

## Prefectural Perspective

# Regional Governments Woo Investors

By Seiji Hirota

Local governments in Japan are going all out to lure private industries to locate in their communities. But what is notable is that these incentives are available not only to Japanese companies but also to foreign-owned firms. For example, a silicon wafer manufacturer affiliated with a foreign company received no less than 140 invitations from interested local governments after a Japanese trade journal reported its plans to build a new factory. According to the executive in charge of industrial siting, hundreds of local government officials visited the firm to recommend prospective sites. This is just one of many examples of the strong desire of local public organizations to attract private industrial investment.

## The reasons why

To prevent possible misunderstandings by foreign firms, two points bear clarification. First, it is not unemployment that is prompting local governments to lure private industries. In other industrialized nations, industrial location in provincial regions is usually designed to provide scarce jobs. In Japan, where the jobless rate is only 2% nationwide, this is not the case. Although unemployment varies from region to region, it is not nearly as serious a problem in Japan as in other major developed countries.

The main reason why Japanese prefectures and local municipalities want to play host to new industrial enterprises is that the deceleration of economic growth has slowed the natural spread of industries from traditional industrial centers to less developed regions and diminished the prospects for expanded public works projects financed by central government subsidies. Japan's population and industry are concentrated in its three major urban centers, and particularly in the capital region. Autonomous industrial development in other regions depends on whether growth enterprises choose to

invest in them or not. That is why local authorities in less developed parts of the country are eager to invite in pioneering foreign-affiliated businesses.

Moreover, it is not true that industrial siting outside the three urban centers is heavily constrained by geographical and other physical shortcomings. Of course, industrial infrastructure varies from region to region, but a foreign company would be wrong to assume that the situation in Japan is the same as in its own country.

Since land prices vary by regions to a great extent, this wide differential makes a huge difference in investment costs. For instance, the price of industrial land in the Tokyo coastal plain is more than five times the average in other regions. The same factory can be constructed much more cheaply in other parts of the country. Likewise, low land prices outside the three urban centers have enhanced the development of industrial infrastructure there. Just taking highways as an example, a nationwide network is now almost complete, and goods can be trucked anywhere in the country within two or three days, including loading time.

In fact, regional disparities in industrial

infrastructure are now so small that many Japanese businesses have moved their production operations to areas with lower investment costs. Foreign-capitalized companies can likewise find attractive sites in areas where they can recover their investment costs and be turning in a profit in relatively short time.

## Incentives

What kinds of incentive are available? As in other countries, industrial location promotion measures in Japan are provided by both the central and local governments. There are basically three types—fiscal measures (subsidies); tax measures; and financial measures (see below: Industrial Location Incentives in Japan).

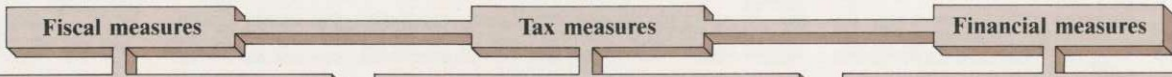
The fiscal measures provided by the central government are called "industrial relocation subsidies." Subsidies are also provided by local governments under their respective ordinances. Both central and local government subsidies are modest compared with those in some West European countries, rarely exceeding the equivalent of \$500,000. However, one pre-



Foreign businessmen participate in a MITI-organized observation tour of industrial sites.

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Industrial Location Incentives in Japan



**Fiscal measures**

**Central government**  
Industrial relocation promotion subsidies, etc.

**Local government**  
Subsidies provided under local ordinances for geological surveys, factory site landscaping, land acquisition, etc.

**Tax measures**

Exemption or reduction of business taxes, real estate acquisition tax, and fixed asset tax  
Exemption from special land holding tax  
Special depreciation

**Financial measures**

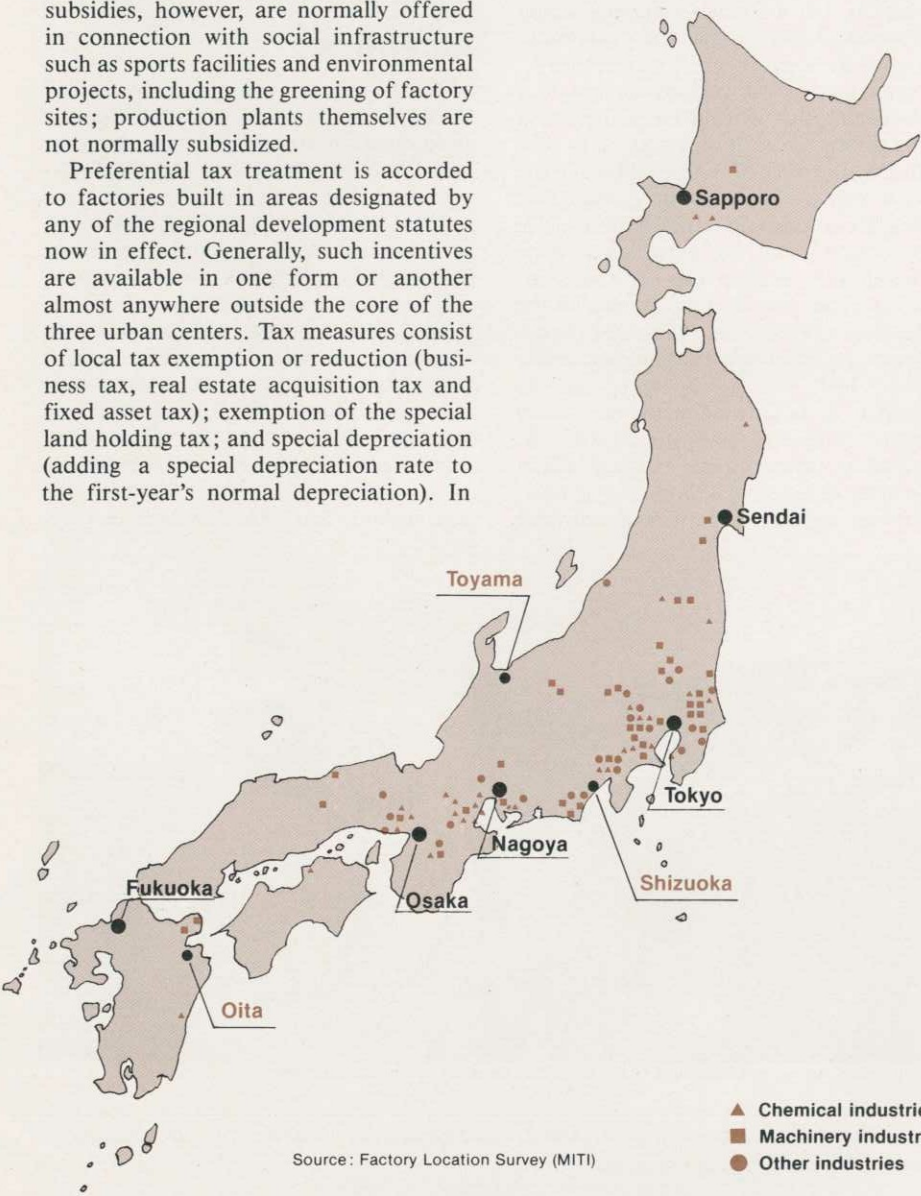
**Central government**  
Loans from Industrial Bank of Japan, Hokkaido and Tohoku Development Corp., etc. with low interest rates charged on a regional and sectoral basis

**Local government**  
Low-interest loans from prefectural authorities

fectural government has created a system whereby more than \$1 million can be granted to a high-technology enterprise. The growing concern over industrial development in local regions is expected to force up the ceiling on subsidies. These subsidies, however, are normally offered in connection with social infrastructure such as sports facilities and environmental projects, including the greening of factory sites; production plants themselves are not normally subsidized.

Preferential tax treatment is accorded to factories built in areas designated by any of the regional development statutes now in effect. Generally, such incentives are available in one form or another almost anywhere outside the core of the three urban centers. Tax measures consist of local tax exemption or reduction (business tax, real estate acquisition tax and fixed asset tax); exemption of the special land holding tax; and special depreciation (adding a special depreciation rate to the first-year's normal depreciation). In

Factory Location by Foreign Affiliates



Source: Factory Location Survey (MITI)

the case of local tax exemptions and reductions, the privileges are effective for three years.

Financial measures include special loans from government-affiliated financial institutions such as the Industrial Bank of Japan and the Hokkaido and Tohoku Development Corporation. Such loans, confined to designated geographic areas and industrial sectors, normally carry an interest rate not exceeding 1.1% below the long-term prime lending rate. The difference in nominal interest rates is even greater, as governmental banks do not require borrowers to keep countervailing deposits as do commercial banks. Low-interest loans are also provided by local governments.

Additional incentives are available to businesses in "technopolis" areas designated by the government for the explicit purpose of promoting autonomous regional development through the growth of high-technology sectors. Twelve such areas have been selected since March this year. The incentives, effective this year, include special depreciation for plant and equipment in 70 high-technology sectors, tax cuts for fixed assets for testing and research purposes, and low-interest government loans.

The Ministry of International Trade and Industry (MITI) has organized observation tours of a number of these areas for foreign-affiliated companies to help familiarize them with the sites. MITI also offers, free of charge, an industrial site information retrieval service using its own nationwide database. A number of foreign-owned businesses have already used this service, and have rated it highly.

Further details on Japan's industrial location system and incentives can be found in *Industrial Investment in Japan*, published by the Industrial Location Guidance Division, Industrial Location and Environmental Protection Bureau, MITI. For copies, write to: 1-3-1, Kasumigaseki, Chiyoda-ku, Tokyo or call 03 (501) 0645.