



## JRI news release

### Ensuring the Success of “Special Zones for Structural Reform”

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## Summary

The bill on special zones for structural reform is being debated in the current Diet session. The legislation is based on the special deregulation zones concept, put forth by the Council for Regulatory Reform.

As the name implies, the idea behind special deregulation zones is to make use of specially designated regional areas as part of the government's package of measures to advance deregulation. Limiting the geographic region makes it easy to have a consensus on deregulation, an advantage that can make the special zone program a catalyst for wider reform. The bill envisions nationwide implementation of deregulation of a similar kind in cases where leading-edge and/or experimental reform efforts first developed in the special zones are successful. Thus, areas that develop on the model presented in the pending legislation might be termed "precedential deregulation-led special zones," as it were. Given the degree to which foot-dragging on deregulation has become an issue, this incubator approach can be considered an acceptable workaround, a next-best policy in lieu of more widespread change. However, in order to achieve the goal of deregulation, it is desirable to have as many municipalities, prefectures and other public bodies as possible participate. Thus, the key to the success of the special deregulation zones is whether and to what degree barriers to public body participation can be lowered.

Evaluating the bill on special zone for structural reform, in terms of the precedential deregulation-led special zone model, it presents at least two major shortcomings.

- Because only a limited number of regulatory items are eligible for reform under the bill, there is little benefit for the various municipalities and prefectures that might participate.
- As it is written, the legislation leaves room for discretion to the various relevant cabinet ministries, agencies and other administrative offices.

For the special zone law to work, it is absolutely essential that decision-making discretion be removed from ministry and agency bureaucracies, and that the number of regulatory items governed by the reform regime be expanded.

One example of an area that would benefit from the structural reform bill is participation in agriculture (i.e., acquisition of agricultural land) by joint-stock companies. Whatever regulatory issues that may arise in this situation occur *after* the land is acquired, involving reselling, or converting the land to other uses. Thus, regulation governing the agricultural activities of joint-stock companies can be made sufficiently strict by strengthening control over more pernicious behavior, such as diverting farmland to non-agricultural use, without having to ban land acquisition itself. Special zones can function to stimulate public discourse on issues like this, and can help eliminate distortions and regulatory abuses in the course of reform. Establishing appropriate alternative measures in these situations is one method by which the effectiveness of special zones can be enhanced, serving in turn to accelerate deregulation generally.

Another school of thought on special zones differs from that behind the current bill, in that it calls for incorporation of fiscal measures into the special zone system, and seeks to use the regional areas as a springboard for a national project in which strategic industries are developed and the economy revitalized. Districts developed under this model could be called “national strategic special zones,” at least for purposes of the present report. As a school of thought, the national strategy approach has its place, given the present inertia when it comes to creating or launching new industries in Japan. However, it should be remembered that previous local development programs, which have entailed budget transfer from the central government, have not always yielded results commensurate with the expenditure. Experience shows that attaining the objective of concentrating and integrating strategic industries will definitely require – in addition to a prudent long-term vision – an intense focus on a very few of the most promising special zones in which measures can be implemented intensively.

The “precedential deregulation-led special zone” and “national strategic special zone” paradigms are mutually exclusive in a number of respects, such as the number of subject regions and the presence or absence of fiscal measures in the scheme. It is not suitable to incorporate the addition of fiscal measures or the introduction of special zone screening criteria based on economic effect into the bill pending in the

Diet. Thus, if the nation determines that it wants to promote the national strategic special zone model, a legal framework separate from the present bill will have to be developed.

The budget for enterprises pursued in the special zones should be provided through an expansion of the local municipalities' autonomous revenue sources. Such financial decentralization would be an effective measure to promote the "precedential deregulation-led special zone".