” and “social regulations” was officially first made in the second extraordinary administrative reform promotion deliberation council of 1988. Backtracking three years to 1985, the first extraordinary administrative reform promotion deliberation council gave rise to the following concepts of social regulations: (i) coping with natural monopolistic industries; (ii) corresponding to regulations that refers to economic activities such as the formation of specific industries or firms, or the protection of declining industries; and (iii) ”regulations that have social aims such the safety of consumers and laborers, the preservation of health, the conservation of the environment, the prevention of disasters, and the protection of cultural treasures. Such classification contra poses restrictions on business activities in specific industrial fields”, inspection systems for maintaining safety, and accreditation systems for maintaining

² The name was changed in April 1999 from the original “Deregulation Committee”.

³ Refer to Naohiro Yashiro (2003) “Kisei Kaikaku: ‘Hou to Keizaigaku’” (Law and Economics on Regulatory Reform), Yuhikaku

the quality of professional services, which all have the public interest objective of “social regulation”, with price regulations and market entry regulations in specific industrial fields, which are thought to be “economic regulations”. In so doing, the road is shown for a gradual deregulation whereby “economic regulation is in principle liberalized, and social regulation is kept to the necessary minimum.”

This classification was perhaps undertaken with the purpose of particularly promoting the relaxation of economic regulations so as to enable the post war Japanese economic system to overcome a type of limitation it was then confronting. However, this became the basis for the interest groups, which were against deregulation, to assert as their sacred cause wherein “social regulation is the regulation they themselves are to champion, and a minimum of regulation is deemed necessary.”

Is it easy to separately classify “economic regulation” and “social regulation”? Actually, there are not a few examples where even social regulations for protecting the public interest become entry regulations that protect, at least as a result, existing businesses. Consequently, there arises the case of carrying out a demand supply adjustment as a form of social regulation. On the other hand, even in fields where liberalization in principle is being undertaken as economic regulations, cases arise wherein it becomes necessary to pay attention to the social aspects of safety. As such, there are thoughts to many aspects wherein the differences between social regulation and economic regulation are vague, and the discussion on evaluations regarding regulation continues to this day.

For example, the entry regulation in the taxi business is classified as economic regulation, and was subjected to deregulation after the 1990s. At which time, the mechanism for restricting entry and vehicle proliferation was left in place when declining revenues raised fears of problems regarding safety. This can be thought as the result of a consideration for the social aspect.⁴

2. 2001 Ministerial and Agency Reform and Council for Regulatory Reform

2.1 Establishment of the Council for Regulatory Reform

The Council for the Regulatory Reform, which was inaugurated in April 2001, can be said to be the turning point wherein a new perspective was to be brought to bear on regulatory reforms, which up to that point was made from an administrative reform perspective.⁵ The Council for the Regulatory Reform was placed within the Cabinet

⁴ Recently, there have been moves to re-strengthen regulations. Refer to the November 21, 2007 issue of the Nihon Keizai Shinbun.

⁵ The General Regulatory Reform Assembly is an organization set up by law, and has a lifespan of three years. It was reorganized as the Regulatory Reform/Private Liberal

Office, which was established by the ministry/agency reorganization of January 2001. Furthermore, the legal basis for its establishment was the administrative execution of the 1st clause of the 4th article of the Establishment Bill of the Cabinet Office, which was one of the auxiliary functions⁶ assigned to the Cabinet Office, and an important policy proposal regarding economic and fiscal policy. Hence, the minister specially designated by the Cabinet to take charge of regulatory reform came to have adjustment rights one step higher than other ministers.⁷

In this way, an institution for promoting regulatory reform was set in place within the Cabinet Office. In particular, on a plea of having basis on economic and fiscal policy, such establishment ushered in regulatory reforms increasingly made from the perspective of economic efficiency.

Still, in the ministry/agency reorganization, the establishment of the Council for Economic and Fiscal Policy (from hereon called CEFP) was extremely important in connection with economic and fiscal policy. The CEFP is an organization that is chaired by the Prime Minister and consists of a selected group of ministers and experts from the private sector, making it one of the important government assemblies established in the Cabinet Office by the ministry/agency reorganization.⁸ In particular, the assessment of the “big-boned policy”⁹ during the Koizumi administration, which was inaugurated in April 2001, performed the function of promoting structural reform. With respect to the promotion of deregulation, based on the progress of discussions in the Council for the Regulatory Reform, a support system was established whereby deliberations could also be made within the CEFP.

Promotion Assembly in 2004, and as the Regulatory Reform Assembly in 2007.

⁶ The administrative work of supplementing the Cabinet’s policy decision-making function. In contrast, the administrative work for the execution of business decided by law is called allotted administrative work.

⁷ Since a special minister is appointed in a separate fashion to take charge of Cabinet supplementary administrative work related to economic and fiscal policy, there arises the situation wherein the minister in charge of the separately placed economic and fiscal policy is not in charge of all the economic and fiscal policy.

⁸ In addition to that, there are the General Scientific Technology Assembly, Central Disaster Assembly (chaired by the Prime Minister), and the Gender Equality Assembly (chaired by the Chief Cabinet Secretary)

⁹ “The official name of Big-Boned Policy” in 2001 was “Structural Reform of the Japanese Economy: Future Basic Policies for Macroeconomic Management”, in 2002-2006 was “Basic Policies for Economic and Fiscal Policy Management and Structural Reform”, and in 2007 became “Economic and Fiscal Reform Policy 2007”. In short form such expression as “Basic Policy 2003”. Since the start, however “big-boned” was being used, and from the Cabinet’s home page “big-boned policy” was used, so we will use big-boned policy here.

2.2 Activities of the Council for the Regulatory Reform

The Council for the Regulatory Reform decides on and conducts follow ups of the three-year plan of the regulatory reform. In actual practice, the Council for the Regulatory Reform started from following up the “Regulatory Reform Promotion Three Year Plan”, which was decided in March 2001 by Regulatory Reform Committee, which was the predecessor organization. In its first task, the committee made an “Interim Summary” on July 2001 wherein it emphasized six fields, which included the social regulations of medicine and education.¹⁰ Based on this, the committee put together in March 2002 the Regulatory Reform Promotion Three Year Plan (revised version).

Furthermore, in the “Interim Summary” of July 2002, besides from proposing the promulgation of special zones for structural reform, the committee raised the problem of the reconstruction of the burden between government and the private sectors, which would lead to the market test whereby a government-private sector competitive bidding will be introduced in the future.

In so doing, the Council for the Regulatory Reform was able to aggressively push forward its activities by, among others, introducing issues, which have not been addressed so far, and new policy methods. The CEFP backed this up. It promoted structural reforms through the big-boned policy and so forth, while holding deliberations about regulatory reforms. For example, the proposal for the special zones for structural reform work towards the “Interim Summary” of July 2002 in the Council for the Regulatory Reform proceeded in parallel with discussions made from the perspective of invigorating the economy and attended, as an extraordinary Council member, by then Minister Ishihara, who was in charge of structural reform. This confirmed the importance of coordination with the Council for the Regulatory Reform.¹¹ Reflecting such discussions, the special zones for structural reform initiative was inscribed in the “2002 big-boned policy” adopted by the Cabinet in June 21st of the same year. Discussions were held thereafter in September and December of 2002, and in February 2003, continuing the coordination towards the realization of special zones.¹²

¹⁰ In addition to the five sectors of medicine, welfare, nursery, human resource (labor), and environment, urban revitalization was also given, as the six sectors to be emphasized.

¹¹ Refer to the “Minutes of the 11th Economic and Fiscal Advisory Council Meeting in the 14th year of Heisei” (held on April 24, 2002)

¹² Aside from the regulatory reform minister-in-charge attending as an extraordinary Diet member, Chairman Miyauchi (at that time) also participated in the discussion. Also within Section 2 (Specific Initiatives for Structural Reform) in the “Big-boned Policy 2003” of 2003, a clause for “regulatory reform and structural reform special zones” was included.

3. Introduction of Special Zones for Structural Reform

3.1 Policy Experiments

The system of special zone for structural reform was a method that was introduced to further promote regulatory reform. Specifically, while a certain amount of economic effect and regional economic activation could be expected from the relaxation of various regulations including social regulations, there is also the aspect of unavoidably applying the brakes on the progress of the regulatory reforms in the case where it is feared that the reforms will be accompanied by social disruptions. Owing to this, the thinking behind special zones for structural reform is to have a method whereby regulations are experimentally relaxed in a limited way within a specific area, and deliberation of nation-wide implementation is done based on an investigation of the existence of disruptive effects. Such special zones were proposed in the “Interim Summary” of July 2002, and, after undergoing parallel discussions in the CERP as one policy for invigorating the economy, became inscribed into the “2002 big-boned policy”.

The concept of special zones for structural reform means that in Japan, which is not a federal state, various systems will be co-existing, which has been pointed out from the very beginning to be possibly against equality under the Article 14 of the constitution. Although local autonomous government ordinances have already been built up, they are considered that minimum regulations are followed and they just add on the national regulations. In this connection, people whose concept is against the special zones for structural reform understood that the exemption from the obligation must not be allowed because the minimum regulations by law should be followed nation-wide. Hence, the situation, wherein a different regulation is imposed upon a certain area that has been qualified as a special zone, has also become the introduction of a one-country two-system in Japan through stipulations set out only by the additional law. Through this, the government carried out experiments, the results of which initiated efforts for a nation-wide deployment.

As such, the introduction of the special zones for structural reform was expected to “lead to a nation-wide regulatory reform and invigoration of the our country’s economy through the implementation of regulatory reforms that focus on the peculiarities of selected areas” as found in the objective of moving (towards the realization of special zones for regulatory reform) in Chapter 5 of the “Interim Summary” of the Council for the Regulatory Reform in July 2002. The one-country two-system concept was considered to be in its extreme form a concept to be implemented to the whole country. However, considerations were made so that the

setting up of special zones does not at least become a reason for barring the nation-wide deployment of regulatory reforms. This was evident from indications made in documents submitted by private experts in April 2002 which state that “it goes without saying that (special zones for structural reform) attempts should not delay efforts towards regulatory reforms.”¹³

Based on such developments, in the “Basic Policy for the Promotion of Special Zones for Structural Reform”¹⁴ decided by the cabinet in September 2002, the objectives of the special zones for structural reform, (i) in addition to meeting the goal proposed in the Council for the Regulatory Reform of spreading structural reform throughout the country by showing success cases of structural reforms, and realizing the invigoration of our whole country’s economy, (ii) equally raised the perspective of regional invigoration through, among others, the formation of industrial clusters, which correspond to the special features of the region, and new industries.

However, according to the “Basic Policy of Special Zones for Structural Reform”,¹⁵ which was revised in April 2007, in the implementation of the evaluation of items in the basic policy, the statement was added whereby, with regards to nation-wide deployment, “special measures of regulations that have strong regional features will be allowed to continue to exist for some period of time within special zones.” That is to say that through the accreditation as special zones, it becomes possible to promote the consolidated efforts by regional public groups and the assistance and cooperation of national government-related institutions. The significance of this lies more in being a policy of regional invigoration rather than being a breakthrough for nation-wide regulatory reform.¹⁶

In the backdrop of such changes, a gap can be considered to have arisen between the initial concept, which was thought out by the Council for the Regulatory

¹³ Refer to “Regarding Structural Reform Special Zones” document submitted by experts and Diet members in the 11th advisory meeting of 2002 (April 24). In the advisory meetings, the format frequently adopted was to have the four private experts and Diet members jointly submit materials, and proceed on with the discussions.

¹⁴ Decision of the headquarters for the promotion of special zones for structural reform (September 20, 2002)

¹⁵ Based on the law for special zones for structural reform, the basic policy is decided by the Cabinet. The first basic policy came out in January 24, 2003, and was repeatedly revised thereafter. In particular, the regulatory special measures (the clause referring to special zones) is listed in Annex Table 1, while the contents related to nation-wide deployment are listed in Annex Table 2. [The basic policy] is revised occasionally as the list is changed.

¹⁶ See the separate Sheet 1 (main body) on “Regarding Part of the Changes of the Basic Policy on Special Zones for Structural Reform” decided by the Cabinet in April 27, 2007, p. 3

Reform of making the special zone system a breakthrough for the nation-wide deployment of regulatory reform, and the situation, wherein the need has arisen to reflect to some extent the intention of regional public groups of maintaining special zones for a certain period of time even during nation-wide deployment. This situation is based on the system's feature of leaving to the discretion¹⁷ of the regional public group the actual application of the proposal and planning.

3.2 System Overview

At this point, we should clarify the process leading to the realization of the special zones for structural reform. Concretely, it is as follows: (i) acceptance of proposals on ideas for special zones for structural reform from, among others, regional public groups and private enterprises; (ii) at a national level, making publicly known a list of special measures of regulatory reforms and so forth to be implemented in the special zone as decided based on consultations with related ministries and agencies; (iii) at the regional group level, formulating the special zone plan with regards to specified points, and applying for accreditation; (iv) on the national level, accrediting the special zone proposal; (v) at the regional public group level, implementing the special zone plan; and (vi) performance assessment by the evaluation and survey committee. As such, the flow is as follows: proposal → application → accreditation → implementation → assessment.

The first call for proposals on ideas for special zones was made from July 26th to August 30th of 2002. Proposals were made for regulatory reforms related to 1,081 items of special zones from 249 groups. These were classified into (i) special zone, (ii) nation-wide deployment, (iii) for consideration, and (iv) others.¹⁸ The result was that 80 cases of matters pertaining to regulation were deemed to be special measures that can be implemented within special zones for structural reform. Based on that, 129 special zone proposals were made in April 2003 by regional public groups. The first special zone accreditation was done in April and May of 2003 covering a total of 117 plans. The process was repeated of receiving proposals regarding special zones twice a year,¹⁹ and accreditation three times a year.

On the other hand, with regards to the performance assessment, an evaluation

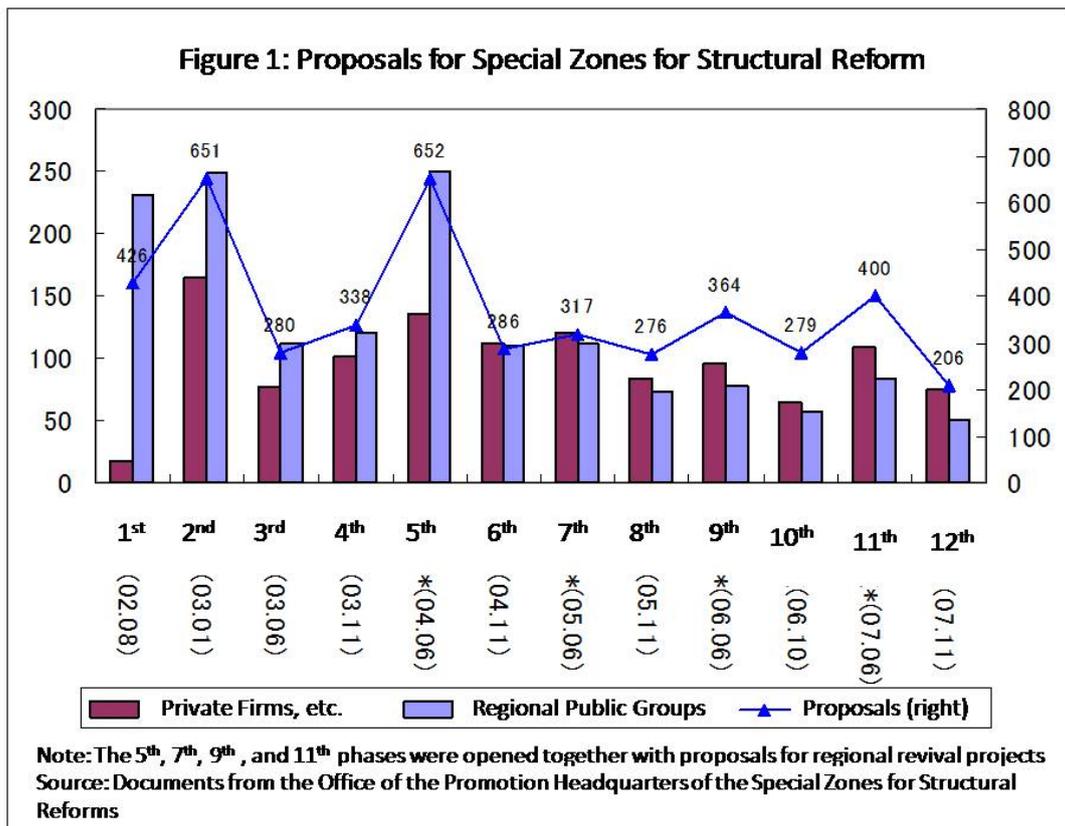
¹⁷ There is also the aspect of rewarding efforts for proposing and making the plans.

¹⁸ This refers, among others, to matters related to currently doable, mistaken facts (subject regulation does not exist), and requests for the issuance of tax exemptions and subsidies.

¹⁹ Accurately speaking, there is a call for proposals for both measures of regulatory reform related to special zones and regulatory reforms that should be implemented across the country.

committee was created under the headquarters for the promotion of special zones for structural reforms. In addition to surveys made by regulatory government offices of all levels, interviews of related regulatory government offices of all levels, and independent surveys including on-site inspections were made, and opinions regarding the assessments were collected every semester. As a result, the subject operations of special zones were classified into three stages: (i) nation-wide deployment; (ii) continued application to a specific area; and (iii) abolition of regulations as special measures. The first performance assessment was concluded as a response measure taken by the promotion headquarters in September of 2004, the year following the accreditation of the first special zone. At that point, the decision has already been made for the nation-wide deployment of special measures in 28 cases of special zones.

3.3 Nation-wide Deployment and Trends in Special Zone Proposal and Accreditation



First, we take a look at the movements in number of proposals on ideas for special zones (Figure 1). In the 1st round, which preceded the first special zone accreditation and the 2nd round call for proposals, there were 426 and 651 proposals,

respectively, indicating the high level of interest among those concerned. This dropped thereafter. In the 5th round, the number of proposals rose to 652, but this can be thought of as reflecting the submission of proposals, which were jointly called under regional revitalization, were placed under “unclassified”, and then combined with regional revitalization proposals. In the succeeding 9th and 11th round of call for proposals were jointly made for regional revitalization and special zones. These yielded a bit more proposals compared to call for proposals for special zones only. Hence, if we adjust for this factor, it can be said that, since the 3rd round of call for proposals, the number of proposals dropped to about 1/3 of the initial number.

With regards to the proponent, regional public groups were predominantly many at the system’s inauguration, thereafter proposals from private firms and individuals went up. In the 6th round of call for proposals, the share of proposals from the private entities overtook that from the regional public offices, and has thereafter remained dominant. This can be considered as the result of full-blown efforts to know more about call for proposals, as per indications of the special zone promotion headquarter administrative office.²⁰ However, it is necessary to be it is carefully noted that the private entity share of proposals has been relatively rising due to the drop in the proposals from regional public groups, and that the absolute number of proposals has not really been increasing.

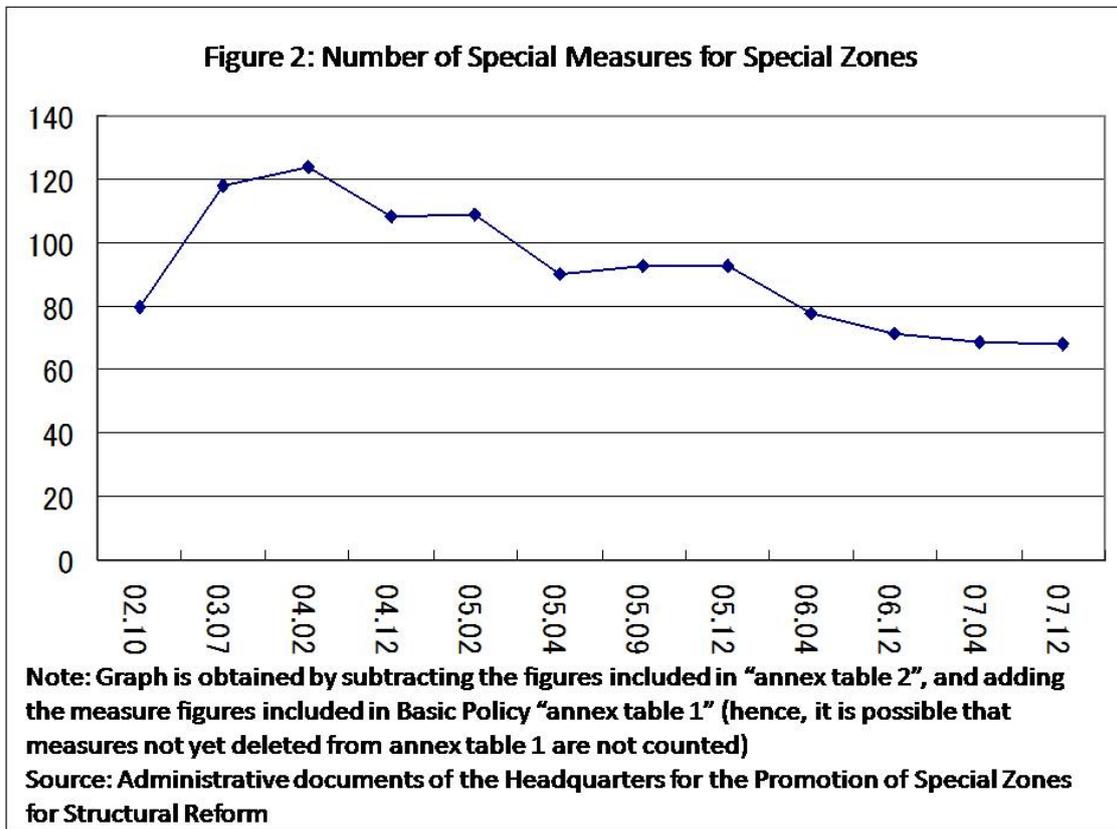
Based on these proposals, if we look at Figure 2, the number of special measures for special zones initially was 80, but increased for some time after that. However, combined with the reductions due to increases in new measures and special measures for nation-wide deployment, there was a tendency for the number to drop after 2004, reaching 68 measures by December 2007.

We now take a look at how special zones, as special measures, were deployed nation-wide from an initial 80 measures (Figure 3). In November 2002, the list was presented, and a year later towards the end of 2003, two measures were deployed nation-wide. A succession of nation-wide deployment followed thereafter, and as a result at the end of 2007, there were only 20 remaining special zones as special measures, only 1/4 of the original number.²¹ From a different perspective, the number of measures deployed nation-wide, although only a part of the special measures, rose to 64, and we

²⁰ With regards to the acceptance of proposals related to “Monthly Report on Special Zones, Regional Revitalization, Regulatory Reform, and the Intensive Acceptance of Private Liberalization” by the Cabinet Office for the promotion of special zones for structural reform. (7th report, July 5, 2005; 9th report, July 6, 2006)

²¹ We need to be careful since there are also cases where the special measures have not been revised. There are 20 measures, which as of December 2007 remained as special measures for special zones (Annex Table 1).

could see that within five years, 80 percent of the measures were in some way deployed nation-wide.



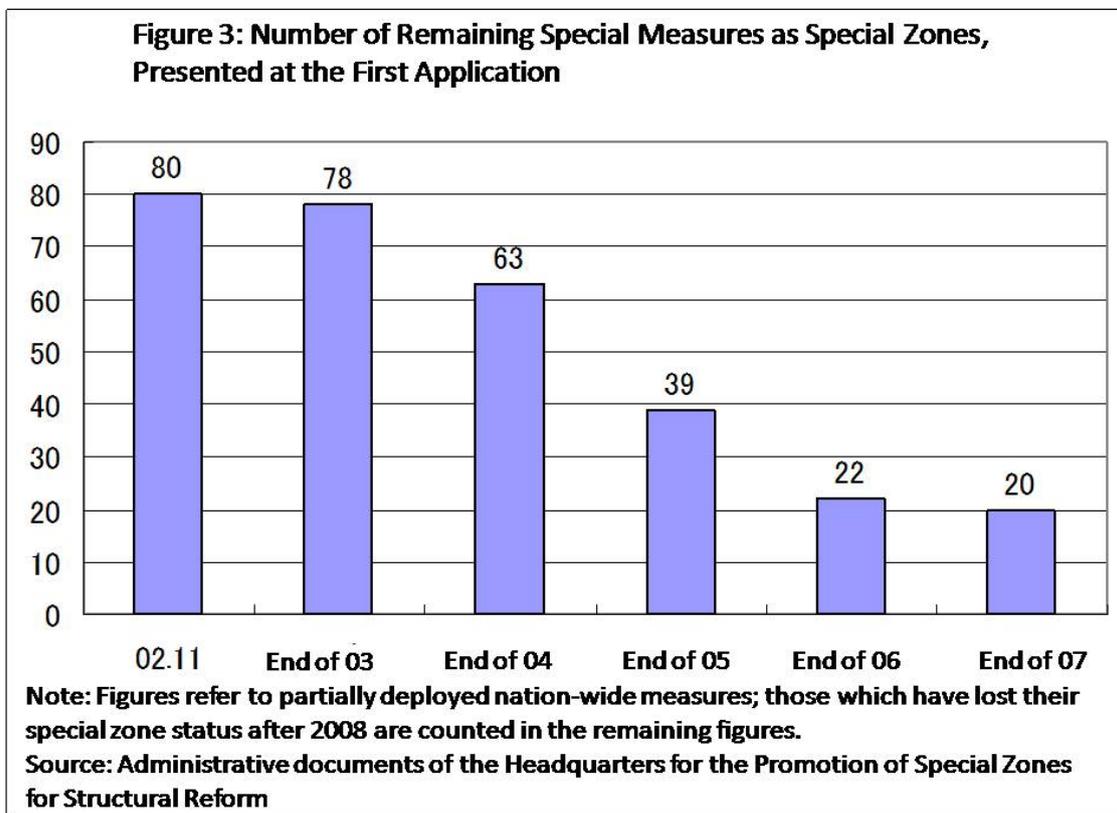
The performance assessment committee was influential in such a movement towards nation-wide deployment. It voiced out its opinion to the special zone promotion headquarters calling for the nation-wide deployment of 73 measures²² during the period from September 2004 to January 2007. Out of the 64 measures from the initial 80 that was deployed nation-wide, 43 measures were deemed fit for nation-wide deployment by headquarters based on the opinion of the performance assessment committee.²³

Next, we look at the accreditation situation of special zone applications submitted by regional public offices. From April 2003, to November 2007, over 15 rounds, a total of 984 plans were accredited as special zones. Looking at the figures, after the accreditation of 117 cases in two stages during the inauguration of the new

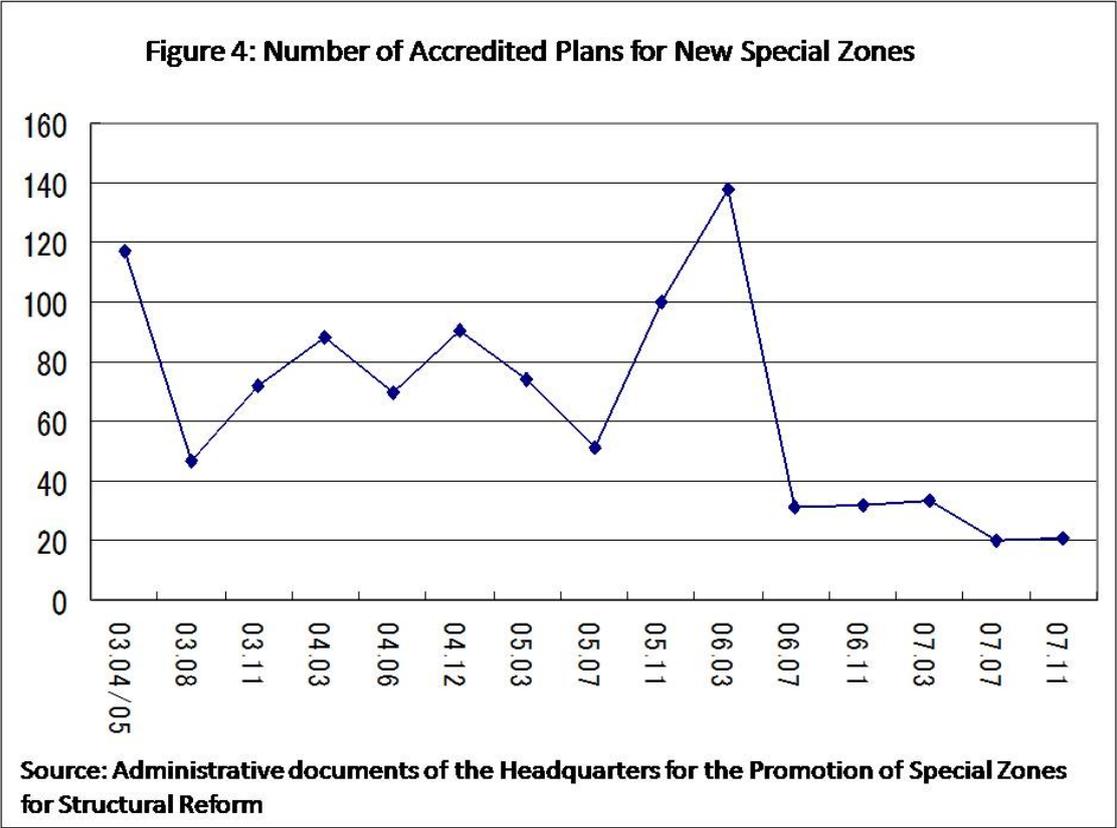
²² Includes partial nation-wide deployment.

²³ There are also a lot of measures that were deployed nation-wide before response measures were made based on the opinion of the performance assessment committee (the first response measure was in September 2004).

system, there was a slight drop, but it increased from the second half of 2005 up to the start of 2006, and stayed at a low level since then. The share of accredited cases within the number of applications, even at its lowest point, surpassed 90 percent at the time of inauguration.²⁴ The changes in the number of accreditations could be thought of as practically being the changes in the number of applications, so we could see that there was a slowing down in the movement in the applications after the second half of 2006. Furthermore, the increase from the end of 2005 to the start of 2006 could be considered as due to the increase in the number of proposals, which were combined with regional revitalization in the previous year, accompanied by increases in the related applications.



²⁴ The first accreditation was broken down into two stages because of the high level of maturity of 57 cases, which were pushed ahead of time for accreditation (Refer to “Regarding the First Accreditation of the Special Zone for Structural Reform” by the Office-in-charge of the Special Zones for Structural Reform in the Cabinet Office, April 17, 2003). After getting on the right track, although rarely there was an independent withdrawal, accreditation would be made for as long as there are no particular problems.



3.4 Some Considerations Regarding Proposals and Accreditations

First of all, the special measures for special zones could be characterized as speedy in nation-wide deployment and many in numbers. To recall, the motivation for the Council for the Regulatory Reform’s proposing the special zones was for a breakthrough in the nation-wide promotion of regulatory reform. It can be said that the movements to this date show that the introduction of such system was successful. This could be alluded as being a result of the leadership of the administration pushing for structural reform from the beginning, and the promotion of the cooperation among different levels and offices of the government, which have the authority to regulate.

However, it is plausible that in such a situation the points of discussion mentioned below may exist.

One is the relative demerit for the regional public groups, which have been moving ahead. We can think of the effect from special zones as being divided into economic effect and social effect. With respect to the economic effect, in the case where special zones are used as tools for inter-regional competition, there will be changes in nuances depending on the level of discussion, which may have an effect on the persons concerned. For example, when public regional groups invite firms, supposing that the

firm's location was critically decided on the merit of the region as a special zone, such a merit disappears when the special measures related to the special zone is deployed nation-wide. Indeed, thinking on a national level, irrespective of which region, the firm concerned will locate in the place that has a high level of economic efficiency. In the case where conditions other than special measures are different, there is the possibility that locating in another place would generally be more efficient. In the first place, a special zone is not granted alone to the regional public group that applied for it, so competition within the special zone framework could become more intense if another region makes a special zone plan. However, not giving consideration to efforts made in proposing a special zone as a special measure and in making a concrete special zone plan, could affect the incentive for thinking up ideas on the part of the proponent or applicant regional public group. It is possible then that there will be an accompanying negative effect on the promotion of the regulatory reform. Actually, in recent times, even taking into account that, to some extent, idea-generating has reached a plateau, the drop in the proposal and applications related to special zones, particularly the drop in the share of proposals of regional public groups, indicates the possibility of such incentive problems taking effect.

In terms of social merit, it is conceivable that there are ways to exploit, as a publicity strategy for the local government, the media's coverage of regional public groups, which lead and foment a sense of unity in revitalizing the village or region. As in the economic perspective, it is then possible that incentives of the regional public group are being affected due to the cancellation of special zone plans if special measures as special zones are deployed nation-wide.

In actuality, within the assembly for the promotion of special zone for structural reform, which is placed in the Citizens Forum for Renewal, indications have been made, in the "Towards the Improvement of the Special Zone for Structural Reform" of April 2006, about the drop in interest on special zone accreditation accompanying the rapid increase in special zone cancellations as special zones are deployed nation-wide.²⁵ There are also cases of requests made to the government from individual regional public groups.

It is conceivable that a change in the policy, which "allows the continuation for

²⁵ Looking at the minutes of the chairman meeting of the Assembly for the Promotion of Special Zones for Structural Reform (February 3, 2006), we need to be careful about the point that there are many chairmen who replied that, while there is a disappointment about the speed of nation-wide deployment of the special zones, the special zone is an initiative that is premised on nation-wide deployment, which in itself should be welcomed.

some period of time of regulatory special measures within special zones that are strongly region-specific, was based precisely on consideration of these developments by the headquarters for the promotion of special zones for structural reform. In October 2007, four headquarters related to regional revitalization were jointly opened, which consisted of the urban revitalization headquarters, the headquarters for the promotion of special zones for structural reform, the regional revitalization headquarters, and the central urban revitalization headquarters. This came to be called the “integrated assembly of headquarters for regional revitalization.” This shows that there were moves for special zones to also put more emphasis on the aspect of regional revitalization, as well as in coordinating with other administrative work.

Secondly, another feature would be the prudence towards special zone proposals when these are viewed as social experiments. Indeed, it is a fact that, despite being social experiments, the repeated occurrence of problematic cases is not desirable for as long that citizen’s lives are therein involved. However, for example, although 80 percent of the special measures made known during the inauguration were deployed nation-wide within five years, there was not one case wherein the performance assessment committee had to abandon special measures due to problems that arose. This indicates the sufficient level of prudence that was exercised in the initial listing up.²⁶ Of course, given that special measures are being set up, sufficient coordination has to be made with government ministries and agencies having regulatory jurisdiction even in the case of special zones. This also would be one cause for leaning towards the safe side when designating special zones.

With respect to the decrease in proposals related to special zones, it may be necessary to also consider the problem of opportunity costs of the ministry and agencies having regulatory jurisdiction. That is to say, special zones, as already mentioned, legally guarantee a one-country two-system, so it is necessary to make a special measure for special zone, and to go twice through a legislative process for its nation-wide deployment. When granting special zone status, a lot of prudent consideration is made. In the case where there is little fear that a problem arises even with immediate nation-wide deployment, it is possible that it would be more efficient to expedite the processing of the special zone and directly deploy nation-wide deregulation,

²⁶ Moreover, the opinion of “continued application of status as special zone” in the performance assessment committee was given in only one case (pertaining to harmful wildlife capture whereby permission is given to those who do not have hunting permits). This is not deemed to particularly have a bad influence on society even if it was deregulated. However, the merit of implementing it as a special zone is small, and the effort to deploy it nation-wide is considered not necessary. Hence, it appears that there is no particular reason for aggressively classifying it as “continuing special zone status.”

rather than limiting it to special zone status and going to all the trouble of double-work.

We have considered above the recent decrease in special zone proposals, applications of special zone plans, and permission. It is conceivable that all these causes actually interact to create the present situation. Just because of this it is important to carefully look at how to hereon develop policies that emphasize and combine regional revitalization.

4. The Case of Kita Kyushu

4.1 Efforts at Special Zones for Structural Reform

The Kita Kyushu City of Fukuoka Prefecture flourished as a center for heavy chemical industries, as well as the location of the first modern steel factory, among others. However, amidst the change in Japanese industrial structure, a shift in industrial structure is called for. In such a situation, the city has proposed as one policy the attraction of firms and the support of expansion by firms. In order to improve the benefits from attracting firms, amidst clamors for regulatory reform in the past leading to the establishment of system of special zones for structural reform, which the city has since then been aggressively utilizing this system. The city has included its name in the first special zone accreditation, and to date has been accredited for six special zone plans.²⁷

Furthermore, amidst the government's promotion of the special zones for structural reform, in some local governments, there have appeared some places, which strive to establish their own unique version of special zones for their districts.²⁸ Kita Kyushu City has established its own unique special zone.

We shall make an overview of the Kita Kyushu City's efforts regarding special zones, and consider the effects on regional revitalization.

4.2 Concrete Efforts

4.2.1 National Efforts on Special Zones for Structural Reform

Table 1 shows the authorized special zones in Kita Kyushu City. Up to now there have been six accredited plans, four of which have been cancelled following their nation-wide deployment. Although the rest of two are remaining, they are not already supported by full measures. Namely, one is about an "international distribution special

²⁷ Includes plans that have been deleted, accompanying the special measure of nation-wide deployment.

²⁸ In the home page of the headquarters for the promotion of special zones for structural reform, the systems are described for Hokkaido, Shiga Prefecture, Shimane Prefecture, Tokushima Prefecture, Ehime Prefecture, Saga Prefecture, as well as Kita Kyushu City.

zone”. It is the special zone plan only related to the special measure of setting up a university. The rest of the special measures have been deployed nation-wide. Another one is about “special zone for self-reliance and living together”. In this case, the special measures of all other projects, besides the expansion of learning opportunities through the use of IT for self-induced absentee students, have either been deployed nation-wide or is scheduled to be so. This indicates the high speed at which nation-wide deployment is being carried out.

Table 1 Plans of Special Zones for Structural Reform in Kita Kyushu City

① Approved cases as of January 2008

Name of Special Zone Plan (Date Approved)	Deregulation Measure (Including Nation-wide Deployment)
Kita Kyushu City International Distribution Special Zone Plan (April 21, 2003)	<ul style="list-style-type: none"> • virtually 24-hour customs clearance • specified supply of power not dependent on capital relationships • flexibility and shortning of processing in changes of use of property in the area of reclaimed land • granting establishment of stock-owned universities • promotion of acceptance of foreign trainees • formation of IT human resources
Kita Kyushu City “Education for Self-Reliance and Co-existence” Special Zone Plan (April 12, 2008)	<ul style="list-style-type: none"> • Drawing up of curriculum that is not based on standards for education • School operation thru leasing of school grounds or buildings

② Cases which have been deleted after nation-wide deployment

Robot development/Empirical Testing Special Zone Plan (November 18, 2003 to July 3, 2006)	<ul style="list-style-type: none"> • Clarification of the object of road use permissions of robot empirical testing
“Environmental Capital” Made by Citizens, Kita Kyushu Special Zone Plan (December 8, 2004 to July 3, 2006)	<ul style="list-style-type: none"> • Implementing an unmanned car rental business using IT
Kita Kyushu City Regional Currency	<ul style="list-style-type: none"> • Allows the issuance of regional currencies

Special Zone Plan(March 28, 2005 to July 4, 2006)	which are valid for more than six months
Kita Kyushu City Welfare Onerous Transportation Sedan Type Vehicle Special Zone Plan (November 12, 2005 to March 30, 2005)	• Allows onerous welfare businesses using sedan-type vehicles

Note: Based on interviews with the Industrial Scientific Promotion Bureau of the Policy Planning Office of Kita Kyushu City in February 2008.

Along these lines, we would like to cite the example related to “special supply of electricity that is not dependent on capital relationships” in the international distribution special zone, which has large economic effects from attracting firms and so forth.

Concretely speaking, when managing a project for the supply of electricity, the regulation based on the law for electricity projects required that the relationship with the parties supplier and demanders of electricity be so intimate as to be considered as members of the same enterprise. Through the special measures found in special zones, such regulation is stated in the requirement for “jointly creating a union; the union concerned will possess electricity generation facilities or carry out maintenance management; and such relationship is foreseen to continue for a long period of time.” In the Higashida District, which is one part of the international distribution special zones of Kita Kyushu City, efforts are in progress to attract firms to the re-development district where a steel factory used to be located. One sales point here is the utilization of the subject scheme so as to supply electricity at a low cost. Higashida Co-generation Corporation, which is 100% financed by Nippon Steel Corporation, possess electricity generation facilities²⁹, which it lends to Nippon Steel Corporation Yahata Works, which in turn supplies electricity to users. For this purpose, all firms or groups formed a electricity supply union. At the initiation of supplying electricity in February 2005, there were 21 firms and groups for an electricity usage of about 8000 KW. Three years later in February 2008, this increased to 36 firms or groups using about 19000 KW.³⁰

Underlying the success of this case is the holding down of electricity transmission costs arising from the Nippon Steel Corporation steel factory being located

²⁹ Generation capacity is about 33,000 KW (supply capacity is about 32,000 KW). Supply started in February 2005.

³⁰ Based on interview from a officer-in-charge of Nippon Steel Corporation, February 2008.

adjacent to the electricity supply district.³¹ In addition to which, there is the ability of the steel factory to utilize through co-generation the heat (as steam) that is produced in electricity generation. We can point out that in the background there was a region-specific feature, which made possible the attainment of high efficiencies. This enabled the people in charge of attracting firms to do their jobs, using as ammunition the cheap and stable power supply as well as the other incentives. There were actually differences in perceptions in a firm's joining the group. It was unavoidable perhaps that in some cases, electricity cost is said to be a critical factor, while in some cases it was considered to be marginal in the deliberation to join.

4.2.2 The City's Unique Special Zone System

The special zone system unique to the City of Kita Kyushu is related to the division of the harbor district based on the city planning law and the harbor management law. A special ordinance was enacted here with regards to the regulatory special measure, wherein: there were no changes made on the division designation; there was no relaxation of the forbidden application of construction materials in all of the divisions; and there was no revision of the original ordinance in order to limit the relaxation of rules within specific areas that emphasize revitalization. In short, where deregulation is to be carried out on all divisions, it would be alright to revise the original ordinance. In such case, however, the special zone version of the regional public group will be put to use, whereby deregulation will be limited to a specific area.

Through such measures, it has become possible to construct structures other than factories within the harbor district of Hibikinada, Wakamatsu Ward. More specifically, a venture company, Hibikinada Saien Corporation, was jointly formed with Kagome Corporation in 2005 within the property in Hibikinada owned by J Power Corporation. Production of fresh tomatoes has started in high-tech greenhouse farms wherein Dutch technology has been introduced. Saibu Gas Corporation, which has a factory in the same Hibikinada, set up the SG Green House Corporation, which it wholly finances, and started the cultivation of leaf lettuce and others.

Either case involves business switching: J Power Corporation switching between power and land utilization businesses; and Saibu Gas Corporation switching from land and power businesses to one which reflects the regional feature of utilizing the network that comes from relationships to food culture.

³¹ The electricity generation equipment is within the Nippon Steel Corporation grounds.

5. The Economic Effects of Regulatory Reform and Special Zones for Structural Reform

5.1 Effects of Regulatory Reform

An attempt to quantitatively analyze the economic effects of regulatory reform has been done in the Cabinet Office's "Policy Effect Analysis Report".³² The report sums up the economic effect as the increase in consumer surplus since the 1990s. The merit to those who use regulatory reform is the consumer surplus that arises from the increase in demand accompanying price drops due to a more intensified competition. Such surplus is measured across 14 sectors³³ related to regulatory reform. According to this, as of fiscal year 2005, a total of about 18 trillion 300 billion yen worth of user merit has been gained.

Looking at the details of the analysis, some issues and points to think about come up. However, the fact that the government publicized such trial computations is significant perhaps in explaining the necessity of regulatory reform. For example, regarding the discussions about the re-strengthening of regulations in the taxi business, if we exclude the safety issue, the drop in sales of existing firms have been emphasized but ideally what is perhaps important is a discussion based on the comparison of the economic losses of the existing business and the merits of users.

Having such significance it is just fitting to indicate the issues and points to be pondered on about the report's analysis. The analysis computes for the consumer surplus that comes from the expansion in demand concomitant with the price drops in goods and services subjected to regulatory reform. The premise here is the hypothesis that the demand curve is obtained by joining the yearly outcomes (equilibrium point for supply and demand). As the report also indicates, if the demand itself undergoes changes with the regulatory reform, it is possible that the demand curve shifts every year. In this report, it is necessary perhaps to pay more attention to its premise that the demand curve is not shifting.

Furthermore, a somewhat bigger point is that the calculation is only for

³² In the Cabinet Office (Policy Coordination Office in charge of Economic and Fiscal Analysis), since the era of the preceding Economic Planning Agency, repeated trial computations have been made about the economic effects of regulatory reform in the form of user merit analysis in the No. 1 (January 2000), No. 7 (June 2001), No. 17 (December 2003), and No. 22 (March 2007) Policy Effect Analysis Reports.

³³ Concretely, the 14 sectors are mobile communications (electric communications), domestic airlines, railroads, taxi, trucking, automobile registration inspection system (transportation), electricity, urban gas, oil products (energy), subcontractor fees for stock trading, casualty insurance (finance), rice, sale of alcoholic beverages (drink products), cosmetics, and medical products (products marked for resale).

consumer surplus. Since the objective is to discuss the effects of regulatory reform, ideally it would be necessary to calculate for the producer surplus and then make a general judgment. This is because, owing to the possible downward shift of the supply curve, it is conceivable that producer surplus will increase or decrease, depending on the shape of the supply curve. However, it is a fact that such a calculation would be more difficult than that for the demand curve, since it is conceivable that the supply curve is shifting every year.

5.2 Economic Effects of Special Zones for Structural Reform

Table 2: Related to the Economic Effect in Special Zones

Equipment Investment Amount	About 530 billion yen increase	Annual Revenue	An increase of about 520 billion yen
Cost Reduction Amount	About 15 billion yen reduction	Number of Employees	An increase of about 14,000 workers
Number of Users of Subject Facilities	About 18,000 people	Annual number of people interacting	An increase of about 1.5 million people

Source: Cabinet Office for the Promotion of Special Zones for Structural Reform/Cabinet Office-in-Charge of Special Zones for Structural Reform “Special Zone for Structural Reform: Making Attractive by Exploiting Regional-Specific Features (August 2007 Pamphlet)

With regards to the effect of regulatory reforms, the computation method is to some extent established, and the results of approximate computations, although having issues, have been made public. However, with regards to the economic effects of the special zone system, the computations can become more difficult. Since regulatory special measures are carried out within a limited region, special zones have a difficulty in being reflected in economic statistics gathered at a national or other such levels. In addition to which, it is thought that the merits would be hard to measure since most special zone plans end up in deregulation of non-final demand parts. The government has implemented a survey of the economic effects on 709 special zones that have been accredited until November 2005, and has compiled this (Table 2) as publicly available materials of the government in March 2006. According to this, the major effects were on

the producer side, but it was found that there was one trillion yen worth of demand increase in addition to the increase in equipment investment and sales. On the other hand, in total the cost reduction was a small 15 billion yen, and unlike the regulatory reforms in economic sectors at the national level, the measurement of the effects through price reductions appeared to be difficult. It can be seen that there are a lot of merits, which would be difficult to quantify due to the increase in the number of facility users and interacting people as the region revitalizes.

We shall now try to put into order the situation of Kita Kyushu City, which we have looked at as one concrete example. In said city, the effect of attracting firms, starting from the making of the initiative for the international distribution special zone in April 2002³⁴ up to January 2008, was taken to be 24 entry firms, about 4,500 employment, and about 157.8 billion yen of gross investments.³⁵ Since the period is different from that of the whole country, checking at the figures that were thought to be submitted in the national survey of March 2006, it is found that there were 16 new firm entrants, about 4,000 employment, and about 100 billion yen gross investment.³⁶ Since the government's figures in principle use exactly the same figures from each regional public group,³⁷ the figures of Kita Kyushu City come out to be extremely large, such as in the case of investment figures that occupy close to 20 percent of that for the whole country. The implication here is that the possibility of the following becomes conceivable: (i) extremely favorable results are obtained even when compared with the national average due to the making of special zone plans which combine well the attracting of firms with region-specific features; (ii) such aggregation is extremely difficult since the entrant firm's motivation is not necessarily the benefits to be received from a special zone; (iii) even if there are similar special zones in other regional public groups, the effects of such investments would be difficult to grasp and hence not tallied, in the case where attraction of firms, which include regional public groups, are not carried out.

As such, it is important to make general judgments from various perspectives

³⁴ As could be inferred from the fact that the first call for proposals for special zones was in July to August of 2002, work started rather very early.

³⁵ Includes the effect of the city's unique special zone. Listing as entrant firm is made at the time of declaring entry not at the firm's start of operations.

³⁶ The number of employment excludes firms where the amount of investments is unknown. At the time of the survey (March 2006), excluding firms that have not yet started operations, there were 13 firms, about 800 people employed, and about 90 billion yen in gross investments.

³⁷ Based on "The Economic Effects of Special Zones" by the Cabinet office for the promotion of special zones for structural reform (September 2006)

with respect to the economic effects of special zones for structural reform. However, it appears necessary to design a national survey, just by looking at the survey done by the promotion office of special zones for structural reform and the case of Kita Kyushu City. Also it seems important to consider what other economic demerits could arise from special zone projects, and in such cases what would be the estimation method to be used.

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6. Conclusion

In this paper, we have given an overview of on-going structural reforms, which uses a new policy method based on the introduction of special zones for structural reform, even as progress is being made, even in sectors where progress was inadequate, through the regulatory reform efforts under the new order after the ministry and agency reform of 2001. During this period, the significance of classifying the regulations made by government into economic regulations and social regulations gradually waned, and it is conceivable that throwing away of the boundaries between these two has led to the introduction of the special zones for structural reform. At the same time, even in the case of economic regulations, we will find issues having social aspects as a result of regulatory reforms, and it is possible that discussions will continue from hereon.

Next, when considering special zones for structural reforms as part of social experiments, although the assessment could be made for nation-wide deployment of successful experiments, we could also hold the view that those that made it to the experimental cutting board were mostly those that were predicted as not to give rise to problems. Indeed, structural reform has proceeded through the nation-wide deployment of different proposals and measures, but it is possible that there were proposals made that did not even see the light of day, or even going further, there are ideas in the regions that did not reach the proposal stage.

On the other hand, response seemed late in terms of also giving consideration to regional revitalization and not to lean too much on nation-wide deployment of regulatory reforms as a plan to be able to maintain the incentives of regional public groups, which have sent it their ideas. Furthermore, in taking special measures in the form of special zones, efforts are needed for harnessing the specific features of each region. For this, we would like to repeat, it would be effective to allow an all out regulatory reform. Specially, now a system has been set up whereby special zones for

³⁸ For example, in the case of facilities where there is competition between regions, it is possible that a facility would have its revenues, for one, drop when an opposing special zone enjoys more benefits.

structural reform and regional revitalization policies are being simultaneously promoted. We look forward to policies that consider such a point.

Contrary to such movements, for example even in economic regulations, as we have touched upon above in our talk about the re-strengthening of entry restrictions in the taxi business, it is a fact that criticisms have come up based on the view that regulatory reforms up to now may have been carried out too fast. Moreover, it is important that appropriate comparison be made of the economic effects of regulatory reforms, which tend to focus on the interests of the consumers, and of the sector that would be adversely affected.

In that instance, a future issue would be the further refinement of approaches to measure from consumer surplus the economic effect of regulatory reform as touched upon in this paper, and the improvement of methods to measure the economic effect of regional revitalization as seen in the special zones for structural reform.

Either way, it is important to promote policy while enabling coordination between the state and regions, and maintaining a high level of tension within the administration. For this, it is hoped that social experiments are smoothly implemented.

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