

Overcoming the Economic Crisis and Regional Policy

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1. Introduction

First of all, I would like to express our great thanks to Minister Kiviniemi, and also to Mdme. Sallard and other OECD staff members for today's meeting.

Almost 30 years ago, OECD established the Ad Hoc Group on Urban Problems in which I participated for the first 3 years. The discussions with other member countries were extremely valuable in implementing Japan's urban and regional policies afterwards, particularly at the time of economic difficulties since 1991.

2. The Magnitude of the Financial Crisis

Japan experienced economic crisis caused by the asset bubble burst in the 1990s, and it took about 10 years for economic recovery. Land prices and stock prices, they all fell rapidly to almost one fourth of the peak level. During this period, the banking sector lost 100 trillion yen non-performing loans, which was roughly 1 trillion dollars, equivalent to 20% of Japan's GDP.

There is an English expression, "Prefer the devil one knows to the one one doesn't". The sharp fall of asset prices identifies the magnitude of the devil Japan had to fight. Now the world economy is facing financial crisis. We do not know yet how big and violent the new devil is. However, our experience might provide one yardstick to foresee what will happen in near future.

I shall not go into details about the evaluations of our fiscal policy, monetary policy, or other financial sector reforms taken in the past. Here I would like to draw your attention to the role of urban and regional policies in the midst of economic crisis.

3. Urban Renaissance Policy

One of the countermeasures was the urban renaissance policy. The purpose was to revitalize the economy by means of promoting private investment in urban development projects mainly in large cities. The policy introduces incentives for prompting private investment: one is deregulations to maximize private initiative, and another is financial supports and tax relief measures to encourage private development. In implementing this policy, I believe that the discussions and experiences at OECD meetings were extremely helpful.

The urban renaissance policy remains an important pillar of Japan's urban policies, and a lot of projects are still underway in central Tokyo at present. It is expected to create large domestic demand in the economy, so it will be an effective countermeasure against the current economic crisis.

The second policy was the establishment of J-REIT (Japan-Real Estate Investment Trust), a market for Japanese real estate securitization. In those days, some major banks were nationalized due to the growing volume of non-performing loans. With paralyzing financial institutions, J-REIT was expected to revitalize the real estate market and promote real estate liquidity. This most celebrated event was followed by a black shadow the next day, 9/11, 2001. The market value of J-REIT real estate securities, which grew steadily until the spring of 2007. However, as the global economic crisis set in, the values had decreased to less than 40% of the peak values of 2007.

4. Trend of Regional Disparity

At this point, I would like to refer to some political reactions against urban renaissance policy. In the long run, regional disparities (measured by Gini coefficient) have been converging, but in recent years it shows some tendencies of widening, and politically much focused in the course of the economic recovery. One reason for this was the urban renaissance projects tended to concentrate in large metropolitan areas because of their private investment nature. So other local regions felt they were not paid sufficient attention. Therefore the Cabinet has recently taken up "Regional Revitalization" again as a major policy target.

5. Policy Issues in Facing the Current Crisis

(1) Revitalization of Regional Economies

- ① Strategic infrastructure investment is very important, and such infrastructure projects as airports, railways, roads and ports should be promoted as National Projects. Narita and Haneda are two major airports in Tokyo Region, and their capacity increase and better access projects are being undertaken now.

It is also important for Japan to promote cooperative relations with South Korea, China, and other East Asian neighbours in order to boost the economy in this area. Seamless and single market is rapidly emerging.

- ② As to less prosperous local regions outside the large metropolitan areas, one policy target is to revitalize declining local city centres.

Second is to increase job opportunities through utilizing unused and underused resources. An interesting example is the success story of merchandising natural

tree leaves in a mountain town. An agricultural cooperative has established a business model of collecting and selling leaves, which meet customer needs, introducing a fiber-optic network in the region, and making use of the labour power of the local senior citizens. Another example is a forest town which tries to provide a natural environment for urban children. They produce wooden name cards as its promotion tool of a Japanese cedar forest town.

Tourism also provides an important job opportunity. The Tourism Agency was established in October 2008, to show strong government determination.

Other example is Multiple-Job Collaboration, which encourages cooperation between a forest union with skills and a construction association with human resources and equipment in mountain areas.

(2) Governance Problems

To revitalize regional economies, it is important to enhance the administrative ability of the local governments.

① One policy is the reform of the national spatial planning system. We made a drastic change to the national spatial planning system in 2005. Previously, national spatial planning had been the exclusive authority of the central government. Under the new planning system, the middle part of Japan between north Hokkaido and south Okinawa is divided into 8 regions, and Regional Plans will be formulated for each region which covers several prefectures, beyond administrative boundaries. Special mechanism is also established for each region, involving concerning national agencies, local governments, and business communities.

② Another important issue is the restructuring of local governments.

Large scale mergers have been promoted in recent years in order to strengthen the financial and administrative abilities of municipalities. The overall number of municipalities has been reduced to nearly the half. Discussions are also underway concerning the reorganization of Japan's 47 prefectures into regional governments to which the national government would transfer wide-ranging powers.

(3) Approach to Tackling Climate Change

In July 2008, Japan hosted G8 Economic Summit and one of the major topics was climate change. Thirteen cities operating innovative programmes were selected as Eco-Model Cities in order to support their initiatives and disseminate their experience and knowledge to other cities. Public investment to achieve a low-carbon society will contribute not only to short-term economic recovery, but also to long-term environmental objectives.

6. In Closing

To conclude, I would like to emphasize the strategic role of the national government under the current economic crisis. As economies become more and more globalizing, regional policy issues will no longer be discussed only at the country level alone. Rather, it is important that concerning nations share their wisdom and that we all cooperate and collaborate to overcome the current economic crisis. In this sense, the roles of the OECD and the TDPC are important indeed, and I have high expectations for continuing efforts by OECD.