

Regional Economies Program

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In the past, Japan conducted a regional policy which promoted the shift of large companies' factories to rural areas while improving the infrastructure of specific regional locations. By decentralizing production, economies of scale were sacrificed. However, by spreading growing employment opportunities to these areas, the overcrowding of the urban areas and regional disparities was mitigated, and the sustained growth of the Japanese economy was supported. For the present Japanese economy, which is seeing a hollowing-out of industries under the strong yen, knowledge-intensive activities such as manufactured products involving advanced technology and services are thought to be growth industries. But industries that benefit from the spillover of knowledge are destined to agglomerate around large urban areas, posing a dilemma to the concept of balanced regional development.

In the Regional Economies Program, we would like to present the perspective that planning for the balanced development of the regions will lead to maintaining the growth of the whole Japanese economy.

Each region has diverse resources that can be used for production. Highly mobile resources such as capital goods and knowledge-intensive workforces have a high tendency to concentrate geographically. On the other hand, the locations of general workforces are dispersed, and there are immobile resources such as land. There are also resources that have a high adherence to a region but disappear with the collapse of the regional community, such as jointly-owned knowledge in traditional industries. To develop knowledge-intensive industries in the large urban areas and redistribute their income to the regional areas are not the relevant issues here. Rather, it is that each region finds its own growth strategy, one that is consistent with the market mechanism and utilizes its distinctive features. Such strategy should make globalization and the economic integration of

East Asia a precondition, and should strive to incorporate the dynamism of the growth of the outside world. In other words, the market is global even at the regional level, resources that are scarce should be brought in from outside, and, while achieving economies of scale, making utmost use of the resources that are abundant in the region.

As an illustration, the population of Finland, which is known for its success with the cluster policy, is a little over five million, about half that of Japan's Tohoku region. However, its per capita income in nominal terms translated into U.S. dollars is about 1.5 times that of Japan. Accordingly, the size of the economy is not that important for maintaining a high standard of living. The Tohoku region exports only 2% of its total production and is highly dependent on domestic demand. In contrast, Finland exports more than 20% of its GDP, not counting exports to the EU market (which occupies a position similar to that of domestic demand for Tohoku). (Total exports, including those to the EU, are at 45% of GDP.) This shows that the country turns more of its attention to foreign markets than do the Japanese regions.

It is probably unavoidable that the production activities of Japanese firms will move overseas due to globalization. Nevertheless, those that remain and expand in Japan and the resulting economic balance between domestic regions should differ depending on the strength of linkages among domestic regions and between each region and the world economy. This research program will address such understanding of the issues from the perspective of spatial economics, which expressly considers the movement of production factors. We will produce theoretical forecasts, empirically analyze statistical information, and meticulously gather and dissect qualitative information for that purpose.

For example, it has been recognized anew that the area spanning from Ibaraki prefecture to the Tohoku region, heavily affected by the Great East Japan Earthquake, is home to firms that comprise links in the supply chains of the automobile and electronics industries and are producing parts for which substitutes are difficult to find. One of the factors that led to the development of such production capability at these locations was the existence at appropriate costs of (a) the quality of the technology required by

firms that sell their products globally as well as (b) personnel and factory sites that make such large-scale production possible. If mass-production type of manufacturing can be firmly established in the regional areas in the future, it will provide the basis for the development of highly creative research and development activities in the large urban areas and will answer the need for balanced regional development. In this program, research on regional policy, urban policy, and appropriate regional administration will be further developed from such policy perspectives.

However, owing to an enhanced awareness of business continuity plans after the earthquake, the risk of geographic concentration of specific parts production has become more explicitly assessed. This has forced on us a new issue, namely, in order for Japan to maintain international competitiveness without being excluded, it is important for industrial agglomeration to seek economies of scale to balance the control of such risk. In this program, we will not only research the strengthening of links among regions and between a given region and the world but also the appropriate industrial location policies and regional policies to solidify the resilience of supply chains.