

## Special Zones for Structural Reform Getting Under Way

The establishment of special zones for structural reform (special zones) is stealing the spotlight as a way to revitalize the ailing Japanese economy. The reform zone scheme, to be introduced in various municipalities, is aimed at accelerating deregulation in the country as part of Prime Minister Koizumi Jun-ichiro's reform initiatives. The central government will start accepting applications for the establishment of special zones from local governments starting April 1 for piecemeal implementation.

Kitakyushu City, Fukuoka Prefecture, will apply for the establishment of a special economic zone for international distribution with 24-hour custom services to enable swift cargo delivery and enhance international competitiveness. The municipal government has started full-scale activities to attract companies to the zone, which is likely to be the first zone of its type in Japan. Mie Prefecture and Yokkaichi City jointly plan to establish an industrial revitalization special zone by relaxing regulations on the use of land formerly occupied by petroleum complexes. The two municipalities are currently holding consultations with local businesses on the details of the project.

Ota City, Gunma Prefecture, will establish an English education special zone and open combined primary, junior and senior high schools, where all the curricula, with the exception of the Japanese language and social studies, will be taught in English. In Hokkaido, several municipalities will apply for the establishment of agricultural special zones that would deregulate the possession of farmland and enable private companies to own it.

Fukuoka City, jointly with Fukuoka Prefecture and Kitakyushu City, will apply for the establishment of a special zone aimed at conducting practical experiments with robots on town streets. Fukuoka City has a track record of assisting the research and development of robots, sponsoring a world robot soccer competition, called "RoboCup," in June last year, and

establishing "Robo-square" in the town, where citizens can come in contact with robots. In this process, the establishment of a "robot experiment special zone" was requested by scientists who wished to conduct robot experiments in the town.

In connection with the deregulation of medical services, which has been required by Nagano Prefecture and other municipalities and is the most controversial issue in the regulatory reform, the government has decided to conditionally allow joint-stock companies to open and operate hospitals. Medical services provided by such hospitals will not be covered by national health insurance, so patients will have to pay the expenses from their own pockets.

The Ministry of Health, Labour and Welfare (MHLW) and the Japan Medical Association had been opposed to allowing private companies to run hospitals, arguing that such deregulation would result in higher medical expenses. But Koizumi finally intervened and overcame their resistance by working out a compromise. Koizumi has thus achieved, although partially, his aim of letting joint-stock companies participate in medical services, while saving face for the MHLW by limiting the deregulation to services not covered by national health insurance. Deregulation measures in other areas were likewise attached with various conditions due to resistance from the relevant government ministries.

In other medical deregulation measures, the government decided to allow non-Japanese doctors to practice within designated zones, as long as their patients are of the same nationality. However, the government has withheld a decision on whether doctors and nurses should be considered as workers covered by temporary placement schemes. The government has also delayed a decision on the consolidation of medical treatment covered by national health

Photo: Kyodo News



McDonald's Japan opened its first outlet in Ginza, Tokyo in 1971

insurance and areas not covered by this program.

Among other special zones approved was a "doburoku special zone," where liquor production licensing requirements will be loosened and farmers will be allowed to produce doburoku home-brewed sake and serve it to tourists.

Altogether, the government has decided to introduce 77 deregulatory proposals nationwide and 47 in the special zones. To implement the deregulation projects, the government will present to the current regular session of the Diet a bill for revising the Law on the Special Zones for Structural Reform and the related ministerial ordinances.

Koizumi, who chairs a panel on special deregulation zones, says, "We will press forward without being afraid of failure. If they are successful, they will further expand." A decision on the controversial issue of establishing a special zone where casinos will operate for the first time in Japan was also postponed. Konoike Yoshitada, the Minister of State for Special Zones for Structural Reform, said the establishment of a special zone for casinos will depend on public opinion.

## McDonald's Japan Facing Uphill Battle

In July 1971, McDonald's Japan opened its first outlet in Japan on the ground floor of the Mitsukoshi depart-

ment store in Ginza, Tokyo. At the opening, blue-eyed McDonald's campaign girls showed up at the shop front, smiling and marketing hamburgers to passers-by. The girls were chanting, "Why don't you try America's genuine, best-selling food?"

Despite much fanfare, the media coverage of McDonald's Japan's opening event was subdued, partly because it came four days after the abrupt announcement of a visit by U.S. President Richard Nixon to China. The Japanese newspapers were all preoccupied with the so-called "Nixon shock" at that time.

McDonald's hamburgers, selling for ¥80, were not particularly inexpensive in 1971, especially when compared to full-sized loaf of bread, priced at ¥60, a bowl of Japanese noodles, priced at ¥120 and a plate of curry and rice, priced at ¥180. And yet, McDonald's Japan grew rapidly. In the second year of inauguration, it opened an outlet in Kyoto and another in Nagoya in the third year. The price of its hamburgers also rose quickly to ¥100, ¥120 and ¥150 over the first three years – evidence that many Japanese consumers were keen to try a "taste of America."

More than 30 years later, however, McDonald's Japan cut the price of its regular hamburgers to ¥59, the lowest in the industry, in August 2002 amid Japan's prolonged deflation. On the first day of the price cut, the fast-food chain attracted 4.1 million customers with ¥1,205.7 million in sales, and appeared set to remain as a winner of the deflation era.

However, McDonald's Japan gradually lost its competitive edge and incurred a group net loss of ¥2.3 billion in the business year to Dec. 31, 2002, the first red ink in its 29 years of business in Japan. Its aggressive cut-price strategy failed to bring the company more revenues, and its year-on-year sales have continued to fall over the past several months. Of the 3,891 outlets across Japan as of the end of 2002, McDonald's Japan plans to shut down 176 loss-making restaurants in 2003, the largest number of shop closures on an annual basis.

Its charismatic founder, Fujita Den, recently announced that he will resign as chairman and chief executive officer, and the Fujita family as a whole will withdraw from the management of McDonald's Japan.

It is said that McDonald's Japan represents American culture. It has sought economies of scale by making its operations, ranging from materials procurements to marketing, more efficient with the use of manuals and has bolstered its presence by opening outlets in front of every major railway station. *New York Times* columnist Thomas Friedman once wrote that countries where McDonald's operates the hamburger chains would not go to war with each other. But as evidenced by recent international criticism of the United States over its handling of Iraq, Japanese consumers may be starting to get annoyed at McDonald's "pushy," changeable pricing policy.

## China Becomes Japan's Largest Source of Imports

China's exports to Japan and the United States have been steadily expanding. Japan's provisional trade statistics for 2002 on a custom-cleared basis showed that Japan's imports from China, often described as the factory of the world, surpassed those from the United States. China became Japan's largest import source for the first time since the end of World War II. As Japan's imports from China are likely to continue rising, Japan's trade deficit with China is certain to expand unless Japanese exports to China grow. The structure of Japan's international trade, previously dependent on trade with the United States, is now undergoing drastic changes.

Japan's imports from China in 2002 grew 9.9% over the previous year to ¥7,724.9 billion, while exports to China jumped 32.3% to ¥4,979.3 billion, the highest figures on record. The substantial increase in exports resulted from a sharp rise in direct investment in China following China's accession to the World Trade Organization (WTO).

Machinery, including office equipment, accounted for 33.5% of Japan's imports from China and replaced textiles as the largest import item from that country. Of Japanese exports to China, electrical equipment, including electronic components, have increased sharply.

The expansion of Chinese exports to Japan is attributed to new trends in the structure of bilateral merchandise trade: Japan has been boosting exports of machinery required for production, while China has been increasing exports of finished goods. This underlies the fact that Japan has been steadily shifting to China its production of electronic goods with high added-value.

Japan's trade deficit with China sagged 15.9% in 2002 due to increased exports of manufacturing equipment. However, after the transfer of production to China following China's accession to the WTO has run its course, Japan's exports to China are likely to decline and the Japanese deficit is projected to expand further.

China, which ranked fourth as the import source for the United States in 2001, moved past Japan as the third largest import source in terms of volume after Canada and Mexico in 2002. It was the first time in 53 years that China's exports to the United States had outranked Japan's, which ranked fourth.

The Japan External Trade Organization (JETRO) attributed the phenomenal increase in China's exports to the United States to 1) enhanced Chinese supply capabilities, 2) the small volume of exports of such products as automobiles, steel and semi-conductors, which could cause trade friction with the United States, and 3) little competition with U.S. products in advanced areas.

Key Chinese exports to the United States included telephones, radios and other consumer appliances with lower added-value, as well as toys, sporting goods and footwear. Japanese exports to the United States were mostly commodities which compete with U.S. products, such as automobiles, transport machinery and general machinery.