

## OECD Territorial Review of Japan

**How to improve strategic planning and co-ordination across sectors?**

**What should be done to build on regional assets and skills?**

**How to revitalise the economies of the metropolitan centres?**

**How can more integrated rural policies be developed?**

**How can the autonomy of regional authorities be strengthened?**

**For further information**

**For further reading**

**Where to contact us?**

### Introduction

In recent years Japan has been challenged by important socioeconomic changes. Low economic growth, population ageing and depopulation, and new trade relationships with the East Asia region have made it increasingly necessary to transform the system established during the period of economic and demographic expansion.

A basic objective of territorial/regional policy in Japan for the last forty years has been to control regional disparities by developing non-metropolitan and less-developed regions and alleviate the pressures caused by agglomeration in the major urban/industrial areas. In some respects, this policy has been successful; regional disparities are relatively low compared to other OECD countries. However, many of the current problems confronting the government have regional dimensions. Population ageing and decline are forcing the government to rethink the organisation of public services in sparsely populated areas, how public services are delivered in these areas, and what the role of communities should be, etc. In addition, new trade relationships and the relocation of investments in the East Asia region are likely to influence the spatial distribution of economic activity within Japan. While proactive regions are likely to benefit from geographical proximity to China, Korea and other emerging economies, other regions, particularly those with labour-intensive industries, are likely to continue to be affected by high unemployment and enterprise closure rates.

Tackling the challenges that Japan faces today will involve addressing the strong regional dimensions of these challenges. A key component of the overall process of reform is to enhance the international competitiveness of Japanese regions through a more flexible, less top-down approach to regional policymaking. This evolution can be seen in a range of policy fields, such as planning, infrastructure development, urban and rural policy, decentralisation and fiscal reform, etc. The next step is to work out how these territorial policies can be implemented in order to produce the anticipated impacts on national outcomes. ■

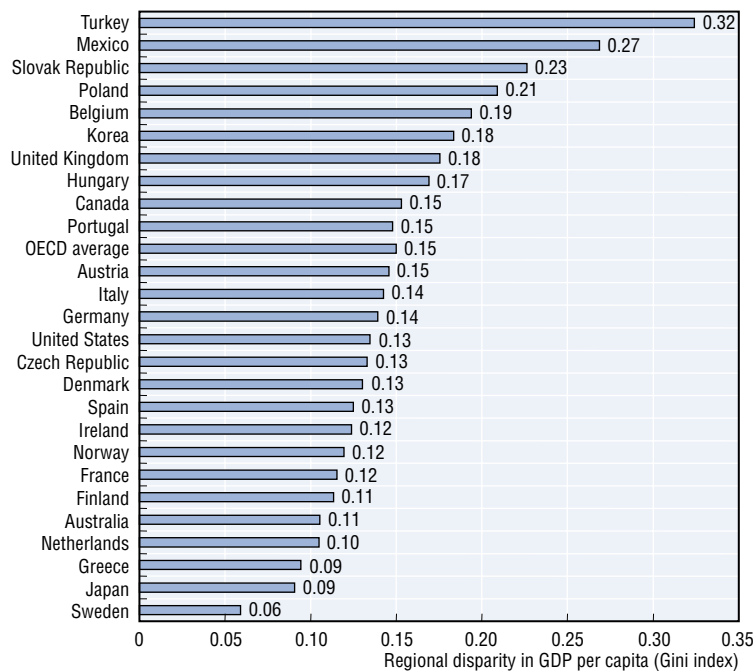
**How to improve strategic planning and co-ordination across sectors?**

Territorial planning has a particularly central role in organising territorial development in Japan. The series of Comprehensive National Development (CND) Plans, introduced in the 1960s, have made a major contribution to development in postwar Japan. However, over time, the CND Plans have become more conceptual than operational and priorities have become less clear. Weaknesses in the current planning system – related mainly to the lack of clear targets, assignment of responsibilities and deadlines – mean that it does not fully play the role of co-ordinating structural policies. Despite recent efforts to reorganise central government departments, the administrative system still suffers from sectoral segmentation.

There is scope for a much stronger role for planning instruments. The new planning system should strive to link long-term strategic planning and short-term policy objectives, including better links with budget-related implementation mechanisms. This new system should be based on measurable targets and make greater use of outcome indicators, assigning clear responsibilities and defining time frames for achievement. In the context of strict controls on public expenditure and the urgent need for more efficient allocation of public resources, CND and related plans could also serve as tools for policy evaluation and monitoring. This would require much stronger cross-sectoral co-ordination.

Assigning a more active role to regional and local governments should complement and enhance the current planning scheme. More flexible and partnership-based tools for planning would be better adapted to

**Figure 1.**  
**REGIONAL DISPARITY IN GDP PER CAPITA (2001)**



Note: Data for Mexico, Norway and Turkey refer to years 1995 and 2000. Regional GDP is not available for Iceland, New Zealand and Switzerland.

Source: OECD (2005) *Regions at a Glance*.

the emerging decentralised governance frameworks. The Regional Block Plans, which cover groups of prefectures, are likely to be the principal instrument through which national level planning and local government input are integrated. A contract-based approach, such as that used in France, could play a useful role in clarifying the medium-term objectives and responsibilities of the different national and regional actors. Moreover, the planning system should be reviewed not only from the perspective of planning procedures, but also with respect to implementation, including budgetary issues, which can help local governments take a more active role and provide incentives for them. ■

**What should be done to build on regional assets and skills?**

Japan’s public policy makers have recognized the importance of regional competitiveness and effective regional systems of innovation for national economic growth and development. At the policy level, this reflects the recognition that conventional sector industrial policies, standardised human capital frameworks, and massive investments in local public infrastructures are no longer adequate in the changed economic and international position that Japan now finds itself. The re-orientation of policy thinking towards more sustainable development paths based on regional assets and accumulated specialisations, strengths and skills is being combined with an emphasis on smaller-scale policy interventions. Two of the most important areas for policy are measures to target regional clusters and to increase the contribution of public research to improving the productivity of firms.

The government is increasingly turning its attention to the potential of clusters as a key pillar of regional economic policy. In the past, regional growth poles were mainly perceived in terms of co-location; in other words, industrial sites were prepared and businesses were brought in, thereby creating a concentration of firms, but not necessarily emphasising their complementarities or potential to work together and build producer chains or other types of networks. In the last few years, attention has shifted to

**Table 1.**  
**CHANGES IN THE GDP PER CAPITA RANKING OF JAPANESE REGIONS COMPARED TO OTHER OECD REGIONS (TL2) BETWEEN 1996 AND 2001**

TL2 unit	Rank 1996 (out of 300 OECD regions)	Rank 2001(out of 300 OECD regions)
Kanto	59	75
Toukai	52	78
Hokuriku	85	110
Kinki	78	112
Chugoku	98	120
Hokkaido	108	125
Tohoku	132	157
Shikoku	140	168
Kyushu	150	173
Okinawa	194	205

Note: Data for Mexico, Norway and Turkey refer to years 1995 and 2000. Regional GDP is not available for Iceland, New Zealand and Switzerland.

Source: OECD Territorial Database. GDP is measured at current PPPs.

developing network-based clusters, i.e., dense networks where expertise and skill can accumulate, there is significant knowledge exchange or spill-over, new firm creation is stimulated, and processes of competition and co-operation generate innovation. The Knowledge Cluster Initiative focuses on universities, encouraging them to work with area industries, as well as financiers, to commercialise new technologies.

The emphasis on bringing universities into closer contact with local industry is an important priority. Strong links between small and mid-size firms (SMEs) and public testing facilities are highly desirable and should continue to be strengthened to support process technology, quality, training, and incremental product improvement. However, *kohsetsushi* (public research and testing facilities), should collaborate more with universities. SMEs should also be encouraged to work with research universities to gain access to new research, faculty, and students in order to increase innovation in emerging technologies.

An important element of the reform process is the shift from an emphasis on administrative control and standardization towards a more flexible system that encourages actors to engage in new relationships and experiment. The Japanese government is moving on a wide range of fronts to loosen regulatory frameworks. The Special Zones for Structural Reform programme, which enables the central government to solicit regulatory proposals from all interested parties including local governments and private firms, emphasises ideas of self-help and autonomy, helping local actors promote the special competitive advantages of their regions through regulatory exemptions. The aim is both to test the feasibility of wider deregulation, and also to encourage local authorities to take a more pro-active stance in proposing measures for development of their areas. The impact on building initiative at local government level might be significant even if the overall economic development impact remains limited. ■

### How to revitalise the economies of the metropolitan centres?

Japan's metropolitan areas concentrate much of the nation's wealth and productive assets. Despite three decades of strong policy interventions, Japan's economy is still dominated by the Kanto and Kinki regions (covering most of the Tokyo-Nagoya-Osaka metropolitan axis), which account for approximately half of the country's population and produce around 60% of GDP. During the period of economic expansion, the major cities were the symbol of the economic dynamism of the country. However, over the past few years, they have faced a difficult transition. The urban land market crash has undermined the economies of Japan's three metropolitan areas (Tokyo, Osaka and Nagoya) and real estate values continue to fall in all but the most central areas of the capital. Over the same period, the prefectures around Tokyo and Osaka were especially hard-hit by the contraction of manufacturing, losing between 15% and 25% of employment and businesses in the machinery sector and seeing real output decline by twice the national average.

The government has introduced a range of new policy measures designed to enhance the competitiveness of urban cities by improving urban environments and galvanising urban land markets. The Urban Renaissance programme, the government's principal urban development initiative, has

three main features: 1) An emphasis on the role of private investment and market forces 2) The use of focused, limited-area deregulation and special exemptions to circumvent out-dated regulations, and 3) Locally-driven projects, enhancing local autonomy. An important shift in urban policy over the last few years has been the increasing interest in regional cities. These smaller cities, somewhat neglected as a target of specific policy, have the potential to act as regional “core” cities providing services and employment for wider regions affected by out-migration. At the same time, they face problems of city centre decline and struggle to retain younger populations who are still attracted to the major metropolitan areas. As such, Urban Renaissance and other regional revitalisation programmes are emphasising the need to target policies to support the economic vitality of these cities, both as urban centres and as anchors for wider rural hinterlands.

A number of other urban issues are now being tackled as part of the emphasis on making Japanese cities more competitive. One important strand of current policy concern is the perceived unattractiveness of Japan’s urban landscapes. Poor regulatory controls during the period of urban expansion have given many Japanese cities an unattractive physical appearance and left them without the green spaces that are considered to be important in attracting residents and investors. Improving the image of Japanese cities will necessitate a concerted approach involving more careful redevelopment of sites through managed programmes such as Urban Renaissance, better/sustainable re-use of building stock, and initiatives to create attractive, mixed use areas. In addition, new legislation has been enacted to support the efforts of local governments to manage their urban environments. ■

### How can more integrated rural policies be developed?

Rural regions, especially those in more remote areas, pose a particular challenge for policy. As in many other OECD countries, the state of rural regions is high on the political agenda, influencing external trade and development assistance policies as well as domestic policymaking. Yet, despite this political prominence, most indicators suggest that processes of ageing, out-migration and economic decline are persistent. In the past, rural policy has focused on two areas: 1) agricultural policy and related measures destined to ensure food production (and increasingly non-commodity functions), thereby supporting rural communities, and 2) regional policy instruments that aim to ensure balanced development. Given the poor outcomes from past efforts to stem the economic and demographic decline of rural areas, and in light of likely reductions in the levels of direct and indirect supports for rural regions through sectoral policies, new approaches are being introduced. In general, rural policy is increasingly conceived as the integration of three main types of measures:

1. *Restructuring and diversifying agriculture.* With respect to sector-specific reforms, these relate mainly to providing incentives for “motivated farmers”, i.e. preventing market failures and other obstacles that provide disincentives to farmers who are more entrepreneurial and more able to invest in production.

2. *Building on the amenity values inherent in rural regions.* Interest among Japan’s urban population in rural areas has increased significantly and many rural regions have successfully developed rural tourism policies, associations linking rural and urban areas, local products and other activities. Agriculture plays a key role in many of these amenity-based activities, hence the importance of linking structural reform of the agricultural sector with initiatives that allow farming communities to diversify their economies.
3. *Sustainable rural communities.* The most recent CND plan – the Grand Design for the 21st Century – regards small towns and surrounding rural communities as the potential basis for a new way of organizing low density regions, which could also contribute to environmental protection and cultural heritage. This concept is likely to develop as a principal means by which transport and other public services are organised at local level. ■

**How can the autonomy of regional authorities be strengthened?**

As can be seen in other OECD countries, national ministries and agencies increasingly act as partners in regional development, setting the framework for policy and overseeing the co-ordination and evaluation mechanisms within which regions can formulate their own policies. Similarly, the traditional top-down structure of the public administration is being adapted to a more decentralised system of government. The emphasis on input from regional and local governments is having a dramatic impact on the way policies affecting regions are constructed. Although the recent movement to decentralise seems to have been motivated primarily by economic and fiscal concerns, it also responds to increasing requests from citizens for a more diverse supply of public goods and attests to increasing recognition on the part of the central government of the enhanced capacity of local government.

**Table 2.**  
**PREFECTURES’ PER CAPITA TAX BURDENS, RECEIPT OF TRANSFERS AND EFFECTIVE RATE OF RETURN IN 2002**  
(Units: JPY 1 000)

Prefectures	National tax (i)	Local tax (ii)	Transfers (iii)	Rate of return <sup>1</sup>
<b>Five most-taxed</b>				
Tokyo	1 270	461	82	0.314
Aichi	499	329	110	0.531
Osaka	554	297	171	0.550
Kanagawa	334	288	99	0.622
Chiba	256	246	140	0.768
<b>Five least-taxed</b>				
Tottori	160	201	449	2.078
Akita	160	179	531	2.097
Nagasaki	144	174	509	2.148
Kochi	162	184	628	2.346
Shimane	177	198	690	2.365
National average	375	263	262	0.822

Note: “Local Tax” includes both prefectural tax and municipal tax. “Transfers” includes LAT, LTT and National Treasury Disbursement.

1. Rate of return = Total tax (i + ii)/Total revenue (ii + iii).

Source: DeWit and Yamazaki (2004), Japan Focus; original data from Tokyo Metropolitan Government.

A key part of this process is a review of the system of local finance. Over time, the fiscal system has proven to be too rigid with regard to Japan's new socio-economic challenges and too expensive with regard to the current fiscal environment. A new fiscal decentralisation process is currently underway, often referred to as the Trinity Reform for FY 2004-2006. This package of measures has three main components: reduction of earmarked grants, compensation for this by an increase in the taxing power of local authorities and a review of the system of unconditional revenue sharing (Local Allocation Tax: LAT).

If serious cuts in government grants are implemented and the local authorities are required to collect more local taxes, the richer, urban prefectures will not be seriously affected, but some rural prefectures, which receive the large majority of their revenue through transfers (see table 2), may be forced to severely limit their level of public service provision.

In this context, efforts should be pursued to better exploit economies of scale, internalise territorial spillovers and improve policy cohesion through amalgamations of municipalities and other forms of horizontal co-operation. At present, the idea of promoting more inter-prefectural co-operation and the grouping of prefectures into administrative units is evolving. A first step to develop a real culture of horizontal co-ordination and create clear regions around which policy can be constructed is the proposal to establish "regional blocs" to which functions from the central government could be delegated. Providing regional blocks with financial resources and incentives would help to consolidate their role and could result in more efficient investment and better inter-jurisdictional co-operation and policy co-ordination on a "large-region" scale.

To promote better vertical co-ordination the government is beginning to establish specific mechanisms to manage decentralised policy making. In the ongoing process of decentralisation, new institutional structures and agreements have developed that could be interpreted as a first step to more co-operative practices across levels of government. There are a few examples of strategic initiatives involving collaboration and integrated development (the urban-rural partnership programme, the community renovation grant scheme, etc.), but they remain very local and are more oriented towards horizontal than vertical co-ordination. Nevertheless, as reforms progress in related fields such as territorial planning and local finance, and in the context of the introduction of regional bloc structures, it seems clear that more formal mechanisms for vertical co-ordination will be required. In addition, Japan should review the allocation of responsibility across levels of government for policy implementation and improve the effectiveness of policy implementation. Decentralised policymaking instruments and monitoring and evaluation mechanisms could offer an important area of exploration. ■

**For further information**

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### For further reading

- **OECD (2005) OECD Territorial Review: Japan**, ISBN 92-64-00888-8, 35 €, 178 p.
- Other analysis on territorial policies:
  - National Reviews:** Finland (forthcoming), Czech Republic (2004), Mexico (2003), Canada (2002), Switzerland (2002), Hungary (2001), Korea (2001), Italy (2001).
  - Metropolitan Reviews:** Busan, Korea (2005), Mexico City (2004), Montreal, Canada (2004), Helsinki, Finland (2003), Metropolitan Melbourne (2003), Öresund, Denmark/Sweden (2003), Vienna-Bratislava, Austria/Slovak Republic (2003).
  - Rural Reviews:** Moravska Trebova-Jevicko, Czech Republic (2003), Siena, Italy (2002), Tzoumerka, Greece (2002), Teruel, Spain (2001).
- **OECD (2005) Building Competitive Regions**, ISBN 92-64-00946-9, 30 €, 142 p.
- **OECD (2005) Regions at a Glance**, ISBN 92-64-01863-8, 40 €, 224 p.

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