An Alternative Direction for Maintaining the Vitality of Japanese Regional Cities in the Transition Stage

HINO Masateru

The science reports of the Tohoku University. 7th series, Geography 56 1-11 2009-03
URL http://hdl.handle.net/10097/45270
An Alternative Direction for Maintaining the Vitality of Japanese Regional Cities in the Transition Stage

Masateru HINO*

Abstract In Japan the rapid growth of regional cities mainly due to the agglomeration of branch offices of nation-wide companies is a characteristic of urbanization in the latter half of the 20th century. However, the branch office agglomeration in regional cities began to decrease since the late 1990s. The reduction in employment at branch offices of large enterprises was a main immediate reason of the decrease in the branch office agglomeration in regional cities. This phenomenon was caused by fundamental factors such as globalization, information technology, falling birthrate, and the aging of the population, in addition to long-term economic stagnation in Japan. On the other hand, producer services industry is one of a few growing industries in regional cities. However, the differentiation in the growth of producer services in regional cities seems likely to increase in the future. Therefore, it is necessary for regional cities to look for a new developmental direction instead of the previous growth model characterized by hierarchical differentiations and connections between cities. It is thought that regional cities should form and strengthen their horizontal direct connections with cities in other regions or foreign countries as a strategy for sustainable vitality.

Key words: regional city, branch office, producer service, urban linkage, Japan

1. Introduction

In Japan the term ‘regional city’ has been generally applied to only four cities: Sapporo, Sendai, Hiroshima, and Fukuoka (Fig. 1). These days, they are considered central cities after the three largest cities: Tokyo, Osaka, and Nagoya.

However, in the 1970s these regional cities came to be recognized as metropolises. In 1956, when the Japanese government first began designating the country’s major cities, only the following five largest cities were recognized: Osaka, Nagoya, Yokohama, Kyoto, and Kobe. At that time, regional cities did not qualify as designated cities, mainly because there were large differences in population and economic power between the traditional six largest cities and the four regional cities. For example, whereas Kobe, the smallest of the traditional six largest cities, had 960,000 people in

* Institute of Geography, Graduate School of Science, Tohoku University
Science Reports of Tohoku University, 7th Series (Geography) Vol. 56, Nos. 1/2, 2009, 1-11
Since the 1950s, however, regional cities have grown rapidly. In the 1970s, Sapporo and Fukuoka each attained a population of 1 million and achieved designated city status. In the 1980s, Hiroshima and Sendai also became designated cities. The rapid growth of regional cities is a characteristic of urbanization in the latter half of the 20th century in Japan.

The growth of regional cities was brought about not by industrialization but by the agglomeration of branch offices of nation-wide companies. A large portion of branch offices in regional cities belonged to companies headquartered in Tokyo or Osaka, and were assigned the functions of controlling and coordinating marketing activities over the whole respective region. Thus, the agglomeration of such branch offices in regional cities has increased the centrality of these cities (Abe, 1991, 2004; Hino, 1994, 1996). As a result, they have been called 'shiten-keizai no machi' (city based on branch office economy).

However, the creation of new branch offices of large companies decreased during the long-term recession in the Japanese economy caused directly by the collapse of the bubble economy in 1991. The expansion of branch office agglomeration in regional cities, therefore, stopped in the early 1990s, and began to reverse itself in the latter half of the 1990s (Hino, 2005). After that period, the decrease in agglomeration of branch offices in regional cities continued. At the same time, although producer service industries have grown up in the four regional cities since the 1980s, the differences in the growth of producer service industries among four regional cities tend to be large.

This paper examines both the decrease in the agglomeration of branch offices after the latter half of the 1990s and the differences in the growth of producer services among regional cities. Furthermore, based on the results of this examination, we try to present an alternative direction for maintaining the vitality of regional cities in the
future.

2. Branch-office weight in the economies of regional cities

There were no official statistics for branch offices by city despite the importance of branch offices in urban economies in Japan. However, data on the number of employees in branch establishments by industry and by location of the head-office have been available, though for major cities only since the Japanese Establishment Census in 1981. Using these data, we have estimated the number of employees in branch offices for major cities.

In this paper, only the branch establishments belonging to the following industries are treated as branch offices: wholesaling, construction, finance and insurance, real estate, transportation and communication, and four producer services. Over 60% of branch establishments belonging to these industries were in the forms of offices. In other industries, the forms of shop, factory, and warehouse are dominant.

Table 1 shows employment in branch offices as percentage of total employment in regional cities in 2006. Branch-office employment in Sendai and Fukuoka has already reached 20%, far higher than the percentages employed in manufacturing in these two cities (4.8% and 5.0%, respectively). In Sapporo and Hiroshima, the percentages of employment in branch offices were 12% and 14%, respectively. Although smaller than the figures in Fukuoka and Sendai, these percentages also far exceed manufacturing employment. In addition, if we could measure the weight of branch offices as basic activities in urban economies, the importance of these offices higher than the above percentages indicates (Hino, 1995).

Table 1 Weight of branch offices in urban economies of regional cities

<table>
<thead>
<tr>
<th>Regional City</th>
<th>(1) Employment in branch offices</th>
<th>(2) Total number of employment</th>
<th>(3) Employment in manufacturing</th>
<th>Percentage of (1) to (2)</th>
<th>Percentage of (3) to (2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sapporo</td>
<td>103,829</td>
<td>840,151</td>
<td>43,416</td>
<td>12.4%</td>
<td>5.2%</td>
</tr>
<tr>
<td>Fukuoka</td>
<td>159,266</td>
<td>811,303</td>
<td>40,336</td>
<td>19.6%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Hiroshima</td>
<td>80,509</td>
<td>575,795</td>
<td>61,275</td>
<td>14.9%</td>
<td>10.6%</td>
</tr>
<tr>
<td>Sendai</td>
<td>115,890</td>
<td>536,681</td>
<td>26,018</td>
<td>21.6%</td>
<td>4.8%</td>
</tr>
</tbody>
</table>

Source: Japanese Establishment and Enterprise Census, 2006

3. Reduction in the agglomeration of branch offices in regional cities

Figure 2 shows changes in employment in branch offices of the four regional cities after 1981. We can confirm that employment in branch offices continued to increase
during the 1980s in those cities. Furthermore, based on the earlier studies, it is possible to recognize that this tendency has been continuing since the 1950s. However, the expansion of employment of branch offices suddenly stopped after the bubble economy collapsed in 1991. Then, during the late 1990s, employment in branch offices in regional cities decreased. This trend has continued for the period 2001 to 2006.

Table 2 shows the decrease in employment at branch offices from 1996 to 2006 in each of the four regional cities. Enterprises based in Tokyo significantly decreased their employment in branch offices: 50% to 80% of the overall decrease in branch-office employment was attributable to Tokyo-based enterprises. This means that the

<table>
<thead>
<tr>
<th>Regional Cities</th>
<th>Employment decrease from 1996 to 2006</th>
<th>Contribution ratio by location of enterprise headquarters</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Tokyo Pref.</td>
</tr>
<tr>
<td>Sapporo</td>
<td>-18,746 (-100%)</td>
<td>-51.3</td>
</tr>
<tr>
<td>Fukuoka</td>
<td>-18,274 (-100%)</td>
<td>-63.9</td>
</tr>
<tr>
<td>Hiroshima</td>
<td>-13,213 (-100%)</td>
<td>-65.8</td>
</tr>
<tr>
<td>Sendai</td>
<td>-3,608 (-100%)</td>
<td>-82.8</td>
</tr>
</tbody>
</table>

Source: Japanese Establishment and Enterprise Census
reduction in branch offices of large enterprises has generally proceeded since the late 1990s. On the other hand, there were relatively small decreases in employment at branch offices of local enterprises. This suggests that large enterprises have positively advanced the restructuring of domestic offices since the 1990s. We can see that large enterprises have emphasized expanding overseas markets rather than the mature Japanese market.

Table 3 shows the decrease in employment at branch offices by industry. We can see that the decreases were large in wholesaling, construction, transport and communications, and finance and insurance. These industries can be recognized as mature in Japan. Therefore, employment in these industries may not be expected to expand again in the future. For example, in wholesaling the growth of the large-scale chain retailers and the progress of information technology in the distribution system tend to induce direct connections between large retailers and headquarters of manufacturers, and thus to reduce the functions of branch offices of manufacturers and trade companies (Hashimoto, 2001). Furthermore, corporate amalgamations are expected to advance for the expansion of the management scale in matured industries in the future. This will also reduced employment in branch offices through the integration of branch offices.

Figure 3 diagrams the fundamental social changes associated with branch office reductions in regional cities. Although long-term of economic stagnation in Japan is certainly one of the factors leading to branch office reduction, there are other fundamental factors: globalization, information technology, falling birthrate, and the aging of the population. Furthermore, these changes are long-term tendencies continuing into the future. Many large enterprises are thought to have advanced the restructuring of domestic branch offices in order to adapt to these long-term trends.

Table 3 Contribution rate to the total decrease in employment at branch offices in regional cities by industry from 1996 to 2006

<table>
<thead>
<tr>
<th>Regional City</th>
<th>Total</th>
<th>Wholesaling</th>
<th>Construction</th>
<th>Trans. &amp; Communication</th>
<th>Finance &amp; Insurance</th>
<th>Producer services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sapporo</td>
<td>-100%</td>
<td>-83.1</td>
<td>-36.7</td>
<td>-36.2</td>
<td>-35.2</td>
<td>89.1</td>
</tr>
<tr>
<td>Fukuoka</td>
<td>-100%</td>
<td>-150.0</td>
<td>-78.2</td>
<td>-34.4</td>
<td>-29.7</td>
<td>187.8</td>
</tr>
<tr>
<td>Hiroshima</td>
<td>-100%</td>
<td>-35.0</td>
<td>-47.3</td>
<td>-37.9</td>
<td>-32.3</td>
<td>49.3</td>
</tr>
<tr>
<td>Sendai</td>
<td>-100%</td>
<td>-117.6</td>
<td>-42.0</td>
<td>-25.3</td>
<td>-28.0</td>
<td>112.3</td>
</tr>
</tbody>
</table>

4. Differences in the growth of producer services recognized as growing industries in the four regional cities

Regional cities have experienced important changes in their industrial structures, along with the decreases in branch-office agglomeration. Figure 4 shows the changes in the number of employees in the four regional cities by major industry after 1981. We can recognize the contrast in orbits between service industries and other industries. The former has increased in spite of the decrease in the number of employees in industries overall. On the contrary, employment since 1991 or 1996 has stagnated or decreased in the other old major industries including wholesaling, construction, transportation and communication, and finance and insurance.

On the other hand, when we see the increase in employment in service industries by sub-classification, we know that the increase is attributable not to all service industries but to some of them (Fig. 5). That is, only producer services—such as information services, advertising, miscellaneous business services, professional services—, and medical, health care, and welfare services, have showed net gains in employment since 1981. Employment in large parts of personal services and other services has stagnated since 1996.
It is therefore necessary for us to focus on these two growing service areas in order to understand urban growth in regional cities in the future. Furthermore, the enlargement of the medical, health care, and welfare services has been brought about by the aging of the Japanese population. In addition, the number of employees in these services fundamentally corresponds to the population size of cities as well as to employment in other central functions such as retailing. That is, the differences in the number of employees in the medical, health care, and welfare services among the four cities are largely due to the differences in the overall populations of those cities. For example, the correlation coefficient between population size and the number of employees engaging in the services named above for the four regional cities is 0.99.

However, some differences in the growth of producer services cannot be explained by the differences in population size among the four regional cities. The number of employees in producer services in Fukuoka has continued to increase even after 1996, while that in Sapporo decreased for the period 1996 to 2001 (Fig. 6). Although Fukuoka has a smaller population than Sapporo, Fukuoka employed more people than Sapporo in these for the period. In addition, the growth of producer services in
Fig. 5  Increase in the total number of employees in the four regional cities by category of service after 1981
Source: Japanese Establishment and Enterprise Census

Hiroshima has been the weakest among the four cities. Therefore, although Hiroshima is larger than Sendai in population size, it became inferior Sendai in the agglomeration of producer services in 2001.

Producer services tend to concentrate in a small number of cities to seek strongly external economies such as those with high demand, ample human resources, and high levels of related industries. At the national scale, we can see the remarkable concentration of these industries in the inner areas of the Tokyo metropolitan area. There is a large disparity in the agglomeration of producer services between the Tokyo and Osaka metropolitan areas. This means that the growth of producer services does not advance equally even among the largest cities. Therefore, the differentiation in the growth of producer services in the four regional cities seems likely to increase in the future. As the producer services industry is one of a few growing industries in regional cities, this differentiation will induce disparities in urban growth among the regional cities. That is, Fukuoka is thought to have elevated its status in the hierarchy of Japanese cities.
5. Conclusion: An alternative direction for maintaining the vitality of regional cities

The reduction of agglomeration of branch offices in regional cities seen in the late 1990s suggests that these cities will not grow again in the future through the expansion of branch offices. Therefore, it is necessary for regional cities to look for a new developmental direction instead of the previous growth model characterized by hierarchical differentiations and connections between cities. In other words, the previous growth pattern is that of urban growth as an intermediary distribution center (Type A in Fig. 7). Instead, regional cities have to develop other types of networks in order to remain vital in the future.

It is thought that regional cities should form and strengthen their horizontal direct connections with cities in other regions or foreign countries. We can think of three types of horizontal linkages (Fig. 7). The first is the gateway type (Type B). For example, if a lot of local companies would locate their management offices in their own respective regional cities in order to gather management information and to sell their goods to other regions, then the regional cities will become important gateways for local companies.

The second type of linkage is that of regional city-centered networks within the country (Type C). This type would appear if local companies, non-profit organizations, and citizens in a regional city spread their activities to other regions in addition to establishing bases in their own region. This is because such activities lead to
connections between a regional city and other cities and regions with horizontal linkages. The third linkage type enlarges Type C on to an international scale (Type D).

Therefore, we can point out the following problems to address in the future. Which kinds of actors or organizations have the potential to build such horizontal intercity linkages? How do they achieve them? What is necessary for such efforts to advance? Which kinds of partnership between private sectors and public sectors are needed? In order to answer these problems, it seems appropriate to make case studies of cities that form horizontal intercity linkages.

References

Abe, K. (2004): Major cities and the urban system of Japan from the standpoint of large private


