

JETRO

Efforts by Local Governments
to Promote the Establishment of Enterprises

December 2013
Japan External Trade Organization (JETRO)

Introduction

Local governments throughout Japan are implementing a variety of unique measures aiming to revitalize the regional economy and to expand employment. For example, proactive efforts have been made to promote the establishment of enterprises, by taking such measures as easing regulations and providing financial support for special zones in an aim to form industrial bases with a competitive advantage, and providing subsidies to increase foreign-capital enterprises rooted in each local area. This report describes the latest trends in efforts being made by local governments, including industrial policies and what is being done to attract enterprises.

December 2013
Overseas Research Department
Japan External Trade Organization

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● JETRO Questionnaire ●
 Research Title: Efforts by Local Governments to Promote the Establishment of Enterprises

JETRO has recently compiled the aforementioned questionnaire. Please complete this survey regarding your opinions on this report. The results will be used as a reference for selecting future research themes.

- Question 1: How helpful was the information from the “Efforts by Local Governments to Promote the Establishment of Enterprises”, which was included in this report? (Please circle one answer.)

4: Helpful 3: Somewhat helpful 2: Not too helpful 1: Not helpful at all

- Question 2: Please describe (1) the purpose of use, (2) the reason for choosing the answer above, and (3) any other feedback on this report.

- Question 3: If you have any requests for future JETRO research themes, please list them below.

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Thank you for your cooperation.

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Medical Industry Utilizing Manufacturing Skills Cultivated through Automobile Production (Hiroshima)

In keeping with the industrial measures established in 2011, Hiroshima has been making strong efforts toward the nurturing of next-generation industries centered on medical and environment related industries, in addition to the key industry of automobiles. Moreover, the medical field utilizes the manufacturing skills cultivated in the automobile industry by companies within the prefecture, while also continuing to attract companies from outside the prefecture and overseas, in aiming to develop an internationally competitive industrial cluster.

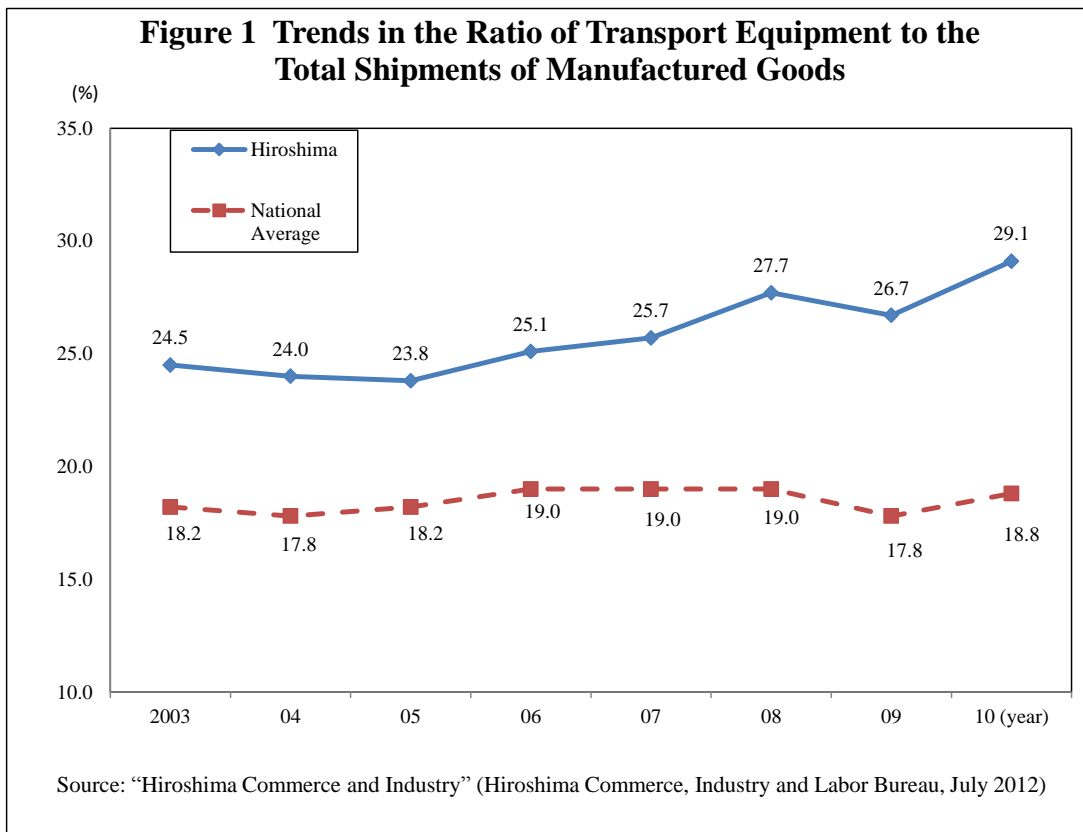
<Development of medical-related industries through “medical engineering collaboration” and “all Hiroshima”>

In July 2011, Hiroshima established the “New Development Vision for Hiroshima Industry”, which are basic guidelines that provide a direction or path for the prefecture’s industries, in anticipation of 2020. These guidelines include the enhancement of competitiveness of the prefecture’s key industry, the automobile industry, as well as the aim to nurture and develop clusters for medical- and environment-related industries, which are next-generation industries.

With regards to the development of the medical-related industry, the prefecture put their Vision into effect in July 2012 by establishing the “Action Plan for the Medical-Related Industrial Cluster”. This plan outlines the policy to expand the medical related business of enterprises in the prefecture and attract domestic and foreign medical-related companies in aiming to generate medical and welfare apparatus businesses that apply the skills found in “Hiroshima”.

Furthermore, the plan set a specific target for establishing a medical-related industrial cluster by 2020. The number of medical-related enterprises and the value of shipments for manufactured goods within the prefecture in 2010 remained at 30 enterprises and JPY 9 billion, respectively, and a target of reaching 100 enterprises and JPY 100 billion by 2020 was set. Additionally, of the targeted 100 billion yen in shipments, 50 billion is to be met through the attraction of domestic and foreign companies, while the other half is to be met through the expansion of business within the prefecture.

A distinctive aspect of Hiroshima’s efforts toward the development of the medical-related industry is the entry into the medical field that utilizes the manufacturing skills cultivated in the automobile and other fields. In 2010, the transport equipment manufacturing industry centered on automobiles had 29.1% of the share of the total shipments of manufactured goods in the prefecture, more than 10 points over the national average (see Figure 1).

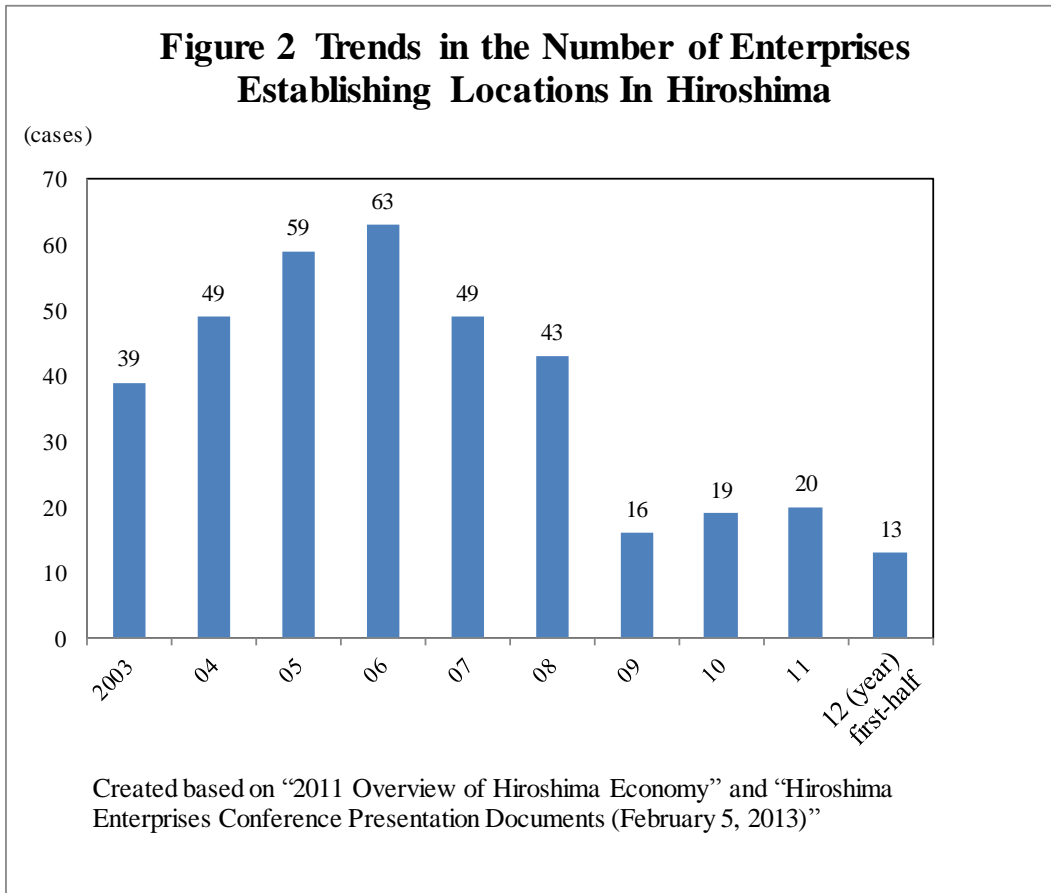


Based on this characteristic of the industry, Hiroshima aspires to apply and utilize the superior skills cultivated through the manufacture of automobiles in the medical-related field. These skills include precision work, electrical and electronics, mechanics, materials, control technology, systems, etc. The efforts can be described as “medical engineering collaboration”. Specifically, the prefecture seeks to apply to the medical-related field the core technology of its unique companies with the best stand-alone technology in the world and the number-one companies that occupy high domestic and international shares in specific areas.

In order to promote “medical engineering collaboration”, industry, government, and academia established the “Hiroshima Medical Engineering Collaboration Innovation Promotion Council” in March 2011, organizing a system to bring together and promote the collaboration of industry, government, and academia, including Hiroshima Prefecture, Hiroshima City, universities centered around Hiroshima University, and companies within the prefecture. Furthermore, later that year in August, while utilizing the country’s support, such as the adoption of the “Hiroshima Medical Engineering Collaboration Innovation Promotion Council” as the “Regional Innovation Strategy Support Program” by the Ministry of Education, Culture, Sports, Science and Technology, Hiroshima promotes the development of medical-related industries in the concept of “all Hiroshima”.

<Strengthening aid for establishing business locations in Hiroshima with a focus on next-generation industries>

Looking at the trend in the number of enterprises located in Hiroshima, the number of enterprises in the first half of 2012 was 13, an increase of 5 enterprises compared to the same period of the previous year, which shows a recovery since the lowest point when Japan’s economy plunged following the Lehman Brothers bankruptcy in 2009 (see Figure 2). However, the number remains well below the peak of 63 enterprises in 2006.



The “Hiroshima Industry New Development Vision” describes Hiroshima’s “business deployment involving growing markets centered on Asia”, which declares “the promotion and expansion of investment within the prefecture by growing companies from overseas” and active efforts to promote the establishment of business locations, including foreign investment.

As a specific measure, the prefecture’s “Company Location Promotion Subsidy Program” was expanded to partially subsidize the costs of obtaining the land, building, and equipment necessary when establishing a business location. Starting in April 2012, the “medical- and health-related field” and “environmental cleanup field” were added to the leading, growing industries eligible for accumulated subsidies, while both industrial fields became eligible for up to JPY 3.5 billion in subsidies for obtaining the buildings and equipment necessary for establishing a business location. Additionally, since April 2013, systems have been improving, for example, the new-employment requirement, a

prerequisite to receive subsidies, has been lifted for enterprises that make business investments in the “medical and health” related fields within the prefecture-run industrial complex.

A representative example of a foreign company that established a location in Hiroshima is Dou Yee International, a developer of film LCD products from Singapore, that purchased an empty factory in Shobara City and established a locally-incorporated company, FlexD Co., Ltd. (capital: JPY 480 million) in June 2011. JETRO listed approximately 40 factories that matched their requirements. Dou Yee International then met directly with the factory owners of several leading candidates, as well as with each local government, and ultimately decided on investing in Shobara City. Intending to immediately launch a production line to promptly secure demand for valued clients, the factory in Shobara City was chosen for its clean rooms. In terms of employment, Dou Yee International newly hired 30 workers, including a portion of the skilled staff previously employed at the factory which had been operating there previously, which raised expectations for revitalizing the local economy through the promotion of employment.

Hiroshima intends to continue making active efforts to promote the establishment of business locations by companies within the prefecture, as well as foreign companies, in next-generation industries, especially focusing on the medical and environmental industries.

(Akihiko Ueno)

Actively Utilizing Foreign Capital Focusing on the Special Zone (Osaka)

With a focus on its designation as the “Kansai Innovation Comprehensive Global Strategic Special Zone” in December 2011, Osaka is aiming to strengthen its locational competitiveness. It hopes to actively use foreign capital, promote technological innovation, and further industry clusters in six target areas, such as pharmaceuticals.

<Improving the business environment through the Special Zone>

The Kansai Innovation Comprehensive Global Strategic Special Zone (hereinafter referred to as the Special Zone) is one of the seven “Comprehensive Global Strategic Special Zone” designated by the government that stringently selects areas with competitive superiority at a global level and provides deregulation, as well as tax, fiscal, and financial aid, for efforts that contribute to the formation of industrial bases, for the purpose of strengthening industrial competitiveness.

The area designated as the Special Zone spans across the three prefectures of Osaka, Kyoto, and Hyogo, but not limited by each local government, with the aim of strengthening and developing industries possessing competitiveness. Industrial categories to be strengthened focused on six target areas: pharmaceuticals, medical devices, advanced medical technology (regenerative medicine, etc.), preemptive medicine (disease prevention), batteries, and smart communities. Universities and research institutions, companies, economic organizations, and local governments will work together to fully mobilize the resources in the area and establish an industrial cluster that gives birth to world-leading technological innovation. Specifically, the target was set to double global shares in pharmaceuticals and medical devices and substantially increase the production of batteries, including lithium-ion batteries and solar batteries, by 2025.

As of July 1, 2013, 37 projects and 59 cases have been approved by the government to receive tax, fiscal, and financial aid for the Special Zone.

Local government officials list the following three points expected of the Special Zone framework.

(1) Deregulation

Special Zone designation makes further deregulation possible. An example of a specific deregulation is the electronic service started in March 2013 regarding the “Yakkan Shoumei” (see note), necessary for importing unapproved pharmaceuticals, etc. Limited to pharmaceuticals clearing customs in Kansai International Airport (hereinafter referred to as KIX), this service made the electronic application and approval possible through the Internet, between the importer and the Kinki Regional Bureau of Health and Welfare, and allows the approval to be confirmed on a computer at KIX customs.

(2) Promotion of projects

In the life sciences field, Osaka aims for the development of the industry, including the nurturing of supporting industries, by utilizing the competitiveness of having the head office of major pharmaceutical companies located in Osaka. In terms of tangible results, as requested of the government, the establishment of a base in Osaka by the Pharmaceuticals and Medical Devices Agency (PMDA), an agency regulating and screening pharmaceuticals and medical devices based on the Pharmaceutical Affairs Act, was decided upon in June 2013 (the base is scheduled to be established and start some operations this October). Also, in the new energy field, Osaka aims to establish the international standardization of batteries, based on the large amount of battery production in Osaka.

(3) Incentives

In addition to the incentives provided by the national government, the local governments have set up unparalleled unique incentives and has been promoting the attraction of businesses. As part of those efforts in December 2012, Osaka Prefectural Government and Osaka City Government began, before the rest of the country had, a “Special Zone Tax System”. This allows the corporate prefecture (city) tax, corporate enterprise tax, real estate acquisition tax, fixed assets tax, city planning tax, and business office tax to be reduced by a maximum of 100% for companies setting up new business in the new energy and the life science fields within the Special Zone. This tax system was followed by the implementation at Suita City, Ibaraki City, Minoh City and Kumatori Town.

Osaka Prefectural Government and Osaka City Government are strengthening publicity efforts for the Special Zone, by convening “Special Zone Seminars” in Tokyo and Osaka.

<Inward direct investment as a booster of technological innovation>

The aforementioned local government official explains, “There is a limit to ongoing innovation with only domestic resources, making it necessary to utilize outside resources. Therefore, to strengthen international competitiveness through inward direct investment, we will show our vision and implement it.”

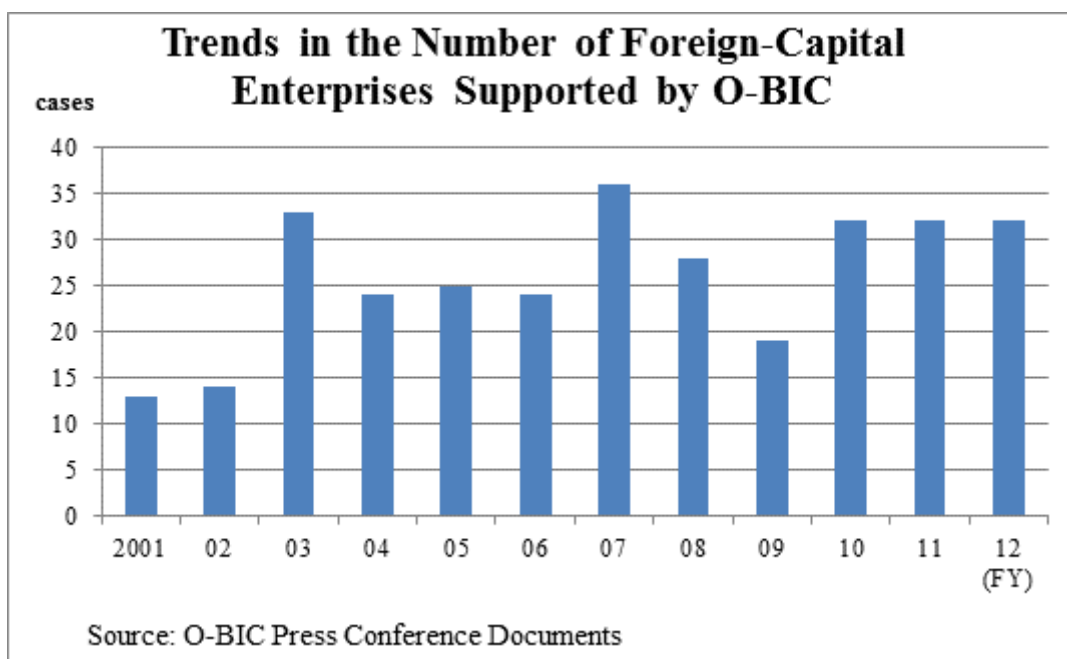
Osaka offers the “Subsidy for Business Start-Ups of Foreign-Capital Enterprise” as its own support measure for attracting foreign companies. Regarding subsidies for foreign-capital enterprises, subsidies are usually provided for obtaining land or buildings, but in observing the form of advancement, there are many cases where enterprises rent office space or factories. For this reason, this subsidy is designed to allow for aid to be provided for a rented office as well. Enterprises that establish a new head office or Asian base within the prefecture, with an office floor area of at least 250 square meters, and secure at least 25 full-time employees within three years are eligible for the subsidy (see table below).

Outline of the Subsidy for Business Start-Ups of Foreign-Capital Enterprises (Osaka)

Eligibility for applicants	Foreign-capital enterprises moving into Osaka Prefecture to set up a head office or Asian base	
Subsidy Requirements	Office with a floor area of at least 250 square meters and 25 or more regular employees (must be met during operation period of subsidized project)	
Subsidy Ratio and Upper Limit	(1) Building Acquisition: 5% of building and depreciable properties costs	
	No. of regular employees	Subsidy upper limit
	25 to 99 people	30 million yen
	100 to 199 people	60 million yen
	200 or more people	100 million yen
	(2) Building Rent: one third of building rent	
	No. of regular employees	Subsidy upper limit
	25 to 99 people	20 million yen
100 to 199 people	40 million yen	
200 or more people	60 million yen	

(Source) Documents from Osaka Prefectural Government

Working with JETRO to attract foreign-capital enterprises to Osaka, O-BIC (Osaka Business & Investment Center; established in April 2001 by the Osaka Prefectural Government, the Osaka City Government, and the Osaka Chamber of Commerce and Industry in a joint initiative) indicated that 312 foreign-capital enterprises were attracted to Osaka from the time of its establishment to FY2012 and 32 of those enterprises advanced in FY2012 (see figure below).



A noteworthy example of an advancement of a foreign-capital enterprise is the major developer, manufacturer, and distributor of medical facilities and devices from Singapore, ESCO Micro Pte. Ltd.'s establishment of a Japanese subsidiary within the Asia and Pacific Trade Center in May 2012. Also, in the retail area, the operating company of the Danish variety store chain "Tiger" with numerous stores throughout Europe, ZEBRA A/S, established a Japanese subsidiary in July 2012, and opened its first store in Japan "TIGER COPENHAGEN Amerikamura Store" in Amerikamura of central Osaka. According to ZEBRA A/S, the number of customers in the store was 550,000 in one year. Furthermore, the allocation of new shares to a third party was implemented in July 2013 with the accepting company being SAZABY LEAGUE, which conducts the planning, sales and wholesale of food, clothing and household goods' brands. Business was commenced as a joint venture corporation towards which SAZABY LEAGUE made a 50% investment. In collaboration with SAZABY LEAGUE, ZEBRA A/S aims to develop stores in Tokyo within the 2013 fiscal year.

Most recently, in July 2013, Equinix, a data center provider from the US, in collaboration with K-Opticom and Kanden Energy Solution (KENES), announced that it would establish a global data center in central Osaka City, the first one in western Japan.

<The allure of population accumulation near KIX>

When asked about the appeal of the business environment, a foreign-capital enterprise that has launched in Osaka answered, "The proximity to KIX is highly convenient in terms of logistics." Another point raised was that "if you include Kyoto, Kobe, and even Nagoya, in addition to Osaka, there is a significantly high population in the area", indicating that a market size second to that of the Kanto area is another major attraction of Osaka.

Osaka Prefectural Government and Osaka City aim to actively utilize the Special Zone and maximize the advantages of Osaka through various deregulations and incentives, while attracting both domestic and overseas businesses to realize the cluster of industries with global competitiveness.

Note: A certificate is necessary to clear customs when importing pharmaceuticals and medical devices into Japan that have not been approved or authenticated in Japan.

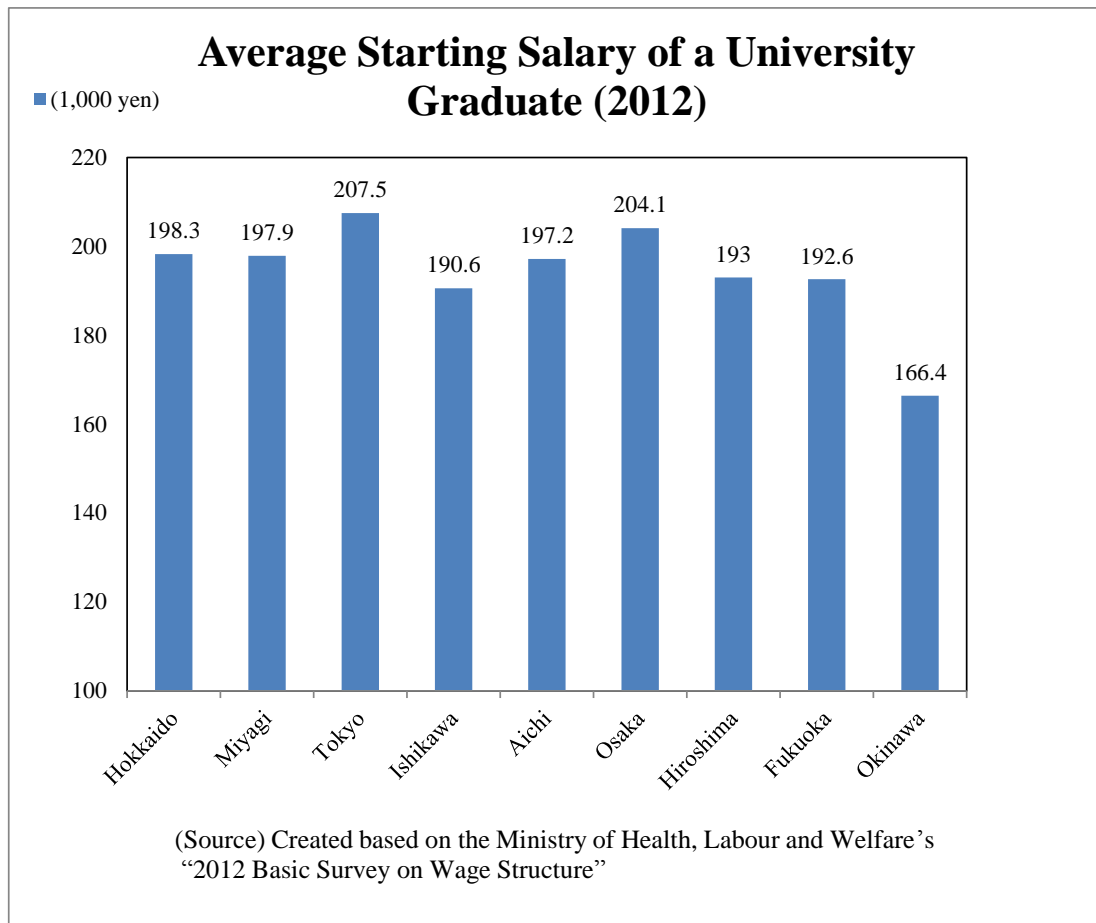
(Kunihisa Nakai)

Attractive Unique Incentives and Support in the form of Intangibles (Okinawa)

Okinawa attracts businesses through the utilization of unique incentives. In the International Logistics Hub Industry Development Zone Uruma Area, 12 enterprises have established business locations in the past two years and all its rental factories are full. In addition to various incentives, the hospitable physical support system is also another appeal of Okinawa.

<Relatively affordable and abundant labor>

According to the Ministry of Health, Labour and Welfare’s “2012 Basic Survey on Wage Structure”, Okinawa’s average starting salary for a university graduate in 2012 was 166,400 yen, the lowest among the 47 prefectures of Japan, and approximately 80% that of Tokyo (207,500 yen), which has the highest average, indicating Okinawa’s relatively low labor costs (see figure below). Also, the ratio of the young population (0-14 years old) to the total population of Okinawa in 2010 is 17.7% (highest in the country), largely surpassing the national average of 13.1% (National Institute of Population and Social Security Research’s “Regional Population Projections for Japan” – published in March 2013), providing an environment where labor will be easier to secure than in other regions now and in the future.



<Wage subsidy, corporate tax breaks, etc.>

Okinawa also provides unique incentives for new employment by businesses, such as the “Subsidy for the Promotion of Okinawan Youth Employment”, which subsidizes a portion of wages for up to two years and an annual maximum of 1.2 million yen to enterprises that newly employ residents under 35 years of age (see table below).

Various incentives are also available in terms of establishing business locations. There is an International Logistics Hub Industry Development Zone Uruma Area in the industrial complex in Uruma City located in central Okinawa. This region is positioned as a special economic zone, where tax incentives, such as a 40% deduction on corporate tax on taxable income if certain requirements are met (for 10 years following establishment), and bond systems can be utilized. A maximum of half of the land acquisition costs are also subsidized (with no upper limit). There is also a “Subsidy for Bankoku Shinryo Network Distribution Cost”, a subsidy for shipping costs when products manufactured and processed within the special zone are shipped outside the prefecture or overseas (annual maximum of 4 million yen per business). In this zone, 12 enterprises established new business locations in the two years of 2011 to 2012, and 50 residents were newly employed (Nakagusuku Port Development Promotion Council “FY2012 Nakagusuku Bay New Port District Employment Status Report”). Rental factories continue to stay full and new rental factories are being prepared.

Incentives Available in the International Logistics Hub Industry Development Zone Uruma Area

Incentive	Description	Annual Upper Limit to the Subsidy
Bonded Area Incentive	Enterprises authorized by the director of customs in the Special Free Trade Zone can store, process, exhibit, or export overseas imported materials with the suspension of tariff payments and sales taxes within the International Logistics Hub Industry Development Zone Uruma Area.	No upper limit
Income Tax Deductions	Newly established businesses within the International Logistics Hub Industry Development Zone Uruma Area with 20 or more full-time employees receive a 40% deduction on corporate taxes on taxable income for the first 10 years following establishment.	No upper limit
Okinawa Enterprise Establishment Promotion Ordinance	Enterprises that establish factories are eligible for a subsidy on invested fixed assets acquired for operation.	Maximum 1 billion yen
Subsidy for Bankoku Shinryo Network Distribution Cost	Enterprises in the International Logistics Hub Industry Development Zone Uruma Area are eligible for a subsidy on shipping costs when products are manufactured and processed within the special zone and shipped outside the prefecture or overseas.	4 million yen annually
Subsidy for the Promotion of Okinawan Youth Employment	Enterprises that establish and equip a location within Okinawa and regularly employ over three residents under age 35 are eligible for a subsidy covering one-third of the wages paid to those newly hired residents for 1 year (or 2 years for enterprises with a high retention rate).	1.2 million yen per person
Employment Subsidy for Area Job Seekers	Enterprises that establish and equip a location within the employment promotion zone and have hired persons residing in that area are eligible for a fixed subsidy for three years (or 5 years if requirements are met).	9 million yen annually

Source: Okinawa Industrial Site Promotion Division, “Industrial Site Promotion Guide Book (published in September 30, 2012)”

<Physical support is also hospitable >

In addition to these various incentives, Uruma City is also proceeding with environmental arrangements in the form of intangibles. Section Chief Atsushi Sakugawa

of the Enterprise Establishment and Employment Promotion Section of Uruma City's Economy Division says, "We are proudest of the physical support." There is an "Industrial Site Support Center" installed in the industrial complex with four resident staff. This center provided support to businesses in 2,232 cases in one year (FY2012), including services such as introducing businesses located in the prefecture, providing adjustment support for the district customs, supporting the conducting of medical exams on employees of businesses in the area, introducing tax attorneys and properties, etc. Businesses in the area can also use the center's conference or meeting rooms.

Uruma City also focuses efforts on the development of human resources that may work in businesses in the area and provides over 100 different programs, such as on-the-job-training and internships. One such program is the "Concurrent Engineer Cultivation Program", which aims to cultivate human resources that can perform operations from planning and design to creating metal molds and shipments. Many of the 40 program graduates are currently employed at enterprises that established locations within the prefecture.

<Enterprises that aim to advance into overseas markets with its base in Okinawa>

Pan Akimoto (head office: Nasushiobara City, Tochigi), a manufacturer of canned bread, established a factory in the International Logistics Hub Industry Development Zone Uruma Area in June 2005. Pan Akimoto decided to advance into Okinawa when the president's wife participated in an enterprise attraction tour hosted by Okinawa in March 2005. The director of the company's Okinawa factory, Masaru Toyoda, says that the key determining factor was "the various incentives provided by Okinawa and Uruma City." Most of the canned bread manufactured is shipped to the mainland, but because this requires substantial distribution costs, the company significantly benefits from the merits of the subsidy for shipping costs provided through the "Subsidy for Bankoku Shinryo Network Distribution Cost".

Also, the fact that Okinawa relatively has fewer earthquakes compared to other regions in Japan also contributes to the appeal of Okinawa as a base for manufacturing and storing products for Pan Akimoto (see note below).

Pan Akimoto is also keeping in perspective the expansion of business at the base in Okinawa. Currently, distribution is mostly to the mainland, but the company is considering the possibility of international distribution from Okinawa, capitalizing on its geographical advantage of being "located in the center of Asia" (Okinawa). However, other countries in Asia do not have as high a heightened sense of awareness for "preparing for emergencies" as in Japan, so the demand for canned bread is not that high. Therefore, Pan Akimoto has planned for distribution to the US as its first step. By July 2012, the company established a locally-incorporated company in the suburbs of Los Angeles, California and has started looking in to the possibility of distribution in the US. After first getting the distribution business on track in the US, Pan Akimoto hopes to use that foundation to advance into the Asian market.¹

¹ Refer to "Pan Akimoto's strategy for expanding the "Kyu-Can-Cho Project" into the US", Tsusho Koho, March 19, 2013.

<Many enterprises hope to enter the cargo liner service>

As observed in the case of Pan Akimoto, cutting distribution costs is a particularly significant issue in establishing a business location in Okinawa. Although there is a port in Uruma City's industrial complex, there are no cargo liners in service, so distribution is only by charter services, which can become expensive. Businesses in the area and those that are considering establishing a location often voice hopes for cargo liners, but shipping companies reply, "If there is cargo, we will provide cargo liners." From the perspective of enterprises, the challenge of establishing a location in Okinawa, where markets must be sought outside of the prefecture, is the development of frameworks to lower shipping costs for procuring raw materials and distributing products.

Note: According to the Japan Meteorological Agency, Okinawa's main island has not observed an earthquake with a seismic intensity of over 5-upper since starting modern earthquake observation in 1926. According to the "Japan Meteorological Agency Database (January 1, 1926 to August 31, 2010)", the number of earthquakes with a seismic intensity of higher than 5-upper in other areas are as follows: 9 in Hokkaido, 19 in Tohoku, 18 in Kanto, 21 in Chubu, 5 in Kinki, 10 in Chugoku and Shikoku, and 9 in Kyushu.

(Sakura Ebisuya)

Creating a Subsidy for the Promotion of Foreign Enterprise Establishment (Yokohama City, Kanagawa)

On April 1, 2013, Kanagawa created the “Subsidy for the Promotion of Foreign Enterprise Establishment” and immediately began its application. Kanagawa hoped to stimulate the local economy and expand job opportunities, by promoting an increase in the number of foreign enterprises located within the prefecture. Yokohama also expanded measures to attract enterprises in 2012 and is implementing new subsidy devices for businesses, both domestic and foreign, that increase employment for city residents.

<Kanagawa: new establishment of a subsidy program especially for foreign enterprises>

Kanagawa developed the “Kanagawa Prefecture Industrial Accumulation Incentive Program (Invest Kanagawa)”² in 2005. Based on this program, measures for establishing business locations have been developed, targeting large-scale investments from both domestic and foreign businesses. Later, after founding the “Invest Kanagawa 2nd Step (2010 Kanagawa Prefecture Industrial Accumulation Incentive Program)”³ in 2010, the emphasis of support was shifted from “enterprises establishing business locations” to “supporting growth after establishment”.

Furthermore, on April 1, 2013, support measures in the “Invest Kanagawa 2nd Step” were expanded and the “Invest Kanagawa 2nd Step + (plus)”⁴ was developed. The newly introduced “Subsidy for the Promotion of Foreign Enterprise Establishment” is a subsidy system that especially targets newly founded foreign enterprises, as part of the scheme.

This subsidy system partially subsidizes the rental fees of factories or research centers of enterprises that meet the specified requirements, consist of 100% foreign capitalization, and are establishing a factory or research center within the prefecture (see Table 1). This subsidy is also applicable to “secondary investments”, where enterprises that have already invested in other regions in Japan are investing within Kanagawa.

A survey of foreign-capital enterprises with bases in Tokyo or Kanagawa conducted by the Kanagawa Industry and Labor Bureau in FY2012 indicated that while the function of these bases were mostly as a “head offices” or “sales support”, more enterprises in Kanagawa answered “factory and research center” than those in Tokyo. Also, regarding the type of public support anticipated for new investments within the prefecture, expectations were highest toward “subsidies for rental costs of rental factories and rental offices”.

Based on these results, Kanagawa hopes to attract foreign-capital enterprises by utilizing the newly established “Subsidy for the Promotion of Foreign Enterprise Establishment”.

² <http://www.pref.kanagawa.jp/uploaded/attachment/40646.pdf>

³ <http://www.pref.kanagawa.jp/cnt/f6852/p21732.html>

⁴ <http://www.pref.kanagawa.jp/uploaded/attachment/572466.pdf>

Table 1 “Subsidy for the Promotion of Foreign Enterprise Establishment”
Eligibility Requirements and Description

Requirements	100% foreign-capital enterprises newly establishing a factory or research center within the prefecture
	Enterprises in the manufacturing or information-communication industry
	Employing over five full-time employees in a newly established facility, at least three of whom must be Japanese or permanent residents
Description	Costs eligible: rental fees of factories or research centers
	Amount subsidized: one third of the monthly rental fees (upper limit of ¥3 million)
	Subsidy period: six months

(Source) Created from documents introducing Kanagawa’s “Invest Kanagawa 2nd Step + (plus)”

<Yokohama City: support for foreign-capital enterprises located within the City>

In a similar manner as the prefecture, Yokohama considers attracting foreign-capital enterprises as the core of policy. The city mentions “attracting businesses”⁵ as part of the overseas business deployment strategy in the “Mid-Term 4 Year Plan”⁶ for the period spanning 2010 to 2013, and takes a positive stand especially toward attracting global companies. On the other hand, the number of foreign-capital enterprises located in Yokohama City has been under 20 businesses since the Lehman Brothers bankruptcy in 2008 (see Table 2).

Table 2 Number of Foreign-Capital Enterprises Located in Yokohama
(number of enterprises)

	No. of Enterprises	
		IT-Related Enterprises
FY2007	34	n.a.
FY2008	11	n.a.
FY2009	18	n.a.
FY2010	18	7
FY2011	12	2
FY2012	13	3

(Note) Includes foreign-capital enterprises advancing into Yokohama City from other domestic cities.

(Source) Interview of Yokohama City officials

One support measure for attracting businesses to Yokohama City is the “Yokohama City Business Location Incentives for Specially Designated Areas”⁷ (enacted in March

⁵ <http://www.city.yokohama.lg.jp/seisaku/seisaku/newplan/pdf/07-vol4.pdf>

⁶ <http://www.city.yokohama.lg.jp/seisaku/seisaku/newplan/>

⁷ <http://www.city.yokohama.lg.jp/keizai/yuchi/download/pdf/jourei.pdf>

2004 and put into effect in April 2004). Support based on this ordinance is mainly tax reductions and the provision of subsidies. All enterprises, both domestic and foreign-capital, are eligible and secondary investments are also included. After this ordinance was put into effect, a total of 84 cases (71 acquired locations and 13 tenant locations as of end of July 2013) were approved and foreign-capital enterprises that received aid through this ordinance include Lenovo Japan (China), Sumitomo 3M (US), Johnson Controls (US), Bosch (Germany), and Minth Japan (China).

Yokohama later revised the ordinance in April 2012, allowing further incentives⁸ for enterprises that newly employ residents or contribute by placing orders to businesses within the city.

Specifically, if Yokohama residents are newly employed or if employees newly become Yokohama residents, the enterprise is eligible for up to 50 million yen in subsidies in proportion to the increase in numbers. Also, enterprises that place an order of a certain size to businesses in the city are eligible for a subsidy of 1% of the costs spent for acquiring buildings and facilities. This ordinance is based on the intent of the “Yokohama City basic ordinance for the promotion of small and medium enterprises” put into effect in April 2010, and efforts are also being made towards the attraction of enterprises, as well as the expansion of business opportunities for enterprises in the city, such as providing a business matching opportunity between large corporations that have been attracted and local small and medium enterprises.

<Focusing on the major impact associated with the advancement of foreign-capital enterprises>

According to the Kanagawa Industry and Labor Bureau, of the 52 foreign-capital enterprises attracted to Kanagawa from 2005 to March 2013, the 8 businesses that established a production base or a research development base have not withdrawn (the remaining 44 businesses established office-function bases). Regarding the employment effect of these foreign-capital enterprises, the Bureau indicates that in comparing the number of employees at the time of establishment in Japan to the number in 2012, “enterprises that established an office-function base increased employment by approximately two-fold overall, but enterprises that established a production base or research development base increased by nine-fold.”

While attracting production bases and research development bases with large economic effects, Kanagawa and Yokohama City’s policy is to increase the impact on the local economy by guiding new investments of foreign-capital enterprises into secondary investments and supporting the business developments of enterprises within the prefecture and city.

(Hirotaka Sagisaka)

⁸ <http://www.city.yokohama.lg.jp/keizai/yuchi/download/pdf/koyou.pdf>

Attracting the Aircraft Industry with the Joint Factory Method (Niigata City)

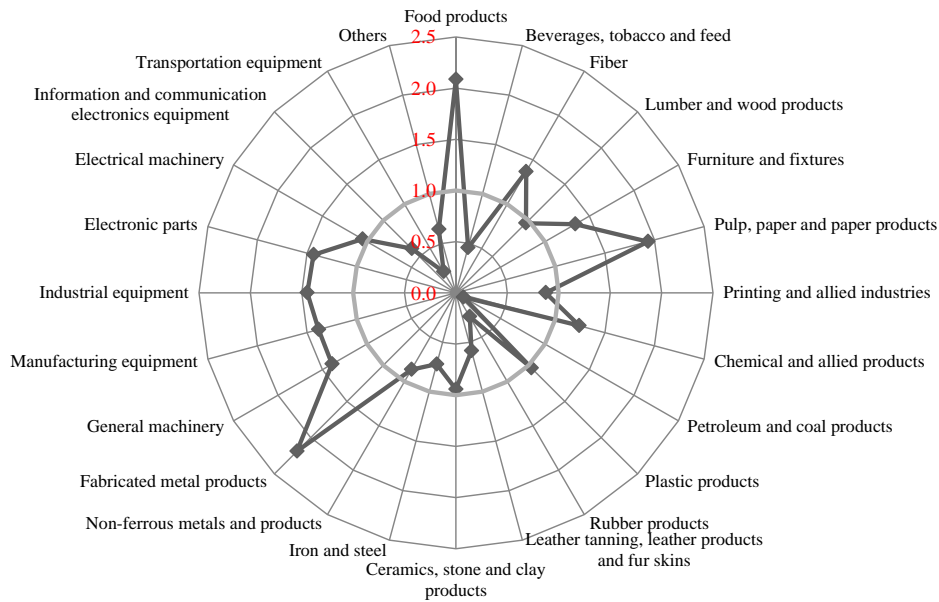
The aircraft industry shows promise as one of Japan's growing industries. By utilizing the high-level metal processing technology of enterprises in the city, Niigata city is positioning the aircraft industry as the region's next-generation competitive industry and supporting the attraction of related enterprises and the entry of local enterprises into the aircraft industry. The city's efforts were successful and the nation's first joint-style factory for aircraft engine parts began operating in Niigata city. Allowing integrated manufacturing, the joint factory is a revolutionary change in the structure of the production process.

<The keywords are "technological competitiveness" and "high potential">

In March 2009, based on the Industrial Location Promotion Act (put into effect in 2007), the engineering and metal industry (i.e. aircrafts and automobiles), the integrated and high-level IT-system industry, the food and bio-based industry, and industries that will lead to the revitalization of the port were designated as key industries and the advancement of local industries was promoted. Strong efforts have especially been made towards the development of the aircraft industry with a focus on manufacturing engine parts.

The first reason for this is technological competitiveness. As the origin of the domestic oil industry, engineering and metal industries derived from oil drilling have accumulated in Niigata. This can also be confirmed from the "Coefficient of Production Value by Industry" (note) (see Figure 1). For the manufacturing of aircraft engine parts, metals like titanium are fabricated into complex forms, so high-level metal processing technology is necessary.

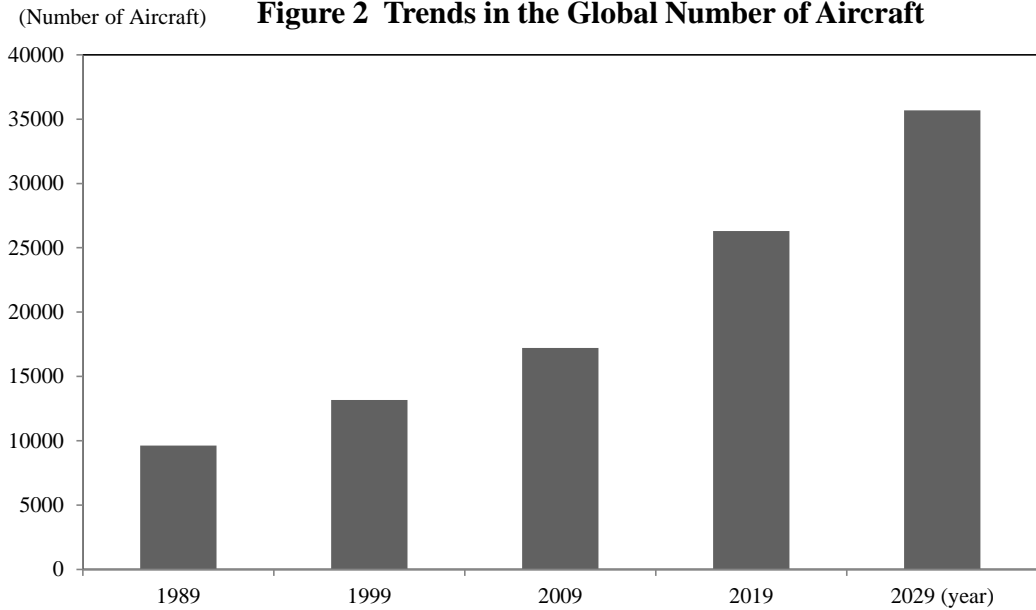
Figure 1: Coefficient of Production Value by Industry for Niigata (FY2010)



(Source) Created based on the Ministry of Economy, Trade and Industry' Census of Manufacturers

The second reason is the high potential of this industry. It is projected that the global number of aircraft will double in the next 20 years (see Figure 2).

Figure 2 Trends in the Global Number of Aircraft



(Note 1) Only commercial aircraft are included.

(Note 2) 2019 and 2029 are projections.

(Source) Created based on the 2011 Survey on Commercial Air Transport (Japan Aircraft Development Corporation)

<Niigata city takes the initiative in forming a local consortium>

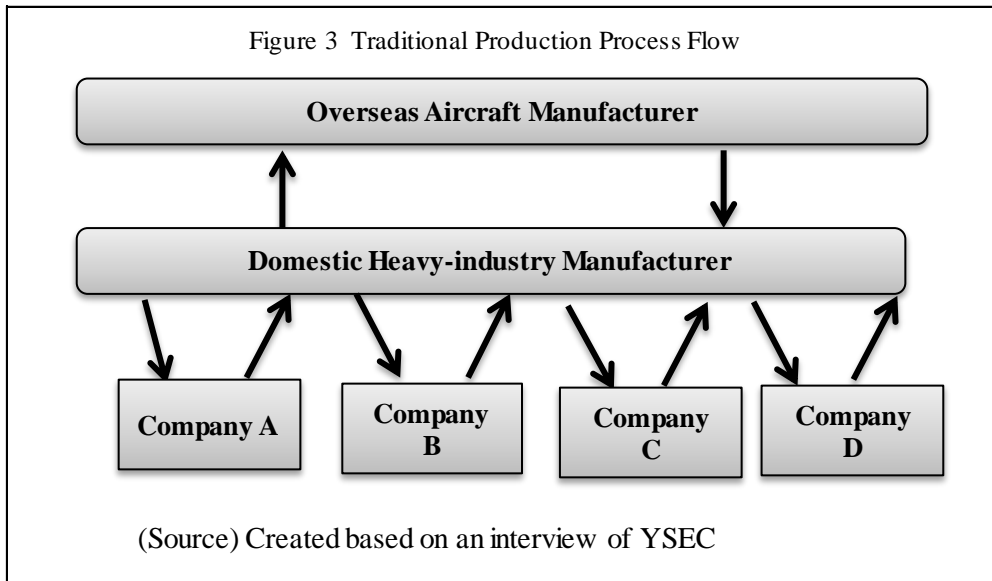
In an effort to develop the aircraft industry and attract related enterprises, Niigata City established the “NIIGATA SKY PROJECT”, a local consortium, on May 21, 2012 (33 participating enterprises inside and outside the prefecture as of July 31, 2013). This consortium has facilitated the attraction of aircraft related enterprises and the entry of local enterprises into the aircraft industry, as well as the development of markets for businesses established in the area.

Niigata City has also prepared various subsidies for related enterprises located in the city, such as the subsidy for land acquisition (subsidy for 30% of land acquisition costs), the subsidy for the promotion of building factories and facilities (subsidy equivalent to the fixed assets tax and business office tax on assets for 5 years), etc. A subsidy to support obtaining the international certification (JISQ9100, Nadcap) necessary to enter into the aircraft industry was also been established (April 2011). With regards to market development, enterprises participating in this consortium continuously entered air shows held in Farnborough, UK and Paris, France for the purpose of researching the overseas markets and publicity of the technological capabilities of enterprises located in the city. Furthermore, research was also conducted on Niigata Airport, as not only a passenger facility, but also from the perspective of the aircraft industry’s development and utilization.

These efforts were successful in giving birth to a joint-factory project, where multiple enterprises participate in manufacturing aircraft engine parts at one factory.

Niigata City was especially aiming to attract a joint-style factory for aircraft parts through these efforts.

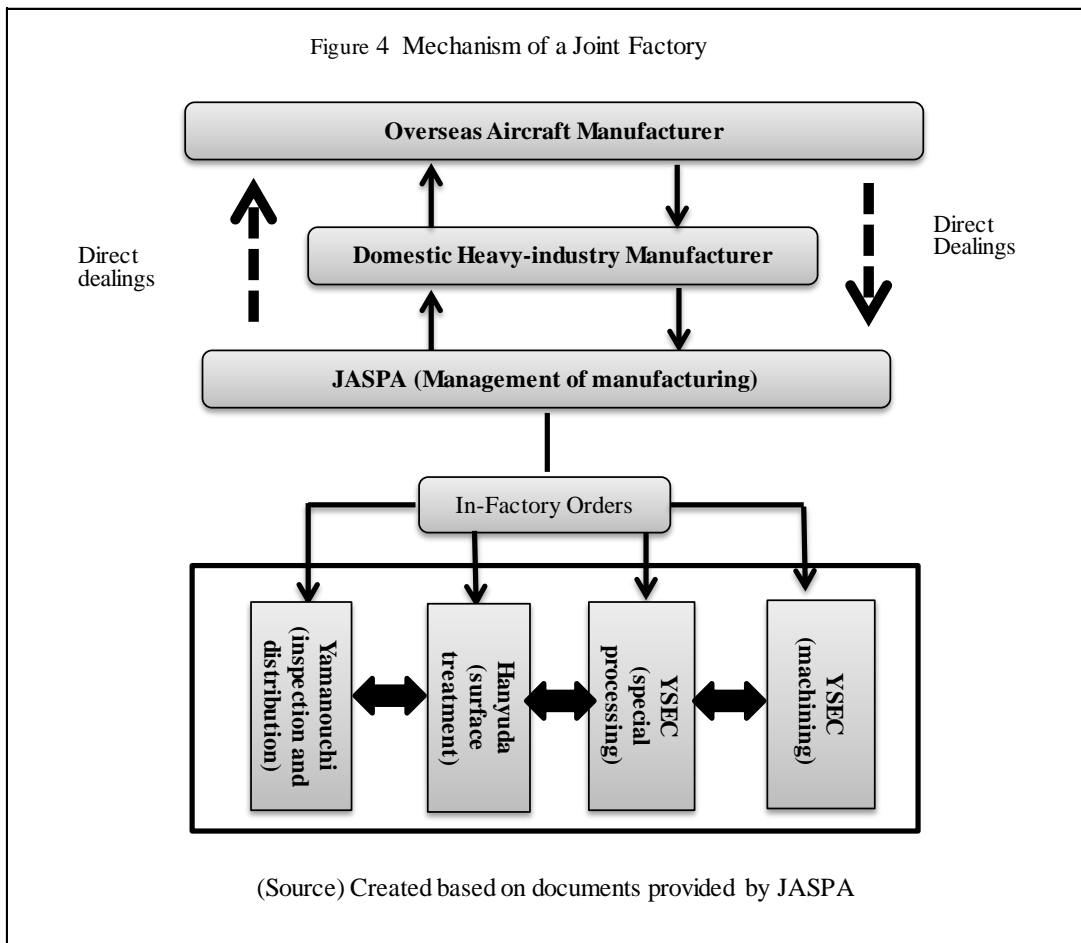
Traditionally, aircraft parts were manufactured through the back and forth between domestic heavy industry manufacturers and suppliers in charge of each process (see Figure 3). However, in order to cut costs and simplify the inspection process, there has been a growing need in recent years to manage the process unified in one factory and make delivery.



Financial institutions also responded to Niigata City’s active attitude. Three financial institutions, including the Daishi Bank, from inside and outside the prefecture granted a total of ¥900 million in financing. Ultimately, the nation’s first joint-style unified manufacturing factory for jet engine parts was attracted to the Urushiyama industrial complex in Nishikan-ku, Niigata City (construction started February 2013 and operations are scheduled to start in January 2014).

<Establishment of a joint order-intake system allowing for unified manufacturing>

At this joint factory, order intake and production management is conducted by JASPA, (head office: Yokohama City) a manufacturer, distributor and consultant of aircraft parts; machine and special processing by YSEC (head office: Yokohama City), a processor of aircraft parts and engine parts; surface treatment by Hanyuda (head office: Nagano City), a manufacturer of pressure equipment; and inspection and distribution by Yamanouchi (head office: Yokohama City), a manufacturer of aircraft parts (see Figure 4). YSEC participated in this joint factory project because in a joint-style that allows for close monitoring of the process progress level and the status of quality control, small and medium enterprises can realize unified manufacturing and module manufacturing, which are the needs of domestic heavy industry manufacturers.



<Aiming for competitiveness without being located near major heavy industry manufacturers>

In saving distribution costs and time required for procurement (lead-time), it has been considered advantageous in the aircraft industry to manufacture in areas near the major heavy industry manufacturers; however, there are no major heavy industry manufacturers located in Niigata City. Niigata City hopes that while calling attention to the fact that the joint factory-style is better than geographic proximity to the major heavy industry manufacturers, this will also lead to the success of the second and third joint factory projects currently being developed.

(Note) This coefficient of specialization is a barometer indicating which industry is emphasized in the industrial structure when compared nationally. If the coefficient is greater than 1, that industry is emphasized, and the greater the number, the stronger the emphasis. The coefficient of specialization is calculated by dividing the ratio of the industry’s production value in the region by the one of the industry’s national production value. Figure 1 shows that compared to the rest of the nation, Niigata puts emphasis on the engineering and metal industry.

(Yuki Ishibashi)

Cultivating a System Matching the Needs of Enterprises (Chiba City)

Twenty-seven factories from a wide range of industries were established in Chiba in 2012. Chiba City, in particular, has been steadily increasing the number of enterprises establishing locations by enhancing their “subsidy program”. Focusing on “following up on enterprises that have established locations”, the staff in charge proactively visits these enterprises.

<Thoroughly “customer-oriented”>

According to the Ministry of Economy, Trade and Industry’s Survey of Factory Location Trends, the number of factories established in Chiba in 2012 was 27, ranking 17th in the nation (see table below). Seventy percent of those factories were established in industrial complexes (the national average is 37%). They range widely from the food and chemical industries to metal products and electricity.

Number and Area of Factories Established in Chiba (Cases, Hectares)

2008		2009		2010		2011		2012	
Cases	Area	Cases	Area	Cases	Area	Cases	Area	Cases	Area
48	75	19	17	21	12	22	26	27	55

(Source) Ministry of Economy, Trade and Industry

“2012 (January to December) Survey of Factory Location Trends (flash report)”

As an ordinance-designated city, Chiba City significantly expanded the subsidy system since 2012 (for details, see the Chiba City website⁹). With the motto of “from big companies to many companies”, a wide range of areas and industries were made eligible for subsidies. Also, the “employment promotion system” and “financing system to promote enterprise establishment” were created, and with regard to the “financing system for establishment”, proactive publicity activities were conducted towards bank staff in the city.

The system was developed after thorough research on the establishment subsidy systems for city governments nationwide, especially in the Tokyo area, while being conscious of creating “a system better than that of other cities”. Also, efforts were made to understand the needs of the “customer (enterprise)” and to develop a “customer-oriented” system. As a result of these enhancements to the system, the number of enterprises located in Chiba City is significantly increasing. The total of 34 locations established from FY1998 to FY2011, was successfully increased by over 10 locations in FY2012 alone.

Foreign-capital enterprises, such as “QVC Japan (video and ecommerce retailer)”, are located in Chiba City. This city was chosen for its proximity to Narita Airport and Makuhari International School.

⁹ <http://www.city.chiba.jp/keizainosei/keizai/sangyo/kigyousho.html#a001>

<Placing emphasis on “generous follow-ups of established enterprises”>

Chiba City also conducts generous follow-ups of established enterprises. The Chiba City official in charge of attracting enterprises explains, “Chiba City aims to attract as many enterprises as possible. Finishing procedures is not the end.” By installing a person-in-charge system, the person-in-charge proactively visit enterprises and make efforts to build tangible relationships.

The Chiba City official explains the city’s appeal as “semi-urban, semi-rural”. While cities compete to attract enterprises, Chiba City’s advantages are: (a) the low business costs that can be observed from being located in the Tokyo area, but requiring low initial investment costs; (b) the ease of employing high-quality staff; (c) the good location with its proximity to Narita Airport and consumer regions; etc. To promote these points, the “Seminar on Establishing a Business Location in Chiba City”¹⁰ was conducted in Tokyo with the Chiba City Mayor Toshihito Kumagai as a speaker, in March 2013. Additionally, Chiba City continues to advertise its advantages through proactive publicity activities, such as creating a promotional video on establishing businesses in Chiba (viewable on smartphones).

(Akiko Tomita, Atsuko Okada)

¹⁰ http://www.city.chiba.jp/keizainosei/keizai/sangyo/kigyoricchi_seminor2012.html

Efforts by Local Governments to Promote the Establishment of Enterprises

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