

Efforts by Local Governments to
Promote the Establishment of
Enterprises
(FY2014 Version)

March 2015

Overseas Research Department
Japan External Trade Organization (JETRO)

Introduction

The establishment of new enterprises by domestic companies or through foreign direct investment is expected to maintain and expand employment opportunities and lead to the creation of industries that wield a major influence on the overall economy, which can lead to revitalization of the regional economy. Local governments throughout Japan are implementing a variety of proactive measures aimed to promote the establishment of enterprises, including marketing their advantageous location for business in terms of robust transportation infrastructure or access to low cost human resources, and offering generous subsidies and tax incentives. Many local governments are also developing a more attractive business environment by loosening regulations with the advent of Japan's National Strategic Special Zones and special zones for reconstruction. This report describes the latest trends in efforts being made by local government, including industrial policies and what is being done to attract enterprises.

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Thank you for your cooperation

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Sapporo's Strength of a Business Environment with Excellent Business Continuity— Moving Forward with Business Infrastructure Development Including Extension of the Shinkansen—(Sapporo City)

In recent years a large number of IT companies have established a presence in Sapporo. The city has also garnered attention as an ideal site for a corporate headquarters and back offices in terms of business continuity because of its excellent urban infrastructure and low cost of doing business. The city's transportation and logistics infrastructure is expected to be developed still further in the future with the planned extension of the Hokkaido Shinkansen. Sapporo's advantages and initiatives to attract enterprises will be examined below based on a series of interviews conducted in the city.

<Increasing Role as a Transportation and Logistics Hub>

Sapporo offers a great location in terms of both transportation and logistics. By train it takes 36 minutes to reach JR Sapporo Station from New Chitose Airport on the Rapid Airport and as of June 2014 there were a total of 64 flights being operated to New Chitose Airport from Haneda Airport (Tokyo International Airport). Furthermore, Sapporo is also located relatively close to major hubs Muroran Port and Tomakomai Port. Sapporo Freight Terminal Station has the largest railway freight throughput in all of Japan and container cars can arrive in Tokyo by the next day.

There are some groups lobbying for completion of the extension project (of the Hokkaido Shinkansen(bullet train) from Shin-Hakodate Hokuto to Sapporo) in order to start functioning by the end of FY2030, five years prior to the proposed schedule.

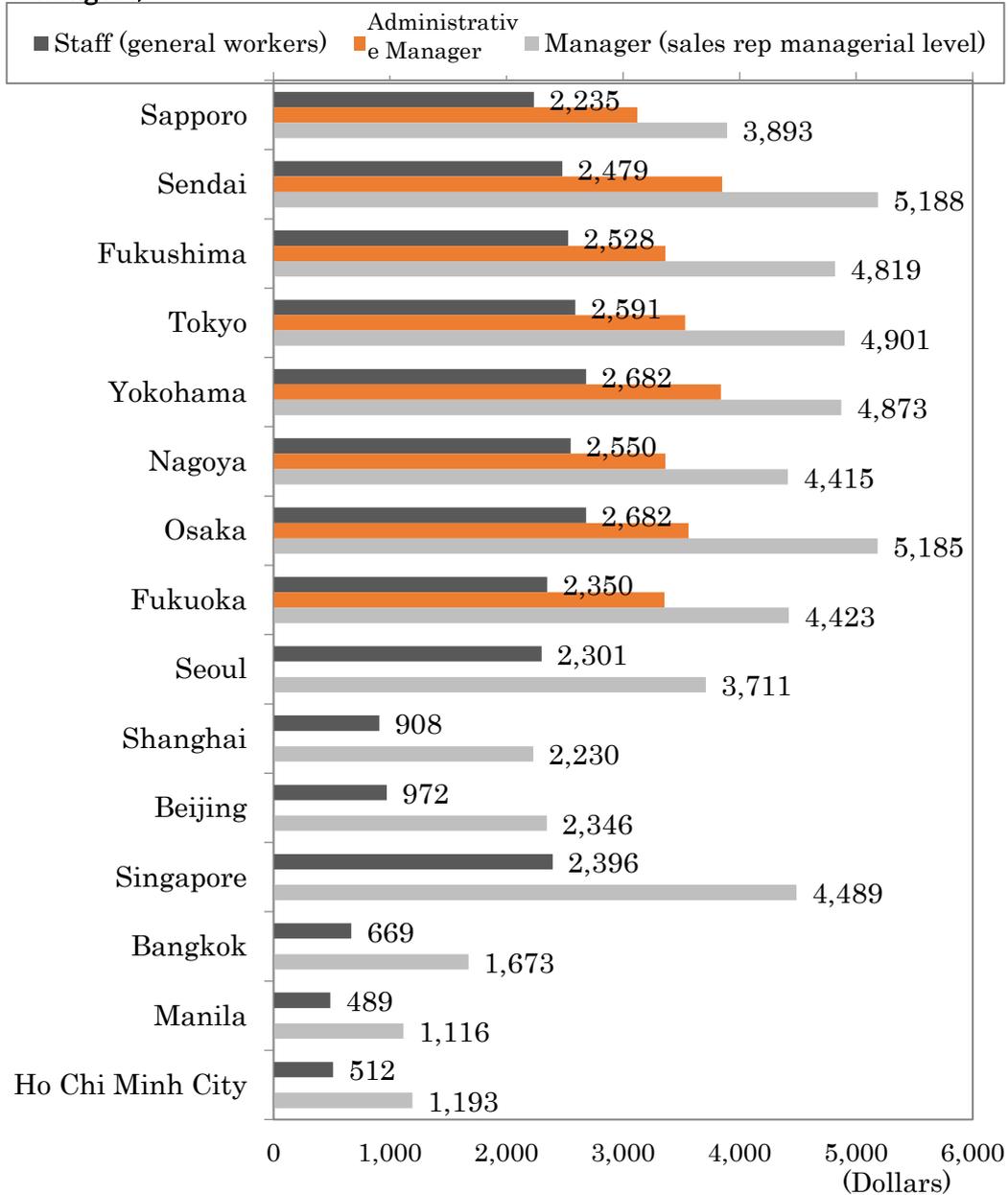
The Bullet Train Promotion Office was established within the Transportation Policy Bureau of the Department of Policy Planning and Coordination (Hokkaido Prefectural Government). They estimated that the increased nonresident population and expanded consumption from the extension of the train will cause an annual economic impact of approximate 90 billion yen on the entire prefecture. This indicates that Sapporo's role as a transportation and logistics hub will continue to grow in the future.

Another major attraction of Sapporo is its population density. Among the city's 1.91 million population (approximately 35% of Hokkaido's total population in 2010), the labor force is about 930,000 people. The Greater Sapporo Metro Area, which includes Otaru City, Ishikari City and so on, has 2.5 million people and the labor force of 1.19 million.

Moreover, there are 25 universities, including Hokkaido University, and 9 junior colleges centered in the Greater Sapporo Metro Area. These universities facilitate companies to find good talents in all fields of education including IT.

According to the 24th Comparative Survey of Investment-Related Costs conducted by JETRO in May 2014, focusing on 33 Major Cities/Regions in Asia and Oceania which includes 8 cities of Japan, Sapporo's non-manufacturing labor costs were 13.3% lower than Singapore, 20.6% lower than Tokyo, and even lower than Sendai and Fukushima (see Figure below).

Labor Cost Comparison of Non-Manufacturing Industries between Major Cities in Japan and Asia (monthly base-pay of non-manufacturing staff and managers)



(Source) Prepared based on JETRO's *24th Comparative Survey of Investment-Related Costs in Major Cities/Regions in Asia and Oceania (May 2014)*

Office rents for Sapporo's downtown core were also the lowest among major cities in Japan (8,315 yen per 3.3 square meters as of September 1, 2012; Sapporo Business Location Guidebook), which is only around one-third of Tokyo's Marunouchi area (which is one of the most important commercial area between the Imperial palace and Tokyo Station).

Sapporo's cooler climate also reduces air conditioning costs, so locating a factory that produces heat from the manufacturing process, a facility that requires refrigeration or freezing, or a data center with high heat emitting equipment stands to save a great deal of energy. Another advantageous aspect of Sapporo is that it has relatively fewer natural disasters.

<Focal Point of Hokkaido's IT Industry>

Given these advantages, The number of IT related enterprises have been agglomerated there since 2000. Many venture IT enterprises have been founded in Sapporo, including Crypton Future Media, Inc. (founded in July 1995), which developed Hatsune Miku (a software that makes it possible to create synthesized music simply by entering a melody and lyrics). Net sales of IT related enterprises in Sapporo during FY2012 grew to 400 billion yen, or 1.5 times that of FY2000, making it one of Sapporo's primary industries. Sapporo's Atsubetsu Ward has Sapporo Techno Park, a hub for IT enterprises. As of May 2014, approximately 35 enterprises had an office located on the 26.8-hectare campus. According to the *Hokkaido IT Report* published by the Hokkaido Information and Communication Technology Association, enterprises at the Sapporo Techno Park account for about 12% of the net sales of Hokkaido's entire IT industry, becoming a major driver behind the IT industry in the prefecture.

<27,000 Jobs Created Following Efforts to Attract Call Centers and Back Office Operations>

The City of Sapporo is actively engaged in attracting enterprises. The city has four persons in charge in its Investment Promotion Division under the Industry Promotion Department fall under the Economic Affairs Bureau. They work together with the city's Tokyo Office (staff of three) to attract enterprises. The city's personnel in charge follow-up with activities as the central contact point, from review of the Greater Sapporo Metro Area as potential location to setting up business after a site has been decided. This all but ensures a relationship of trust of formed with enterprises. Specifically, these personnel in charge can provide a broad range of support services, from information gathering to enterprise efforts for business expansion, including recruiting through a collaboration with Hello Work, making of a map of industrial sites (includes the 20 industrial parks in the city and unutilized private-sector land), referrals of optimal sites and office locations, support hiring personnel (joint enterprise briefings and referrals to educational institutes), and support opening up sales channels.

One of the city's focus areas of attracting enterprises is the service industry such as call centers and back office operations. Sapporo began attracting call centers in FY2000 (the Call Center/Back Office Promotion Subsidy was first established in FY2004) and has focused on promoting those call centers and back office operations of companies reviewing their business continuity plan. As of January 2014, a total of 60 companies had opened a call center or back office in Sapporo that have generated 27,000 jobs (note 1).

The keen focus is on inquiry related to call centers, instead of sales and marketing purposes, in order to increase employment opportunities for women. The city also offers follow-up and skills development training for the employees of established enterprises, which helps to improve the educational environment.

As a consequence of those above mentioned initiatives taken in last ten years, after the Great East Japan Earthquake in 2011, the number of call centers and back offices have increased in Sapporo with a BCP(Business Continuity Planning) perspective as this city had relatively less natural disasters in the past compared to other cities.

In November 2013, AXA Life Insurance (headquarters: Minato Ward, Tokyo) announced that it would relocate part of its head office to Sapporo and establish a Sapporo Head Office, with the goal of reinforcing its business continuity structure given its experience with the Great East Japan Earthquake.

In addition to call centers, the City of Sapporo is also looking to attract various other industries as well, including IT, contents, biotechnology and foods. It has established four types of subsidy programs (note 2), which are beginning to bear fruit (see Table).

Usage of the Sapporo City Enterprise Promotion

Subsidy Program

(Unit: Number of subsidies awarded)

FY	Call Center/Back Office		IT/Contents/Biotech		Manufacturing		Future Creation		Total		
	New	Add-on	New	Add-on	New	Add-on	New	Add-on	New	Add-on	Total
2008	4	0	8	—	—	—	—	—	12	0	12
2009	3	0	1	—	0	0	—	—	4	0	4
2010	4	1	2	—	0	4	—	—	6	5	11
2011	5	3	4	—	1	0	—	—	10	3	13
2012	9	5	6	—	3	2	0	1	18	8	26
2013	3	1	8	—	3	6	0	0	14	7	21

(Note) All are Japanese enterprises

(Source) Prepared based on interviews with the City of Sapporo's Industry

Promotion Department, Economic Affairs Bureau

<Marketing its Attractiveness as a Destination for Enterprises>

The City of Sapporo has cited food, tourism, the environment, healthcare and welfare as key components of its industrial promotion vision for FY2011 to FY2020, and it plans to engage in industrial promotion that utilizes the attractiveness of its regional resources and labor pool. In FY2013 the city hosted seminars in the Tokyo Metropolitan Area on food and biotechnology and had booths at Hi Japan/S-tec Japan and Interphex Japan, a specialty trade show for the health and beauty industry, in order to promote its industry and market the attractiveness of the Greater Sapporo Metro Area's continually growing biotechnology clusters and Hokkaido's more than 200% food self sufficiency rate. Through these events, the city worked to create business opportunities for food companies and pharmaceutical manufacturers.

Utilizing the Sapporo Contents Special Zone, designated a regional revitalization comprehensive special zone in December 2011, the city plans on holding business matching programs to jump start enterprise attraction efforts. Through booths at international business matching events, the city has also announced it will promote joint international production and joint international distribution of video contents locally utilizing Sapporo and Hokkaido's attractiveness as a film shoot location.

These efforts are expected to develop and utilize the advantages of Sapporo in the future as a potential hub for enterprises not only from Japan, but companies from overseas as well.

Sapporo is also expected to play a leading role as a central city of Hokkaido in the internationalization of the prefecture

(Note 1) Please see “The new main new businesses/enterprises setting up operations” on the City of Sapporo’s website.

(Note 2)

The City of Sapporo has the (1) Call Center/Back Office Promotion Subsidy, (2) IT/Contents/Biotechnology Promotion Subsidy, (3) Sapporo City Manufacturing Industry Promotion Subsidy, and (4) Greater Sapporo Area Future Development Industry Promotion Subsidy. (3) and (4) above have been merged into the Greater Sapporo Area Investment Promotion Subsidy since FY2014. View the City of Sapporo’s website for additional information about its initiatives to attract enterprises.

(Kenji Marusaki)

Aiming to Create Employment by Utilizing the Experiences of the Great East Japan Earthquake —Miyagi Prefecture and Sendai City— (Sendai City, Miyagi Prefecture)

Miyagi Prefecture and the City of Sendai have been marketing their business environment, including easy accessibility to the Greater Tokyo Metropolitan Area, advanced research institutions, talented workforce, and cost competitiveness, as well as their advantageous location as a site for risk diversification because of plans to become a disaster mitigation city capitalizing on their experiences from the Great East Japan Earthquake, in an effort to attract Japanese and foreign-capital enterprises. Both are also offering a host of attractive incentives, such as tax incentives as part of earthquake reconstruction assistance and other subsidies for new enterprises and employment creation. The City of Sendai is focusing in particular on attracting enterprises from urban-type service industries. Interviews were held with the personnel in charge of attracting enterprises at Miyagi Prefecture and the City of Sendai. (October 30)

<Marketing itself as a Site for Risk Diversification/Back-up Offices>

Miyagi Prefecture's business environment offers quick and easy access in as little as 90 minutes from Tokyo to Sendai on the Shinkansen (bullet train), while the area has a high concentration of talent and innovative research institutions starting with Tohoku University. Another advantage is its cost competitiveness achieved by means of lower office rents and labor costs than the Greater Tokyo Metropolitan Area. Sendai also has a comfortable climate that is cool in the summer and has little snowfall in the winter.

In addition to these positive traits, following the Great East Japan Earthquake Miyagi Prefecture has developed disaster prevention and mitigation measures using its experiences and lessons learned from the disaster, while the City of Sendai has come up with a strong vision for itself as a disaster mitigation city to market its impressive progress in rebuilding downtown infrastructure in a quick fashion. Given the heightened awareness of risk management among enterprises in the wake of the earthquake and tsunami, Sendai is looking to market itself both in Japan and internationally as an ideal location for risk diversification or back-up offices. In 2012, Sendai was recognized as a role model city by the UNISDR as part of its initiatives to encourage disaster reduction planning around the world and Sendai is set to host the UN World Conference on Disaster Risk Reduction in March 2015.

<Encouraging Investment with a Strong Lineup of Incentives>

In addition to its business environment strengths, Miyagi Prefecture and local governments throughout the prefecture have prepared a diverse array of incentive programs to attract enterprises.

For example, the City of Sendai is attempting to build industry clusters (see Table 1) by offering the Enterprise Promotion Subsidy, which refunds an amount equivalent to the fixed asset tax on new facilities, add-on facilities or relocations over a period of three to five years for the manufacturing industry, R&D facilities, special call centers (Note 1), back offices (Note 2), high performance logistics facilities (Note 3), data center/software companies, creative industries and wide-area customer attraction industries (Note 4). Of particular interest is that this subsidy applies to land or building rentals and equipment leases, which matches with the needs of foreign-capital enterprises that are not necessarily proactive in terms of holding plant, property & equipment given their inclination to achieve profitability quickly and from the standpoint of risk measures.

Table 1 Outline of the Enterprise Promotion Subsidy offered by the City of Sendai

Target sectors	(1) Manufacturing business sites (factories) (2) Facilities intended for research and development within manufacturing and information communication (3) Specific call centers/back offices and high performance logistics facilities (4) Data center/software companies (5) Creative industries (6) Wide-area customer attraction industries	
Details of subsidy (conditional)	(1) New (building and/or equipment leases eligible)	100% of the fixed asset tax for new investments for a period of 3 to 5 years (no ceiling on the amount)
	(2) Add-on or relocation to city (leases eligible)	90% of the fixed asset tax for new investments (70% in case of manufacturing) for a period of 3 to 5 years (no ceiling on the amount)
	(3) Facility upgrades (only manufacturing)	80% of the fixed asset tax for new investments for a period of 1 year (ceiling set at 10 million yen)

	(4) Employment additions	<p>The following additional subsidy is provided once for the applicable period above:</p> <ul style="list-style-type: none"> • 600,000 yen per permanent employee who is newly hired or transferred (only newly hired permanent employees for specific call center/back office and high performance logistics facilities) (no ceiling on the amount) • 100,000 yen for every other employee newly hired (only for specific call center/back office and high performance logistics facilities) (ceiling set at 50 million yen)
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(Source) Prepared based on documents from the City of Sendai.

<Early Movers Focused on BCP Measures Too>

Prudential Life Insurance Co., Ltd. used the Enterprise Promotion Subsidy to approximately 10 years ago to expand to Sendai. The company's Executive Officer Naoko Washizu and General Administration Team Leader Akihiro Enoki were asked about the company's experience.

They explained that Sendai had been viewed for some time as a potential location to house their head office functions in case of a disaster. In August 2005 Prudential set up its Dryden Customer Center inside the Izumi Park Town Soft Park located in Izumi Ward, Sendai. The site was established as a second corporate head office and was equipped with all of the company's back-office operations for underwriting insurance policies and customer response functions.

Ms. Washizu noted that the deciding factor behind the move was the company's BCP measures (Note 5) as well as the young and talented workforce in Sendai from across the Tohoku region, ease access to its head office in Tokyo, and the prefecture and city's proactive marketing efforts, and that the company is still very satisfied with its experience even today some 10 years later. Currently, the site employs 260 permanent employees and 100 temporary staffers, with about 80% to 90% hired locally. "With many schools in the prefecture, the diverse nature of those who applied to work here matched well with our corporate culture that emphasizes diversity," says Ms. Washizu. There are also many people that return from Tokyo or neighboring prefectures in search of work, too,

so another positive for the city and prefecture is that human resources that once left the area have been returning with new skills. The city and prefecture is steadily being revitalized through the continuous creation of employment opportunities and participation in social contribution activities.

<Overlapping Incentives>

Enterprises that set up offices within Miyagi Prefecture are eligible to receive not only the Miyagi Enterprise Incentive from Miyagi Prefecture, but also the Corporate Income Tax Incentive for Private Sector Investment Promotion Special Zones or Enterprise Promotion Subsidy for Creating Employment Opportunities in Tsunami Hit Areas or Areas Effected by the Nuclear Accident, which are part of the national government's reconstruction assistance initiatives (see Tables 2 through 4).

Table 2 Miyagi Business Establishment Subsidy

Target sectors	<ul style="list-style-type: none"> (1) Manufacturing industry factories (2) Research laboratories for manufacturing (3) Distribution/logistics facilities for ground freight transport, warehousing, packaging, wholesaling, or retailing (limited to store-less retailing)
Details of the subsidy	<p>A subsidy based on the fixed asset amount and number of new employees hired is given to enterprises that establish new or add-on to factories located in Miyagi Prefecture.</p> <ul style="list-style-type: none"> ○Fixed asset amount (buildings and depreciating assets, excluding land) of more than 100 million yen ○At least 3 new employees must be hired for the new factory or add-on (limited to persons who have no set employment period) <ul style="list-style-type: none"> (1) New factory/lab: Up to 10% of subsidy to a ceiling of 6 billion yen (2) Add-on to factory/lab: Up to 5% of subsidy to a ceiling of 500 million yen (3) New/add-on for logistics facility: Up to 3% of subsidy to a ceiling of 300 million yen

(Source) Prepared based on documents from Miyagi Prefecture.

Table 3 Private Sector Investment Promotion Special Zone Program (Tax Incentives)

Target enterprises	Enterprises that employ victims by establishing a new location or adding on to an existing location that contributes to local employment in Revitalization Industry Cluster Areas (385 areas in 34 municipalities in manufacturing and 78 areas in 17 municipalities for information services) designated within Miyagi Prefecture based on the national Special Zone for Reconstruction Act
Target sectors	<p><Manufacturing> Automotive related, clean energy, ship related, food related, medical/healthcare related, aerospace related, advanced electronics, timber related</p> <p><Information services> Software, information processing/provision services, Internet services, call centers, BPO offices, data centers, design and development related, digital contents related</p>
Outline	<p>Corporate income tax (national tax) incentives (select between 1 through 3)</p> <p>(1) In case of new investments in buildings, special depreciation of 25% of corporate income tax amount or 8% of tax amount in form of deduction. In case of new investments in equipment or machinery, immediate depreciation of corporate income tax amount or 15% of tax amount in form of deduction.</p> <p>(2) For labor costs of newly hired victims, 10% of corporate income tax amount in form of deduction (however, ceiling set at 20% of corporate income tax amount)</p> <p>(3) In case of newly establishing enterprise in industry cluster, tax exempt for a period of 5 years after designation</p> <p>(4) For development/research facilities that acquire depreciable assets for development/research, immediate depreciation and 12% of corporate income tax amount in form of deduction</p> <p>Exempt from local taxes</p> <p>Exempt from local taxes including corporate business tax as well as real estate acquisition tax, fixed asset tax, and urban planning tax</p>

(Source) Prepared based on documents from Miyagi Prefecture.

Table 4 Enterprise Promotion Subsidy for Creating Employment Opportunities in Tsunami Hit Areas or Areas Affected by the Nuclear Accident

Target enterprises	Enterprises that establish a new or add on to an existing factory, logistics/distribution facility, testing and research facility, call center or data center within the 15 municipalities in the prefecture that suffered extensive damage in the tsunami
Target facilities	Factories, logistics/distribution facilities, testing and research facilities, call centers, data centers or similar facilities
Outline	A subsidy in the form of one-third for major enterprises and one half for small and medium enterprises of the initial investment of a new factory (land acquisition costs, land preparation costs, building acquisition costs, equipment costs) based on the fixed asset amount and number of employees hired locally

(Source) Prepared based on documents from Miyagi Prefecture.

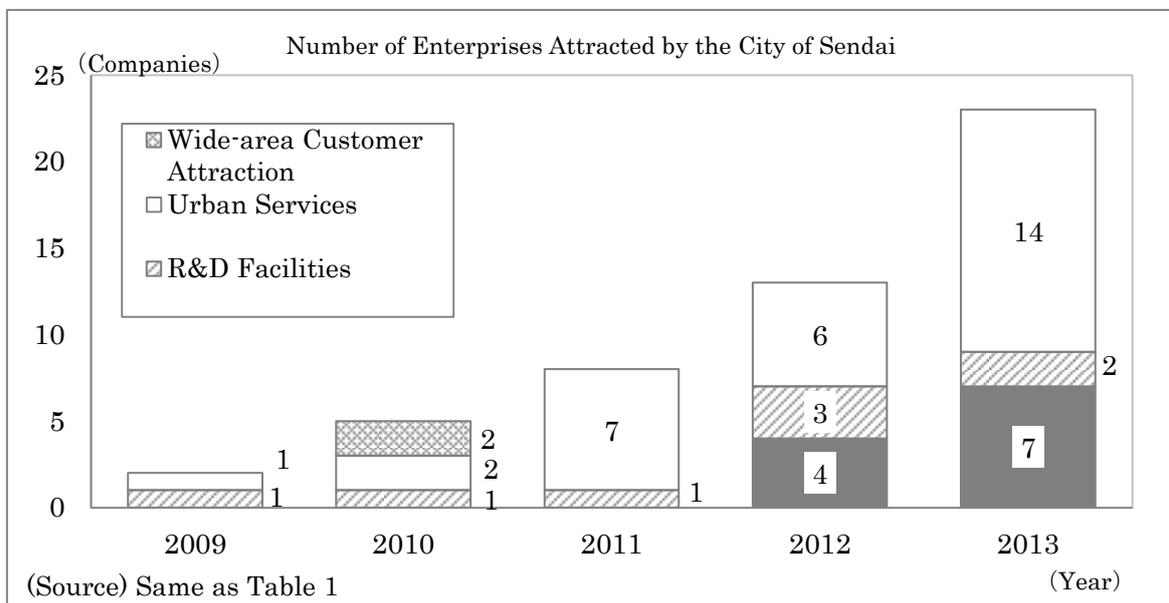
These incentive programs can be used together with the enterprise promotion subsidies offered by the prefecture and city. For example, an enterprise using the aforementioned Enterprise Promotion Subsidy offered by the City of Sendai can extend the period of the subsidy from three years to five years if it is a designated business under the special zones for reconstruction program. A major strength of this area is access to a wide range of enterprise assistance measures aimed at quickly rebuilding and restoring the area following the earthquake and tsunami. “We hope to continue our efforts to attract enterprises using these strengths than no one else in Japan can offer,” says a person in charge with the International Economic Affairs and Exchange Section of the Commerce, Industry and Tourism Department within Miyagi Prefectural Government.

<Anticipated Employment Effects from Attracting Urban-centric Service Industry Enterprises>

The City of Sendai is focusing efforts on attracting urban-centric industries with high added value, such as IT industries, R&D-centric industries, back offices, and enterprises that operate call centers or customer support centers that respond to customer inquiries, such as the Dryden Customer Center operated by Prudential mentioned above. According to a person in charge with the Sendai’s Enterprise Location Section, Industrial Policy Department, Economic Affairs Bureau, in the case of Sendai, given the fact it is difficult attract large processing or assembly type manufacturing industries because of site availability and land prices, efforts are being focused, together with its Tokyo Office, instead on marketing the city’s advantages, such as its excellent transportation

infrastructure, talented workforce, comfortable living environment, while also offering generous incentives. Enterprises also find Sendai's workforce supply as the largest city in Tohoku and its easy access from Tokyo to be very attractive points.

Viewing the results of the City of Sendai's efforts to attract enterprises shows that the number of enterprises attracted in the urban-centric service industry has risen sharply since 2011 (see Figure). Foreign-capital enterprises include the call centers or back offices of deal-of-the-day website Groupon Japan (United States) in 2011, Amazon Japan (United States) in 2012, and ACE Insurance (Switzerland) in 2013. The city expects that these enterprises will eventually lead to the creation of more than 1,000 jobs.



Both Miyagi Prefecture and the City of Sendai are planning to continue with efforts to attract investments from both Japan and internationally, by continuing to share information on their business environment and identifying new targets, after each has created plans for reconstruction that also utilize the incentives related to the Great East Japan Earthquake.

(Note 1) A business office where specialist operators respond to customer inquiries and provide various customer services at one location using computers and other equipment with telecommunication lines, Private Branch Exchanger (PBX), Interactive Voice Response (IVR) systems, and Call Management Systems (CMS).

(Note 2) A business office that provides added value to companies mainly outside the prefecture by utilizing information technology to process data or carry out administrative operations for an enterprise's personnel, general administration or accounting divisions.

(Note 3) A business office that employs more than 200 people and centrally carries out the sorting, storage, and management of mainly merchandise at a facility that contributes to directly providing customers with merchandise or services.

(Note 4) A business office that belongs to category 802 (performances, theatrical companies) or category 805 (public gardens and amusement parks) under Living-related and Personal Services, or sub-category 8213 (museums and art museums) or sub-category 8214 (zoological gardens, botanical gardens and aquarium) under Education, Learning Support of Japan Standard Industrial Classification.

(Note 5) An acronym for Business Continuity Plan. This action plan formulates ways to ensure the continuity of business operations during an unforeseen disaster or emergency.

(Momoko Sugiyama)

Fukushima Prefecture Accelerates to Enhance its Positive Business Environment

—Aiming for New Job Creation and Industrial Revitalization— (Fukushima Prefecture)

Fukushima Prefecture boasts the largest shipment value of manufactured goods in the Tohoku region. Thanks to enterprises that recognize its excellent business environment, including well developed transportation and distribution network and rich base of human resources, manufacturing industry clusters were established in the region. After the earthquake and tsunami, Fukushima Prefecture has established generous support mechanisms for enterprises, centered on subsidies for enterprises, in an effort to not only rebuild, but also generate new employment and promote an industrial revival. Public infrastructure is being rebuilt at a fast pace, which is fast developing a business environment that rivals the one prior to the disaster. We interviewed officials in charge of attracting enterprises at the prefectural government.

<Attracting Foreign-capital Enterprises with its Transportation Network and Low Labor Costs>

Fukushima Prefecture has a well-developed transportation and distribution network that includes expressways and the Shinkansen and it is located extremely close to the Tokyo metropolitan area. Furthermore, the cost of industrial land and wages are both lower than the Tokyo metropolitan area and it has the largest population of high school students in vocational or technical programs within north of the Kitakanto area. Not only do large amounts of local people seek employment within the prefecture, but its employee retention rate is the highest in Japan, making its rich human resources appealing to enterprises.

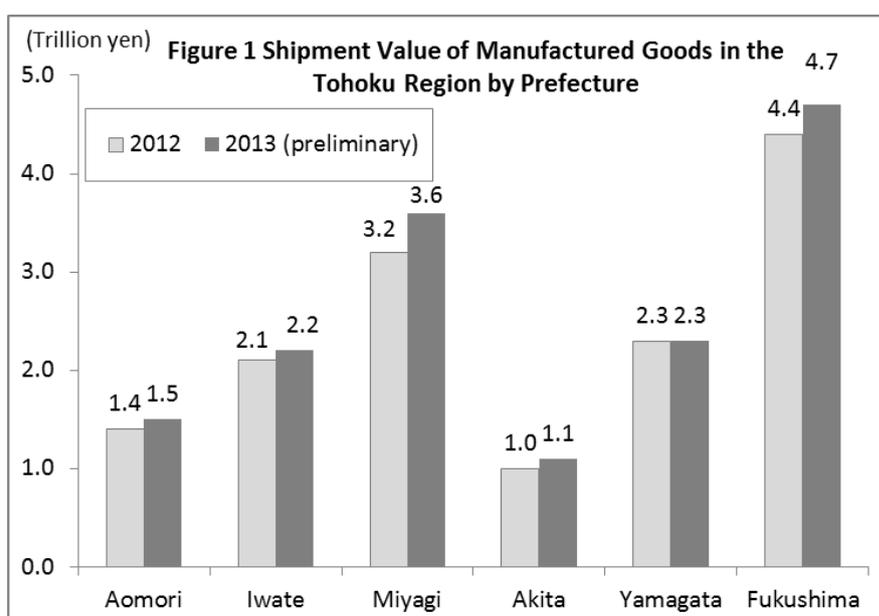
Recognizing these advantages, multinational foreign-capital companies were among the first to set up business sites within Fukushima Prefecture. In 1972, Johnson and Johnson of the United States began operating in Sukagawa City to import, manufacture and market consumer health products. Later, pharmaceutical and chemical company Merck of Germany (Iwaki City) and Becton, Dickinson and Company of the United States, a manufacturer of reagents for bacteria testing, each began production in the prefecture in 1984 and 1987, respectively. Following this trend, production sites were set up by Rohm and Haas Japan (Soma City), an electronic materials manufacturer and subsidiary of Dow Chemical, in 1993 and by Novo Nordisk Pharma (Koriyama City), a pharmaceutical company from Denmark, in 1998.

Novo Nordisk Pharma, which opened an office in Atsugi City in Kanagawa Prefecture in 1984 relocated its production site to Koriyama City in 1998. Asked why the company

decided to relocate its factory to Koriyama, the company noted that the city's convenient access to transportation was a deciding factor, as was the fact that the climate resembled its head office in Denmark. Specifically, expressways like the Ban-etsu and Tohoku were attractive that it could build a distribution network that compared favorably if it were operating in the Tokyo metropolitan area. Although the city lacks the size of Sendai as a commercial sphere, the fact that Koriyama is located close to the Tokyo metropolitan area and the city provided proactive assistance gave the final push. The company's factory currently supplies about 50% of the insulin preparations used throughout Japan.

<Tops in Tohoku for Shipment Value of Manufactured Goods>

In addition to foreign-capital enterprises, Fukushima Prefecture has made steady progress in building industry clusters by attracting domestic manufacturing enterprises. The culmination of these efforts came in 2013 when Fukushima Prefecture ranked in as having the largest shipment value of manufactured goods (Note) of the six prefectures in the Tohoku region, accounting for a 30% share of the entire Tohoku region (see Figure 1). In particular, Fukushima Prefecture has focused proactively on creating and developing industry clusters for transportation equipment, semiconductors, and medical/welfare devices, and as a result, it now ranks fourth in Japan for production value of medical devices and its production value of contract production for medical devices has topped domestically since 2011.



Note: Compiled with data from business sites with more than 10 employees.

Source: "Industrial Statistics Survey", Ministry of Economy, Trade and Industry

<Sharp Increase in the Number of Factories Attracted with Post-Disaster Business Location Subsidies>

The Plan for Revitalization in Fukushima Prefecture drawn up after the disaster contains measures to utilize these manufacturing industry clusters for not only for reconstruction, but also to create a more favorable business environment for manufacturing.

One of these measures, the Fukushima Industrial Revitalization and Business Location Subsidy, established in 2012 as an earthquake reconstruction support measure (see Table), supports enterprises from inside and outside the prefecture to set up new enterprises or new or expanded factories inside the prefecture as a means to generate new employment and accelerate reconstruction following the disaster. The applicable enterprises and subsidy ceiling differs depending on the timing of the open recruitment, but it mainly targets manufacturing and the subsidy provided to applicable individual enterprises had a ceiling of 20 billion yen in FY2012, the first year, and 3 billion yen in 2014. Fukushima Prefecture had selected a total of 414 enterprises to receive assistance from the first open offering in May 2012 to the sixth in July 2014.

Outline of the Fukushima Industry Revitalization and Business Location Subsidy

	Requirements (Note 1)
Target sectors	(1) Manufacturing: transportation equipment, semiconductors, medical/welfare devices, renewable energy, agriculture-commerce-industry and other related sectors (2) Sectors from industry clusters in the Act on the Promotion of Establishment of Enterprises (Note 2) that establish manufacturing base or research lab (3) Sectors that establish a logistics/distribution facility for their own use (4) Call centers, data centers or similar sectors

Target businesses and target costs	Costs associated with installing machinery and equipment (excluding upgrades or replacements) at the following facilities incurred by enterprises from targeted sectors (1) Factory (facilities used for manufacturing) (2) Logistics/distribution facility (warehouse or fulfillment center constructed for own use) (3) Testing and research facility (facility for testing or research for product development operated by a manufacturing enterprise) (4) Facility of applicable enterprise service such as call center
Condition	Fulfill the requirement for the number of newly hired local persons based on the fixed asset amount invested
Ceiling	20 billion yen (Note 3)
Subsidy ratio	Ratio determined based on location of investment and size of enterprise
Implementation period	Projects to be completed and operations must begin by March 31, 2017

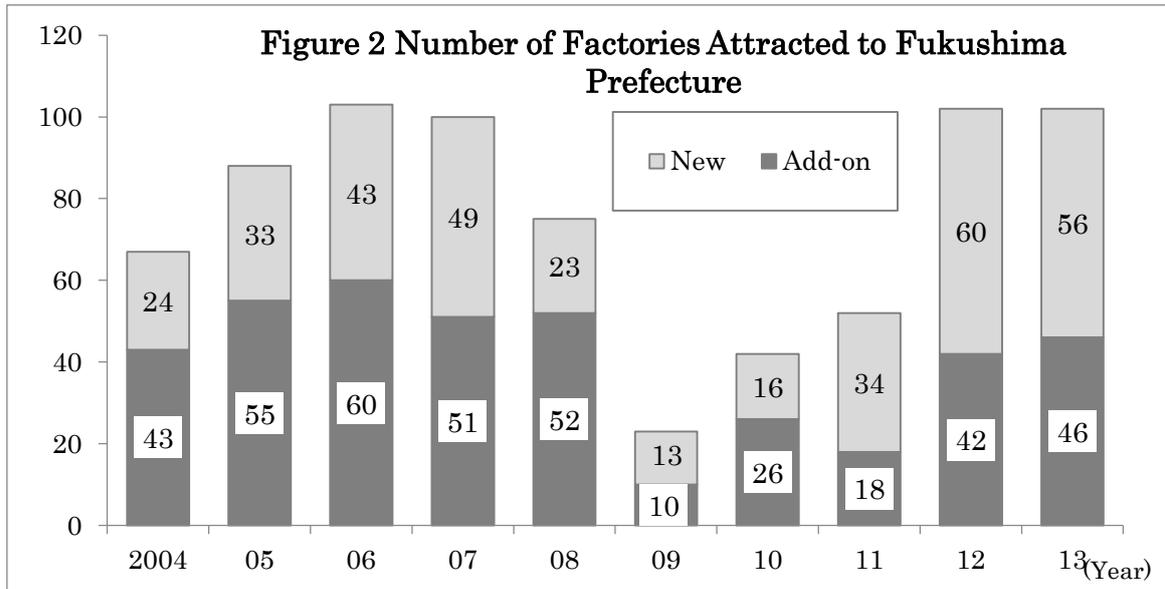
(Note 1) Differs depending on the period of open recruitment.

(Note 2) Differs depending on location.

(Note 3) The sixth open recruitment had a ceiling of 3 billion yen.

(Source) Prepared based on documents from the Investment Promotion Division, Commerce, Industry and Labor Department, Fukushima Prefecture.

A small- and medium-sized enterprise that made an investment in an Evacuation Directive Lift Prepared Area or Restricted Habitation Area is eligible to receive aid in the form of up to three quarters of its investment amount, making it the largest percentage of aid in all of Japan, while its wide scope of eligible businesses has helped to boost the number of enterprises being attracted there. The number of factories attracted to the prefecture exceeded 100 for two consecutive years from 2012 to 2013 (see Figure 2). According to the Investment Promotion Division of the Commerce, Industry and Labor Department, new or factory add-on projects using this subsidy accounted for 80% of all funds distributed in 2013. The new hiring of local residents based on the capital investment amount is a required condition to receive the subsidy. For example, an investment of less than 100 million yen in property, plant and equipment requires that at least five local residents be hired. This measure aimed at expanding employment has paid dividends, as it is believed that close to 5,000 new jobs have been created as a result.



Note: Number of reported new factories/add-ons that exceed 1,000 square meters in site area

Source: “Status of Factory Locations in FY2013”, Investment Promotion Division, Commerce, Industry and Labor Department, Fukushima Prefecture

An example of an enterprise that utilized this subsidy is FUJIFILM Finechemicals Co., Ltd., which is aiming to open a new factory in Hirono Town by 2016. The company has had operations in Hirono Town, which is located next to an Evacuation Zone, since 1990. The company’s second plant that was about to be completed in the town was damaged during the earthquake, but it was later completed and commenced operations in April 2012. Hirono Town itself was designated as an Emergency Evacuation Preparation Zone immediately after the earthquake, but currently this distinction has been removed and it has restored the same business climate as before the disaster. For this subsidy, the town is situated in an area eligible to receive the highest payout ratio, so this particular project is effectively utilizing a business environment that differs between communities.

In addition to this subsidy, there are a number of other support measures in place, including tax breaks through the Fukushima Special Zones for Industry Revitalization and the national government’s Business Location Subsidy for Creating Employment Opportunities in Areas Affected by Tsunami and the Nuclear Accident, which is intended to attract enterprises and assist with job creation. No distinction is drawn between enterprises inside or outside the prefecture, so enterprises can qualify for more than one

as long as they meet the requirements. This illustrates that a generous support system for rebuilding enterprises and for restarting/continuing business operations are set.

<Steady Rebuilding Should Improve the Business Environment Compared to Pre-Earthquake Level>

“Three years have passed since the earthquake, and yet there are still many foreign enterprises whose awareness of the situation on the progress with reconstruction is starkly different than reality,” notes an official in charge of the investment promotion of Industry and Labor Department (Fukushima Prefecture). This suggests there are still managers from foreign enterprises who will remove the area from a candidate list just by hearing the name Fukushima

In actuality, however, the business environment has improved steadily through progress with decontamination, with the lone exception of the Exclusion Zone. There are some areas where transportation access will be even better than the pre-earthquake level from strategic road development and other public infrastructure projects taking place. In addition, enterprises stand to gain tremendously from the public assistance programs put in place by the national and local governments that are even more generous than prior to the disaster. Fukushima Prefecture is working to share actual information about the advantages of its business environment and unique situation of each community, while also aiming to accelerate the restoration effort.

(Note) Shipment value of manufactured goods + Shipment value of waste and garbage generated from the manufacturing process + Processing fee income + Other income (resale income or repair fee income, etc.)

(Misako Ito)

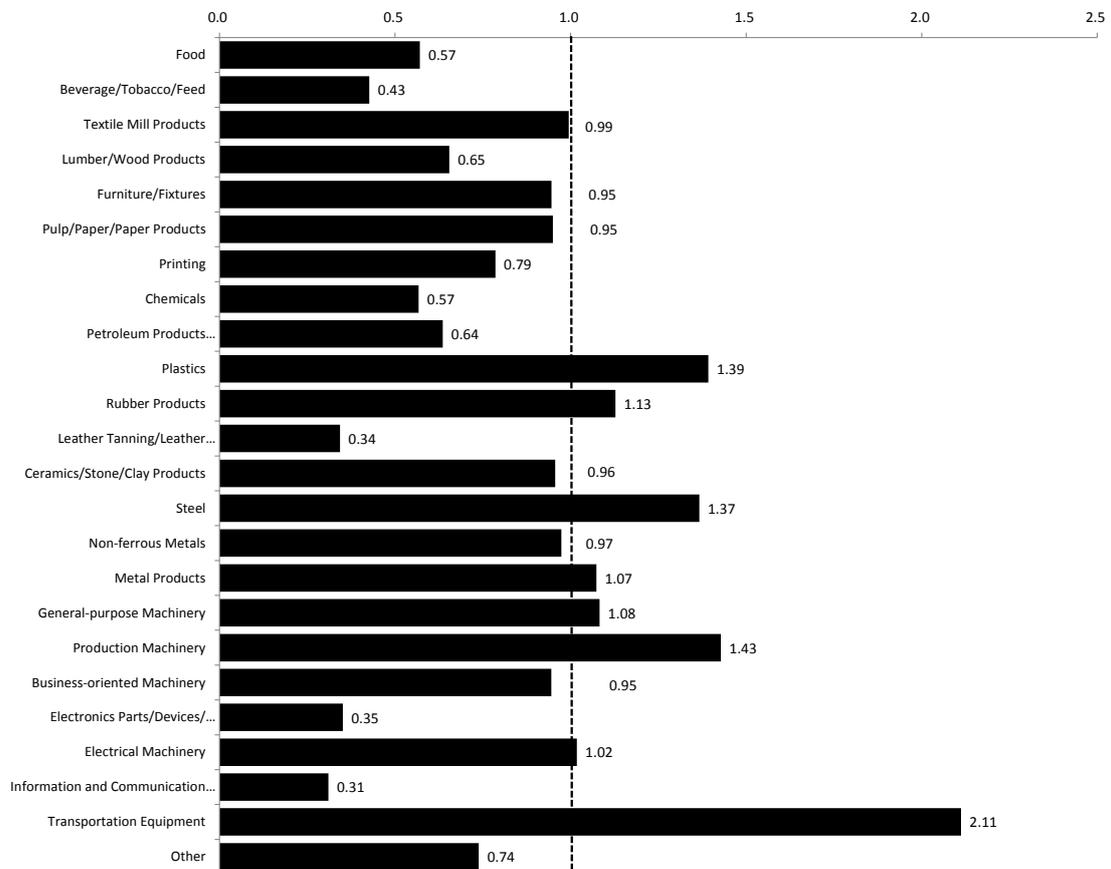
Aichi Prefecture's Approaches to Attracting Enterprises with Subsidies for Hi-tech Fields (Aichi Prefecture)

The subsidy founded by Aichi Prefecture in 2012 that serves to attract large factories and research & development and proving tests in hi-tech fields has become a strong incentive for foreign-capital enterprises to move into the prefecture and for local enterprises to re-invest in the prefecture. The prefectural government and companies that newly established factories or other facilities in the prefecture were asked about the details and appeal of Aichi Prefecture's measures to attract enterprises.

<A major production center in Japan >

People tend to think of Aichi Prefecture as a major production center for automobiles, but in actuality it has one of Japan's most renowned industry clusters with a balanced portfolio that includes other manufacturing sectors. When viewing the coefficient of specialization for the number of business offices by industry in 2012 targeting business offices with more than 4 employees in Aichi Prefecture, the value for eight sectors, including transportation equipment, production machinery, plastics, and steel, exceeded 1, indicating the high concentration (see Figure 1). Next, in terms of shipment value of manufactured goods (Note), among 24 industry sectors Aichi Prefecture is No.1 in Japan for 9 of them, including transportation equipment, business equipment, steelmaking, rubber products, and plastics. Furthermore, the prefecture's labor productivity is quite high, too, as it beat out the other top five prefectures in shipment value of manufactured goods in 2012 in terms of labor productivity (see Figure 2).

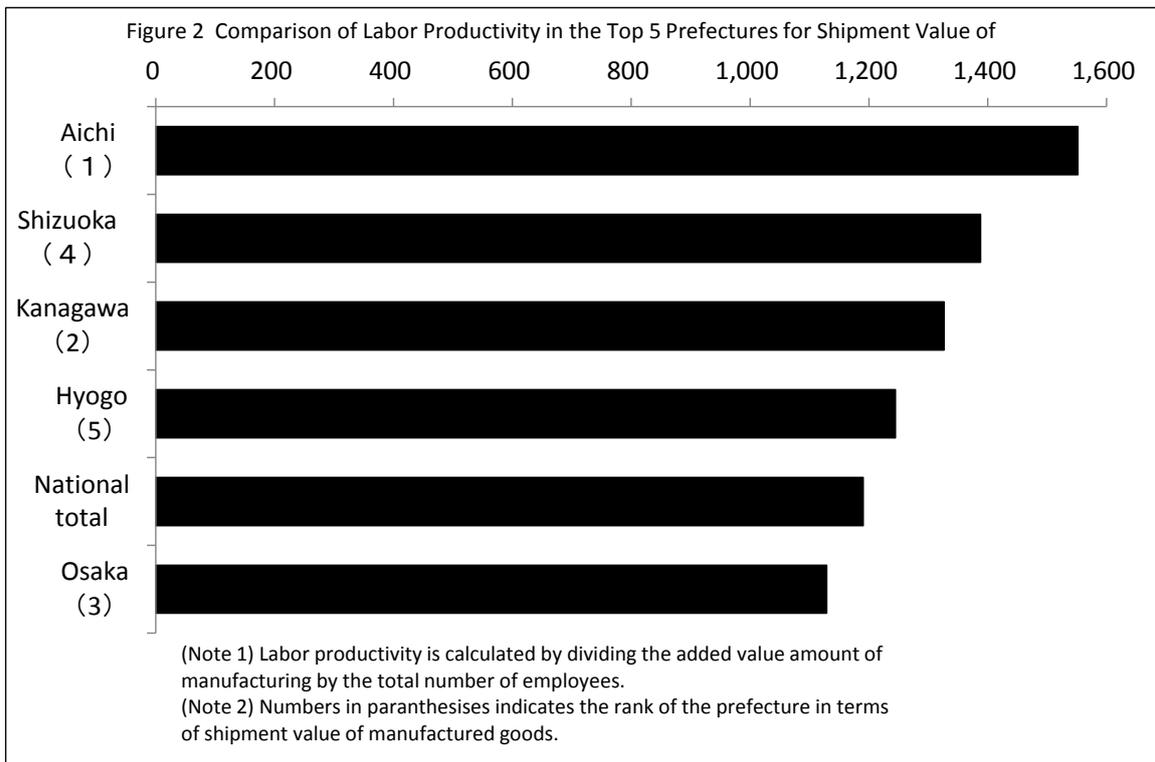
Figure 1 Coefficient of Specialization for the Number of Business Offices with More Than 4 Employees in Aichi Prefecture (2012)



(Note) (1) If the coefficient of specialization is greater than 1, this indicates that the industry has a greater concentration than other locations in Japan.

The coefficient of specialization was calculated by dividing the percentage of business sites from each industry in Aichi Prefecture versus all manufacturing business sites in Aichi Prefecture by the same percentage of each industry for all of Japan.

(Source) Prepared based on the Ministry of Economy, Trade and Industry's *Industrial Statistics Survey*



<Expanding Assistance for Attracting Hi-tech Fields>

Aichi Prefecture is focused on attracted enterprises from hi-tech fields while also using its broad range of industry clusters.

Subsidy program to promote investments in the Cutting-Edge Sectors of the 21st Century (below, “the subsidy”) is helping to boost the prefecture’s efforts to attract enterprises. The reason why this subsidy was created is because of rising concerns about deindustrialization in the prefecture. The number of manufacturing business sites with more than four workers dropped about 30% from 2002 to 2012. In response, Aichi Prefecture established a fund called the Tax Reduction Fund to Countermeasure against Deindustrialization, which sets aside 5 billion yen, corresponding to 10% of the annual amount of corporate tax from 2012, over a three year period. The subsidy was financed by the fund. . The subsidy provides monetary assistance up to a ceiling of 10 billion yen per project (normal ceiling is 1 billion yen) covering the cost of fixed asset acquisition costs, excluding land, for investment projects involving large factories or research laboratories in hi-tech fields (aerospace, environment/new energy, and information communications, etc.). The subsidy has been awarded to nine investment projects by the prefecture up to December 2013 (see Table below)

Projects Accepted for Subsidy program to promote investments in the Cutting-Edge Sectors of the 21 Century

Recruitment	No	Enterprise	Type	Target investment	Field	Location
1st from FY2012	1	Fujiwara	SME	Manufacturing factory for structural components used on the wing of the Boeing 787	Aerospace	Kitanagoya City
	2	Nagoya Plating	SME	Carbon fiber plating fabrication factory for airplane components	Aerospace	Tokoname City
	3	Mitsubishi Electric	Large	Manufacturing factory for high speed/high capacity sequencers and key parts for drive controls	Information communications	Higashi Ward, Nagoya
2nd from FY2012	4	Ryoki Tool	SME	Manufacturing factory for lamination mold used for carbon fiber airplane components	Aerospace	Inazawa City
	5	Umicore Shokubai Japan	SME	Research lab for automotive catalytic converters	Environment/new energy	Tokoname City
	6	Denso	Large	Lab for developing power electronics for hybrid vehicle components	Environment/new energy	Anjo City
1st from FY2013	7	Sinfonia Technology	Large	Lab for smart grid systems and specialty rotary machines	Environment/new energy	Toyohashi City
	8	Nakanihon-Rokogyo	SME	Manufacturing factory for compact plasma surface hardening systems	Environment/new energy	Ama City
2nd from FY2013	9	Kawasaki Heavy	Large	Manufacturing factory for extended	Aerospace	Yatomi City

		Industrie s		components used on the fuselage of the Boeing 787		
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(Note) As of December 20, 2013

(Source) Prepared based on documents from Aichi Prefecture.

<Subsidy Boosting Interest in Enterprises Setting up Sites in Japan and Aichi Prefecture>

Interviews were held with officials from Umicore Shokubai Japan including President Hideaki Kimura and Ryoki Tool President Yasuhiro Hara, two of the companies that had adopted the subsidy.

Umicore used the subsidy to establish a new R&D site in Tokoname City, Aichi Prefecture in September 2013. Umicore Shokubai Japan was established in Tokyo's Minato Ward in June 2016 as the Japanese operating company for Umicore Shokubai, a holding company established to individually hold Nippon Shokubai and Umicore, a non-ferrous metal and chemicals manufacturer from Belgium. The company manufactures catalytic converters to Japanese automakers. Catalysts are an essential component of any vehicle nowadays because they remove any harmful substances from emissions. Umicore Shokubai Japan's project was also adopted under the Ministry of Economy, Trade and Industry's the FY2011 Subsidy Program for Projects Promoting Asian Site Location in Japan. The company considered Hyogo Prefecture, Nara Prefecture and Kanagawa Prefecture as possible sites for its new R&D site. The ultimate reason why it selected Aichi Prefecture in the end was because automakers who the company sells products to are located nearby, the subsidy can be used, and it highly appraised the stance of Aichi Prefecture in working to attract enterprises. "The subsidies of the national government and Aichi Prefecture (compared to other countries) had a high priority for investing in Japan," says the President. In April 2014, the company decided to move its head office functions from Tokyo to Tokoname City. In the future, it plans on moving its R&D site in Himeji City, Hyogo to Tokoname City. On this occasion the company is planning on building an R&D site that is about the same size.

Ryoki Tool (head office: Ichinomiya City, Aichi Prefecture) received the subsidy and constructed a new factory in Inazawa City in Aichi Prefecture (planned completion is March 2015). Ryoki Tool mainly manufactures airplane components as well as tools for aerospace and automotive parts for heavy industry. The new factory will be used to build

tools and fabricate components for the Boeing 787 and large tools for automotive applications. Ryoki Tool considered other locations as candidate sites for its new factory, but the presence of the subsidy was one reason why it decided to go with Aichi Prefecture. “Japan and Aichi Prefecture was a perfect match for production because our production of tools requires sophisticated technologies,” says company’s president.

<Regular Visits to Newly Arrived Foreign-capital Enterprises>

In this manner, Aichi Prefecture is utilizing its broad range of manufacturing industry clusters to focus on attracting enterprises from hi-tech fields for inclusion in these industry clusters. Issues related to enterprise attraction include follow-up with the enterprises and ensuring they get foothold in their new location. According to Aichi Prefecture, about one in four foreign-capital enterprises that move to the prefecture leave after only several years. A survey conducted by Aichi Prefecture targeting foreign-capital enterprises outside the prefecture found that many desired some form of business matching, such as referrals to local companies or support for participating in trade shows and business meetings. In Aichi Prefecture, an organization called I-BAC (or Aichi-Nagoya International Business Access Center), comprising Aichi Prefecture, the City of Nagoya, the Nagoya Chamber of Commerce & Industry and the Nagoya Port Authority, takes the lead in visiting foreign-capital enterprises in the prefecture and hosting networking sessions with local companies.

(Note) The total of shipment value of manufactured goods, plus processing fee income, other income, and shipment value of waste and garbage generated from the manufacturing process.

(Yuki Ishibashi)

Gaining Momentum for Industry Clustering and Infrastructure Development –Osaka's Strategy to Attract Foreign Enterprises (1) – (Osaka Prefecture)

Osaka challenges regulatory reforms to promote investments of foreign enterprises into Japan within the framework of the governmental “National Strategic Special Zones.” The reform aimed at gaining a momentum for Osaka’s initiatives to bring industry clusters and relevant infrastructure developments that have successfully attracted foreign enterprises.

<Launch of the Kansai National Strategic Special Zone>

Following the official approval of the Kansai National Strategic Special Zone (KNSSZ) in September 2014, Osaka Prefecture has made the proposal of “the Challenge Innovation Special Zone 2014”, together with Kyoto Prefecture and Hyogo Prefecture, in order to alleviate regulations that interfere with businesses for foreign enterprises. The proposal includes the following measures for the regulatory alleviation:

- (1) A tentative status of “Investment/Business Manager” for six months to prepare for their business
 - The Japanese regulation requires any representative director of enterprises to maintain an address for a seal registration and an open bank account in Japan. In the KNSSZ, foreign nationals would be able to go through the company establishment procedure regardless of its requirement. The Osaka Business and Investment Center (O-BIC) would provide such authority for foreign nationals who want to start their businesses in Japan.
- (2) The commercialization of research outcomes by foreign researchers and international students.
 - Under the current law, it is difficult for them to make economic activities outside of their permitted academic spheres such as being appointed as companies’ technical officers or establishing their own venture enterprises. Osaka prefecture expects that the realization of the proposal would lead to the promotion the attraction of skilled workers from abroad for further innovations.

<Comprehensive Special Zone Program Making Steady Progress>

A remarkable progress on business environment can be seen in Kansai’s clustered industries. Through another framework, “the Kansai Innovation International Strategy Comprehensive Zone,” (officially approved in December 2011), Osaka has focused on clustering the healthcare industry and the energy industry.

In the healthcare industry, major multinational enterprises, like Bayer (Germany) and Astra Zeneca (U.K.), have set up operations in Osaka for long. For further attraction, Japan's Pharmaceuticals and Medical Devices Agency (PMDA), which screens pharmaceuticals and medical devices and provides consultations, opened an Osaka Branch Office in October 2013. Additionally, KNSSZ framework proposes that Japanese government would permit mixed billing (Note), through which doctors could use ovarian cancer treatment drugs (used in Osaka University Hospital) and heart surgeries performed by the "da Vinci" surgical robot (National Cerebral and Cardiovascular Center).

Point Nix, a dental device manufacturer from South Korea, is one of the enterprises that decided to open a business site in Osaka where healthcare industry development is taking place. The company established local subsidiary (Point Osram) and plans on selling CT imagery systems, dental chairs and other peripheral equipment in Japan. Representative Director Kim Hyunchul explained the merit of doing the business in Osaka: "Point Nix originally had sold CT devices to the Japan market through its distributor in Osaka. However, in our industry, it is much more competitive to propose the package sale where we sell other peripheral products with CT devices. This is why we are here to sell a wider range of our products. Also, it is important to provide detailed after-sales services including maintenance in a face-to-face communication with our clients."

In the energy industry, Osaka Prefecture boasts about 50% of the market share of Japan's lithium ion battery production (2009), and exports from Osaka Prefecture account for 36.3% (745.8 mil yen) of Japan's lithium ion battery exports. Storage cells, which are the best known type of lithium ion batteries, are essential to portable devices like mobile phones. The worldwide market for lithium ion batteries is expected to reach 20 trillion yen by 2020 partly because of the growth of renewable energy and electric vehicles. Sumitomo Electric Industries is developing a redox flow battery in Osaka, which is capable of a huge volume, long life and stable battery. Furthermore, the National Institute of Technology and Evaluation (NITE) announced in July 2014 that it would construct one of the world's largest battery testing and evaluation facilities (approx. 26,400 square meters) at Osaka's Sakishima Cosmo Square district. For being operated by 2016, the facility is under construction to test performance and safety (overcharge and vibration durability) at the expense of 13.3 billion yen as total. It could contribute to the reduction of time and money which is currently needed to request safety certification through overseas a testing facility. This reduction would back up R&D among battery companies in the Kansai area. In 2012, TÜV Rheinland, a German certification company,

established the Kansai Technology Center (KTAC) in Osaka's Higashinari Ward with a receipt of the subsidy (the City of Osaka's Enterprise/University Investment Promotion Program Subsidy). It will expand its business in Osaka where provides affluent business opportunities due to the clustered energy industry.

<Osaka Is Steadily Attracting Foreign Enterprises>

The progress of the above mentioned initiatives has brought a steady increase in the number of foreign enterprises operating in Osaka. O-BIC by itself has successfully attracted 30 enterprises in FY2013 alone and cumulatively succeeded in attracting 342 enterprises from 2001 to 2013. In the energy industry, for instance, Esco Micro (a major medical devices company of Singapore), and Yingli Green Energy of China (a photovoltaic system giant) set up their branches in Osaka respectively in 2012 and 2013.

(Note) According to the Ministry of Health, Labor and Welfare, mixed billing refers to the act of using both conventional insurance and non-insured treatment, such as the use of pharmaceuticals not yet approved in Japan.

(Kyohei Yabu)

Leveraging a Vast Market and a Wealth of Human Resources

—Osaka's Strategy to Attract Foreign Enterprises (2) — (Osaka Prefecture)

The central and local governments are attracting foreign enterprises to the Kansai area by appealing its sound business environment such as a vast market and good access. Furthermore, Osaka takes the advantage of a talented workforce in Kansai area as an essence of industrial development. These advantages are resulting in the successful attraction of foreign enterprises into Osaka.

<Osaka Advocates the Advantages of the United “All Kansai” >

As a market, Osaka Prefecture had a nominal GDP of 463 billion dollars as of 2011, which is larger than Thailand (345.7 billion dollars). When we expand this scope to the Kansai area (Note 1), the nominal GDP increases to 981.0 billion dollars, which exceed both Indonesia (846.2 billion dollars) and the Netherlands (836.8 billion dollars). Additionally, the Kansai area holds more than 800 thousands enterprises and organizations, making the market attractive to set up business there.

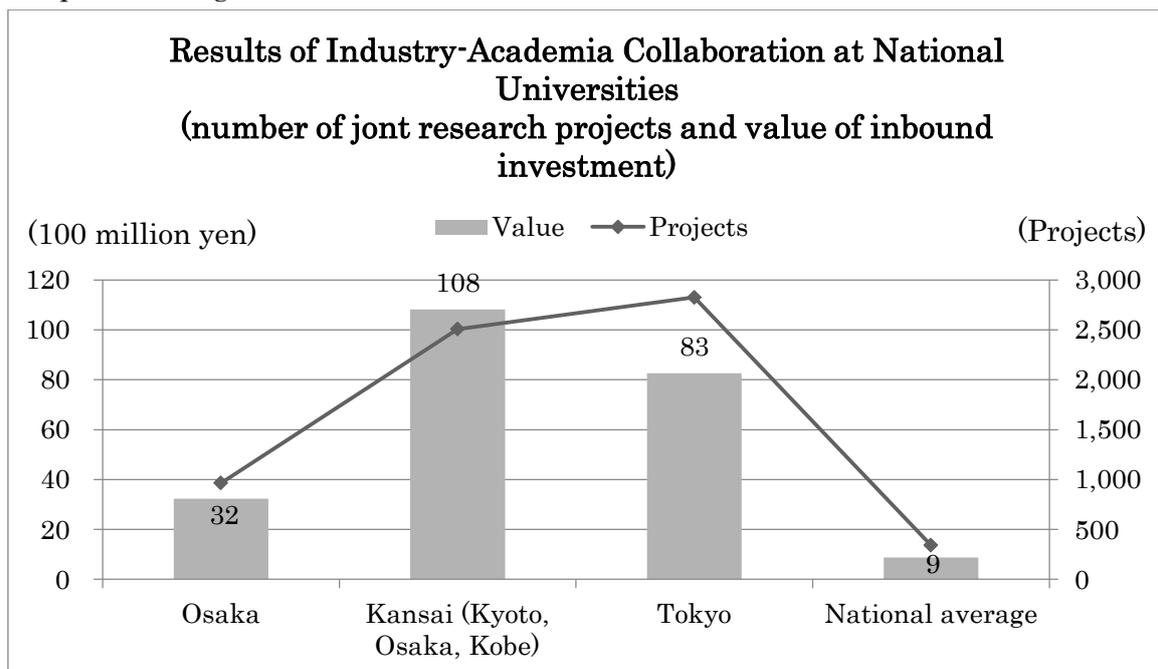
In terms of transportation, the time to access within the entire Kyoto-Osaka-Kobe area from Osaka is less than 30 minutes by train. “Business in Osaka” is geographically “Business in Kansai,” which means that any enterprises in Osaka can easily target the huge Kansai market. In the field of international access, the Kansai area is situated at the center of Japan and it has the Kansai International Airport which can function 24-hour only in Japan, providing easier access to anywhere around the world. Indeed, FedEx Corporation’s subsidiary Federal Express built its hub for FedEx North Pacific at Kansai International Airport in April 2014. The hub has a capacity to sort approximately 9,000 parcels/pieces of freight every hour, contributing to the increasing transport of electronics and medical devices between Europe, Asia and the United States.

The central and local governments are focusing on PR activities in which they appeal the attractiveness of Osaka. The Kansai Bureau of Economy, Trade and Industry (METI-KANSAI) has set up “INVEST Kansai,” where they post information such as investment subsidy provided in each prefecture and interviews for foreign enterprises in Osaka in English. METI-KANSAI is also proactive for directly promoting foreign enterprises. For instance, its officials visited the U.K. in October 2014 to showcase the comfortable business environment and effective investment incentive programs of the Kansai area to those who have interests in the Kansai area.

<The Advantage of a Talented Workforce >

For achieving the Osaka’s goal of being “international innovation hubs” and “cosmopolitan city with a talented workforce,” one of the most important issues is securing a talented workforce to underpin the development of the companies. According to a nationwide research by JETRO on foreign enterprises operating in Japan, many respondents cited that the difficulty in finding efficient human resources as a factor inhibiting investment in Japan. For overcoming this problem, Osaka can take the advantage of a large accumulation of universities and research institutions in the Kansai area with more than 500 thousands students at 131 universities. The research by Osaka prefecture reports that many enterprises in Osaka emphasized this as their motivations to make their investments there.

A number of universities and research institutions can also contribute to lively industry-academia collaborations in the Kansai area. In 2013, a total of 2,507 collaboration projects had taken place in the Kansai area between universities and enterprises, organizations. These projects are amount to inbound joint research funds exceeding 10.8 billion yen. The below figure shows that, although Kansai is inferior of Tokyo with respect to the number of projects, Kansai can prevail Tokyo on a monetary basis by about 2 billion yen. 10.8 billion yen means that 26.3% of Japan’s industry-academia collaboration projects have been carried out in the Kansai area. Osaka is now making efforts to develop a framework to welcome further collaboration. 15 universities in Osaka have established the consultation desks for new projects with companies or organizations.



< Tourism with the Great Potential >

The tourism market is fast growing as another draw of Osaka. 56.8% of total foreign visitors who visited Japan in 2013 stayed in the Kansai area, exceeding even Tokyo (47.3%). The Abe administration is also dealing with various programs for the target of 20 million visitors to Japan by 2020 using the slogan “Visit Japan.”

Shanghai’s Juneyao Airline has served Kansai International Airport since April 2014, viewing the rising number of travelers between Japan and China as a business opportunity. The airline was established with a private-sector investment and began operations in 2006. The private-capital investment into the field of airline is rare in China. Juneyao Airline already has a fleet of 41 aircraft that it uses on domestic routes in China as well as international routes such as Phuket and Chiang Mai in Thailand from Shanghai. All together it operates about 50 routes (as of February 2015). In an interview with JETRO, the airline’s Japan (Osaka) Branch Manager Dong Wei notes, “The number of passengers from Shanghai has been steadily increasing mainly due to individual (non-tour) visitors. If every person living in Shanghai and the neighboring areas travel at least once to Japan, it would form a rather vast market.” The airline plans on adding one flight to its Shanghai-Kansai route on March 29 for double daily operations. It has also applied to the Ministry of Land, Infrastructure, Transport and Tourism for permission to begin services to Haneda International Airport and Fukuoka Airport to expand operations in Japan. The number of visitors from China totaled more than one million in 2013, reaching a record of all time. A survey found that more than 80% of Chinese travelers visited the Kansai area when they came to Japan in 2013. This survey also estimated that Chinese visitors spent a combined 275.9 billion yen in 2013 while in Japan, implying that tourism can have a very large impact on Osaka’s economy.

(Note) The Kansai area in this report refers to that same area designated in the special zone: Osaka Prefecture, Kyoto Prefecture and Hyogo Prefecture.

(Kyohei Yabu)

Strength of a Positive Business Environment Near East Asia

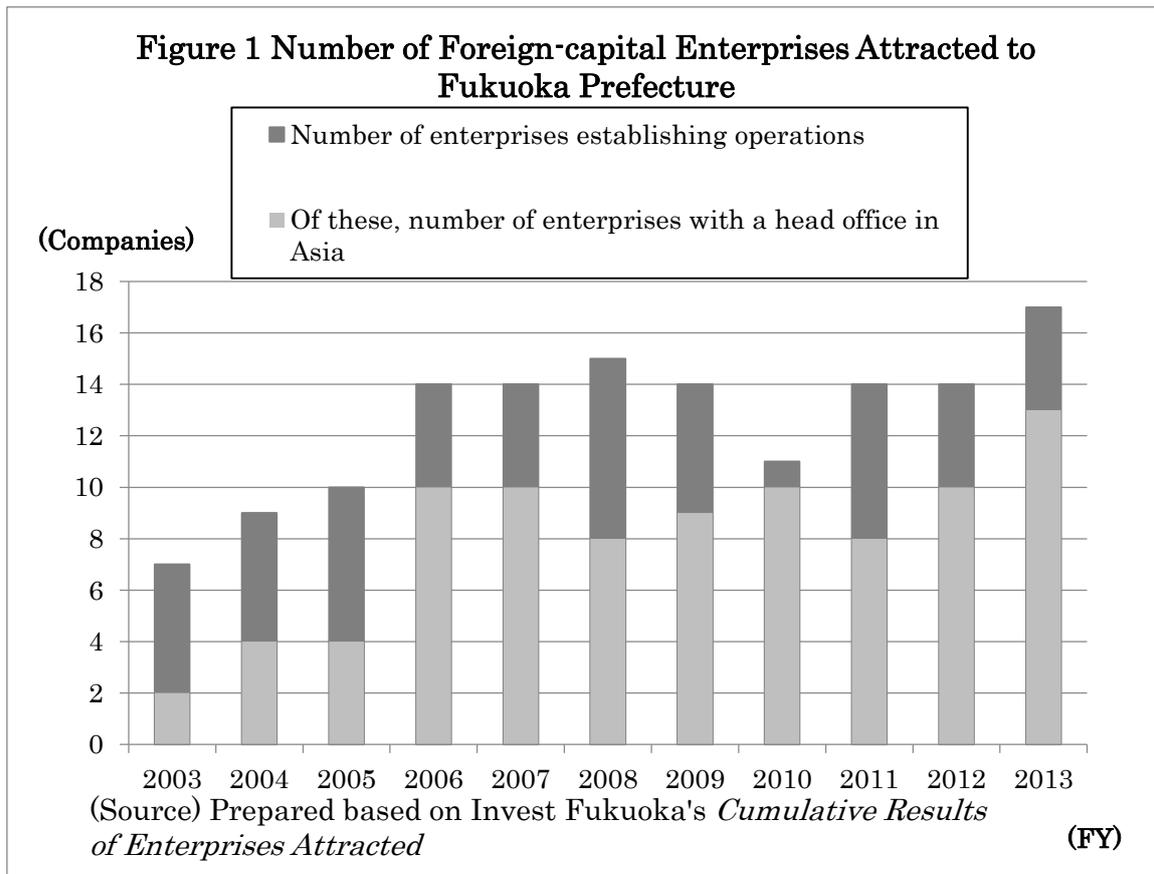
–Fukuoka's Measures to Attract Enterprises (1) – (Fukuoka Prefecture and Fukuoka City)

Fukuoka Prefecture and the City of Fukuoka have developed as a hub of the Kyushu area because of their close proximity to East Asia. Both are now actively working to attract enterprises, including foreign-capital enterprises, by utilizing their strengths that include solid transportation infrastructure and sound business environment and living environment. The following two reports will take a closer look at the advantages of this area's business environment based on interviews with local governments and foreign-capital enterprises that have established operations there.

<Rising Attractiveness as a Gateway to Asia>

Three cities from Japan were included in the world's top 25 most livable cities as announced by U.K. magazine Monocle on June 17, 2014. These included Tokyo at number two and Kyoto at number nine, followed by Fukuoka at 10, marking the first time it had reached the top 10.

Convenience was one of the reasons why Fukuoka ranked so highly. The city's downtown area, airport and seaport are all located within a 2.5 kilometer radius and can be accessed in between 10 and 20 minutes by public transportation. The city is also located in close proximity to China, South Korea and other parts of Asia. The flight time from Fukuoka Airport to Shanghai is just 90 minutes, which is the same as flying to Tokyo. Both Fukuoka Prefecture and the City of Fukuoka are actively working to attract foreign-capital enterprises mainly from Asia using this advantageous location known as a gateway to Asia. A total of 139 foreign-capital enterprises established a presence in Fukuoka Prefecture between FY2003 and FY2013. Of these 88, or 63%, were enterprises with a head office in Asia (see Figure 1).

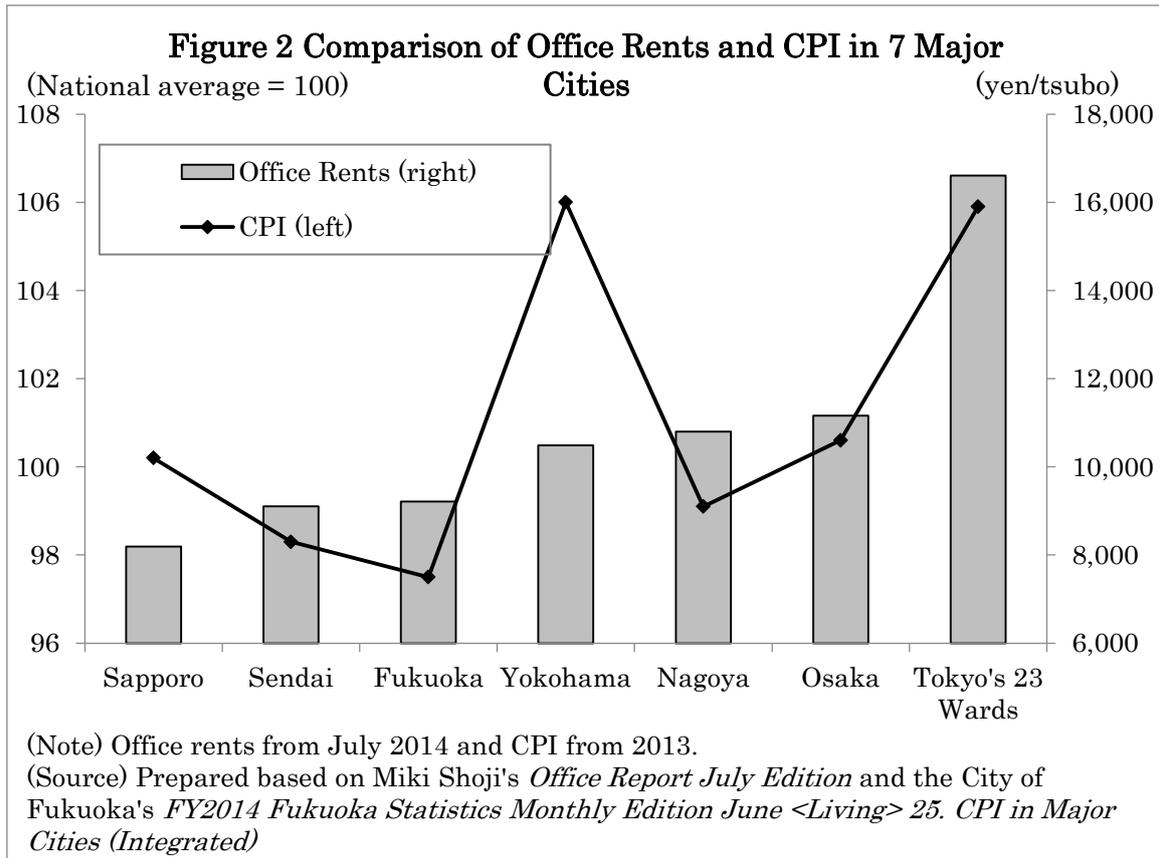


<Advantages in Transportation as well as Business and Living Environment>

In terms of transportation infrastructure, in addition to great access between the downtown core and airport/seaport, the city’s many domestic and international routes and flights can be considered another advantage. Fukuoka Airport has 21 international routes, which mainly service Asia, with 458 flights a week and 27 domestic routes with 382 flights a day (as of July 2014). The Port of Hakata, considered an international hub port, has 38 regular containership routes connecting the city with China, South Korea, Southeast Asia and North America with 206 monthly services. The ports container throughput for 2013 ranked sixth in Japan while its passenger traffic ranked first. Both Fukuoka Airport and the Port of Hakata are important platforms for the movement of people and goods both within Japan and internationally.

Fukuoka also has a great business and living environment. In terms of cost of living, it has the lowest consumer price index (with the national average set at 100) of Japan’s seven major cities (Sapporo, Sendai, Tokyo’s 23 Wards, Yokohama, Nagoya, Osaka and Fukuoka) and its office rents are about half that of Tokyo’s 23 Wards (see Figure 2). In

terms of livability, many of the city's downtown and station signage appear not only in Japanese and English, but Chinese and Korean as well. Fukuoka Prefecture's population of foreign nationals in 2013 was ninth in Japan at 56,437, with some 70% from China and South Korea (Ministry of Justice's *Statistics on Foreign Nationals Living in Japan (Formerly Statistics on the Number of Registered Foreign Nationals)*; as of December 31, 2013).



The population of many local governments in Japan has been decreasing due to Japan's aging population and declining birthrate. Fukuoka Prefecture, however, has seen an influx in population and has recorded an increase in population two consecutive years. Fukuoka City's population of 15 to 19 year olds accounted for 19.2% of the population, which is highest among ordinance-designated cities in Japan. There are also 10,779 international students living in the city, which ranks it second nationally only behind Tokyo. This means it is easy to secure young human resources and foreign nationals educated in Japan (Japan Student Services Organization "Statistics on International Students in Japan 2014").

<Cultivating Markets in Western Japan from a Hub in Fukuoka>

Foreign-capital enterprises that have established operations in Fukuoka often rave about its business environment. ZNSHINE SOLAR, a leading photovoltaic manufacturer based on China's Jiangsu Province, established ZNSHINE Solar Holdings in Fukuoka City in January 2012. The company's Representative Director Qing Su notes, "Fukuoka is globalizing. Our employees from China, me included, feel that Fukuoka is a very livable place. I feel that there are many people here who speak a different language."

As a reason why the company chose Fukuoka, he explained that its environment was a perfect match for the company's expansion plans "We were looking to gain market share in the Kyushu and Chugoku/Shikoku areas. At the time, there were only two other foreign-capital enterprises from our sector in Fukuoka, so we felt we could beat competitors to the market. The city is very close to our head office in China, so I think it was the right choice to set up our branch here."

(Ayaka Yamamoto)

Aiming to be a Global Start Up City by Taking Advantage of a National Strategic Special Zone

–Fukuoka's Measures to Attract Enterprise (2) – (Fukuoka Prefecture and Fukuoka City)

Both Fukuoka Prefecture and the City of Fukuoka are working to attract enterprises while marketing their excellent business environment as a strength, as a means to revitalize local communities through business investment. Furthermore, the City of Fukuoka is making progress with developing a business environment for creating new ventures and expanding employment opportunities, with the target of becoming “Global Start-up City”, underpinned by the recent designation as a National Strategic Special Zone. This is the second half of the report on the Fukuoka area.

<Able to Receive Multiple Incentives Simultaneously>

Fukuoka Prefecture’s relationship with other local governments around the world is also contributing to an increase in the number of foreign-capital enterprises in the prefecture. Representative Director Qing Su of ZNSHINE Solar Holdings, mentioned above in the first half, cited the friendly relationship between Fukuoka Prefecture and China’s Jiangsu Province, where its head office is located, as a reason why it decided to open its Japanese subsidiary in Fukuoka. Jiangsu Province and Fukuoka Prefecture concluded a friendship agreement in 1992. In 2003, Fukuoka Prefecture opened a representative office in Shanghai, located close to Jiangsu Province, and in 2005 Jiangsu Province opened an office in Fukuoka City. In 2009, the City of Fukuoka opened an office in Shanghai.

Representative Director Qing Su, when examining whether to enter the Japan market in conjunction with the start of its feed-in tariff system for renewable energy, first visited the Shanghai offices of Fukuoka Prefecture and the City of Fukuoka. During these visits he was informed that the company could use the Enterprise Attraction Subsidy Program offered by the City of Fukuoka. Thus, the company set up operations in Fukuoka City using this program.

Using this program, a company can receive monetary assistance equivalent to four months’ of an annual lease for buildings or mechanical facilities. Foreign-capital enterprises can also receive monetary assistance for market research and interpretation costs. On average around 10 enterprises have used this program each year over the last

several years and of these around five are foreign-capital enterprises.

Fukuoka Prefecture has also established an enterprise investment promotion subsidy program that is available for certain sectors, such as manufacturing and software (see Table). Furthermore, using the Green Asia National Strategic Comprehensive Special Zone operated by the two ordinance-designated cities Fukuoka and Kitakyushu, an enterprise can receive tax breaks, a five percent increase in the prefecture's enterprise investment promotion subsidy, and exemption from real estate acquisition taxes, making it possible to receive multiple incentives at the same time.

Examples of Incentives for Promoting the Attracting of Enterprises

	City of Fukuoka	Fukuoka Prefecture	Green Asia National Strategic Comprehensive Special Zone
Taxes	Exemption from fixed asset tax and urban planning tax	Exempt from real estate income tax	Either of the following are applied: (1) Special depreciation (2) Deduction of tax on investment (3) Income deduction
Subsidies	Land subsidy <Ownership> (Example) 30% of land acquisition cost up to 3 billion yen <Lease> (Example) 1/6 to 1/3 of building/equipment lease up to 25 million in a year	Enterprise promotion subsidy (Example) Manufacturing: 7% of capital investment up to 1 billion yen	—
Loans	Enterprise promotion fund 1.7%/year up to 280 million yen	Enterprise promotion loan 0.8%/year up to 200 million yen	Interest-bearing loan 0.7%/year up to 5 years

Other	50% of market research costs (outsourcing), various approval and registration costs, interpretation costs, and hiring costs up to 3 million yen for foreign-capital enterprises establishing an enterprise in Japan for the first time	—	Applicable regulations exist, but special measures can be considered
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(Note) Prior consultation with the consultation desk of each local government is required before these incentive programs can be used.

(Source) Prepared based on various documents

<Stepping up Reform and Assistance through Designation as a Business/Employment Creation Special Zone>

The Abe administration, as part of its Japan Revitalization Strategy, has designated areas where a regulatory reform will be carried out in a concentrated and comprehensive manner as National Strategic Special Zones, in order to strengthen industrial competitiveness internationally and assist with the formation of international economic activity hubs. As one of these, in June 2014, the City of Fukuoka was designated the Fukuoka City Business/Employment Creation Special Zone. Using this designation, the City of Fukuoka hopes to increase the business formation ratio (Note) from 6.2% in FY2013 to 13% by FY2018. It will also increase the annual number of newly hired persons from 148,000 to 200,000. The city's goal is to become "Global Start-up City" through employment reform and improved start-up assistance. To realize this goal, the city is lobbying the national government for proactive deregulation, including easing conditions on foreigners to obtain a status of residence and simplifying various legal procedures.

The Start-up Café, opened in Fukuoka City on October 11, 2014, is one of the measures aimed at promoting business and employment creation. This café functions as a venue for business creators and venture capitalists to exchange information and as a consultation desk that offers one-stop advice regarding national, prefectural and municipal procedures needed for founding or forming an enterprise. Additionally, the Employment and Labor Consultation Center was established which provides individualized consultation services for enterprises that were just created. The center fulfills a role as a hub for human

resource matching and other services as well.

In addition, the City of Fukuoka organizes various events with the goal of creating more globally active venture firms and to serve as a venue for information sharing between entrepreneurs in Japan and abroad. As part of these efforts, the city hosted the 1st Fukuoka Global Venture Awards to recognize excellent business ideas in Japan and abroad. The first round of winners was announced on October 20, 2014.

<Actively Disseminating Information about the Attractive Business Environment Overseas>

Currently, foreign-capital enterprises setting up operations in Fukuoka are mainly the secondary investments of enterprises that already have a site in Tokyo or Osaka. “The immediate issue we face is raising the visibility of Fukuoka Prefecture in order to increase new investment,” says a person in charge at Fukuoka Prefecture. The city is also aware of this issue, and so both are working hard to promote Fukuoka’s investment environment using the mayor and governor. In June 2014, the France-Kyushu (Fukuoka) Business Symposium was held in Fukuoka Prefecture where Governor Hiroshi Ogawa talked about the attractiveness of Fukuoka Prefecture with officials from the Government of France and corporate members of the French Chamber of Commerce and Industry in Japan. In May and June 2014, the City of Fukuoka held seminars and investment promotion meetings in London and Taipei. At the Invest Japan Seminar held in London Prime Minister Shinzo Abe strongly lobbied for investment in Japan and Mayor Soichiro Takashima talked about the city’s investment environment.

“With the Japan market expected to shrink going forward, local companies need to globalize. By establishing a broad network that includes not only Japanese companies, but foreign-capital enterprises as well, local companies should be able to discover new ways to expand new businesses. This is one of the reasons why we are actively attracting foreign-capital enterprises,” explains a person in charge at the City of Fukuoka. Both Fukuoka Prefecture and the City of Fukuoka are continue to implement proactive measures aimed at revitalizing local communities using a balance of their excellence business environment and progressive investment incentives offered by local governments.

(Note) Business formation ratio = Number of new business sites opening in the Fukuoka Metro Area during the fiscal year ÷ all business sites in the previous fiscal year × 100

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**Efforts by Local Governments to
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