

Structural Reform in Hokkaido  
in the Context of Globalization

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# **Structural Reform in Hokkaido in the Context of Globalization**

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## **Background to the Reform in Hokkaido**

In this paper, I would like to describe the present circumstance of Hokkaido and the policy for structural reform by the Hokkaido Government, in the context of globalization.

### **Information on Hokkaido**

- 1) Area of Hokkaido: 80000km<sup>2</sup> (22% of the total area of Japan)  
-Approximately the same size as Austria
- 2) Population of Hokkaido: 5.7 million (4.5% of the total population of Japan)  
-Equivalent to the population in Denmark
- 3) GDP of Hokkaido: \$154 billion (US) (4.0% of the total GDP of Japan)  
-Little less than that of Denmark
- 4) Income per capita: \$23,000 (US) (90% of the average of Japan)  
-Approximately the same as Sweden
- 5) The composition of industries in Hokkaido

	Hokkaido	Japan
Agriculture, Forestry, and Fisheries	3.7%	1.7%
Manufacturing	11.0%	23.5%
Construction	12.5%	9.3%
Tertiary	75.2%	69.5%

Note: Hokkaido depends greatly on public investment, therefore the rate of construction industry is relatively large. On the other hand, the manufacturing industry is relatively low, because Hokkaido must buy much of their consumer goods and capital goods from outside Hokkaido. Thus, the

deficit totals about 12-13% of the GDP, in annual balance of budget. This deficit is compensated by national finance.

#### **6) Budget of the Hokkaido Prefectural Government: \$30 billion (US)**

Hokkaido Government had launched the initiative for structural reform in January 1998. Governor Tatsuya Hori proclaimed reform towards “autonomous Hokkaido,” where Hokkaido would break away from their dependence on the central government. Behind this policy, the bankruptcy of Hokkaido Takushoku Bank in November 1997, enhanced our sense of crisis.

We should look at the current crisis of Hokkaido from a historical context. Hokkaido's place changed in the following way. Japanese government started to develop Hokkaido in the 1870s, just after the Meiji Restoration, to supply raw materials for mainland Japan. Hokkaido possessed a comparative advantage on coal, timber, agricultural and fishery products in the domestic market. However, it has been losing its competitiveness rapidly, as Japanese economy is becoming globalized.

Hokkaido had another comparative advantage—its vast land. Hokkaido did not have any accumulation of manufacturing industries, which was thought to be its weakest point. In order to overcome this problem, the Hokkaido government continued to invite factories, by emphasizing its cheap land prices. Japan, especially the area of Tokyo, was notorious for expensive land prices. However, globalization has deprived Hokkaido of this advantage as well. It is no longer easy to compete with Asian countries with respect to location of manufacturing plants.

In addition, long-lasting recession and the accompanying fiscal crisis have tremendous impact on Hokkaido. It has become evident that the structure of over-dependence on public investment is no longer sustainable.

Structural reform by the Hokkaido government is an initiative for creating new frameworks of economy and society, in the coming age. We should implement the reform by facing the reality and re-evaluating values and the possibilities in Hokkaido.

#### **Contents of Reform**

The reform consists of five dimensions, which include: economic structure, regional community, system of administration and finance,

infrastructure, and motivation for reform.

The first dimension is the reform of economic structure. We are constructing a system for collaboration between companies and public research institutes, in order to promote technology development, which lies at the base of competitiveness. We realize the importance of the network of various actors that are pursuing this project. We also feel that the role of coordinator in building such a network is extremely important. We can expect that such network will expand globally through the use of the internet.

With respect to information technology, enterprises with excellent technology are concentrated in the Sapporo area. In this context, the Hokkaido government started a unique subsidy to invite call centers in December 1999. Since then, more than ten call centers located in Hokkaido have been established, and over a thousand people are employed there. These companies chose Hokkaido not because land prices are low, but because universities in Hokkaido provide more than 2300 people with the capability in information technology and high motivation, and because they can enjoy good urban environment in the city of Sapporo. President of Amazon.com said he chose Sapporo because he was able to enjoy skiing. Although IT depression is shrinking the world economy, expansion of information technology is still quite important for improving life standard of people, by enabling remote medical treatment, as well as enhancing productivity of various kinds of industries like agriculture and tourism.

It is in my own opinion that there is a limit to what the government can do about economic problems. All it can do is support technology development through subsidy or by building infrastructure of information technology. It cannot predict what kind of goods and service will sell. We should leave business to businessmen. When they recognize its limit, thereafter, we can establish new economic and industrial policy for Hokkaido. In pursuing this project, I think a global point of view is essential. For instance, Denmark has developed a very strong dairy and livestock industry in the matured structure of division of labor in Europe. We can foresee similar division of labor in East Asia, although it will take time for China and Korea to fully develop this kind of division of labor. We need to envision Hokkaido's role within such structure. In such process, various specialists need to participate and exchange ideas.

The second dimension of structural reform is regional community, in which collaboration between citizen and the government must take place. In economy, competition and effectiveness is the key. Hokkaido should make every industry more effective to survive competition in the market.

However, in Hokkaido where there are many small to medium size enterprises and only few large ones, collaboration and network is very important, as I mentioned previously, since the capability of each company is limited. In fact, new experiments are underway, as we speak.

In local communities, new projects are also starting up. In Japan, rapid aging is bringing about serious problems of care for old people. As more women participate in social and economic activities, childcare is becoming a problem as well. Non Profit Organizations are growing in many districts, and have come to cope with various problems in the community. Especially, in rural area with small population, we cannot expect the private sector to supply these kinds of services because they cannot get profit from them, and at the same time, we cannot expect the government to provide these kinds of services because of the fiscal constraint. NPO are playing a very significant role in these areas. We can find other projects of mutual support in communities around Hokkaido, such as local currency, adopt system in which residents take care of streets and parks as their own assets, and public theater managed by spontaneous organization composed of residents.

It is urgent and necessary for citizens and government to build a new system of collaboration, featuring respective points based upon mutual understanding. Moreover, the number of entrepreneurs who are interested in community business are increasing because they consider the solution for community problem as a business opportunity. These new kinds of projects and programs that are based on principles of cooperation, not on competition, are important because not only do they produce new employment opportunities, but also more importantly, present a new form of society that we should aim for in the future.

The third dimension is the reform of the administrative and financial system. The local government of Hokkaido, in the mist of the move towards decentralization, has been working hard to establish new institutions that will pursue high quality policy, based on information disclosure and participation. The following are some of the things we would like to promote, and would like to pursue at a relatively advanced level within Japan: information disclosure of administrative information, the procedure for public comment on important plans and ordinances, the reflection of the outcome of policy assessment in the budget.

These and other various kinds of programs and projects are being pursued as we speak, and at the same time, we are also working towards establishing a set of basic regulations that will become the general guideline for Hokkaido's administration. The objective of this new regulations is to

establish basic rules and principles that our work will be based on, to establish transparency and accountability to the people of Hokkaido and lastly, to promote participation of people of Hokkaido.

The fourth dimension is the infrastructure, more specifically the maintenance of social capital. In this day and age, the national and local finance and administration are facing difficult times; therefore, a particular region must choose for itself what would be the necessary social capital for the future of that region. In Hokkaido, the Hokkaido Development Agency and all the municipals are cooperating to accomplish such a system.

The presupposition is that the information concerning the maintenance of social capital in a region is open to the people, and that the people's opinions are taken into account in the decision-making process. We are currently planning and establishing a guideline for information sharing concerning the social capital of Hokkaido, and at the same time, working hard to involve people's opinion in the decision-making process.

The fifth and last dimension is the recognition and the motivation for reform. This may be the most difficult problem of all. We have established a slogan "Hokkaido Standard." "Hokkaido Standard"--a standard different from a "Tokyo standard" or a "global standard." What I mean by this is creating a culture, industry, and personal life that are unique to Hokkaido, based on our personal values. In the last Hokkaido Assembly, from this point of view, we have established three new ordinances which include: the promotion of outdoor activities and sports, the promotion of tourism by emphasizing the natural environment of Hokkaido, and the conservation and creation of the natural environment.

Furthermore, we are trying to register our Hokkaido heritage, such as historical buildings, regional festivals, and the Ishikari River. All of the above are unique and proud heritage of Hokkaido, and these will become symbols that will revitalize the region.

## **Conclusion**

Hokkaido's history is relatively short, compared to other regions in Japan; however, Hokkaido possesses unique tradition and culture that we can be proud of. I believe Hokkaido is the place where one can create his/her own unique lifestyle, and a place where one can live their life to the fullest. I also believe that Hokkaido is the optimal place where one can experiment, in terms of economy and regional society, without being hindered by traditional frameworks. As one of the models for decentralization, if we were to accomplish the Hokkaido provincial system,

Hokkaido will become an independent island, therefore, the kind of merge of prefectures seen in Kyushu Island or Tohoku region, will not be necessary in Hokkaido. Also, Hokkaido has the potential for being unique and distinct, when compared to other regions in Japan. We have entered an era where we must think about our responsibilities on how to build Hokkaido, while complying with and taking into account, the limits and policy by the national government.

In Hokkaido, we are planning to design a Hokkaido provincial system model by next year, and are examining the potentials and the possibilities at this time.

(Incidentally, if I may add at the end, I am the chief of the section responsible for this design.)