HARD INFRASTRUCTURE AS LOCAL ECONOMIC DEVELOPMENT (LED) ENABLING ENVIRONMENT IN AICHI PREFECTURE, JAPAN

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Abstract

The study identified the Local Economic Development enabling environment to support small and medium enterprises (SMEs) in Aichi Prefecture, Japan. It employed participant observation research method in the national, regional, prefectural, city, and town governments, academic and research institutions, SMEs, chamber of commerce, business associations, and communities’ levels in Aichi Prefecture. The study revealed that Japanese government provides business support for SMEs as the force behind an economy with thriving SMEs industry. The support to hard infrastructure was identified as LED enabling environment fostering connectedness, innovation and value creation for SMEs’ attraction, growth, and global expansion. This is common among the selected local governments towards building up local competitiveness, addressing job and wealth creation, and promoting liveability through hard infrastructure development. The LED in Japan can be applied as a model for developing countries, especially in the ASEAN Region, in addressing poverty reduction and wealth creation.

Keywords: development policy, local economic development, small and medium enterprises

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Abstrak


Kata Kunci: kebijakan pembangunan, pengembangan ekonomi lokal, usaha kecil dan menengah
Introduction

The context of local economic development (LED) has radically changed since the 1980s where local development conditions were shaped by central government agencies. The central government dominance contributed to the social and economic underdevelopment by implementing a complex bureaucracy, high-dependency on central decision making, and centralize donor funding (Helmsing, 2001). In time, the central control declined resulting from two factors: the fundamental change in development policy and the need to fill in a vacuum of funding caused by aid fatigue and the decline of official development assistance (Helmsing, 2001). The failure of top-down approach in creating the trickle-down and economic growth in underdevelop area- resulted to the reorientation of economic and social policy by focusing on bottom-up local development strategies (OECD, undated). The traditional top-down, which supply-side sectoral development strategies, drove the search for alternative development strategies. These efforts are direct response to the changing economic, social, institutional, and political pressures to combat unemployment and regional inequality and offer growth to the underdeveloped areas (Pose & Timjstra, 2005 and OECD, undated). Therefore, the focus was to direct the strategies from the national level to regional and local levels, since it -directly interact with business sectors (Hindsom & Stamer, 2007).

The increased localization of the economy resulted the enhanced competition between localities. In addition, globalization, which stimulates opportunities and competition for local investment, posed a challenge to local businesses when international competitors enter local markets (Pose & Timjstra, 2005). However, the massive transformations taking place in the global economy has changed the environment and create greater opportunity yet greater responsibility in fostering local development by addressing the economic health of localities. This shift is linked to new conception of the process of economic development. New theories emerged emphasizing bottom-up approach by promoting entrepreneurship based on particular characteristics of the local environment to support long-term development (OECD, undated).

The shifting strategy created an opportunity for LED as an approach tailored to local circumstances. LED emerged to build up the economic capacity of a locality and improve the future of economic and life quality -for its people; which means, LED is more than simple economic growth, but rather a tool that contributes to the quality of life
for people in the localities (Pose & Timjstra, 2005). LED can help communities to realize a vibrant, resilient, and sustainable local economy capable of improving the quality of life for all. According to Canadian International Development Agency (LGSPA, 2009), LED is defined as a process by which public, business, and non-governmental sector partners work collectively to create better conditions for economic growth and employment generation. The International Labor Organization (ILO) defines LED as having the private sector as the engine of growth through the promotion of full and productive employment (ILO, 2007). Putting LED into practice means securing employment for residents.

Javier (2010) classified LED into three integrated concepts based on the synopsis of literature and practice in the public sector: (1) enterprise development which fits Say’s classical interpretation of “shift of economic resources out of an area of lower into an area of higher productivity”; (2) entrepreneurial or the “embrace of private managerial principles into the public sector; and (3) public entrepreneur referring to “the individual as contributory to paradigm shift, the individual as innovative, proactive, vision-builder, and risk-taker.” This three conceptual understanding of LED by Javier (2010) served as foundation of the LED capacity development initiatives of the Local Government Academy (LGA), the training arm of the Department of the Interior and Local Government (DILG) of the Philippines.

While there are many existing tools and best practices in the field of LED, mainstreaming these into the local government institutional structure and development agenda remains a key challenge (United Nations Human Settlement Programme, 2005). To guide and stimulate LED, interventions and wide range of study from various agencies have been conducted to enhance the role of local authorities and to understand more the entrepreneurial phenomenon. Moreover, achieving economic growth while staying competitive is challenging; but what is more challenging is to ensure the benefits of growth distribute widely to achieve an inclusive development and have impact on the quality of life of all citizens.

In Japan, even if economic development is primarily the product of private entrepreneurship, the Japanese government has a direct contribution to the nation’s prosperity. The government actions helped initiate new industries, cushion the effects of economic depression, create a sound economic infrastructure, and protect the living standards of the citizenry while preserving its rich tradition. The pervasive government
influence in the economic sector is seen by foreign observers and popularized the term "Japan Inc." to describe the alliance of business and government interests at different levels of governments. What is happening now for LED is the pursuit of “Local Japan Inc.” that focus on the communities for economic development with a mix-shared of responsibility of central, regional, prefectural and local government (Toshiya, 2001). In this context, the study identified the LED enabling environment that support small and medium enterprises (SMEs) in selected local governments, particularly, Nagoya City, Ichinomiya City, and Kota Town in Aichi Prefecture, Japan.

Overview on Japan’s Economic Development

Japan’s economic development is primarily led by private entrepreneurship (Ohno, 2006). In spite of this, the government has directly contributed to the nation’s prosperity – from initiating new industries, cushioning the effects of economic depression, creating sound economic infrastructure, to protecting the living standards of the community. Japan’s economic development implemented a top-down approach with support from business sector and subsidies emanate from the central government, particularly the METI, down to the local governments to meet the demands of the communities, both for local and national economic development (Javier, 2016).

Leadership stemmed from the government, with a thorough government’s guidance for business sector involvement. This relationship between the government and private sector has been historically shaped by Confucianism, in which loyalty is more important than benevolence. This thought is coupled with the Japanese’s view that perceive the nation as a family; thereby, trust is build, the businesses sector allowing the government to influence their action, in the same time, the businesses sector worked hard not only for their own profits but also for national well-being (Hirai, 2004). Thus, the relationship between the government and the private was as collaborators. They work together closely since 1950s and 1960s in promoting industrial development with the aim to shift resources to specific industries in order to gain international competitive advantage for Japan.

In the case of LED, particularly those which operated in Japan, is driven by private enterprises, while the government still played a crucial role through the provision of enabling environment for businesses. The Japanese central and local governments
establish partnerships with the private sector in planning major projects for its localities. Japan is a small country but each of its region has different potentials to support their successful local economic development (Shapira, P., Masser, I., & Edgington, D.W, 1994). Strengthening the regional competitiveness has led to Japan’s overall success in international market with local governments playing a greater role rather than the central government (Kaneko, personal communication, 2016).

**SMEs as Engine of Growth**

Businesses serve as the principle source of growth and employment fuelled by the creativity, innovativeness, and hard work of entrepreneurs and workers and driven by the quest for profit and employment generation; thereby making private sector as the engine -is consider as one of the solution for local growth (ILO, 2007). The competitiveness in businesses sector is crucial on achieving the economic development. Strategic planning for LED is an important tool that can significantly address local issues which involves: wise resource usage, integrating values, and thinking ahead through interaction among business, government, labor, and the poor (UN Habitat, 2005).

As enterprises serve as the principal source of growth, the employment is fuelled by the creativity, innovativeness, and hard work. The entrepreneurs and workers, driven by the quest for profit and employment generations, need a supportive enabling environment characterized by open, rule-based, predictable, and non-discriminative markets, a non-corrupt and well-governed economy (ILO, 2007). In the context of rapidly changing markets and technologies, the success of firms depends on the quality of their local environments which provides the context in which they operate, the physical infrastructure, the business support services, the labor supply and technological base (Porter, 1990, 1998 as cited by OECD, undated).

SMEs play an important role in the Japanese economy. SMEs in Japan are account for 99.7% of the 4.6 million enterprises, 70.2% of national employment and 51.1% in the value of shipment in manufacturing (2001 data from METI as cited by Small and Medium Enterprise Agency, undated). However, between 1999 and 2014, the number of SMEs in Japan dropped by 21% from 4.8 million to 3.8 million as a consequence of ageing business owners unable to find a successor and weak entrepreneurial attitudes in the society (OECD, 2017). Business conditions are affected by these changes, and its also
challenges the economic and social, resulting the shrinking of domestic markets and labor shortages (Teruhiko & Kato, 2007).

Methodology

The study employed participant observation research strategy which simultaneously combines key informant interviews, site visits, document analysis, and direct observation. Data was sourced from semi-structured interviews, documents, data logging, and field notes. Respondents of the study were officials from the national and local (regional, prefectural, city, and town) governments, as well as academic and research institutions, private SMEs, chamber of commerce and business associations, and communities in the selected localities in Aichi Prefecture, Japan. Data gathering involved language translation from Japanese to English.

Nagoya City, Ichinomiya City, and Kota Town in Aichi Prefecture were purposively selected as locale of the study. The selected localities represent the different local government classifications in Aichi Prefecture. One of the conduits of the government-business relations in Japan is the Ministry of Economy, Trade and Industry (METI). It has eight regional offices, one of which is the Chubu Bureau of Economy, Trade, and Industry or Chubu METI Chubu Bureau of Economy, Trade and Industry (2016). Aichi Prefecture is under the regional jurisdiction of Chubu METI. Nagoya City, classified as designated city, is a metropolitan city and the largest city in the Aichi Prefecture and Chubu Region. The monozukuri or manufacturing industry of Nagoya City has been the largest in Japan. It has been renowned as a leading manufacturing hub worldwide with clusters of industries such as the next-generation industries and cutting-edge technologies in the automotive and aerospace industries.

Ichinomiya City, a special city, is the fourth largest city in Aichi Prefecture known all over Japan for its leading textile industry. Historically, it is a production center for wool textiles (City of Ichinomiya, 2015). Its wool product is recognized as the leading wool product in the world because of its high quality textile (Shimazu, 2016). While Kota Town, a small town, is a center for manufacturing of automotive spare parts and electronics for automobile-related companies.
LED Enabling Environment

Helmsing (2001) pointed out that local business environment matters as far as infrastructure conditions are concerned. According to Pose & Timjstra (2005), businesses often choose to locate in urban areas because of the agglomeration of economies. The economic advantage of urban areas depends significantly on the policies affecting the availability of transport, electricity, and developable urban land. Also, factors affecting labor productivity in the local economy include the availability of quality housing, health, and education services, skills, security, training opportunities, and public transport.

A strong and enabled SME environment of Japan is termed as LED enabling environment. While the contribution of private businesses in economic development has long been recognized, a positive business enabling environment is needed for them to thrive. LED enabling environment refers to the good practice in LED suggesting that use of local resources and government intervention should focus on improving the business environment and development that reaches all levels of society (UN Habitat, 2005). The LED enabling environment are the common business support mechanisms in Nagoya City, Ichinomiya City, and Kota Town, which correspond to improved conditions for local economic growth, employment generation, and quality of life (UN Habitat, 2005; Canadian International Development Agency, 2009 as cited by Javier, 2010).

Support to Hard Infrastructure

The support to hard infrastructure refers to the provision and development of transport infrastructure (roads, railways, ports, and airports), industrial or commercial buildings, and research facilities which are necessary for local businesses to prosper, which was identified as having economic characteristics that constitute a core ingredient of LED (Helmsing, 2001).

Support to Hard Infrastructure in Nagoya City

Adding to the geographical location being at the center of Japan, Nagoya City has a well-developed road traffic network – railways, major national roads, and expressways that offer convenience on logistics and smooth transportation. Moreover, Nagoya City is a key station of Shinkansen and has rail terminal stations such as Japan Rail (JR) and City Metro and bus terminal stations such as Meitetsu and Nagoya Sightseeing Bus. The City
Metro and Nagoya Sightseeing Bus provide transportation for sightseeing that showcases the city’s architectural heritage and traditional industries.

Having *Shinkansen* (bullet train) stops, trip to Tokyo takes approximately 100 minutes and to Osaka about 50 minutes. Also, Tokyo is just approximately 325 kilometers away via Tomei Expressway while Osaka is 183 kilometers away via Meishin Expressway (City of Nagoya, December 2015). Also, the full opening of Nagoya Expressway in 2013 spreads radially in six directions and connects to Tomei and Meishin Expressways (Nagoya City, 2015). These make business trips to the metropolitan areas of Tokyo and Osaka feasible in one day and reduced travel time to other areas in Japan. Travelling throughout Japan has been easy with transportation lines clustered in the Nagoya City. This provides convenience to the clusters of urban-oriented industries gathered around the central area. Also, it facilitates convenient mobility of people within the City with its subway transport system.

Its well-developed transportation infrastructure that connects Nagoya City throughout Japan has led Nagoya City to be known as having the most advanced road system in Japan (Japan External Trade Organization, 2015 & City of Nagoya, December 2015). While it has already earned such recognition, Nagoya City has continued developing its wide-area traffic networks. In 2027, the opening of the Linear Chuo Shinkansen will provide more convenience suitable for businesses by shortening Nagoya-Tokyo travel time from approximately 100 minutes via Tokaido *Shinkansen* to 40 minutes (City of Nagoya, December 2015). In the meantime, many high-rise buildings and establishments have continued to concentrate around Nagoya Station where it will be connected to, adding up to the City’s energetic atmosphere. The new development is expected to further attract domestic and international businesses, support the advancement of function as headquarter of businesses, cultivate industrial human resources in Nagoya City as well as promote industry exchange, enhance attractiveness, and strengthen industrial competitiveness of the whole Chubu Region (City of Nagoya, March 2015).

While Nagoya City has no airport, there is an easy access to Central Japan International Airport (Centrair). Known as the “Sky gateway to Chubu Region,” it connects domestic and international flights (Aichi Prefectural Government, March 2016). It takes about 30 minutes via railway, minimum of 46 minutes via bus, or 40 minutes via
expressway (City of Nagoya, December 2015). Also, directly linked to the mainland traffic routes is the Port of Nagoya (City of Nagoya, September 2009) which is designated as an international bulk strategy port connected to approximately 160 nations and regions throughout the world. It is Japan’s number one logistics gateway to the world that enables companies to easily envision it as hub for Asia-wide logistics (City of Nagoya, December 2015 & 2009). It is also the leading port in Japan in terms of cargo shipment in Chubu Region, contributing to the economy of Japan.

Moreover, the JR Nagoya Station serves as a gateway and landmark of Nagoya City with its two parallel cylindrical skyscrapers. This station complex houses and connects different establishments such as restaurants, cafes, bars, spas, gardens, department stores, an international hotel, and offices for rent and provides two wide parking areas, hence prompting Carr (2014) to dub it as “almost a town within a city.” In addition, the unique Oasis 21, located at Sakae which is the central district of Nagoya City, is a galaxy-like platform that serves as bus terminal for city buses and highway buses. It is surrounded by establishments such as shops and cafes and serves as an events place for various exhibitions, performances, and other related activities. Also, the Nagoya TV Tower, the symbol of Nagoya City, is just walking distance from Oasis 21. Being surrounded by lots of commercial establishments, this downtown district is lively all day long.

Furthermore, Nagoya City has a cluster of research institutions that supports research and development focused on its manufacturing industry. All of the research institutions provide research facilities, laboratory or experimentation rooms, technical information, and technical consultation aside from conduct of joint researches. Among these institutions, the Nagoya Municipal Industrial Research Institute has rental facilities which can be used for purposes such as conferences, workshops, training, and exhibitions (Miyake, et. al., 2013). It has also rental rooms for business associations, making it convenient and accessible to them to access NMIRI’s services. Also, it has an Industrial Technology Library which has volumes of technical books, magazines, and databases. It can be gleaned that it is aligned to the advancement of next-generation industry, adding value to its manufacturing industry, and creation of new industry through collaborative undertakings among the local government, industry, and academe for sustainable development.

Support to Hard Infrastructure in Ichinomiya City
Ichinomiya City is roughly halfway between Nagoya City and Gifu Prefecture. It can be accessed by taking the JR Tokaido train line from Nagoya to Owari-Ichinomiya Station, or Meitetsu Nagoya and Bisai train lines. Its accessibility throughout Japan was further enhanced with the Toumei, Meishin, and Tokai-Hokuriku expressways. The development of road networks, particularly the Meishin and Tokai-Hokuriku expressways intersecting at its junction has contributed to its reclassification as a special city in April 2002 (City of Ichinomiya, 2016). This implies that the population of Ichinomiya City increased from such development.

Adjacent to the JR Owari-Ichinomiya Station is the Owari Ichimiya Ekimae Building or commonly known as i-Building which was recently completed in November 2012. It was established by the Ichinomiya City local government under the Owari Ichinomiya Station Regional Regeneration Improvement Project to revitalize the central urban area including the station building maintenance (Ichinomiya City, 2016). It was created as an Exchange and Cultural Base, that is, a community center with public and private facilities such as business support center, library, child rearing support center, civil action support center, multipurpose hall, event plaza, and restaurants in its seven-story high building. As a new gateway to Ichinomiya City, the facade of the building is inspired by the beauty of the woven fabrics woven by the warp and weft threads (Ichinomiya City, 2016), promoting the high quality of its local textile product. This landmark of the City with its various facilities is to enhance attractiveness of the City.

In response to the globally competitive environment for the city’s local industry, the textile industry, the Fashion Design Center (FDC) was founded by the Ichinomiya City local government in collaboration with business organizations, Aichi Prefectural Government, and Japan Federal Government. This is one among the research institutions in the city that work with the local government in revitalizing the city’s textile industry through innovation and value creation in order for its textile-related SMEs to be competitive. The 138 Tower Park serves as Ichinomiya City’s symbolic tower where people can enjoy a panoramic view of its natural landscape surrounded by river, mountain, and varieties of trees and flowers. The city’s open spaces, such as the 138 Tower Park, allow physical activities such as sports and appreciation of nature’s beauty, attracting people to visit, relax, meet with friends, and have fun with family. As events
and festivals are also being held in major parks, local tradition, cuisines, and products are being showcased.

**Support to Hard Infrastructure in Kota Town**

Kota Town is the only town in Japan with three train stations. The Aimi Train Station which was recently developed in 2011, is an initiative of the local government with future outlook of further developing the town from being one of the recognized energetic municipalities to being a city by attracting business locators. Surrounding the Aimi Station are the planned residential and commercial areas and facilities to encourage commercial activities in the area (Shiga, personal communication, August 29, 2016). While it took them 25 years to convince a group of farmers who own the 50 hectares of land to donate it for the construction of Aimi Station, their efforts have paid off as it is now being operated by JR Tokaido Line since March 2012. They were able to convince the farmers by personally visiting them to explain and let them understand that they only have two options for the future: either to remain rural or be developed by donating their lands and think about the benefit of the whole community in which they can also benefit from good social services as a result if many enterprises will locate to their town (Shiga, personal communication, August 29, 2016).

With its abundant agriculture, the Kota local government developed “Kota Circuit,” an agri-tourism loop which is an integrated path that showcases its preserved architectural heritage, temples, flower gardens, and innovative agricultural product centers. Being a town rich in agriculture, the Kota local government promotes its local agricultural products at the town’s *michi-no-eki*, a government-designated rest area found along roads and highways. *Michi-no-eki* is a national initiative all over Japan under the Ministry of Land, Infrastructure, and Transportation wherein the land and management is taken care of by the local government. At first, it was created as a stopover for long land travels across Japan which then evolved to a public infrastructure facility showcasing, selling, and promoting the local farmers’ agricultural products among tourists or travelers.

In addition, the Kota local government is attracting higher education institutions to establish in their town in order to create a new industrial cluster to develop a new industry. Industrial clusters means “putting in place the environment so that an ongoing series of new businesses will be created, thereby fostering the evolution of a concentration of industries in a wide area around a focal core of highly competitive industries” which
refers to the Industrial Cluster Project of the Ministry of Economy, Trade and Industry (METI) for “regional SMEs and start-up companies to utilize innovative research results or ‘seeds’ obtained at universities and research institutes in fields such as IT, biotechnology, the environment, and manufacturing with the goal of strengthening the competitiveness of Japanese industry. As affirmed by OECD (2005), mutually supportive industries that form clusters do not just make it possible to cover the cost of investments but also to create new products jointly.

As industries are important to the development of the town, they focus on attracting businesses by maintaining its infrastructure services (Souka, personal communication, August 29, 2016). Indeed, it is a strategy to make the town attractive for businesses which will increase the revenue of the Kota Town local government for service delivery and increase its population by attracting people to stay or move to their town. Furthermore, Kota Town promotes “workplace near home” to attract not just businesses but also people to move to their town. Through planned industrial development, residential areas and community facilities (like parks and nursery schools) are constructed near the company sites in order to provide employees short travel time for work and more time with their family. This fosters an environment for raising children among families which will result to increase in birth rate. Also, it develops “third places” which refer to the social surroundings other than home (“first place”) and the workplace (“second place”) in the community as an innovation hub to engage people to participate to community activities and potentially discuss about business ventures.

**Conclusion**

To conclude, with all levels of government following a plan-oriented market economy, LED in Japan is providing support to SMEs based on the national development prioritization of strengthening SMEs. The support to hard infrastructure is a pillar of LED enabling environment for SMEs attraction, growth, and global expansion of SMEs in Nagoya City, Ichinomiya City, and Kota Town in Aichi Prefecture, Japan in response to the local and national economic situation in Japan and the increasingly challenging environment for SMEs in a globalized economy.

While research institutions are concentrated in Nagoya City as the center of Greater Nagoya Area, there are also clusters of research institutions in Ichinomiya City (Fashion Design Center) and Kota Town (Kota Monozukuri Research Center) that
provide technical and managerial support to businesses and infrastructures and for learning and interactive exchanges among SMEs. In all selected local governments, the continuous development of hard infrastructure, particularly the transportation networks for land, sea, and air provide accessibility, convenience, and smooth transportation that aim to enhance attractiveness of the selected localities to businesses and to facilitate spread of business growth and local development to the sub-urban areas in the Chubu Region. Adding to the natural wonders of the region, the transportation network promotes the local traditions and industries of the selected localities which help to increase inbound tourism and revitalize local businesses.

The different levels of government, in cooperation with various stakeholders, work collaboratively for the continuous development of hard infrastructure that promotes the local industries, revitalizes businesses, and enhances the attractiveness of the localities to businesses. Moreover, the development of transportation system is a strategy to attract people to move in their localities as attracting businesses entail the need for professionals and skilled workers. Support to hard infrastructure also leads to liveability as it provides convenience and accessibility from workplace to home. Therefore, the development of hard infrastructure boosts business attraction and growth, addresses the population concern of localities in Japan, and the local economic development of Nagoya City, Ichinomiya City, and Kota Town in Aichi Prefecture, Japan.

The study highlights the support to hard infrastructure to enable local economic development in the different local governments – Nagoya City, Ichinomiya City, and Kota Town – in Aichi Prefecture, Japan results to SMEs’ attraction, growth, and global expansion through connectedness, innovation, and value creation. The support to hard infrastructure as pillar of LED enabling environment leads to enhanced local competitiveness, job and wealth creation, and liveability. This study is worth a look by developing countries, especially in the ASEAN Region, in addressing poverty reduction and wealth creation.
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