

POLICY PROPOSAL

to INVITE INVESTORS from JAPAN and ABROAD
to the ENTERPRISE ZONE DEVELOPMENT PROJECT in KOBE

October 1995

*Proposal for the Development of the Enterprise Zone in Kobe
(preferential treatment zone approved by the government in July,
1995), as part of the Earthquake Rehabilitation Program*

Submitted to:

- Dr. Atsushi Shimokobe,
Chairperson, The Cabinet Rehabilitation Committee
- The Governor, Hyogo Prefecture
- The Mayor, Kobe Municipality

Collaborators:

- Officers in charge of the Rehabilitation Program of
the Hyogo prefectural and Kobe municipal governments
- Japan Development Bank
- Industrial Infrastructure Funds

Time Period for Submission:

From the end of October to the end of December, 1995

Proposed by:

- Social Capital and Investment Study Group Secretariat (*1)
- Private-sector Consortium including public corporations (*2)
- General Producer: Koji Suzuki
Secretary General, Social Capital and Investment Study
Group, and Representative of Super Studio Inc.

*1) A research group consisting of senior officers of various ministries, opinion leaders of the business sector, scholars and critics, and senior officers of local governments. Chairperson: Prof. Hajime Karatsu, Secretary General: Koji Suzuki (Member list attached)

*2) Small and Medium Enterprise Corp., Japan International Co-operation Agency (both under negotiations), Dai-ichi (requested), and other large companies, trading firms

BASIC CONDITIONS FOR NEW URBAN CENTER DEVELOPMENT

Location:

Kobe Port Island 2nd Phase Reclaimed Land
commonly called "Enterprise Zone."

Area for Development:

389 hectares

Enterprise Zone:

This zone will be a kind of "Free Enterprise Zone"
with relaxed regulations and tax incentives to investing companies.

Responsible Bodies:

The Kobe municipal and Hyogo prefectural governments are responsible bodies for the development, the private sector including companies from Japan and other countries will take leading roles in planning the subjects and contents of the development.

Addressees of the proposal of the subjects and plans for the development:

Chairman, Cabinet Rehabilitation Committee
Head, Hanshin-Awaji Earthquake Rehabilitation Planning Headquarters
Vice Governor, Hyogo Prefecture
Kobe Municipality

Proposal Title:

"Asia Pacific Security Area" as a Free Enterprise Zone

Concept:

Urban development setting eyes on Asian countries and companies from Asia, and creating an "Economic Sharing Sphere" linking with Shanghai and other developing cities along the Chang Jiang.

"Security" includes:

1. Currencies

Toward other countries: The Zone will structurize "Japan's contribution to currency stability in the Asia and Pacific Region."

Toward Japanese investors: The plan aims for stabilization and promotion of economic activities in foreign currencies in the Zone.

2. Stabilize and promote enterprise activities in the Zone by providing preferential treatments.

3. Guarantee of prevention of fires and public security.

4. Guarantee of school enrolment, housing, education, and social welfare services.

Investment Styles:

1. Construction and management of facilities built by the government agencies and managed by the private sector.
2. Construction and management of facilities built and managed by the private sector.
Infrastructure for both 1. and 2. will be covered by the governmental budget for Kobe Rehabilitation. (attached paper)

Incentives provided by the Kobe Municipality and other project sponsoring bodies:

1. Sales/rent of lands at lower prices to promote their investment.
2. For import promoting companies:
Real estate property acquisition tax, Fixed assets tax, Special land possession tax, corporate tax, and business tax will be exempted.
3. For Manufacturers, and R&D companies:
In addition to the above mentioned tax exemption, special depreciation systems for assets or production machinery, preferential treatments for replacing assets for operations will be provided.
4. Infrastructure construction/improvement by semi-governmental body.
5. For Room Rental Businesses:
Rental should be lower and paid in the US dollars.
In case of any loss by owners, the deficit will be covered by public funds.

Financial Incentives for companies from other countries:

Low-interest financing to foreign companies making investment in Japan.
others

attached paper

7-POINT PROPOSAL FOR PROMOTING FOREIGN INVESTMENT IN JAPAN
INCLUDING TAX INCENTIVES (1995.4.30)

Kobe Rehabilitation Budget (Hyogo Phoenix Plan) :

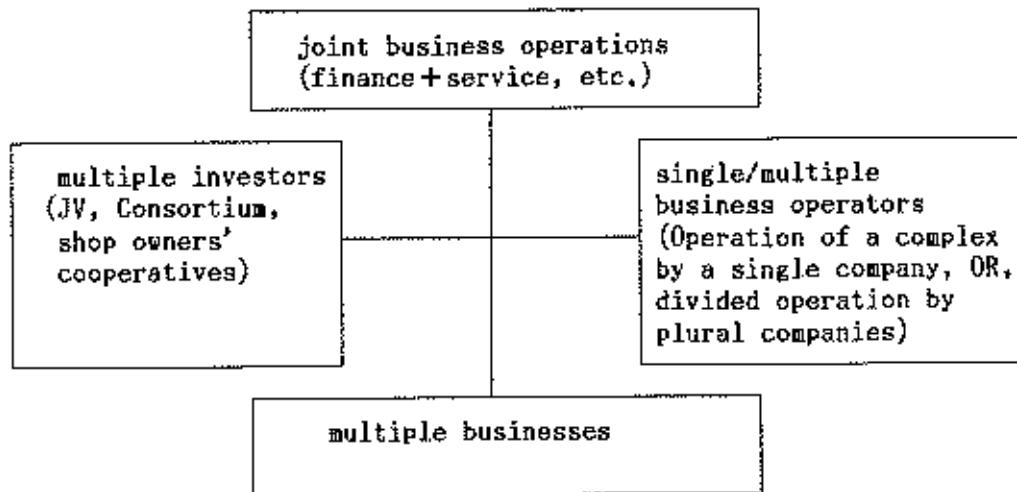
Total Amount of Budget: 17 trillion yen for 10 years
(12.1 trillion yen for the first 5-year period)
Total Number of Projects: 660 by 2005
(71.1 percent of which will be implemented by 2000).

Breakdown: () indicates spendings by 2000.

- | | |
|-------------------------|------------------------|
| 1. Housing and Welfare | 3 (2.1) trillion yen |
| 2. Culture | 200 (200) billion yen |
| 3. Industrial Upgrading | 1.8 (1.5) trillion yen |
| 4. Disaster Prevention | 400 (300) billion yen |
| 5. Urban infrastructure | 11.6 (8) trillion yen |
- Others include the establishment of an "Enterprise Zone" and a grid-type traffic network.

Image of Facilities: attached paper A-1, A-2, A-3

Image of Investment and Management:



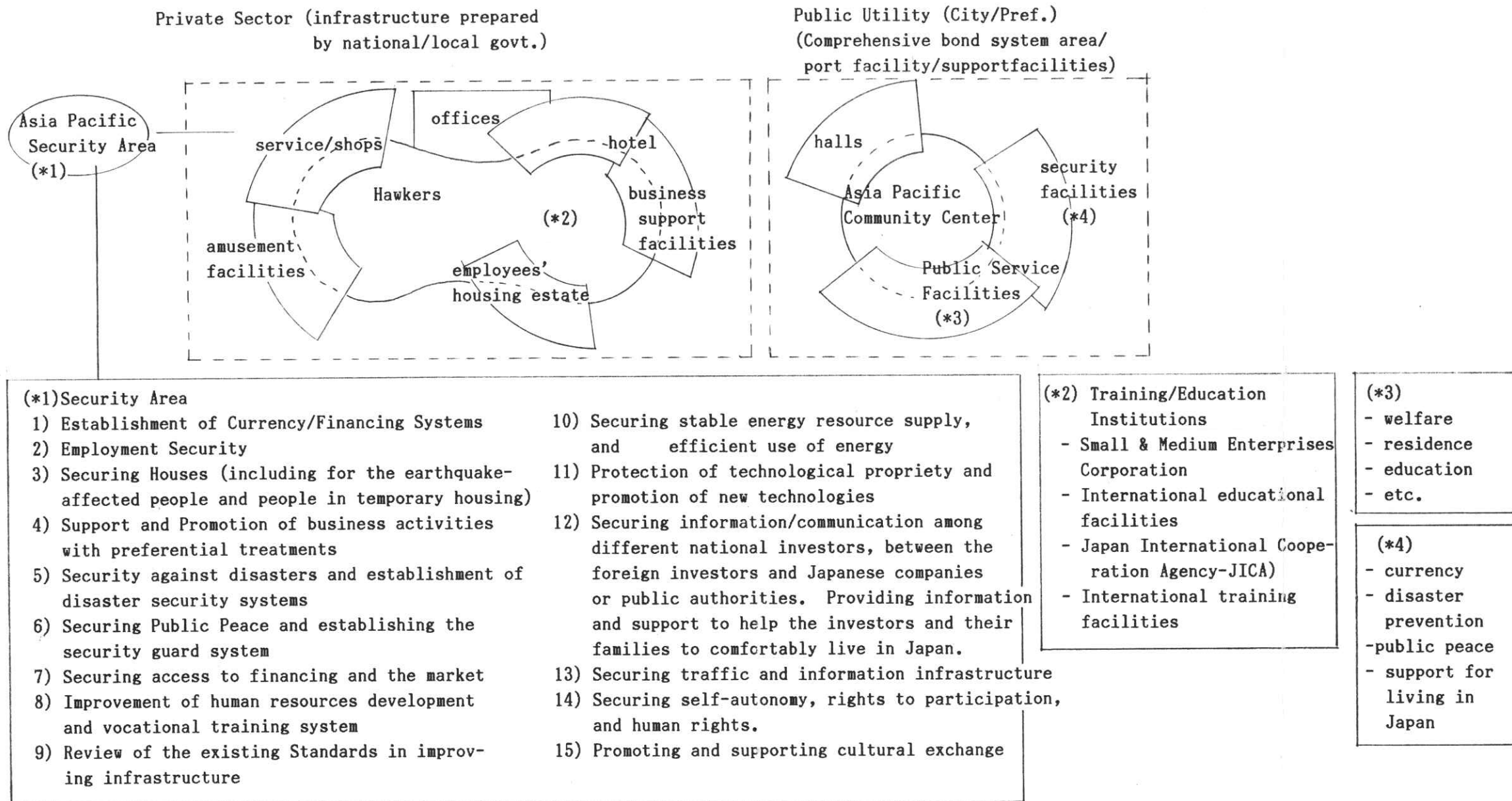
< Businesses to be incorporated >

- Retail Shops
- Services
- Media Business
- Restaurant/eatery/coffee shops/bars
- Event Promotion
- Educational Business
- Room Rental Business
- Developer

Management Policies:

1. Early recovery of invested capital
2. Raising investment operation rate
(strategy to be proposed later)
3. Expansion of assets

LOCAL REHABILITATION STRATEGY - KOBE
as a "Foreign Investment in Japan" Plan



1. Most investment-effective and management-effective businesses will be incorporated.

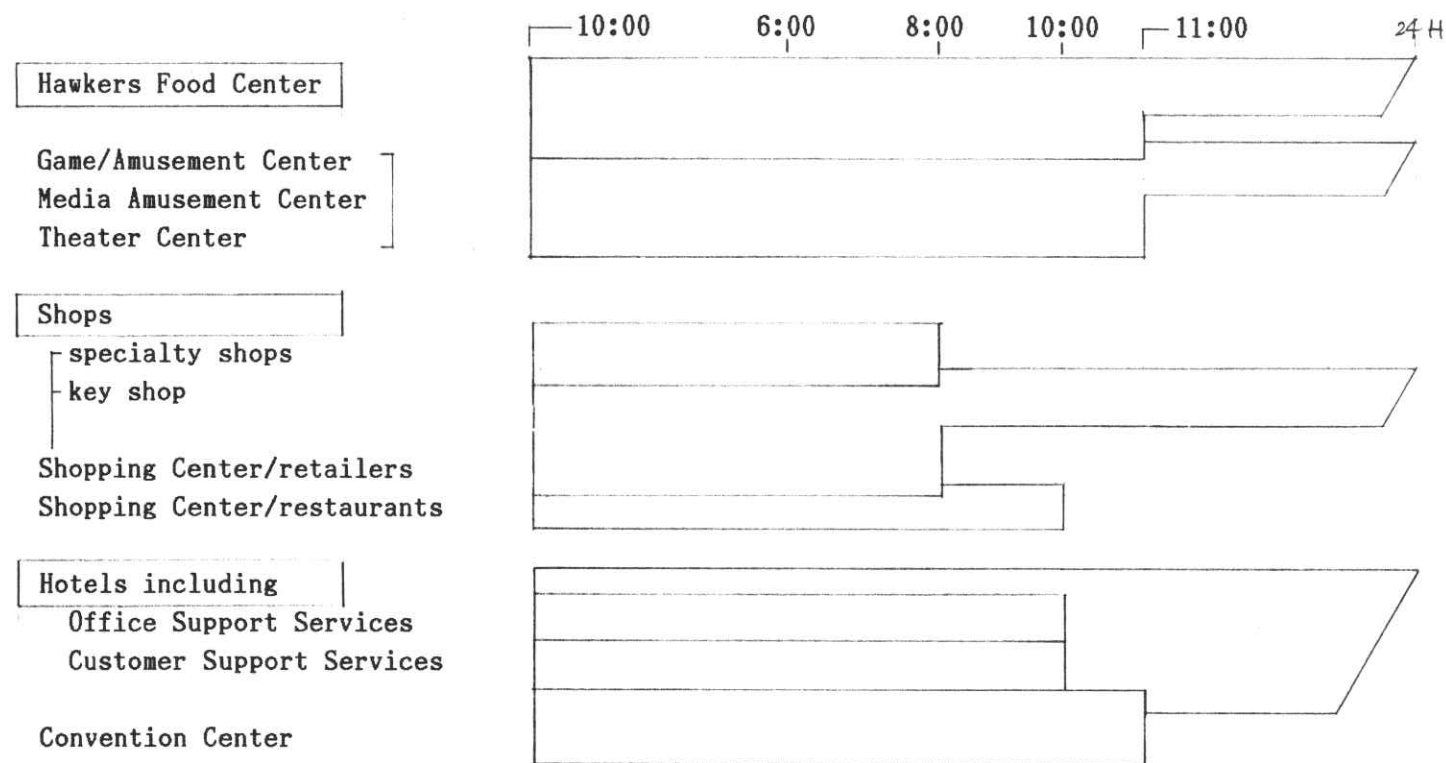
They are:

- 1) Borderless businesses that are not heavily restricted in Japan.
(They can be started by any nationals in any business genre.)
- 2) Businesses to which incentives are applicable.
- 3) Businesses with high potential of customer mobilization and high operation rates.

2. Overlapped Zoning Development as a Pilot Development Project that will facilitate investors from Japan and overseas to obtain Economic Special Zone incentives:



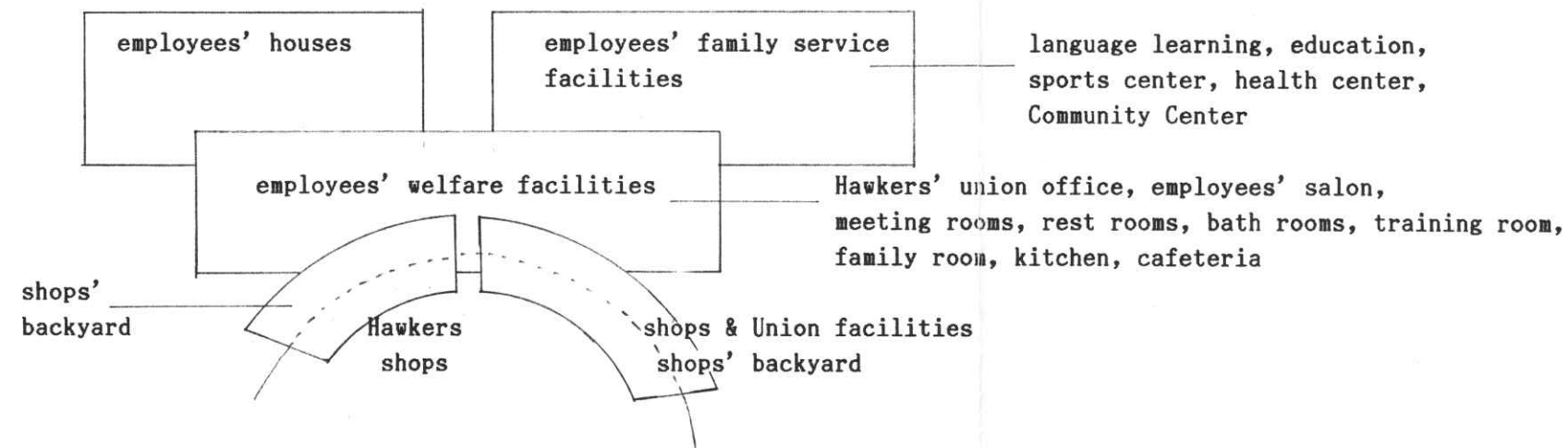
3. Target Customers for Borderless Business Facilities according to Time



4. Strategic Plan from a Multi-phased Developer's Perspective Aiming for Attracting Capital Investment and Early Collection of Invested Capital

- 1) Emphasize incentives for maximizing investment and efficient use of public funds
- 2) Design symbolic facilities to attract foreign investors and operation plans.
Alleviation of construction cost, and management risk by plural capital sources and multiple operators.
- 3) Alleviation of initial cost by inviting external capital and efficient use of public capital.
- 4) Promotion of investment by Japanese and foreign investors to businesses in the Kobe-Osaka area.
Assistance and agent services to foreign investors intending to develop a franchise business first in the Kobe-Osaka area, and then to expand to the entire Japanese market.
Examples of franchise businesses: Hotels, Restaurants, Retailers, Financing, Housing Development

HAWKERS FOOD & ENTERTAINMENT COMPLEX



Themes of the Complex Development:

The development of a core facility in the Free Enterprise Zone 1) to promote employment, 2) to support the workers, 3) to the daily life of the workers and their families, and 4) to fulfill various urban life necessities.

Scale and Functions of the Complex:

1. Hawkers Food Center - 2,000 seats (both indoor and outdoor seats) and health & welfare service facilities for the workers.
2. Other facilities such as 1) Theaters, 2) Game/Amusement center, 3) Media Amusement center, 4) Shopping center, and so on.

Investment and Management:

Development Bank, Small & Medium Enterprise Corp., JICA, Kobe & Hyogo, private sector

Image Plan for the Kobe Port Island 2nd Phase Construction
"ENTERPRISE ZONE"

1. Business Area (Production, R & D Function)
"Asia-Pacific Enterprise Zone"
 - Value Added R & D Function
 - Manufacturing Bases for "Private ~~Brand~~ Products"
 - Support & Training for Creating New Industries
 - Business Offices/Foreign Corporate Supporting Function
 - Foreign Trade Operations/Transport/Port Operations
2. International Life Quarters (Exchange & Customer Mobilization) "Asia-Pacific Cultural Quarters"
 - "Foreign Student Center" aiming for exchange among people from the Asia and Pacific Region, with emphasis on training and educational function
 - "Hawkers Food Court" and other restaurants, eateries to cater to workers, students, trainees and customers of different nationalities.
 - Amusement Complex embracing the Hawkers Food Court and other restaurants and eateries.
 - Shops as the commercial core of the entire project
 - Hotels and Convention Hall run by Asian investors
 - Others to be considered: Conference rooms, Hall, Exhibition halls, etc.
3. Housing and Information Infrastructure
"Asia-Pacific Security"
 - Relaying Bases and/or Transmitting Bases for the media to be shared by Asian and Pacific nations (Introduction of Star TV etc. is under consideration)
 - Houses and other supporting functions catering to the workers and their families of various needs to live within the project area (Business Area workers, Hawkers workers, students, etc.)
4. Trading Area (FAZ)
Promotion of trade making use of the MITI's Free Access Zone and total bonded area, facilities to help promote import, transportation port services.

INCENTIVES AND DEREGULATION REQUIRED
ENTERPRISE ZONE IN KOBE

< TRADING AREA >

1. Tax Incentives for Business Operators

- 1.1 Special depreciation for assets and/or equipment
- 1.2 Special treatments for replacing assets for operations
- 1.3 Exemption from real estate property acquisition tax, fixed asset tax, special land possession tax and enterprise tax, business operations tax.

2. De-regulation, etc.

- 2.1 Exemption from custom administration fees
- 2.1 Lowered tariffs, relaxed import quota systems

3. Extension of Supporting Measures for FAZ

- 3.1 Extending the support measures to "purely private sector" ventures
- 3.2 Greater rates of government subsidy
- 3.3 NTT no-interest financing, greater finances from the public funds

4. Extension of Support to Import Promoting Investors

- 4.1 Greater financing and lowered interest rates offered by Development Bank
- 4.2 Special depreciation applied to buildings and attached facilities
- 4.3 Exemption from special land possession tax, and enterprise tax
- 4.4 Lowered corporate tax applied to offshore business operators (on the 20-30 percent level as Singapore)

< Business Area >

1. De-regulation, etc.

- 1.1 Relaxed qualifications for foreign technicians to stay in Japan, and the period of their stay within the country
- 1.2 Relaxed criteria for entry to Japan applied to foreign technicians and business people.
- 1.3 Abolition of the existing restrictions on factories.
And others



GROWTH STRATEGY AS ASIA PACIFIC SECURITY AREA
and ACTION PLANS for implementation

Super Suido, etc.

The project aims to establish the Asia Pacific Security Area in Kobe as a pillar of the post-earthquake rehabilitation program, and to develop the Area as an economic activity zone (urban planning) that can be shared with, and grown with countries in the Asia and Pacific region.

< Phases for Growth >

1st Phase: 1995 - 2000

2nd Phase: 2000 - 2005

3rd Phase: 2005 - 2010

< Goal of Sequential Growth Process - East Asia Growth Triangle >

Kobe, etc.

Shanghai &
Cheung Kong Basin
Hong Kong, etc.

Singapore, Malaysia, etc.

Seeking New Richness

Definition of "Creation of New Industries":

It involves all efforts to accumulate expertise to achieve new richness, and to make use of such expertise.

Image Phrase:

Seeking a goal that is exciting to everyone, and a structure that is easy to understand to everyone.

Approach:

Instead of conventional approach that is segmented vertically according to the terms of reference of ministries, an interdisciplinary approach should be taken. For this purpose, technical conceptional ability and synthesizing ability must be restructured.

An example is shown in the above diagram.

Conditions for creating needs for New Richness:

1. Identifying a new scenario somewhere across the border of business genres.
2. Defensing life . . . new richness
3. Combination of "techniques, expertise and tools" beyond the existing border of business genres.
4. Consumer Needs = Producer Needs
5. "Individualistic" orientation → Personification of Production Needs
6. Re-assessing "large-scale investment to support mass production"
7. Seeking new business chance by linking "manufacturing" and "marketing/distribution" industries

Genpei Saito, and

ASIA PACIFIC CULTURAL QUARTERS

Target: Students, researchers and trainees from Asia and Pacific countries

Operator: International Development Center Inc.

Developer: Konan University International Faculty

Kobe Ryutsu (Marketing) University

Kobe University

Japan Productivity Center for Socio- Economic Development

Small Business Promotion Corp.

Japan International Cooperation Agency (JICA)

Concept:

Incentives for visitor mobilization for an area where competition and co-habitation occur.

"Pleasant" place where people gather seeking "efficient development."

Pleasure:

1. Hawkers as an oasis to mobilize visitors.
2. Secured life for people staying for short-terms and long-terms.
3. Support for daily life and student life for people with various ethnic/cultural/religious backgrounds.

Efficient Development:

1. Research/study environment equal for every resident.
2. Provision of most suitable environment by accepting investment from students/researchers/trainees' own countries and by incorporating expertise from respective countries.
3. Help investors with reducing their investment burden, and with an early collection of their invested capital.

Place for Visitor Mobilization:

1. Student Hall and Service Facilities to support their daily life
2. Hawkers and restaurants
3. Various services for the residents

Super Future, Inc.

ASIA PACIFIC ENTERPRISE EMPLOYMENT AND TRAINING

Purposes:

1. Provide environment for investors to develop their intended business under fair competition
2. Facilitate investment and liberalization of investment requirements to the business menu to be created within the Enterprise Zone.
3. Secure institutional arrangements for standards/authorization, custom clearance, de-regulation, human resources development, technical security, free access to information, free access to the market and capital market, arbitration. Create relevant agencies in charge of respective services.

Training:

1. Promote human resources training, education/training for the region (Kobe-the Asia & Pacific), vocational training systems, and a Business Volunteer Program making use of expertise in various industries.
2. Promote the creation of new industries by forming joint ventures by different industries, by promoting low cost operations (small staff, small organization), and by pursuing efficiency of equipment investment made for facilities built by the government and run by the private sector.

Structure:

Kobe-based Companies
to be approached:

Kobe Steel	Pte.
Kawasaki Steel	
Mitsubishi Hl	Mfg.
Matsushita Ele.	sector
Sanoco	
World	
Chemical Shoes Assn.	

Facility built by the Gov., run by Pte. sec.
--

Pte.
Mkt.
&
Svc.
sector

Kobe-based
companies to be
approached:

The Dai-ichi
Sakura Bank
Sogo Dpt. St.
DCC Coffee
Ito Hax
Osaka Gas
Kansai Ele. P.

Company Securities, Inc.

ENTERPRISE ZONE

< Concept >

An Enterprise Zone aims for economic activation of the local economy by providing tax incentives and de-regulation, and promoting corporate investment and creating new industries.

The Enterprise Zone proposed for Kobe is to be located in an area developed as the 2nd phase reclaimed land construction of the Port Island, and the Zone is to be established for a period of ten years.

The major components of the Enterprise Zone in Kobe will be shown below:

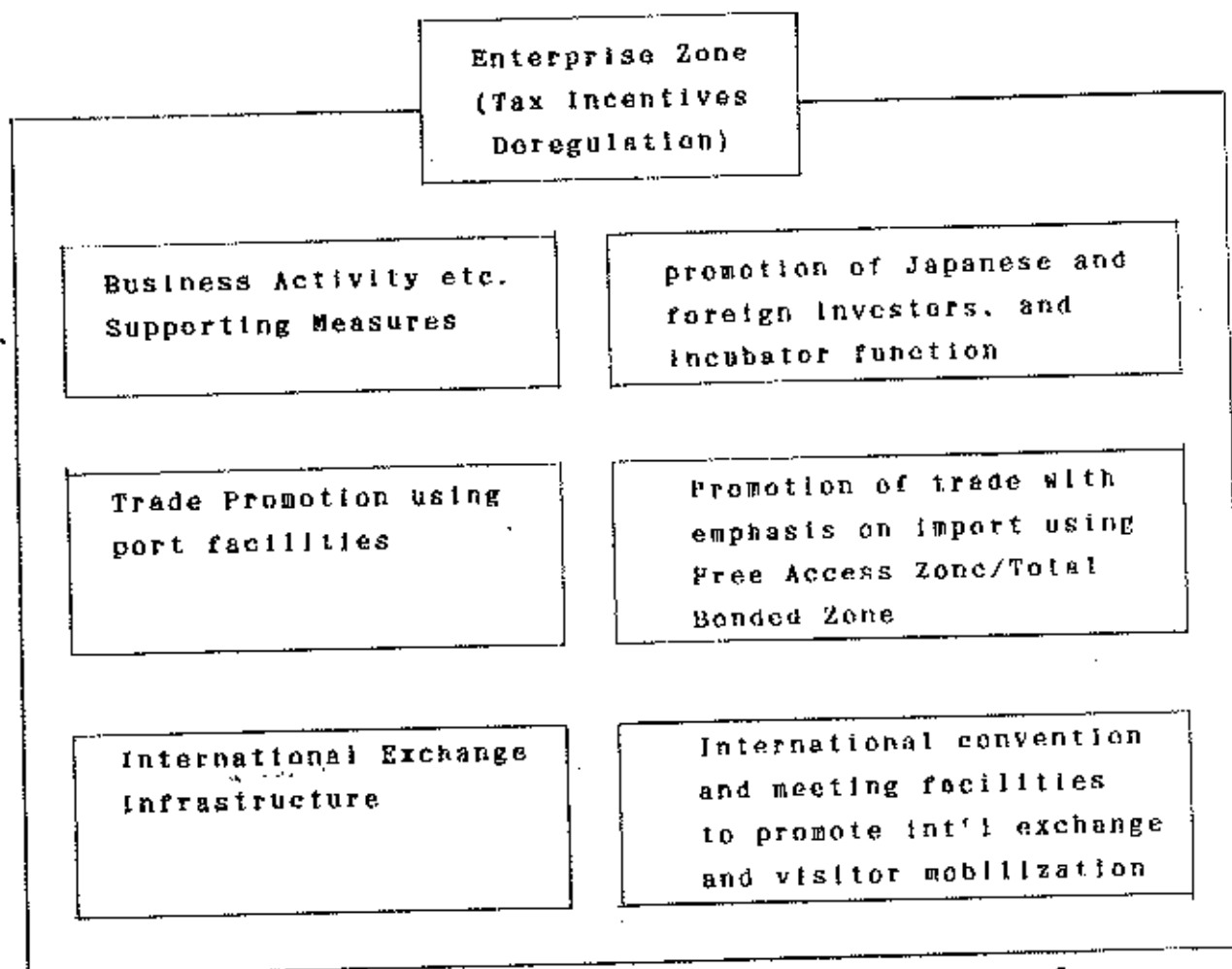
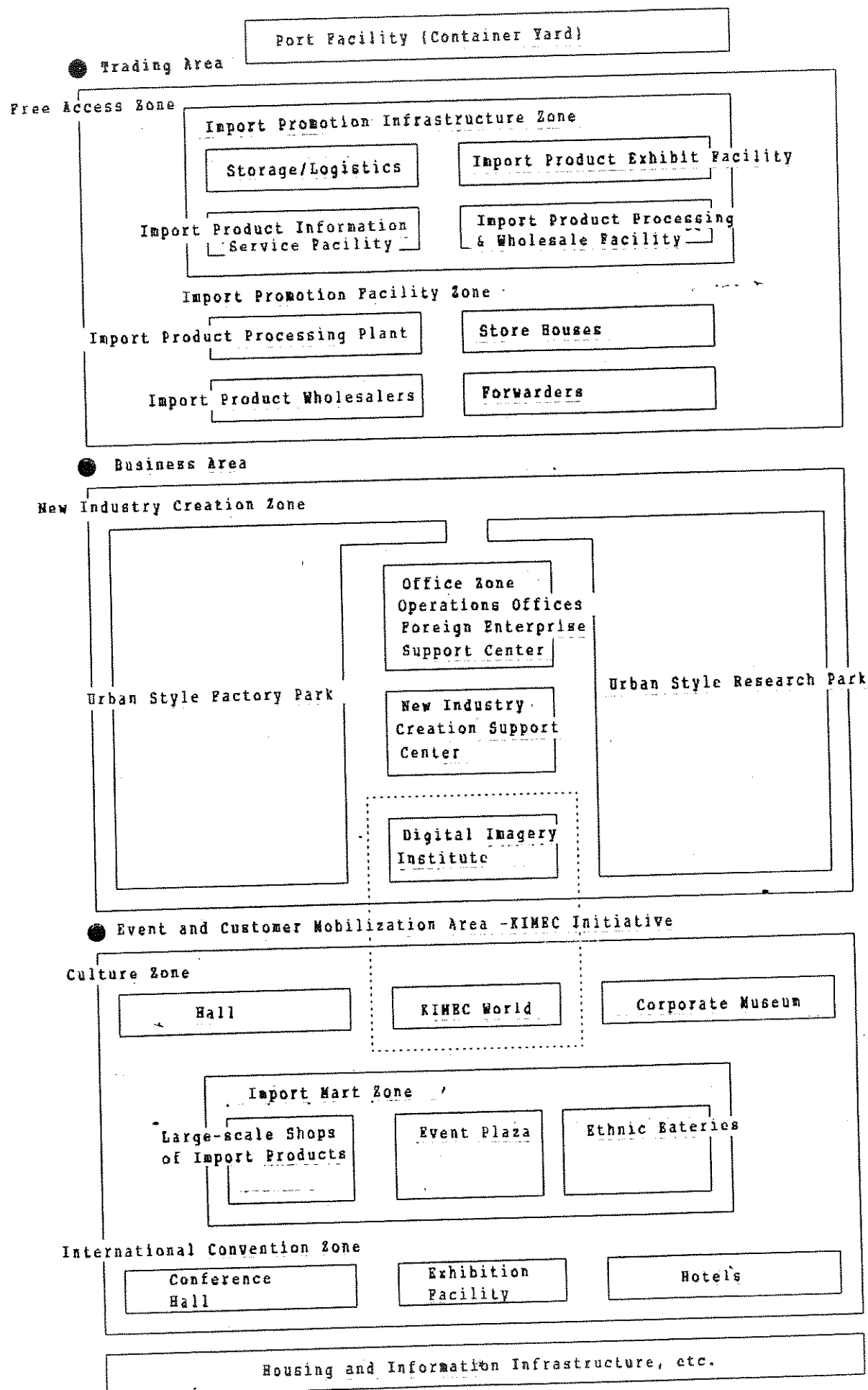


Image Plan for the Facilities planned by the Kobe Municipality



COMPARISON between EXISTING AND PROPOSED
FINANCING and TAX INCENTIVES

< Financing >	(Existing System)	(Proposed System)
Govt. subsidy	5% of construction cost 2.4 bil. yen	10% of const. cost 4.8 bil. yen
NTT no-interest financing	25% of const. cost (15-year repayment with 3-year moratorium) 12 bil. yen	50% of const. cost 24 bil. yen
Development Bank financing (3.65% interest rate per year)	Not more than 70% of the total cost combining NTT's no-interest financing (25-year repayment with 5-year moratorium) 28.6 bil. yen	16.6 bil. yen
General financing (4.2% int. rate)	15 bil. yen	12.6 bil. yen
< Tax Incentives >		
NATIONAL TAX	Special depreciation on buildings and attached facilities (12% for the initial year)	
LOCAL TAX		
Fixed asset t.	no incentive	exempt (5 years)
City plan t.	exempt	exempt
Property acquisition t.	exempt	exempt
Special land possession t.	exempt	exempt
Enterprise t.(new)	exempt	exempt
Enterprise t. (asset)	50% for 5 years after establishment	exempt
< Rough Estimation >		
Profit before tax turning to surplus	7 years	2 years
Cumulative profit & loss turning to surplus	14 years	7 years

END

Feasibility Study Sample for an Assumed Investor

1. Investment Target:

Trading Area (Import Promotion Zone with core facilities)

2. Assumed Scale:

2.1 Land Area: 12 hectares for offices, storehouses,
processing plants

2.2 Total Floor Area: 200,000 sq. m.

3. Assumed Business Operations

Management: a private corporation with participation of a
local government

Land Rent: 347.5 yen per sq. m. per month

Facilities: The operator will build the facilities and rent them
out as offices, storehouses and plants

4. Operations Costs:

4.1 Total Cost: 58 billion yen

construction cost: 48 billion yen

(240,000 yen/sq. x 200,000 sq.m.)

others: 10 billion yen

4.2 Income (rent):

200,000 sq.m. x 0.8 (efficiency rate) x 0.8 (occup.)

average 2,850 yen/ sq.m./month x floor area

(5% increase in 3 years)

4.3 Expenditure

personnel:

7 million yen/year x 50 persons (1% increase every year)

facility maintenance & management:

construction cost x 0.5% (3% increase every 3 years)

land rent: 347.5 yen/sq. m. per month x 120,000 sq. m.

4.4 Depreciation:

(fixed rate depreciation, 10% residual value)

structure: 45 years

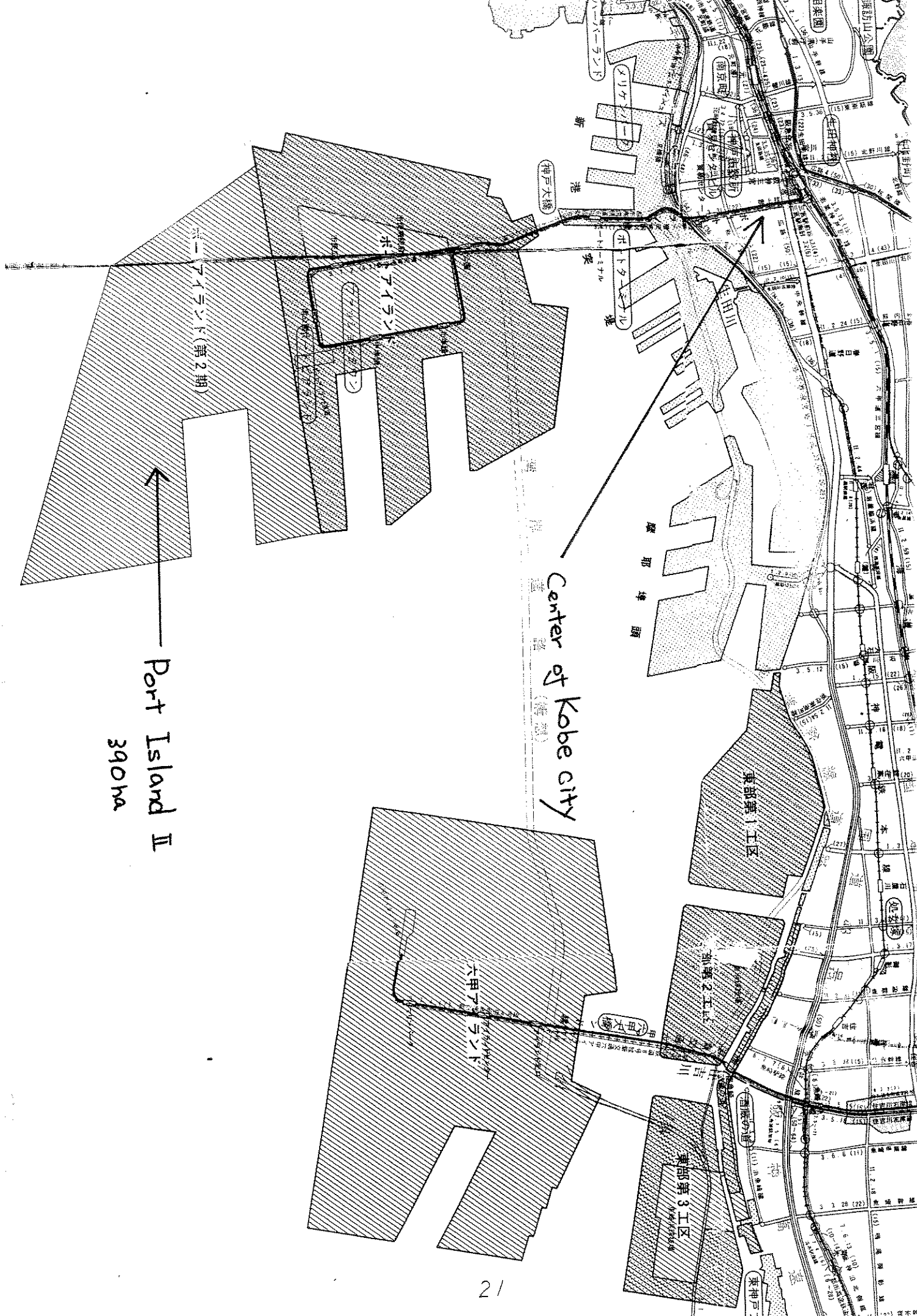
price = asset x 70%

12% special depreciate rate for the initial year

equipment: 35 years

price = asset x 30%

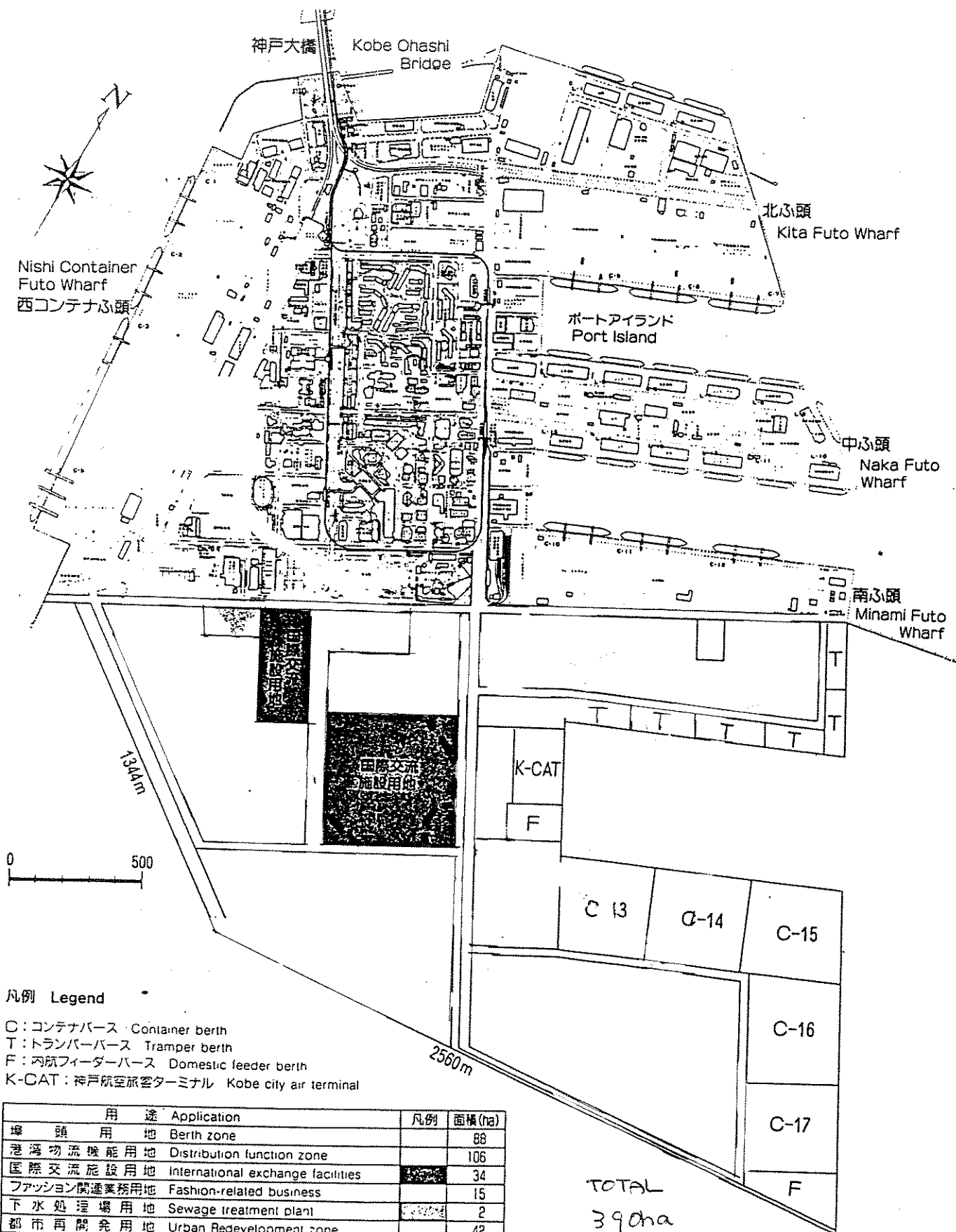
12% special depreciate rate for the initial year



土地利用計画図

S=1 : 20000

ZONING MAP



SOCIAL CAPITAL AND INVESTMENT STUDY GROUP

Group Members:

Hajime Karatsu	Professor of Tokai University
Noboru Makino	Director & Senior Adviser , Mitsubishi Research Institute, Inc.
Tsuneo Iida	Professor of Economics International Research Center for Japanese Studies
Sueaki Takaoka	Chairman , The Seiyu Ltd.
Taku Kajiware	Governor of Gifu Prefecture
Itsuko Hasegawa	Architect

Collaborating Members:

Haruho Fujii	Vice-Minister, Ministry of Construction
Atsushi Yoshikawa	Director of the Coordination Bureau of the Economic Planning Agency
Tadatsuna Koda	Councilor in charge of APEC, MITI
Keiichi Konaga	Managing Director , Arabia Oil Company Ltd. Former Vice-Minister, MITI
Ryoju Katsube	Jurnalist / Newscaster of NHK
Kenzo Uchida	Political Critic / Professor of Tokai University
Akira Kubozono	Managing Director, Japan Manned Spase Systems Corporation
Gaishi Hiraiwa	Former Chairman, KEIDANREN

Secretary General:

Koji Suzuki	Project Producer, President of Super Studio, Inc.
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Local Government:

Prefecture /	Gifu, Tokyo-to, Kanagawa, Kumamoto,
City /	Kitakyushu, Kawasaki, Okazaki, Atsugi,
Town /	Nagasu, others

Working Group Members :

Koji Sugimori	Secretary General, Policy Innovation Forum
Tsunemasa Gonda	Professor of Tokai University
Osamu Miyake	Director, Restaurant Business, KIRIN Brewery Company, LTD.
Jun Higashi	Director, Arcade Planning Div. NAMCO LTD.
Yoko Ito	Maketing Consultant
Yasuji Miyata	Mayer of Nagasu Town, Kumamoto Prefecture
Toshiaki Hioki	Director, Gifu Prefecture
Mituhiko Usui	The Japan Development Bank
Masaharu Hanazaki	The Japan Development Bank
Koyu Igarashi	The Japan Development Bank

others