



## Devolution, new regionalism and economic revitalization in Japan: Emerging urban political economy and politics of scale in Osaka–Kansai

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### ABSTRACT

Determining that the centralized political system is the cause of its persistent economic problems, Japan's political leaders have been promoting neoliberalism-oriented state decentralization since the early 2000s. Stimulated by this policy, the prefecture of Osaka – the center of Japan's second economic region – and its neighbors established a federation-type regional government in December 2010. However, some members left this regionalist coalition before its launch, which demonstrates the existence of internal tensions. In this study, the frameworks of Institutional Collective Action and politics of scale are applied to examine the regionalism decision-making process. Our findings suggest: (1) systemic political and economic biases run within the regionalism and (2) the likely urban economic and governance conditions after the devolution would be much more uncertain and messier than the reform advocates suggest they would be.

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### Introduction

Japan has been introducing state decentralization since the 1990s, when a level of administrative and political decentralization was achieved. Following these reforms, a prime minister-sponsored economic strategy council made a number of further reform suggestions in 1999. Among the key issues the council addressed was the sub-national governments' fiscal dependence on the central government. The council concluded that recovery from the decade-long economic crisis would not occur without making communities substantially self-sufficient.

To this end, the council suggested Japan's own version of "Third Way" reform, consisting of devolution, a small state government, and competition to create entrepreneurial sub-national communities (Strategic Economic Council, 1999). Regionalism was part of the local entrepreneurialism that the council expected. They argued that public and private leaders should cooperate to plan regional economic development.

In the first half of the 2000s, the Liberal Democratic Party (LDP) administration pushed through fiscal devolution while carrying out focused urban revitalization, especially targeting Tokyo, contrary to the time-honored ideal of balanced national development. In 2009, the LDP was unseated by the Democratic Party of Japan (DPJ) but decentralization reform continued. Now, like the

economic council of the late 1990s, the DPJ leaders consider a decentralized state system essential for restoring Japan's moribund economy to full strength (Cabinet Office, 2009).

The DPJ administration pursues state decentralization reform under the banner of the *Chiki Shuken*, or the Locality Sovereignty. By this, the DPJ means a combination of local autonomy, entrepreneurialism, and accountability. They explain that state decentralization will produce redevelopment with local initiatives and innovation, and install democratic decision-making under the principle of "subsidiarity" (Cabinet Office, 2009). Regionalism is subsumed under the Locality Sovereignty policy as a means of economic development and governance. Clearly, Japan's recent reform mimics the larger trend of state decentralization and regionalism, as in, for example, Tony Blair's Third way reform, which included "hollowing out" the nation-state and "filling-in" the void with the new regionalism (Goodwin, Jones, & Jones, 2005).

Many of Japan's prefecture governors<sup>1</sup> and local economic interests have been discussing from-below regionalism with various levels of enthusiasm and reality since the 1980s. Of these, leaders in the Osaka–Kansai region were the most active. They started regional public–private partnerships in the 1980s. After many trials-and-errors, in January 2010, seven governors in the region announced the formation of a federation-type regional government in association with local business organizations. Later in December, they formally

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<sup>1</sup> Japan has a two-tier local government system with prefectures (the middle level) and municipalities (the local level).

launched the Kansai Regional League (KRL),<sup>2</sup> which is Japan's first multi-purpose regional authority established through local initiatives.

However, despite the optimism of the Locality Sovereignty on devolution and regionalism, the KRL is as much divided as it is united. Three of the original ten participating prefectures opted out. This can be indicative of the type of regionalism that has yet to arrive in other parts of Japan. Although every region is unique, we can obtain insights as to what kind of “filling-in” activities would emerge in a “hollowed-out” Japanese political system by studying the KRL. Its experiences can also contribute to the literature on the new regionalism.

With these research objectives, the remainder of this paper is divided into four parts. First, the relevant literature will be reviewed to connect the KRL case to larger policy questions and analytical concepts. Second, after a brief description of the Osaka–Kansai region, the case will be examined to identify: (a) the motives for regionalism and (b) the reasons for its success and limits. Third, the case study findings will be interpreted and their implications for Japan examined. Finally, the conclusion section will discuss the findings in connection to the larger new regionalism policy debate.

### Space and politics of the new regionalism

Japan appears to be making its regional turn and the KRL would be Japan's new regionalism experiment. As such, it also deals with the issues involved in the new regionalism and another closely related concept, the city–region. Those issues include spatial discrepancy, collective action, politics of scale, and uneven economic impacts. The following subsections elaborate on each of these to connect this case study with discussions in the literature.

#### *Spatial discrepancy*

Relational concepts address economic benefits of the new regionalism (Amin & Thrift, 1995). In this regard, Parr (2008) offers a simple but useful model to conceptualize the city–region as a relational economy. It explains that the city–region comprises two functional zones, the city and the hinterland. The city is the area of metropolitan urbanization containing various economic activities (it does not refer to the jurisdiction/government of the central city). As such, the city is the area of knowledge creation and innovation, capital investment and production, and employment and various interactions of agglomeration economies (Parr, 2008). Activities in the city include the headquarter functions of private and public organizations, advanced business services, higher education, medical services, and consumer services. Manufacturing may still exist (Parr, 2008).

In contrast, the hinterland provides for the economic activities of the city with labor force, raw materials, and probably fresh produce as well as recreation. Manufacturing and service activities also exist (Parr, 2008). The symbiotic relationship between the two zones is the “defining feature” of the city–region (Parr, 2008). Because the city is the source of the economies of scale

for the entire city–region, effective interactions between the two zones determine the productivity and strength of the city–region economy. Given that economic development motivates the new regionalism (Keating, 1998), one can argue that the coordination between the two parts of the city–region is a main goal of the new regionalism.

A typical problem for the new regionalism in this regard is spatial discrepancy. This happens when a local government jurisdiction is not large enough to cover the space of the city–region (Bennett, 1997). A solution is to have an association of multiple governmental units cover the entire city–region jointly. Yet, this arrangement can also have a spatial discrepancy problem. The association of local governments potentially overcompensates for the space of the city–region (Bennett, 1997). Particularly when large local units are involved, the hinterland of a city–region will be accommodated in large territories of administrative units assembled to cover the space of the city–region. Then parts of the hinterland (more precisely, areas beyond the hinterland of a city–region) will be too far from the city to have symbiotic interactions. In such regionalism arrangements, it can be expected that there will likely be potential economic and political conflicts of interest. The KRL case will illustrate this issue.

#### *Collective action*

The above example of joint management for a city–region indicates a need for cooperation among various local stakeholders in the public arena. Yet coordination for such cooperation continues to be a challenge, despite years of new regionalism discussions (Rodríguez-Pose, 2008). To this end, advocates of the new regionalism stress the importance of horizontal voluntary agreements, instead of rigid top-down governmental authority (Feiock, 2004; Savitch & Vogel, 2000). Thus, governance – “processes of networking and partnership” among “a set of actors that are drawn from but also beyond the formal institutions of government” to carry out “collective action in conditions in the realm of public affairs” (Stoker, 2000, p. 3) – holds the key for the new regionalism in this view.

The study of Institutional Collective Action (ICA) deals with such voluntary collective actions among local public and private organizations. It examines the ways by which decision-makers of such organizations compare costs and benefits involved in their cooperation (Feiock, 2007). The assumption of this approach is that the rationality of self-interested individuals can motivate self-organized joint actions for mutual benefits (Ostrom, 1990). Feiock and Carr (2001) explain decision-making for such joint actions with two types of benefits: collective incentives (CI: e.g. spillover effects and scale economies) and selective incentives (SI: e.g. political and career incentives of officials and decision makers). These context-specific benefits are individually compared against relevant transaction costs, such as costs involved in information/coordination, negotiation/division, enforcement/monitoring, and agency (Feiock, 2007). When the benefits outweigh the costs for all parties, a collective action takes place among them.

Furthermore, Feiock and Carr (2001) posit that policy entrepreneurs are crucial for collective actions involved in regionalism and that the SI, rather than the CI, are the real determinants of policy entrepreneur actions. Thus, in cases such as government mergers and boundary changes, local leaders (e.g. public officials and business interest groups) are motivated to function as policy entrepreneurs when they see their SI in certain regionalism proposals outweigh the transaction costs to them. The CI might matter only to the extent that they would translate into SI.

Higher-level government rules and incentives importantly affect their rational calculations, while other contingent factors, such as an economic crisis, can prompt policy entrepreneurs to take

<sup>2</sup> The KRL's missions include: (1) implementation of local governance, (2) governance for the Kansai region as a whole, and (3) replacing the regional bureau of the central administration. Planned programs include: disaster prevention planning, regional culture and tourism development and promotion, regional industrial development and planning, regional emergency medical services and planning, regional environmental protection and planning, professional licensing and qualification tests, training of regional administrators and other issues requiring regional planning and adjustments such as transportation planning and research on streamlining public commissions.

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