

Economic Policy Visions by Japanese Local Governments: The Case of Osaka Prefecture

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Introduction

Since 1970s, Osaka, once economic capital of Japan, has faced relative economic decline, and its share of the Japanese economy has fallen steadily. It is blamed to the delay in transition of the industrial structure, beside prolonged recession and development of globalization, which is considered to work adversely against local businesses.

To improve the situation, the Osaka Prefectural Government has drawn several economic visions every six to seven years, represented by the most recent “Osaka Industry Regeneration Program”, based on which individual policies have been implemented. The case of Osaka clearly presents achievements and challenges of the economic vision formulated by a prefectural government in Japan.

This article therefore attempts to recognize chronological changes in economic visions, and examine their effectiveness to the local economy, by evaluating them on the basis of consistency with industrial issues of the region.

Key words: economic vision, Japanese local government policy, Osaka economy

I. The Economic Vision and Local Governments in Japan

In need of foundation in policymaking, Japanese local governments oftentimes create their economic visions, utilizing support measures from the national government. Formulation of economic visions has been quite common in both national and local governments in Japan.¹ In the early postwar period, the national government made several economic plans, mainly to adequately allocate limited resources for economic reconstruction and accelerated development.

Economic visions discussed here, meanwhile, refer to less binding, but more regionally specific sets of policy programs. Especially since 1980s, the Japanese government, notably Ministry of International Trade and Industry and its regional bureaus, tended to show their policy programs in the form of economic visions. After the oil crises that ended a myth of sustainable two-digit growth of the Japanese economy, such visions aimed at indicating changes of direction that the Japanese economy and industry should shift. This trend by the national government could have aroused local governments to draw similar pictures.

Japanese local governments, nonetheless, have their own rationale of making visions. First, local governments need to develop their policy programs, with the understanding of both external environment and local resource endowments; such as industrial structure, infrastructure,

and locally unique issues. Economic vision, in its formulation therefore, works as an opportunity to review such local uniqueness in industrial promotion, which could possibly lead to policymaking better correspond to the local needs.

Second, economic visions work as systematization of individual policy programs. It is significant for local governments as once a vision is authorized as a whole, both internally and externally, it provides a foundation for securing necessary resources, thus saving efforts to negotiate for implementing each policy program. Today, 22 of 47 prefectural governments in Japan explicitly announce in their web sites that they have formulated some forms of economic visions in recent years.²

It should be noted that the nature of economic visions varies by prefectures. Some are drawn as a part of comprehensive plan of the local government, covering broader issues, not only economic development but also other areas such as welfare, environment, and education. In such cases, economic visions tend to be more coherent with other programs. The others call for more sense of urgency reflecting local economic and employment situation, thus created as emergency measures.

Variations are also seen in forms of creating visions. In many cases, visions are discussed in a council or a committee, either permanent or temporary, consisted of academic experts, representatives from economic and labor organizations, and local business executives, while the local government administration plays a secretariat role to draw drafts. Recently, some economic visions attempt to make their formulating processes more open and participatory to the public, holding seminars for discussions and collect comments through the internet.

Among local governments (prefectures and municipalities), the case of the Osaka Prefectural Government serves as a suitable example for examining the effectiveness of economic visions for several reasons: First, managing the second-largest local economy in Japan, the Osaka Prefectural Government has relatively affluent resources to realize policy programs according to their visions. Second, Osaka has a more dire need to revitalize its economy and industry, therefore puts the high priority in industrial promotion. Economic vision plays a pivotal role in policymaking process in this situation.

II. Characteristics and Problems of the Osaka Economy

This section briefly summarizes the characteristics of the economic and industrial structure of Osaka, with the population of 8.8 million, which underlies the foundation of economic visions of the local government. Characteristics of Osaka's economic structure can be summarized to three points as below:

(1) Formidable Size of economy and accumulation of business

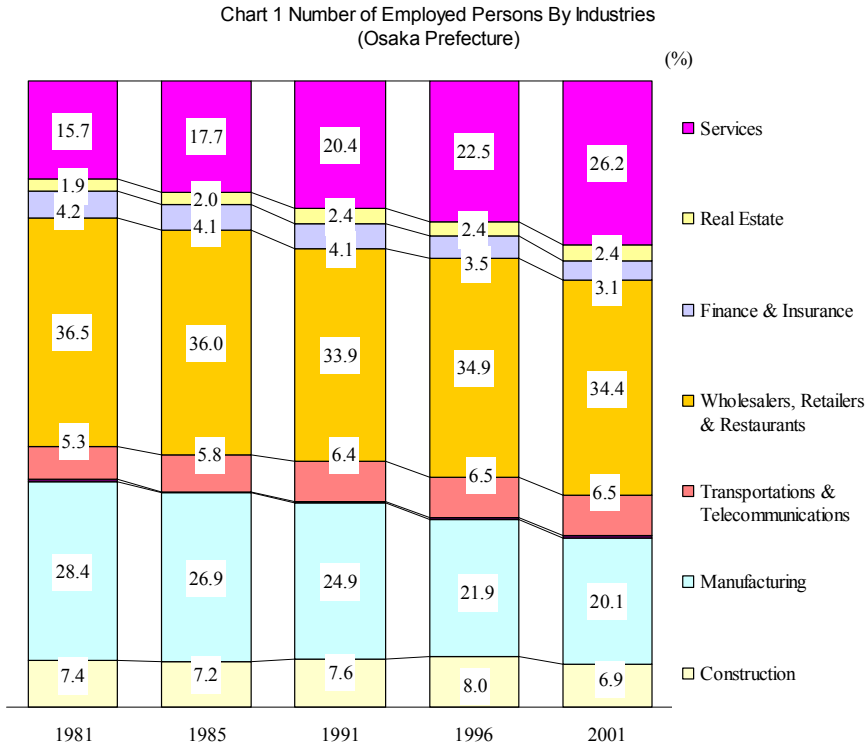
Gross Domestic Product of Osaka Prefecture in FY2001 amounts to 39.5 trillion yen (US\$315.7 billion), which can be compared to several countries including the Netherlands (US\$384 billion), Australia (US\$369 billion), and Switzerland (US\$246 billion).³

Osaka also has an abundant accumulation of enterprises. While it host the headquarters of 15 multinational enterprises among Fortune Global 500 biggest companies, the area is known as the home of more than 370,000 small and medium-sized enterprises (SMEs), which shares 99.6% of

all enterprises in the region. ⁴

(2) Slow Changes in industrial structure

Osaka’s industrial structure has been relatively constant, supported by strong manufacturing and commercial sectors. Chart 1 shows that among industries, on the basis of employed persons, manufacturing and commerce still shared the majority of the Osaka economy in 1981. Then their proportion gradually decline while service sector grew to surpass the ratio of manufacturing by 1996. This is one of the evidence to claim that the change in the industrial structure might have been delayed compared to other metropolitan economies including Tokyo.



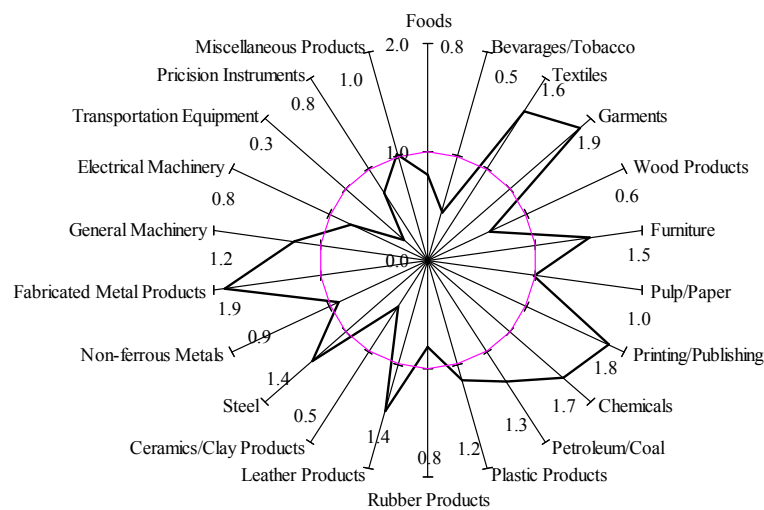
Source: Ministry of Public Management, Home Affairs, Posts and Telecommunications “Establishment and Enterprise Census”.

(3) Evenly agglomerated manufacturing sector

The manufacturing sector, moreover, has a relatively even agglomeration of industries. Chart 2 shows specialization coefficients by manufacturing industries of Osaka, where the figure exceeding 1.0 indicates that the industry is agglomerated beyond the national average, and vice versa. The figure in the chart 2 suggests that the manufacturing agglomeration in Osaka ranges from textiles to metals and machineries, without notable concentration in particular industries. While this structure could absorb shocks to the economy, having a variety of industries to cover one another, it could work negatively to the local economy, as Osaka has no leading industries as other regions do in automobiles or semiconductors.

Meanwhile, the basic problem of the Osaka economy can be described as its declining shares in GDP and manufacturing output in Japan, as clearly shown in Table 3. The Osaka economy has faced a long-lasting decline, losing its position in the Japanese economy. This fact has motivated Osaka to reverse the situation by preparing a set of policy responses.

Chart 2 Specialization Coefficients of Manufacturing Shipment Values,
Osaka Prefecture (2001)



Source: Ministry of Economy, Trade and Industry “Statistics on Manufacturing”.

Note: General Machinery includes Weapons.

III. Visions formulated in Osaka: 1980-2000

As also indicated in Table 3, showing the trend of the Japanese and Osaka economy in the post-war period, their exponential economic growth until 70s ceased by the oil shock. Meanwhile, among several economic visions in Osaka, including sector- and area- specific ones, the following four visions created after 1980 are the most comprehensive and significant in policy-making in the Osaka Prefectural Government.

The review of these visions reveals that the key concepts change through time, from soft industries to internationalization of business, then to promotion of business startups, with the constant emphasis on SMEs as the major player in the Osaka economy. While the overview of each vision is summarized in Table 4, their characteristics and evaluation, centered in the most recent Osaka Industry Regeneration Program, are described below.

(1) Osaka Industry Vision ‘80 (1980)

The Osaka Industry Vision ‘80 (*Vision 80*) was formulated as an action plan of the decade through 1990, against the economic changes after the oil shock in 1970s. It involved 66 members of the Osaka Prefecture Council for Industry and Commerce Promotion, spending 21 months of research and discussions, before reported to the governor of Osaka Prefecture in May 1980.

As its preface notes, *Vision 80* stems in the notion of developing superior attributes of Osaka under the constraint of resources and the environment, which is contrary to the previous idea of comparing Osaka to Tokyo. In arguing the industrial structure, it pointed out the need of developing “lifestyle/culture industries”, an idea centered in upgrading lifestyle-related manufacturing industries that has a strong agglomeration in Osaka. It also expected that

electronics related industries and service industries should have competitive advantages in the region. This suggested a major conversion of the industrial policy of the Prefectural Government that had emphasized on heavy machinery/chemical industries.

Other areas of policy recommendation in *Vision 80* included: Vitalization of SMEs; Development of medium-sized enterprises, referred to unique and innovative enterprises with Competitiveness in the world market; Upgrade of manufacturing structure, which have comparative advantages in the urban area such as fashion, mecha-tronics (hybrid of machinery and electronics), and fine chemical industries; and notably, Developing Southern-Osaka area, utilizing potential impacts of then-undecided construction of the Kansai International Airport.

Nagamine [1998] points out that *Vision 80* correctly understands requirements of industries to possess potential competitiveness in the metropolitan area. He writes, however, that it was less reasonable in identifying specific targeted industries, citing an example of aerospace related industries that had little foundation in Osaka. In his argument, *Vision 80* moreover lacked in consideration on several significant aspects of the Osaka industries, such as the weakened wholesale industry, difficulties in securing human resources, financing behavior of larger corporations that eventually led to the bubble economy, and in-depth analysis on the service industry.

(2) 21st Century Industry Vision Osaka (1987)

Since 1985, rapid development of *endaka*, or appreciation of yen, and sequent increase of overseas activities of Japanese enterprises had gone beyond prediction. Also during 1980s, acceleration of technological innovation and computerization affected economic activities.

With this background, the 21st Century Industry Vision Osaka (*21st Century Vision*) was created in 1987, in a similar manner as “Vision 80”, in an attempt to indicate the direction for action toward the next century as its name suggested.

The approach of this long-term vision starts from presenting a figure of the economy and society in the 21st century, then draws the future direction of Osaka industries. Foreseeing the next century as being “human-centered society” where creativity and soft industrial resources become more significant, *21st Century Vision* defined the new, ideal industrial structure of Osaka should pursue. It consisted of: “hybrid advanced industries”, to act as new core industries derived from a variety of technologies and industries; and “neo-infrastructure industries” that function to support economic activities by providing goods and services within networks. Then “21st Century Vision” claimed that those industries should develop in the “self-multiplying industrial ecosystem”, by which Osaka could attain the position of the birthplace of new industries.

For that purpose, *21st Century Vision* presented the following six areas to promote: Measures for internationalization, Promotion of computerization, Measures for technology innovation, Development of vital activities of SMEs, Measures for the soft economy & society, and Creation of attractive urban area.

21st Century Vision, different from the following visions, seems to assume that a more concrete action plan should follow, as it noted in its implementation section. Some of the policy programs proposed in this vision, yet important, should be regarded as the phase of ideas, rather than feasible and readily executable.

Table 3 Chronology of Industrial Policy in Osaka: 1946-2000

| Year | Major Events | | Major Industrial Policies | | Population of Osaka Prefecture (millions) | Osaka's Share of GDP in Japan(%) | GDP Growth (%) | | Osaka's Share of Manufacturing Output in Japan |
|------|---|---|---|---|---|----------------------------------|----------------|-------|--|
| | Japan/World | Osaka Prefecture | Japan | Osaka Prefecture | | | Japan | Osaka | |
| 1946 | Proclamation of Japanese Constitution | | Lean production system | Revival of Prefectural Center of Trade | 298 | - | - | - | 12.4 |
| 47 | | | | | 333 | - | 8.4 | - | 12.2 |
| 48 | | | Establishment of SME Agency | Osaka Prefecture Comprehensive Science & Technology Committee was formed | 352 | - | 13.0 | - | 12.5 |
| 49 | Shoup's Tax Reform Plan | | | | 373 | - | 2.2 | - | 11.7 |
| 1950 | Korean War | | | | 386 | - | 11.0 | - | 12.3 |
| 51 | | | | Opening of International Exhibition Center | 407 | - | 13.0 | - | 12.8 |
| 52 | | | | | 418 | - | 11.7 | - | 12.5 |
| 53 | | | | | 439 | - | 6.3 | - | 12.8 |
| 54 | | | | Establishment of Industrial Location Council | 451 | - | 5.8 | - | 12.5 |
| 1955 | | | 5-year Plan for Economic Self-reliance | | 462 | - | 8.8 | - | 13.2 |
| 56 | Japan joined to U.N. & GATT | | Temporary Law on Promotion of Machinery Industry Temporary Law on Equipments of Textile Industry | Establishment of Liason Council of Osaka Economic Development | 476 | - | 6.4 | 4.7 | 13.2 |
| 57 | | | Temporary Law on Promotion of Electronics Industry | | 494 | - | 7.5 | 10.8 | 13.2 |
| 58 | Inauguration of EEC | | | | 511 | - | 7.3 | 18.2 | 13.2 |
| 59 | | | | | 529 | - | 11.2 | 11.9 | 13.4 |
| 1960 | | | Doubling National Income Plan | | 550 | - | 12.2 | 13.5 | 13.5 |
| 61 | | | | | 572 | - | 11.7 | 13.7 | 13.5 |
| 62 | National Comprehensive Development Plan | | | | 596 | - | 7.5 | 16.5 | 13.3 |
| 63 | Summer Olympic Games in Tokyo | | SME Basic Law, Law on Financing SMEs Modernization, SME Modernization Promotion Law, SME Guidance Law | Financial Assistance to building wholesale company complexes by national SME upgrading fund | 619 | - | 10.4 | 13.9 | 12.9 |
| 64 | | | | | 643 | - | 9.5 | 10.8 | 12.6 |
| 1965 | Medium-Term Economic Plan | Kinki Region Basic Development Plan | | | 666 | - | 6.2 | 10.8 | 12.2 |
| 66 | | | | | 682 | - | 11.0 | 11.3 | 12.2 |
| 67 | Economic & Social Development Plan | Osaka Local Plan | | | 702 | - | 11.0 | 14.0 | 12.1 |
| 68 | | | | | 722 | - | 12.4 | 12.9 | 11.9 |
| 69 | Japan became the world's second-largest economy | | | | 743 | - | 12.0 | 12.1 | 11.7 |
| 1970 | New Economic & Social Development Plan | | Subcontracting SMEs Promotion Law | | 762 | 10.0 | 8.2 | 12.3 | 11.3 |
| 71 | | International Expo in Osaka 2nd Kinki Region Basic | | Municipal ByLaw on Pollution Prevention | 781 | 9.5 | 5.0 | 2.9 | 11.0 |
| 72 | 1st Oil shock | | Law on Promotion of Manufacturing Relocation MITI Vision of 1970s | Establishment of Financing on Venture Businesses | 796 | 9.5 | 9.1 | 11.7 | 10.9 |
| 73 | Yen shifted to floating exchange system | | Law on Manufacturing Location Law on Large-scale Retail Stores | Establishment of Financing on Knowledge-intensification of SMEs | 808 | 9.6 | 5.1 | 6.2 | 10.6 |
| 74 | | | | | 819 | 9.4 | -0.5 | -3.6 | 10.3 |
| 1975 | | | | Establishment of Grants for R&D in New Products/Technology Development | 828 | 9.0 | 4.0 | 2.1 | 9.6 |
| 76 | | | Temporary Law on Measures for Business Conversion of SMEs | | 833 | 9.0 | 3.8 | 3.2 | 9.4 |
| 77 | 3rd National Comprehensive Development Plan | | | | 838 | 8.9 | 4.5 | 5.2 | 9.2 |
| 78 | New Tokyo International Airport opened | 3rd Kinki Region Basic Development Plan | Temporary Law on Measures for SMEs Related to Rising Exchange Rate of Yen | Establishment of Grants on SME Management Stabilization | 842 | 8.6 | 5.4 | 3.6 | 9.2 |
| 79 | 2nd Oil shock New 7-year Plan of Economy & | | Temporary Law on Measures for SMEs in Local Industries | | 845 | 8.4 | 5.1 | 0.3 | 9.0 |

| Year | Major Events | | Major Industrial Policies | | Population of Osaka Prefecture (millions) | Osaka's Share of GDP in Japan(%) | GDP Growth (%) | | Osaka's Share of Manufacturing Output in Japan |
|------|---|--|--|--|---|----------------------------------|----------------|-------|--|
| | Japan/World | Osaka Prefecture | Japan | Osaka Prefecture | | | Japan | Osaka | |
| 1980 | Overview and Direction Economy & Society in 1980s | | Vision of Industrial & Trade Policy of 1980s (Technopolis Initiative) | Osaka Industry Vision '80 | 847 | 8.7 | 2.6 | 4.5 | 8.8 |
| 81 | U.S. Economic Rebuilding Plan (Reaganomics) | Osaka Prefecture Comprehensive Plan | | | 851 | 8.6 | 3.0 | 2.2 | 8.8 |
| 82 | | | | Promotion Vision of 5 Local Industries Promotion Vision of Local Industries (Osaka & Higashi-Osaka) | 854 | 8.6 | 3.1 | 3.2 | 8.7 |
| 83 | | | | Promotion Vision of Local Industries in Minami-Osaka Area | 858 | 8.4 | 2.5 | 2.4 | 8.6 |
| 84 | Privatization of Nippon Telephone and Telegram | | | | 863 | 8.2 | 4.1 | 1.9 | 8.4 |
| 1985 | Plaza Accord | | Measures on Domestic Demand Expansion | | 867 | 8.1 | 4.1 | 2.5 | 8.3 |
| 86 | | | Temporary Law on SME Measures in Specific Area | | 871 | 8.1 | 3.1 | 3.2 | 8.2 |
| 87 | Privatization of Japan Railways | | | 21st Century Industry Vision Osaka Opening of Osaka SME Promotion Center (Mydome Osaka) | 874 | 8.1 | 4.8 | 6.9 | 8.0 |
| 88 | 5-year Plan for Economic Management | | | | 875 | 8.3 | 6.0 | 8.6 | 8.0 |
| 89 | The first Consumption Tax in Japan | | | Establishment of Financing on Frontier Industry Promotion | 875 | 8.1 | 4.4 | 1.1 | 7.8 |
| 1990 | | International Flora Expo in Osaka | Vision of Industrial & Trade Policy of 1990s (Technopolis Initiative) | Establishment of FORECS (Foundation of Osaka Research-oriented Enterprise Companies) | 873 | 8.3 | 5.5 | 4.1 | 7.6 |
| 91 | | Osaka Prefecture New Comprehensive Plan | | Osaka Prefecture Retailer Promotion Vision | 873 | 8.4 | 2.9 | 1.2 | 7.5 |
| 92 | EC Market Integration 5-year Plan for Lifestyle Superpower | | Temporary Law on Measures for Revitalization of Specific SME Agglomeration | Establishment of Osaka Textile Resource Center | 872 | 8.4 | 0.4 | -2.5 | 7.4 |
| 93 | | | | | 872 | 8.2 | 0.5 | 0.1 | 7.1 |
| 94 | Kansai International Airport opened | | | Osaka Industry Promotion Strategy | 871 | 8.1 | 0.6 | 2.3 | 6.9 |
| 1995 | Inauguration of WTO Economic & Social Plan for | Hanshin-Awaji Earthquake APEC Meeting in Osaka | SME Creative Activities Promotion Law | | 880 | 8.1 | 3.0 | 2.6 | 6.8 |
| 96 | | | | Renewal of Osaka Prefectural Technology Research Institute | 881 | 8.1 | 4.4 | 3.6 | 6.7 |
| 97 | | | | Osaka Prefecture Tourism Promotion Strategy | 882 | 8.0 | -0.4 | -1.4 | 6.5 |
| 98 | | Rebuilding Plan for Prefectural Finance | Law on New Business Creation | | 883 | 8.0 | -0.8 | -3.0 | 6.4 |
| 99 | Ideal Figure of Economy & Society and Policy Direction Toward | | Revision of SME Basic Law | | 881 | 8.0 | 1.9 | 0.3 | 6.2 |
| 2000 | | | | Osaka Industry Regeneration Plan Establishment of Osaka SME Support Center & regional SME support centers | 880 | 7.9 | 1.7 | 0.6 | 6.0 |

Note: National GDP growth is based on the following base-year prices: 1934-36 price for 1947-51 period, 1970 price for 1952-1955, 1990 price for 1956 and later.
Osaka's GDP growth before 1970 is based on 1985 price.

Source: Osaka Prefecture Planning Office (translated and modified by the author).

Table 4 Economic Visions by Osaka Prefecture since 1980: Summary

| Name | Year | Body of Formulation | Background | Philosophy | Targeted Industries |
|--|------|---|---|---|---|
| Osaka Industry Vision '80 | 1980 | Prefectural Government and Osaka Prefecture Council for Commerce & Industry Promotion | Recession by oil shock Energy/resource constraint Diversified needs of people | Upgrade to creative & knowledge-intensified industries Starting from uniqueness of Osaka | Specialized machinery, electronics, apparel, fine chemical industries Medical/healthcare, education, culture, leisure/lifestyle related industries Oil/mineral resourcesrelated industries energy & resource-saving industries |
| 21 st Century Industry Vision Osaka | 1987 | Prefectural Government and Osaka Prefecture Council for Commerce & Industry Promotion | Rapid internationalization by appreciation of Yen after the Plaza Accord | Measures for internationalization Promotion of informatization Measures for technological innovation Development of vital activities of SMEs Measures for soft economy & society Creating attractive metropolitan area | Hybrid advanced industries Neo-infrastructure industries |
| Osaka Industry Promotion Strategy | 1994 | Prefectural Government (with external committee) | Intensified global competition Saturation of domestic market Post-bubble stagnation | Creative & Dynamic Osaka, developing with Asia/Pacific region: Upgrading industries Internationalization Creating Urban Attraction | Unspecified (High-tech industries and venture businesses in general) |
| Osaka Industry Regeneration Program | 2000 | Prefectural Government (with external committee) | Fear of declination of the Osaka economy | Rebuilding Osaka To The City of New Business Generation: Revitalize SMEs Foster businesses in new industry clusters Enhance attractiveness of the city | ICT Environment/energy Biotechnology Health/welfare |

Source: Compiled by the author from the above visions and Nagamine [1998].

(3) Osaka Industry Promotion Strategy (1994)

The Osaka Prefectural Government created the Osaka Industry Promotion Strategy (*Strategy*) in 1994, at the time of the Osaka economy faced the post-bubble recession. This vision was the first one to be formed as a single effort of the prefectural government, unlike the former visions led by the council. Instead, the Osaka Prefectural Government called for a specific purpose committee for this vision, with 25 members mainly from the private sector.

Chart 5 shows the outline of the background, philosophy, and programs of *Strategy*. *Strategy* summarized changes the external environment into two aspects; namely, development of horizontal specialization of production on a global scale, and saturation of the domestic market. Then it admitted that Osaka was losing its vitality accordingly with such changes, despite of industrial potentiality.

Presumably in consideration of the APEC meeting held in Osaka in 1995, as well as the originally strong tie with the region, *Strategy* described the ideal image of the Osaka industry as “creative and dynamic Osaka, developing with the Asia-Pacific region”. Under this concept, it has three sub-strategies; namely, “Osaka Industry Upgrading Strategy”, “Internationalization Strategy”, and “Strategy for Creating Urban Attraction”.

Along with these sub-strategies, the Osaka Prefectural Government lists sets of policy programs, including phases of individual programs. While it defined the role of the local government as providing infrastructure and system for vital industrial activities, as well as promoting alliances with neighboring prefecture of Kansai region, the strategy has a clear characteristic as a manifest of the prefectural government for actions in the coming years.

(4) Osaka Industry Regeneration Program (2000)

In 2000, as the economic downturn deepened in Osaka with the recession prolonged, the Osaka Prefectural Government faced to create a workable action plan to revitalize industrial activities. The initiative led to the Osaka Industry Regeneration Program (*Program*), made open to the public on September 2000. In the sense of urgency, it took unordinary nine months or less to complete this vision since the first meeting of the exploratory committee with 12 members from academic and business fields.

As indicated in Chart 6, one of the major concerns in the economic environment for Osaka was the decline of new business start-ups, which led to establish the main concept of the program as “Rebuilding Osaka to the city of new business generation”, by encouraging start-ups as well as business innovation of already existing SMEs. Under this concept, *Program* has three major missions, including “Revitalization of SMEs”, “Fostering businesses in new industry clusters”, and “Enhancing attractiveness of the city”. 15 individual programs that include a total of 148 concrete policy programs are listed within *Program*.

Program has different characteristics, and adopted new approaches, compared with previous visions of Osaka prefecture. First, it listed only concrete and executable policy programs. In the first year of implementation, nearly 140 of 148 programs had launched with authorized budget. Programs were flexibly added, as policy programs associated with *Program* counted up to 164 by 2003. During the period set by *Program*, through FY 2003, considerable portion of the

Chart 5 Overview of Osaka Industry Promotion Strategy

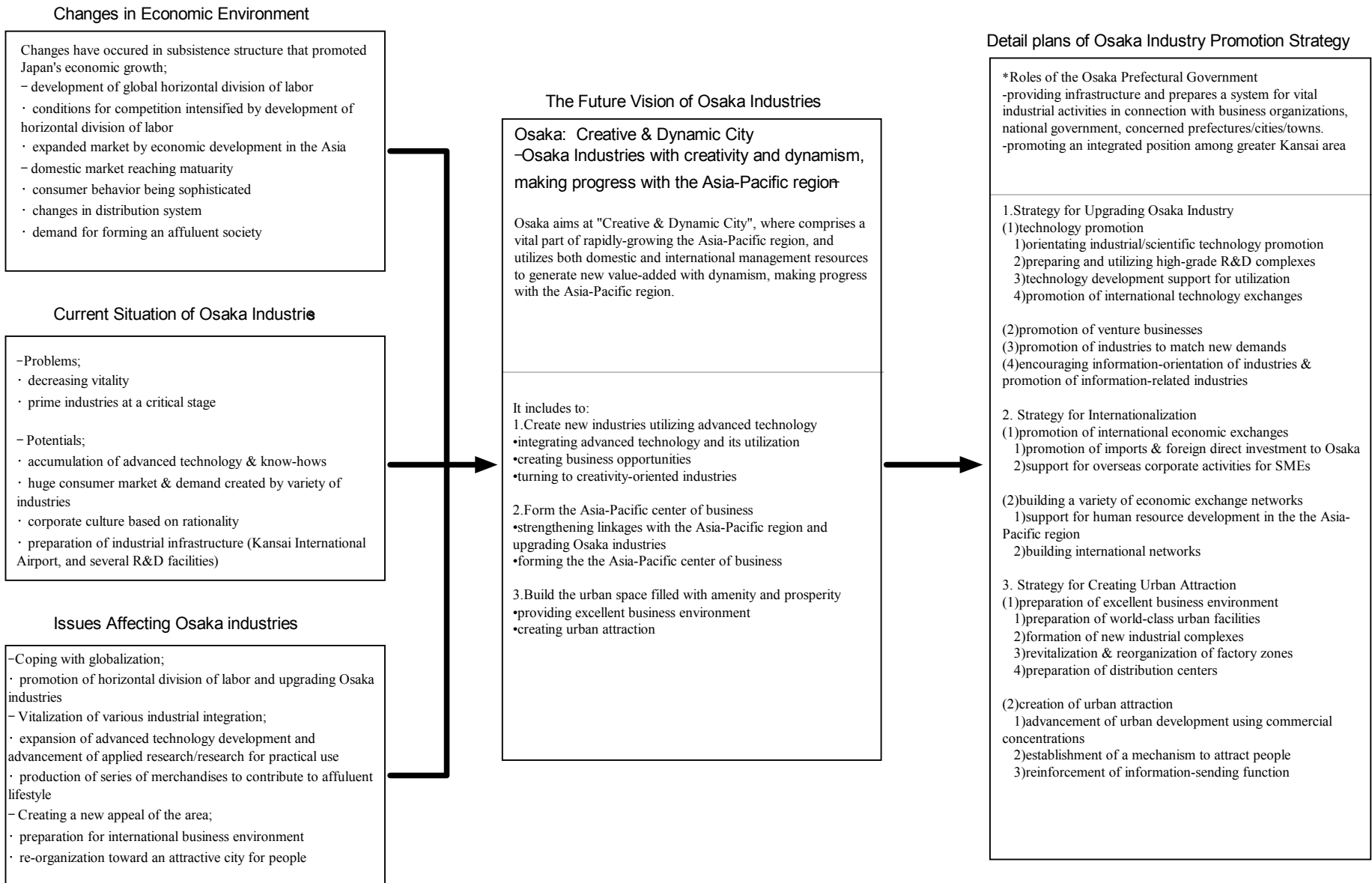
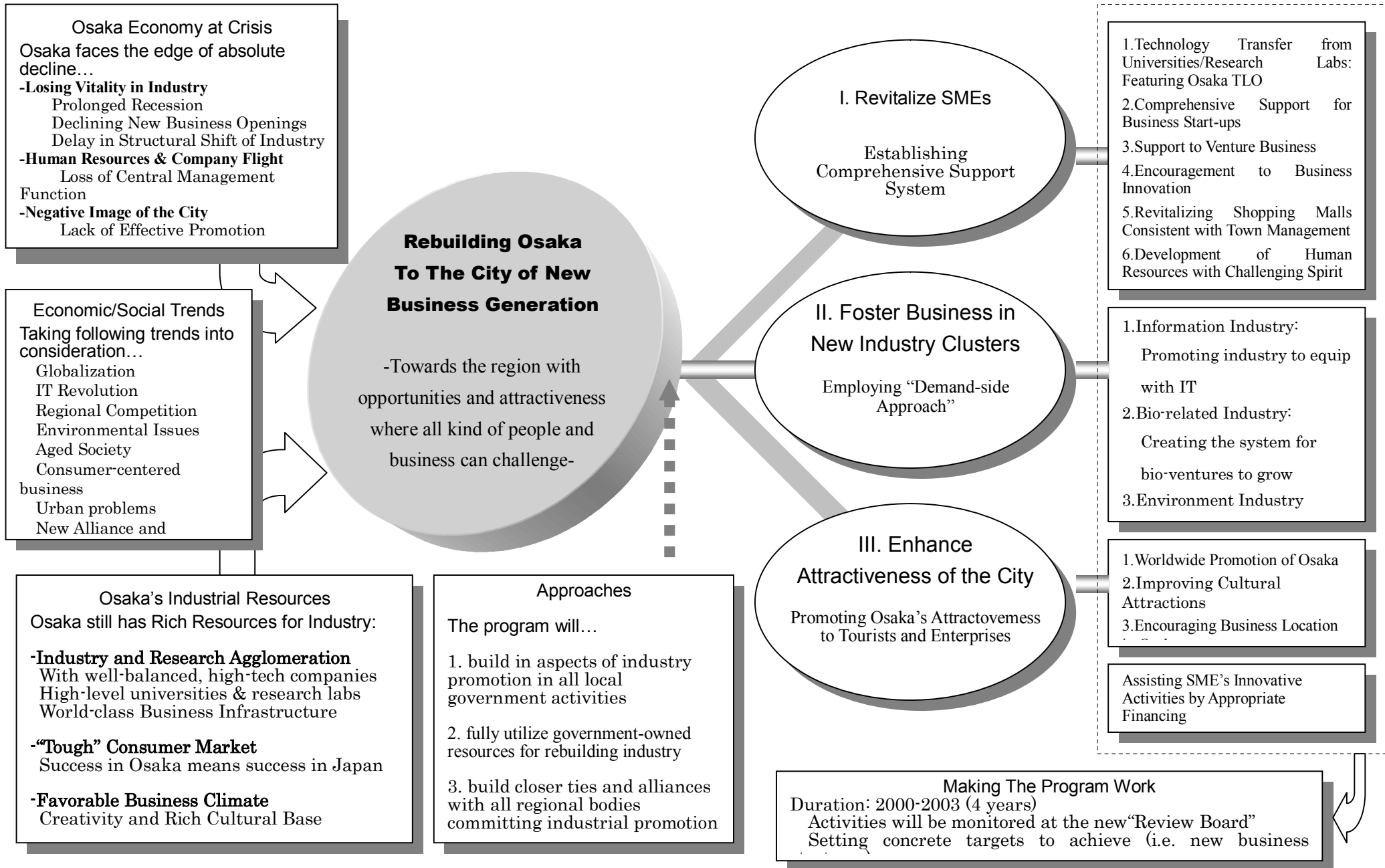


Chart 6 Overview of the Osaka Industry Rebuilding Program



Source: Osaka Prefectural Government [2000].

financial resources of the prefectural government was allocated for implementation of this program.

Second, unlike previous visions with some new, symbolic physical infrastructure represented by the Kansai International Airport, *Program* assumed the most effective use of locally existing resources.

Third, it emphasized on the concept of “new industry cluster”: namely, ICT (information and communication technology), Environment/energy, Biotechnology, and Health/welfare. The “new industry cluster”, with a distinction from conventional industry groups, refers to a group of businesses constituted from a wide range of industries targeting the same direction of the market needs. *Program*, in fostering the development of such clusters, exercised a demand-side approach by creating initial demand for businesses to enter. For that purpose, it attempted to connect industrial development and other policy areas within the prefectural government, including construction, environment, welfare, and education.

Fourth, though *Program* was a sole initiative of the Osaka Prefectural Government, it emphasized on collaboration with other bodies, such as the national government and its regional bureaus, municipalities within the prefecture, economic organization, and non-profit organizations. Their joint efforts have been equally listed and reviewed within the framework of *Program*.

IV. Issues raised in recent economic visions of Osaka

While this unique approach of *Program* attracted public attention, expecting that it would help to reverse economic disarray in Osaka, it has received some criticism to the policy direction as follows: First, the most common evaluation to *Program* asserted that it was too scattered and unfocused, covering too many issues at a time. Yasui et al. [2003] points out that it should have sufficiently explained the uniqueness of the Osaka economy’s decline, to avoid policy tasks to be too general.

Second, as Shoya [2001] claims, *Program* overlooks the argument of industrial structure, agglomeration, and organization, only to stress the level of individual enterprises. As an example, the program has little description on the commercial sector, especially wholesale industries that have been the major force in the Osaka economy. He also indicates that too much focus on individual SMEs in *Program* deviates larger corporations that should have significant impacts on the local economy.

Third, as *Program* leans on new business creation by startups and venture business promotion, sometimes regarded as disdain of existing SMEs, Yasui et al. [2003] questions how much it would contribute to solve rising unemployment in Osaka.

Fourth, partly because the globalization has become a given condition for the most of business activities rather than a particular task to consider, *Program* is said to have only weak recognition and measures for globalization.

Issues raised in *Program* also include the process of its implementation, including the following:

(1) Difficulties of policy evaluation

Program has been reviewed by the semi-annual external review board. In setting

standards for this review process, the Osaka Prefectural Government selected numerical targets to achieve, namely the annual number of business startups, number of visitors from outside Osaka, and proportions of SMEs to introduce computers and network in their businesses. Then it faced several practical problems of statistical lags and capability of controlling such figures by the prefectural government with their policy programs, which makes it difficult to measure effectiveness of *Program*.

The evaluation also should consider the extent of acknowledgement of each program by targeted beneficiaries, as it has lied as a persisting problem for industrial promotion of the local governments.

(2) Further collaboration with other sectors

Though *Program* has reputedly been relatively successful in involving several related actors in industrial promotion, the Osaka Prefectural Government needs to further collaborative efforts in its policy programs. It would avoid redundancy and duplication of policies by the different layer of governments and other organizations, which seems to be prominent especially in Osaka.

(3) Lack of resources

Amid of worsened financial situation and human resource shortage by downsizing of the organization, the Osaka Prefectural Government faces difficulty in sustaining to conduct unique policy programs. This partly roots in the system of executing industrial promotion policies, where many schemes are planned by the national government before delegated for implementation by the prefectural government, with a certain portion of costs covered by the national government. It gives less discretion for the prefectural governments to select necessary program according to their own local needs.

V. Tasks of economic visions of local governments

To some extent, Japanese local governments, in effort to commit with industrial promotion, share similar challenges as Osaka has experienced over the years. The review of economic visions of Osaka can provide implications in terms of (1) direction of industrial promotion, and (2) implementation of policy programs, where local governments should raise awareness as the following:

(1) Direction of industrial promotion by local governments

1) Notion on economic activities beyond boundaries of local governments. Even SMEs, once believed to confine activities within the vicinity of their home, expand business locations at the time of globalization. Local governments need to understand activities of local industries outside their own area, to determine their roles in promotion.

2) Choice of industries to promote. Conventional discussion especially in the urban area like Osaka argues if the prefecture should focus either on manufacturing or services and other tertiary industries. Similar debates sometimes take place between new industries with advanced

technology and existing industries with lower technological background. Local governments need to recognize, however, the issue lies in creating a system to generate each other's demand, rather than preferring one from the other.

3) Distinction from conventional economic stimulus packages. The future local economic visions will require identifying the needs of residents, which motivates industries to fill, resulting in the shift of the industrial structure. It should be distinct with some economic plans that infuse funds to stimulate the economy in pursuit of quantitative results.

4) Human-centered industrial promotion. In addition to providing financial and technological assistance, the most common policy tools for local governments, they should consider the effectiveness human resource development especially in the managerial level, in order to nurture competitive enterprises. It would lead to reconsider the role of financial support by the Japanese local governments.

The argument of human-centered concept also raises a point that industrial promotion should take consistency with employment creation into consideration.⁵

5) Consideration on time span. Four abovementioned visions of Osaka prefecture vary in terms of targeted time span. Long-term visions tend to be more vague, while shorter term ones could fall short in presenting the future image of the economy and industry. A possible solution for this dilemma could be that local governments have multiple visions with different time-span, with a longer one more closely associated with the comprehensive policy plan for 10-20 years, and a shorter, 5 years at the longest, plan that leads to concrete policy programs.

(2) Implementation of policy programs

Also, several issues to consider exist in the phase of implementation of policy programs based on an economic vision, including the followings:

1) Division of roles between the prefecture and municipalities. From the case of the Osaka Prefecture, where the City of Osaka has an equivalent authority as one of the 13 Japanese "Designated Cities", it is evidently necessary to avoid duplication of policy supports among different layers of governments. An argument suggests that municipalities can provide supports equally to the conventional SME policy programs, while prefectures concentrate in handling industry-level issues.

2) Alliance with neighboring prefectures. Similarly, the problem of duplication in policies, and conflicts in some cases, also exists among Osaka and neighboring Kyoto and Hyogo prefectures. Together they as well as other adjacent prefectures constitute the region of Kansai, an area with 16 million population and larger GDP than that of Canada. In terms of industrial promotion, it is clearly beneficial to have a single authority to coordinate policies of participating governments. It remains to be seen that the Kansai Council, already in place for coordinating broader issues in the area, or some alternative bodies can take this role.

3) Alliance among departments within the government. *Program*, to some extent, succeeded to integrate other policy areas into industry promotion, by involving them out of the bureaucracy, under the legitimate reason of rebuilding the Osaka industry. Issues regarding corporate activities increasingly connect to different policy areas other than direct industrial

promotion. Local governments now bear more responsibility to coordinate sometimes-contradictory policy objectives.

4) Roles of public and private sectors. In the middle of the policy reform, both national and local government tend to consider that the public sector should lessen their role in industrial promotion, delegating their work to the private sector as much as possible. Contrary to this generally true thesis, nonetheless, they need to examine the best performing bodies of implementation, either public or private. As industrial promotion covers a wide range of issues, it requires further alliances and division of roles with different organizations and governments.

Conclusion: The future of economic visions

The case of Osaka prefecture shows that the economic visions have played considerably important role for policymaking process in local government, as an articulated presentation by the local government in their understanding of the current, locally-unique situation, as well as their policy emphasis in the medium to long term.

Meanwhile, economic visions have deficiencies in the gap between their proposals and implementation. Although they correctly address the issues to tackle, (and in Osaka's case, issues almost remained similar in their foundation over decades), local government seemed to have lacked in adequate resources to realize results that economic visions intended.

The future economic visions should consider more on the ability to execute programs based on their recognition of tasks, with further flexibility in the methodology and boundaries of the local economy. It would sure elicit shortcomings and limitations of the local government on industrial promotion, given the existing system of resource allocation between the national and local governments. The latter deserves to exercise more resources.

In order to cope with current rapidly-changing industrial structure, the local economic vision should emphasize a different notion, which requires expanded autonomy of the local governments.

Notes

* The author would like to appreciate insights from members of the Study Group on Osaka's Industrial Structure and Visions, composed of academics, staffs of the Osaka Prefectural Government, and my colleagues at IAID (Institute for Advanced Industry Development). This article owes a lot to a series of their discussion. The author, nonetheless, should be solely liable to any mistakes or deficiencies in this article.

1 This is not to say that creating economic vision is specific to Japan. For example, the State of California (the United States) formulated its economic plan in 1995.

2 According to a search by the author as of October 2003, excluding some visions that are more sector and area-specific. Prefectures with economic visions (in progress) are the following: Hokkaido, Iwate, Miyagi, Yamagata, Fukushima, Ibaraki, Tochigi, Gunma, Saitama, Niigata, Fukui, Gifu, Aichi, Shiga, Osaka, Hyogo, Shimane, Okayama, Hiroshima, Ehime, Saga, and Okinawa.

3 All GDP figures are nominal. Osaka uses the fiscal year figure, whereas others use the calendar year for calculation.

4 Fortune Global 500 companies for 2001 are listed in *Fortune*, July 21 2003 edition.

5 In 1999, The Department of Commerce and Industry of the Osaka Prefectural Government, the main division in charge of industrial promotion, has been merged with The Department of Labor. The new department, The Department of Commerce, Industry, and Labor created the “One-hundred twenty thousand employment creation plan” as a measure against rising unemployment in Osaka, with much overlapping programs in the ongoing *program*.

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