

What can Okinawa learn from Thailand FDI policy  
and economical policy of European Union?

「タイの外資奨励政策及びEUの金融政策から沖縄が学び得ること」

By Kyoko Nakasone

## 1. Introduction

Okinawa Prefecture made up of 160 islands, both large and small, and comprises the southern half of the Nansei Islands that belong to the Ryukyu Archipelago and stretch from Kyushu to Taiwan.

Okinawa is the only part of Japan with a warm subtropical, oceanic climate with temperatures between 10 to 30.

Okinawa has been more widely recognized as "the key and the stone in Asia Pacific for U.S Military", than as a part of Japan. Okinawa is recognized as an undeveloped region within Japan, an economic super power.

Now with the world is changing all around it (Cold War ended, Germany united, Hong Kong returned to China, the European Union (EU) were integrated, getting larger, and starting a single currency). Okinawa is looking to reform its economy, to recover its commercial identity as an ' independent Kingdom with a trading port ' as it used to be about 600 years ago.

Thailand and Okinawa share some characteristics (relatively similar climate and thus has a big tourism industry), and the relationship between Thailand and Okinawa when Okinawa started import of Thai rice for Okinawa wine "Awamori" is found more than 600 years ago.

Since Thailand has been successful in inducing foreign direct investment (including much by Japanese investors), the Thai experience may contain valuable lessons for Okinawa's

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development.

Moreover, Thailand has good access to Association of Southeast Asian Nations (ASEAN) countries, some of which have developing high technology or electronics industries, and some of which have low-wage work force and potential markets. That location is convenient when Okinawa would like to have cooperation with ASEAN countries as a member of the Pacific Ocean.

I received a scholarship from Okinawa prefecture government to study in Thailand, and got the opportunity to study FDI (Foreign Direct Investment) issues and E.U integration in interdisciplinary work at European Study program at Chulalongkorn University in Bangkok.

This research paper analyzes the economic and political situation in Okinawa, and explores the ways that Okinawa can achieve the above goal. I make special reference to the FDI policy in Thailand, and the policies in European Union (EU).

## 2. A new vision for Okinawa

To develop its economy what vision should Okinawa have in mind?

### (1) Economic problems Okinawa faces

Okinawa prefecture has heavily relied on central governmental finance for all these years after Okinawa was returned to Japan. While Okinawa should be thankful for the generosity of Japanese taxpayers, but I am afraid to say that much of the money was not used in an efficient way. The most part of that was spent for constructing public sector, like roads, port facilities. It provided part time jobs for jobless people, but failed to establish the foundation of new industry or business chances that could provide people with good long-term employment conditions.

Along with inefficiency of labor training program and lack of proper industry, the part-time workers go back to the jobless situation which needs new constructing public sector, and sometimes the prefecture government spent money for unnecessary public sector (it happened to have the construction for the same road within a year), and failed to create the foundation of new industry which could lead Okinawa to self-dependent economy.

In addition, the way to choose the contracting company created much corruption in the construction public sector.

So, we need to use the budget to establish the foundation of more high-paying, internationally competitive, and job-creating industries.

(2) In general, what are the advantages and disadvantages of Okinawa to induce FDI?

1) Advantages

Okinawa has an invigorating natural and lifestyle environment.  
Okinawa has accessibility to Asia.

There is much funding support from the National and Prefecture Governments. However this has failed to create the foundation of new industry which could lead Okinawa to a self-dependent economy.

Characteristics of Okinawa's culture, people, climate are attractive.

Okinawa has significant unemployment, but that means investors can secure the workers easily, especially an available young labor force (Okinawa has the biggest ratio of young people in Japan).

Okinawa is a part of Japan, (a highly industrialized country).  
It has good accessibility to many areas in the Pacific, e.g., Taiwan, and China, Korea, Hong Kong, the countries of South East Asia, and regions in the Pacific Ocean.

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Furthermore, the worker's intellectual level is relatively good. This land has a warm weather, beautiful seashore, and clean air. It is located near the equator, which makes it very convenient for the establishment of high technology likes as satellite communication.

## 2) Disadvantages

Natural resources are limited.

Business costs, such as wages and land fees, any transportation costs especially from mainland Japan are high.

The prefecture still needs more transportation infrastructure.

The economy of Okinawa relies heavily on government expenditures, and the industrial development has been delayed due to a varied topography.

Limited market absorption capacity, distance from the major mainland markets, business obstacles such as costs required to overcome transport, time obstacles, —etc, anemic economic foundations and technology levels.

Okinawa's existing industrial structure has, for the above reasons, depended on public-funds sector.

The existence of the vast U.S. Military bases, approximately 25%of all land used by U.S. Military installations in all Japan, making it difficult to secure land necessary for industrial use and for city planning. Land occupied by U.S. military facilities totals 243,062,000 m including some good fields, and accounts for 10.7% of all land in Okinawa Prefecture. Of the above, 75% of all areas exclusively provided for the U.S. Military in Japan are situated in Okinawa (their area covers 235,191,000 m Also U.S military occupies good plain field).

(3) Then what kinds of industries are suitable for Okinawa?

As I mentioned above, Okinawa does not have favorable conditions for producing industries (geographical disparities from mainland Japan, higher wages than ASEAN countries, limited market absorption capacity, limited land and natural resources, etc---). So, producing industries are not suitable for Okinawa.

Then what kinds of industries are suitable for Okinawa?

1) Information technology and telecommunication industry

Firstly, I think information technology and telecommunication industry are most suitable for Okinawa.

Because, ①the disadvantages of producing industry are not so much obstacles for those industries. In other words, it doesn't need much land, huge amount of transportation of goods.

②Moreover relaxing nature atmosphere helps creative work, so distance by the ocean from mainland Japan is more advantage than Disadvantage for this field.

③Also telecommunication industry helps Okinawa from Information disparity from central Japan.

④And as I mentioned above, Okinawa has significant unemployment conditions (the latest rate is 7.3%, comparing to 4.9% the average of entire Japan, source newspaper Okinawa Times April 28, 2000).

⑤Additionally Okinawa has the economical structure heavily reliant on government expenditures (refer to Appendix 1,2). So, we need to use the budget to establish the foundation of more job-creating, high-paying, and internationally competitive industries.

⑥Moreover, information technology is needed to keep up with the globalization of the world economy, and can provide very useful skills for many kinds of industries, which enable Japan to reinforce international competitiveness.

⑦Thus huge amount of central governmental financing toward Okinawa can be acceptable for other Japanese. Of course, such

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financing toward Okinawa is inevitable, only those kin industries require huge budget for infrastructure. But if central governmental financing toward Okinawa is inevitable, only those kinds of high-paying industries are economically justified.

⑧Additionally Okinawa can contribute internationally by functioning as a hub in the Asia-Pacific region in the telecommunication field.

⑨International business and political surroundings of Japan can assist these ideas.

Japan and U.S.A have strong commitment with Taiwan computer industry. Japanese investment in Taiwan became highest in 1997(851.1 million U.S. dollar) over the last 10years. The most important FDI field is in the electrical industry. Mitsubishi Electrical Company stopped the Integrated Circuit (IC) producing operations in the United States, and then started assembling operations in Taiwan. Dai-Nippon Screen operates IC production and established technical center for this field. Also Hitachi cooperates with Eisar on the DVD player in Thailand (source, JETORO Toushi Hakusyo 1999, P.171).

And Taiwan still has some difficulties as unrecognized sovereign country in the business world. On the other hand China has attractive FDI elements (cheep labor, huge land, potential huge consumer market, location to east Europe).

Of course, for political reasons, the prevailing opposition in Japan has been that Japanese companies should be very careful about trade business with Taiwan in view of the enmity between Taiwan and China. However, since China joined the WTO on Dec. 11, 2002, and it seems that Taiwan is going to join the WTO in very near future (Source: Ka Houha, "Taiwan no WTO kamei to Chu-Tai kankei", Sekai Shuhow P.20-23, newspaper Okinawa Times on May 16, 2000), that will inevitably eliminate the trading ban between them.

And EU is becoming one of the world strongest economic power (is getting to be successful in shaping single market and enlarging to east Europe, especially after implementation of the single currency, EURO).

So computer software industry co-operating with U.S and

Taiwan companies makes Japan keep its competitive power in international business world, and provide trading business chance.

With these reasons, I assist "Okinawa Multi Media Island Concept" by Okinawa Prefecture Government.

" Multi Media Island Concept"

A positive development in the production of more electronic-based commerce for Okinawa was the promulgation by the Okinawa Prefectural Government of the " Okinawa Multimedia Island Concept," and the Central Government promulgation of the "Okinawa Multimedia Special Zone Concept" (by the Minister of posts and telecommunications). Such Governmental backing and assistance of Posts and Telecommunications will encourage significant growth in Okinawa's participation in this important new context of world commerce and finance.

## 2) Reinvigorated Free Trade Zone

Secondly, I think Okinawa should have the vision to invigorate the present Free Trade Zones in Okinawa in mind. Because Okinawa situated in favorable place as the entrance for Europe, ACEAN countries from the countries as Japan, The United States, and on the other hand, as the entrance for North East Asia from those countries.

Along with increased exports of above mentioned multi media and computer industry, Free Trade Zone would be effective.

And if such an assembling of competitive products were in Okinawa, Conventional Fair as in Frankfurt, which induce new business and FDI would be effective. And Okinawa can be popular among such a visiting business people, future tourists of Okinawa.

Additionally, incased exports of above mentioned multi media and computer industry and FDI may play a major role in the development of those industries.

3) Tourism

Because of the attractiveness of its nature (warm climate, beautiful sea, etc---) and unique culture (Ryukyu dance and music, etc---) Tourism has been initiate industry in Okinawa. I think that Okinawa should develop it more, especially by having the linkage with above industries in mind.

3 What Okinawa should do

How Okinawa can achieve the above goal?

(1) Present general legal restrictions for foreign investors in Japan

Before discuss about special arrangements of FDI policy in Okinawa, I would like to overview present legal restrictions for foreign investors those who want operate businesses in Japan.

1) Business categories restricted to foreign investors

To incorporate a corporation foreign investors in Japan are required to file either a subsequent report or prior notification depending on the industry. In principle, there are no restrictions on foreign direct investment in Japan. However, there are some business categories related to the national security or national interest and under the OECD Code of Liberalization of Capital Movements reservations on several business categories. These include nuclear fuel, aircraft, and ordnance manufacturing, agricultural, and forestry and fishery businesses, petroleum, leather and products manufacturers. Such industries are subject to prior notifications to be submitted to the Minister of Finance and the competent ministers via the Bank of Japan.

When a notification is made concerning foreign direct investment in Japan the Minister of Finance and other competent Ministers



may recommend or order the amendment or suspension of the proposed transaction after fair deliberation by experts in the field at the Foreign Exchange Commission.

In banking, insurance, gas, electricity and securities businesses and other businesses corporations are required to obtain prior approval, permit, etc., subject to their respective enterprise laws, a corporation must obtain such approval, permit, before their incorporation.

## 2) Types of visa for doing business in Japan

If eligible, those engaged in foreign direct investment in Japan will gain one of the following status as of residence, "Investor/Business Manager", "Engineer", "Specialist in Humanities/International Services", or "Intra-Company Transferee".

Under the eligibility of "Investor / Business Manager", a foreigner may engage in business management or control activities. The pre-requisites, therefore, are a business facility in Japan; two or more standing employees residing in Japan for the business; experience of the foreigner in business management or control of three years or more; and sufficient remuneration for the foreigner.

Under the eligibility of "Engineer", a foreigner may engaged in the activities, under a contract with a business entity in Japan, that requires physical science, engineering and other natural science expertise or knowledge. The pre-requisites, therefore, are the relevant expertise or knowledge of the foreigner obtained either by completing relevant major courses at a university or by practice of ten years or more; and sufficient remuneration for the foreigner.

Under the eligibility of "Specialist in Humanities/International Services", a foreigner may be engaged in activities, under a contract with a business entity in Japan, that requires knowledge pertinent to human science fields or insights into foreign culture. The pre-requisites, therefore, are, in the case of "Specialist in Humanities", the relevant knowledge of the foreigner obtained either by completing relevant major courses at a university or by practice of ten years or more. In the case of "international Services", that the

activities to be engaged in must be translation, public relations, international transaction, product planning or other similar activities, in which the foreigner has practiced three years or more; and, in either case, sufficient remuneration for the foreigner.

3) Taxation system to be applied to foreign entities

In Japan, the "Corporation Tax Law" which applies to corporations is specified separately from the "Income Tax Law" which applies to individuals. Tax returns, payments, collection, arrears, and correction are all handled in accordance with the "National Tax Procedures Law" which is commonly applied to basic items concerning national taxes, such as income tax, etc. Special depreciation, reserves, social expenses, and special tax rates are handled in accordance with the "Special Provisions for Corporation Tax Law", which is part of the "Special Taxation Measures Law".

In accordance with the "Income Tax Law", a 20% withholding tax is levied at the source upon dividends and interest on bank deposits paid to corporations. (This withholding tax is deductible by filing a tax deduction in a corporation final tax return.)

Tax is imposed on income of any source in the case of domestic corporations, while branches of foreign corporations operating businesses in Japan are taxed only on domestic sourced income.

The corporate tax has been gradually reduced and, for firms whose business year begins after April 1, 1998, is 34.5 %.

For small- to medium-sized businesses whose capital is not more than ¥100 million, a reduced tax rate is applied, as shown in the following table.

Local taxes include the corporation resident tax (metropolitan or prefecture, and municipal taxes) and the corporation enterprise tax. In Tokyo and some other major prefectures, a special tax rate of about 10% of the standard tax rate may be added. Local tax rates and effective rates for fiscal years starting on or after April 1, 1998 are as follow :

Corporation enterprise tax rate (standard) 11%

Corporation resident tax rate (standard) 17.3% of corporation tax  
Effective tax rate including local taxes 46%

4) What are the problems of those general rules for foreign investors in Japan?

Those procedures cost a lot of time and money. The tax rate of company insurance tax and property are higher than the average rate of other developed countries. Along with high wages and high costs of wages, land fee, transportation, and so force, I can not say there are not many FDI incentives in Japan.

(2) "Okinawa Free Trade Zone" and "Okinawa Special Free Trade Zone "

Under above mentioned legal systems settled by Japanese government, what special arrangements have Okinawa already acquired to develop economical situation? First, I would like to overview present incentive-giving mechanism for FDI in Okinawa.

1) So called "Free Trade Zone" ("FTZ")

Okinawa's first so-called "Free Trade Zone"(located in Naha Port Miegusuku), was set up in October 1959 to expand exports and imports to Japan, and to promote regional development by designating harbors and regions as export/import centers. In May 1972, when Okinawa has returned to Japan, the old Free Trade Zone created under the US Civil Administration of the Ryukyu Islands was deactivated. The legal framework of the new Free Trade Zone system was set up under Article 4 of the Okinawa Promotion and Development Special law. On December 1987, the Director-General officially designated Naha Free Trade Zone, and it opened for use on July 1, 1988.

It is intended to provide a combination of preferential tax exemption and funding incentives, which will promote industrial development. From this Free Trade Zone, products can be stored,

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processed, and produced within the area, and can be re-exported to third countries or to other areas within Japan.

The FTZ offer the following facilities,

- Processing & Manufacturing (\*1)

Process, manufacture or assemblage from imported raw materials, parts and/or partially complete products for export to international and domestic markets.

- Freight Transit and Storage (\*2)

Storage of (in bonded warehouses) products of foreign origin, free from import tariffs or national consumption taxes, and according to market demand, redistribution of the items to Japanese or international markets.

- Quality Control

Permitting inspection, testing or modification of products manufactured overseas, and providing for the final inspection and finishing of products

- Product Displays and Business Negotiations

Facilities for the displaying of products and for the conduct of business meetings

It also provides many of the following advantages.

a. Using the Bonding System

Neither tariffs nor domestic consumption tax to be imposed on products of foreign origin, which are designated for re-export. However, customs tariffs will be imposed on items delivered from the Free Trade Zone to domestic Japanese markets.

Neither tariffs nor domestic consumption tax to be imposed on products of foreign origin while such products are held in bonded warehousing.

Allows inspections of foreign product quality within the FTZ site, and permits removal and disposition of defective products. Tax deductions can be applied against these products.

b. Special Tax Measures

Corporate and Income Tax Deductions (National Tax)

Acquisition, production and construction (includes expansion) costs of facilities or equipment in excess of 10 million yen for use in manufacture, surface freight, transport, warehousing, packaging and retail operations within the Free Trade Zone, shall be eligible for both ordinary and special depreciation.

Deducting Loss Reserves against Taxes (National Tax)

Investments made by domestic registered firms in other firms qualified to operate within the Free Trade Zone shall be recognized as reserves against losses, and such losses will be deducted from the investor's corporate and income taxes. This will ease fund raising for firms operating in the zone.

Business Tax

A five-year tax exemption shall be granted on new facility and equipment construction or expansion within the free trade zone.

Real Property Acquisition Tax (Prefecture Tax)

Immovable property acquisition tax for those buildings and land acquired as a part of facilities used by industries within the Free Trade Zone will be exempted from taxation.

Fixed Property Tax (Municipal Tax)

Exemption from fixed property taxes will be provided for facilities and equipment and lands acquired for use within the Free Trade Zone.

Other exemptions, as qualified under certain terms, shall be granted from fixed property tax (prefecture tax), from special

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land holding tax (Municipal tax) and from commercial office space tax (municipal tax).

c. Funding Incentives

Low interest financing is available (capital designated for special areas such as Free Trade Zones) from the Okinawa Development Finance Corporation, and from Prefecture's Product Trade Promotion Fund.

2) Special Free Trade Zone

In addition to the existing Naha District Free Trade Zone (FTZ) established by the Okinawa Promotion and Development Special Measures Act, a partial revision to the Act made in March 1998 called for the establishment of a new Special FTZ system and introduction of tax incentives.

3) What are the problems in this regard?

Okinawa already has two, so-called "Free Trade Zones", but unfortunately they hardly work at all (there are very few business entities which use them now). I consider the reasons for this undesirable situation as follows,

A. Lack of the most effective incentives (non-tariff incentive)

The general description of FTZ among the world is a particular location in which,

- ① export-import businesses are exempt from taxes;
- ② any quotas that might otherwise apply to the import of goods do not apply,
- ③ business apply streamlined laws and regulations to their dealings.

The Okinawa FTZs do not have the features above, especially the

most effective incentives ① and ② above, but has tax an alternative incentive on original material or products (reference to \*1 in page 11). That means Okinawa FTZs are just under the Japanese tax systems, but do not have authority to provide non-Tariff incentives towards foreign entities.

So, Okinawa FTZs do not meet the criteria of the international concept of FTZ. It does not offer more than any other FAZ (Foreign Access Zone) does in Main land Japan.

Even with many kinds of incentives, there are such an inefficiency of the incentives and lack of the incentives, which induce import. Accordingly, such a lack of incentives has prevented Okinawa from becoming a well-utilized international trade port.

B. A relevant industrial vision for Okinawa has been lacking.

As I mentioned Okinawa do not have favorable conditions for producing industry (reference to page3 to 4). Nevertheless, the Okinawa FTZ provided many more incentives for producing industry than import industry (reference to \*2 of page 9). Those kinds of facilities are useless unless Okinawa creates a favorable business climate for them.

### (3) The lessons of Thai FDI policy

1) To solve this above-mentioned problem, can we learn something from the Thai FDI policy and organizing system for it?

There are some similar points, like tourism (warm weather, beautiful ocean resorts, original cultural heritage, etc—), agricultural products (sugar cane, tropical fruits, etc—).

Even in such similar industries, there are not many points to learn. For example, both Thailand and Okinawa have traditional handicraft industries. In this regard, it has often been said that Okinawa craft culture has been more influenced by other Asian countries than by mainland Japan. However, this similarity also means that it is difficult for Okinawa to be successful in price

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competition with those countries that can produce similar kinds of crafts at much lower prices, and thus the promotion way for these goods would be different from more competitive providers.

Moreover industrial structures of Thailand and Okinawa are different.

Thus, after learning about industrial climate of Thailand, I found that there are not many similar points between Thailand and Okinawa about inducing FDI.

Nevertheless, we can still learn about general structure and other specific ideas for promoting FDI (like BOI office, One Stop Service center, BOI Fair, etc).

## 2) Law and Regulations about FDI in Thailand

### A. "Thailand BOI office"

Thailand BOI office consists of 6 executives including the Prime Minister, thus has much discretionary power to provide foreign entities the recognition for operating business in Thailand. I think such a government-linked organization enables Thailand to adapt to situational changes in the national economy and the business world. Correspondingly the Okinawa prefecture should have such a government-controlled organization for Promoting FDI. Should Okinawa become the FDI region, with its special industrial concept and different system from mainland Japan, the ideal government body for this project would be prefectural government, since speedy adaptation to the local conditions can be attained by the strong initiative of local government.

### B. "One Stop Service Center"

To expedite foreign investment in Thailand and to reduce the complexity of dealing with a multiplicity government agencies, the Office of the BOI has established an "Investment Service Center" at their offices in Bangkok. This Center is able to issue or obtain



various licenses and permits for promoted companies, including permits to establish, operate and expand factories, to construct buildings and to produce and sell medicine and foodstuffs. The Center also offers assistance in obtaining work permits and visas for foreign experts and technicians, assistance with various public utility agencies (water supply, electricity, telecommunications) and advice regarding taxation, repatriation of foreign currency and sources of loan funds.

At present, investors who are either "promoted" persons under the Investment Promotion Act or non-promoted persons who are seeking to establish factory under the Factory Act B. E. 2535 (1992) are eligible for assistance at the Center. In practice it is very difficult, however, for non-promoted persons to qualify for assistance at the Center.

#### C. The package of Alien Business Law and BOI incentives

The Law governing foreign participation in business in Thailand generally referred to, as the "Alien Business Law" is the National Executive Council Announcement No. 281 B. E. 2515 (1972).

An "alien" is a natural person (Individual) or a juristic person (company or partnership) that does not possess Thai nationality.

This includes:

——A juristic person, which half or more of the share capital belongs to aliens (bearer certificate shares of a limited company are deemed to be shares owned by aliens), or in which half or more of its shareholders, Partners, or members are aliens (recently revised); and

——A limited or a registered ordinary partnership, which has an alien as the managing partner or manager.

This Law limits the maximum alien ownership in certain businesses to less than 50%. There is no restriction on alien participation in businesses not specified in this Law, but note that there are some restrictions under other various specific laws as they follow,

——Commercial Banking Act B. E. 2505 (1962)

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-----Act on the Undertaking of Finance Business, Securities Business and Credit Foncier Business B.E. 2522 (1979) and the Securities and Exchange Act B.E. 2535 (1992)  
-----Life Insurance Act B.E. 2535 (1992) and the Casualty Insurance Act B.E. 2535 (1992)  
-----Thai Vessel Act B.E. 2516 (1971)  
-----Employment Provision and Employment Seekers Protection Act B.E. 2528 (1985).

#### D. The history of FDI policies of Thailand

The background of the early stage of FDI policies of Thailand (1960-1970) was trade unbalance coming from too much relying on import goods. So, the policy aimed to get the trade balance, to strengthen the ability of export competition, to develop the product industry by cutting off the producing costs. Note that Thai government made a statement about FDI promotion, and held seminars in adequate countries.

The second stage of it (1977-) was more discriminative. With keeping the policy to strengthen Thailand's balance of payments, the policy to protect domestic industries, Thai government took the policy to stimulate development in the provincial areas. Also with the sudden rise of the yen-dollar exchange rate in 1986, the FDI from Japan increased so much.

#### E. On what points Thai Foreign Business Law renewed recently?

I would like to introduce rough information of that.

Firstly, the new Thai Alien Business Act (B.E. 2542) exempt the criteria by the numbers of the foreigners for the definition of "Alien" applied for this Act as I mentioned above.

Secondly, it reduced the restricted businesses for "alien" from 63 to 43.

Zoning incentives were left even there was big argument. But as the world economy is becoming one, Thai FDI policy

are required to have some repair by WTO fair trade policy.

F. Other specific ideas

We can learn about above-mentioned cultural similarity by promoting events such as a "BOI Fair", "Thai Craft Fair", "Amazing Thailand" as a campaign for Tourism,

(4) The lessons drawn from the EU countries

The idea of European Single Market (ESM) policies stands on free movements of persons, good, and service, capital (Treaty of the Rome, Article3). Since those 4 elements are important and common to make economy vital, I think Okinawa can learn from the idea of 4 economy-invigorating factors of ESM policy to develop new system.

1) Ideas to create free movement of "good, person, service"

Providing very high rate tax exemption for foreign entities those who have know-how and skills for high technological industries, and wish to operate those industries in Okinawa, and release the restriction for foreigners in those fields.

2) Ideas to create free movement of capital

I would like to consider about inducing the international central bank system which deal with gross settlement express transfer of the money (referring to TARGET in E.U.), using not only U.S dollar but also EURO, and how about to use satellite to provide practical infrastructure (like inter-net, very effective telecommunication facilities).

" Target"

Settlement System of the Central Banks Monetary union leads to

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changes in settlements between the central banks. TARGET (Trans-European Automated Real Time Gross Settlement Express Transfer System) has been introduced throughout Europe. Starting with Stage 3, it is used by the ECB (European Central Banks) for a smooth, fast and safe implementation of its monetary policy in the EMU zone. The result of this is those money markets of Europe to grow even closer together. What is more, this system facilitates a fast and efficient settlement of large cross-border payments.

TARGET is basically decentralized in its organization and consists of two components. The first component is the RTGS (real-time Gross Settlement Systems) at the national central banks. The second component is the mechanism for networking the national RTGS, the so-called inter-linking system. Each national central bank sets up an interface between its RTGS and the inter-linking system. At the Bundesbank this interface exists in the form of the Bundesbank's Electronic Window.

TARGET can be used for forwarding both domestic and foreign payments. In cross-border settlements between central banks, payments are exchanged directly between the national central banks involved. The sole clearing currency is the Euro. During the transitional phase (phase B), if payments orders are still issued in a national currency, they have to be converted to Eurasia by the first central bank involved.

Up to now, the following transactions is possible within the TARGET system:

The handling of payment orders with no basic limitation on the amount;

The handling of monetary policy-related transactions that must be processed through TARGET;

The handling of payments from the inter-bank and client-bank sector that may voluntarily be processed through TARGET;

The "immediate" clearing of payments if the account maintained by the forwarding bank with the pertinent central bank has sufficient funds. The processing of the individual payment transaction will very rarely take longer than half an hour to complete. The system of "debit before credit" is intended to ensure that the payments

received will be free of credit and liquidity risks.

The central banks are assuming that mass payments for which the high speed of execution guaranteed by TARGET is not necessary will be processed through other systems for reasons of cost. The Governing Council of the ECB has set the prices for TARGET payments. The fee for cross-border TARGET payments depends on the number of payments made by a participant in a single RTGS system and is the same across Europe regardless of the destination or the amount.

All the central banks of the EU member states and banks that maintain an account with one of the EU central banks are allowed to use the TARGET system. This also includes EC central banks not participating in the EMU. It should be remembered that, according to the EMI, the access criteria are essentially determined at the national level. Because of the planned operating times of the RTGS from 7.00 a.m. to 6.00 p.m., the participating banks have to fulfill significant organizational requirements in payments. This will result in competitive advantages for larger banks with a more developed payments business, such as WestLB. The final acceptance time for customer payments is one hour before closing time of TARGET, i.e. approx. 5 p.m. After this time only inter-bank payments may be submitted.

Target is closed only on the two common public holidays of the EU, i.e. December 25th and January 1st.

In addition, however, closures of the national RTGS are possible, whereby the Interlining system is always open when a minimum of two RTGS systems is operational.

#### 4. Conclusion

Some considerable suggestions of legal and social system and the basis of governmental effort for those.

##### (1) Information Technology and Telecommunication Industry

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I have already mentioned the "Okinawa Multi-Media Island Concept" of the Okinawa Prefecture Government and the "Okinawa Multi-Media Special Zone Concept" of the Japanese Minister of posts and Telecommunications.

Furthermore, there have been other favorable developments in this field. A premier American content provider, The Akamai Technology Company, has announced that it is going to locate computer servers at Osaka and Okinawa in cooperation with a Japanese communication leader, NTT Communications. They will employ new technology called the "Hedge-Advantage System", which enables users not only to access the internet easily and rapidly, but also to send a huge amount of information at the same time, including sound and pictures. The Osaka and Okinawa information technology communication servers will be constructed by NTT Communications. I foresee that they will vastly enhance E-commerce, as well as effectively ensure Okinawa's participation in the International Banking System (proposed in this paper) by means of computer connection with the financial centers of the world.

To attract venture capital investment in the telecommunication industry, how about providing well-organized cyber offices with inexpensive fees established and maintained by the prefectural Government?

Moreover to attract skills and expertise, how about making a special offer such as a low income tax rate and/or a special visa for foreigners, for those who have the know-how and skills of high technology and wish to provide training in those skills to Okinawans?

Along with this, how about asking the Japanese government to set up Multi-Media training centers as public organizations, and requests other countries like the U.S.A. to provide specialists in that field as a lecturer or trainer in those organizations.

(2) Practical systems and organizations for promoting FDI

1) Lessons drawn by Thailand FDI policy

A. Issues concerning to A, B, F, of 3-(2) on P14-17.

We can learn from Thailand about the general structure for promoting FDI, such as the BOI office and the one stop service center which continuously adapt to the economical situation. Okinawa should always keep in mind this flexibility in adapting to the changing economic climate.

Okinawa needs to create more incentives for foreign businesses and to promote FDI. To achieve this, Okinawa should better establish its government support for FDI, by promoting it effectively much as Thailand does with its BOI office, including BOI Fair and one-stop service center.

Should Okinawa become the FDI region, with its special industrial concept and different system from mainland Japan, the ideal government body for the "Multi-Media Islands" project would be prefectural government, since speedy adaptation to the local conditions can be attained by the strong initiative of local government. So, I think that the Okinawa Prefecture should create a government-controlled organization for promoting FDI.

Furthermore, the prefectural government can also effectively promote businesses within the region by having advisory offices open to foreign investors named "one-stop service center," where foreign investors can get clear, complete information about such vital matters as how to apply for a long-term visa.

B. Issues concerning C of 3-(2) on P.15 to 16

We can learn from Thailand how to make favorable regulations

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for and effective promotion of the FDI (the package of Foreign Business Law and BOI incentives).

There is much opposition to the liberalization of import goods and promotion of the Foreign Direct Investment by the domestic business people in those industries. So, Okinawa can learn from Thai FDI policies (mandated by the Thai Foreign Business Law) which restrict FDI to such industries in which Thai domestic businesses are less competitive.

### (3) Free Trade Zone

To become a truly internationally utilized trade port, Okinawa FTZ should develop its system with much more incentives toward business entities and people.

① First of all, more radical reduced tax incentives (attractive Non-Tariff Incentives) would be added. Here we should note that if Okinawa FTZs were to have such a radical tax incentive, constituting a special tax system provided only in certain areas that would mean that Japan would have a 2-tax system. In this regard, there is very strong opposition by Japanese Government. However such a radical tax incentive is indispensable to invigorate Okinawa FTZs as I mentioned on P. 13 to 14. So, Okinawa must present its positive, powerful reasons for mutual benefit to convince the Japanese Government and other regions of Japan to accept it.

In this regard, I would like to say that the necessity for invigorating Free Trade Zones in Okinawa might increase for the following reason:

As I mentioned before, Okinawa is situated as a very favorable commercial port of entry for Europe, and the ACEAN countries from the view of Japan, On the other hand, it is situated as the entrance for North East Asia from those countries.

The Trade-Related Investment Measures (TRIMs) prohibit the local commodity requirement for member states. Furthermore, the escape clause from this prohibition was defeated at the end of 1999



according to the report of the latest United Nations Conference on Trade and Development (UNCTAD) in Bangkok, June 2000. The measure for its postponement has not been confirmed yet, as disclosed by the Sekai-Keizai Hyoron P.12-14, June 2000.

Therefore, it is very probable that the trading of commodities will become invigorated, and, thus, Okinawa will play a role in regional international trade. For example, a Japanese computer maker may try to make computers according to the customer's particular needs in Vietnam using the cheap labor force, but finds that he needs certain U.S.-made components for which Okinawa can become the retailer.

Such unimpeded international logistics will play an important role in the "high-tech" production industry's meeting the customer's product needs. Furthermore, to spur Okinawa's retail participation in regional international trade, Japan should offer incentives such as duty free imports on a wide variety of products purchased abroad.

②Secondary, 24-hour operation is important (it is also helpful for unemployment problem).

③Thirdly, the expansion of incentive systems operated at the airport and the establishment of the commercial relationship between harbors are necessary.

④Fourthly, business-applied streamlined laws and regulations for import and international transactions are necessary.

In this regard, OTO, a Japanese organization established for market liberalization, submitted a report to the Japanese government recently, urging that the testing system for imported foods like canned tuna should be simplified, and made universally applicable to a large variety of foods, as much as possible. That move was based on the opinion of Okinawa Trading Association. Most of the importers of foods in Okinawa are small businesses, which import small amounts of a variety of foods to meet the needs of the consumers in Okinawa. However, tests are now conducted for each kind of food, thus elevating import costs significantly.

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(Source, Kankou to Keizai 558, Nov. 15, 1999). Considering the large consumer presence in Okinawa, the testing system should be simplified to provide low fees and rapid implementation.

#### (4) Liberalization of the Foreign Passenger Control System

The next suggestion is that Okinawa should adopt a more liberalized Foreign Passenger Control System, because this would help Okinawa to invigorate tourism and other various kinds of industries including information technology and the telecommunication industry.

In this regard, I admire the following step taken by the Japanese Government. Recently, in order to promote Okinawa, the Japanese Government started a special streamlined visa control system in Okinawa for citizens of Asian NIES nations (except Singapore). It applies to citizens from Taiwan, Hongkong, and Korea, countries that have been close to Okinawa. It enables tourists to be free from the visa fee (3 thousand-yen), application form, and picture.

Moreover, it does not require the tourists to stay over in Okinawa. (Source, Kankou to Keizai 553, Sep.1, 1999).

#### (5) 24 hour operation

Another commercially attractive option would be to inaugurate a 24 hour "Open sky policy", which enables airplanes from foreign countries to arrive and depart at the airport for 24 hours. This policy might bring new flight lines between Okinawa and other regions of the world, and thus provide the demand for new businesses like tourism, duty free shops, and air freight.

Furthermore, to attract venture capital investment in the telecommunication industry, how about providing well-organized cyber offices with inexpensive fees established and maintained by the prefectural government?

(6) "Special Financing Area in Northern Okinawa" Plan

Another promising innovation will be the implementation of a dramatic international financial plan. The Okinawa Prefecture is going to establish a Special Financing Area in northern Okinawa, patterned after the International Financial Service Center (IFSC) in Ireland. The Irish government provides very attractive Foreign Direct Investment incentives through IDA Ireland (a state organization), including a 10 % corporate tax rate for qualifying industries guaranteed through the year 2010. The lesson to be drawn from the Irish IFSC is that Okinawa should provide very liberal business incentives to foreign firms, such as a very low rate corporate tax (the present Japanese corporate tax is 35 %). Nevertheless, there is tough opposition toward such low tax incentives by the World Trade Organization (WTO) which says that such incentives may lead Ireland to become a tax-heaven country like Caribbean countries. However, the IFSC tries to get rid of such "paper companies" by a strict checking system.

Furthermore, there are some favorable conditions what can promote this plan, as follows:

- 1, Okinawa is situated on the opposite side of the earth from Dublin in Ireland, and, thus, there is a 9-hour difference between these two cities. So, creating an international banking system between Dublin and Okinawa by electronic networking would enable a feasible mutual business day collaboration.
- 2, Okinawa is expecting to have financial assistance for multi media industry from the Japanese government under the Division of Okinawa Promotion and Development Special Measures Act (1998). Some giant companies in the telecommunications field are ready to operate in Okinawa. These developments bode well for the near-term establishment of enough computer/telecommunications networking and other infrastructures for the successful operation of an international banking system.

Furthermore, I would like to suggest an additional possibility of great potential for Okinawa's prosperity. That is, the development

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an international central bank system which would deal with the gross settlement or express transfer of money (referring to TARGET in E.U.), using not only the U.S dollar but also the EURO. This could enhance Okinawa's becoming a worldwide trade port and the "habu" for many kinds of internet business including the gross settlement of international transshipment of goods.

Along with the increased exports of the above mentioned Multi-Media and computer industry, a Free Trade Zone would obviously be effective, and if an assembling of competitive products were in Okinawa, such as at the Conventional Fair in Frankfurt, that would induce new business, and FDI would flourish. Consequently Okinawa could become popular among visiting business people, who may consist of the future tourists of Okinawa.

Additionally, in line with this potential of growing Okinawa prosperity increased exports of the above-mentioned Multi-Media and computer industry and FDI would play a major role in the greater development of those industries.

## 5 Final conclusion

On overview of the present situation of Okinawa and Japan as a whole, indicated that Okinawa needs to establish self-sufficient economy, and, to make this come true, Okinawa should ask the central government to provide a special "package" of tax incentives for Okinawa FTZs and budgets for promotions that can be used with more local discretionary power, instead of huge financing of public sector construction. Therefore, in a manner of speaking, Okinawa does not need to be supplied with "fish", but, rather, the tools for "fishing". Moreover, it is imperative that Okinawa reminds the critical need to develop her "fishing" skill!

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Appendix 1

Budget History for Okinawa Development and Promotion Projects

(Source: The Shape of Okinawa 1998, Okinawa Prefecture Government)

	Period	Amount of Budget
First Okinawa Development Promotion Plan	Fiscal 1972-1981	1.2493 trillion yen
Second Okinawa Development Promotion Plan	Fiscal 1982-1991	2.1348 trillion yen
Third Okinawa Development Promotion Plan	Fiscal 1992-2001	1.8986 trillion yen
Total	—	5.2827 trillion yen

Appendix 2

Category		Past Results					
		1972	1982	1990	1992	1995	1996
Total population	Thousands of people	960	1,130	1,222	1,239	1,274	1,282
Available work Force	Thousands of people	375	469	561	562	571	586
Working Population	Thousands of people	364	446	539	539	538	547
Unemployment Rate	%	3.0	4.9	3.9	4.3	5.8	6.5
Gross Prefecture Product	Hundred Million yen	4,592	17,340	28,380	30,807	32,663	-
Prefecture Income per Person	Thousands of yen	440	1,364	2,009	2,091	2,149	-
Percentage Difference with National Income	%	59.5	73.8	71.8	70.5	71.0	-

(Source: The Shape of Okinawa 1998, Okinawa Prefecture Government)