

## Assessment and recommendations

Japan's future prosperity depends on its ability to tackle two enormous and inter-related challenges, which will largely shape its future spatial and economic development. The first is an unprecedented process of demographic change: the country's population is ageing and shrinking rapidly. The second challenge concerns productivity. With the labour force shrinking as a share of the population, output per worker will have to rise even faster if per capita incomes are to increase. A "super-ageing" Japan cannot sustain rising living standards without strong, sustained productivity growth. This will require efforts to stimulate innovation and entrepreneurship and to strengthen the international integration of the Japanese economy. The productivity of services, in particular, will be a critical concern, because demographic change will create challenges for service delivery, in particular – both increased demand for age-related services and increased unit costs for service delivery in places where population is falling.

These challenges are far from unique: many OECD countries face rapid population ageing and some face population decline, as well. While Japan's demographic transition is further advanced and the challenges are in some respects more acute, it has in recent years put together a package of measures to tackle population decline and ageing that is exceptional in its scope and ambition. Their aim is to turn Japan's forbidding economic and demographic challenges into opportunities for growth, innovation and enhanced well-being. The outcomes of this effort will therefore be of first-order interest to policy makers in many countries, within and beyond the OECD.

### Demography is reshaping Japan's economic geography

Japan's population peaked in 2010 at just over 128 million. It has since begun a sustained decline that is expected to accelerate over time, reducing the population to fewer than 100 million by 2050. At the same time, the elderly (65+) share of the population is projected to rise from about 26% today (the highest in the OECD) to around 40% at mid-century. This dramatic shift is the product of two factors: fertility and longevity – immigration plays a very small role in Japan's population dynamics. The total fertility ratio (TFR) has been below replacement level (2.1) since 1974 and below 1.5 since 1993. Even if it quickly returned to replacement levels, the population would decline for more than 50 years before stabilising. At the same time, Japan has achieved an extraordinary increase in longevity, with life expectancy at birth reaching almost 83.5 years in 2013, the highest in the OECD.

The impact of nation-wide demographic dynamics varies greatly from place to place. Several important trends stand out. First, the process of population concentration continues. The three large conurbations centred on Tokyo, Osaka and Nagoya are now home to about 46% the country's population, though they account for just 5.2% of the national territory. The concentration of population and economic activity has accelerated in recent decades,

raising questions about the viability of many smaller cities, towns and rural communities. Predominantly rural regions have also been ageing faster than cities, with more remote rural places having higher elderly dependency ratios than those close to cities. When it comes to fertility, however, the pattern is reversed: the largest cities tend to have lower fertility – Tokyo’s TFR was just 1.15 in 2014, the lowest in the country and well below the national average of 1.42. Other large cities also have exceptionally low fertility rates, a fact that reinforces concern about the steady migration of young people to the big cities.

### **Productivity growth has not been sufficient to offset labour force decline**

Japan’s income per capita, which matched average of the top half of the OECD countries in the early 1990s, fell to 83% of that average in 2009. A number of factors have contributed to this outcome, but an increasingly important factor in recent years has been the “pure” demographic effect – the decline in the working-age share of the population. At present, the working-age population is falling by about 1% per year, and the rate of decline will eventually approach 1.7% per annum. The share of 15-64 year-olds in the total population, which peaked at almost 70% in the early 1990s, is now about 61% and is projected to fall to around 51% at mid-century. A rapidly shrinking labour force and a rapidly rising dependency ratio imply that even productivity growth of 2% or more will deliver very low aggregate or per capita growth. The accelerating decline of the labour force means that, in productivity terms, Japan will have to run faster and faster simply to maintain its position in relation to other economies. Unfortunately, Japan’s productivity performance has been relatively poor since the early 1990s. Over the last decade, it has improved relative to other OECD economies, but this has been insufficient to offset the impact of demographic change.

### **Spatial concentration of economic activity is increasing but spatial disparities are not**

The concentration of economic activity in Japan has continued to increase, in line with population trends. On OECD estimates, the three big functional urban areas – Tokyo, Osaka and Nagoya – generated 49.9% of GDP in 2010. Yet despite this concentration of activity, Japan is characterised by unusually low levels of inter-regional disparities: in 2010, it had the second-lowest inter-regional Gini coefficient for GDP per capita among OECD countries, and inter-regional disparities were actually somewhat lower than in 1995. Disparities between predominantly urban and rural regions were the lowest in the OECD. These patterns are also reflected in labour market indicators, particularly unemployment rates, which vary less across regions in Japan than in almost any other OECD country.

Japan thus combines high concentrations of population and economic activity with low territorial disparities, a combination also found in the Nordic countries. Like them, Japan has traditionally been a highly centralised country with a strong commitment to territorial cohesion. It would also appear that the labour market in Japan works in such a way as to limit wage disparities across space: the growth of employment in Tokyo, in particular, appears to have been critical in ensuring that decades of slow growth have not led to pockets of very high unemployment in the regions or sharp increases in inter-regional inequalities. Over 2000-11, the Tokyo metropolitan area accounted for about 85% of jobs created in Japan. This should be borne in mind when considering proposals to check the inflow of labour to Greater Tokyo. It suggests, in particular, that policies to stimulate business entry and job creation in the regions would be the most important way to counter the centripetal forces now at work in the economy.

Potential over-concentration of people and economic activity in the main urban centres remains a major concern for the authorities. There is widespread concern that rural areas and smaller towns and cities will be left under-populated, aged and impoverished. Firms in regions that experience high levels of depopulation and ageing will confront smaller and less resilient labour markets, as well as problems in finding efficient suppliers and generating links with other businesses. Low-population locations will struggle to attain sufficient critical mass to provide basic public and private goods efficiently, since the fixed costs will have to be borne by a smaller number of clients and consumers. The government's current revitalisation strategy is aimed at preventing such an outcome.

### **Demographic change is a huge challenge but it also offers opportunities**

The economic consequences of demographic change are myriad and complex, but they are not all negative. Clearly, they include shrinking domestic markets and some loss of scale economies in certain activities, as well as the fiscal pressures generated by increased age-related spending and rising dependency ratios. However, population decline in the OECD's most densely populated large country could also create opportunities for more space-intensive activities, more flexibility in land use, less congestion, lower housing costs and, in some respects, less environmental pressure.

The economic impact of demographic change is not a given. Many of the apparent negative economic consequences result not so much from the ageing process itself as from the sometimes perverse interactions between ageing and existing distortions, most notably labour markets and pension systems that encourage early withdrawal from the labour force. Well-articulated and complementary reforms to support, among other things, healthier ageing, longer careers and more efficient healthcare provision, are more likely to offset the impact of ageing than piecemeal approaches that treat particular problems in isolation. The government is currently working to put such a transversal approach in place, co-ordinating across policy sectors and levels of government with the help of such instruments as the National Spatial Strategy and the revitalisation strategy prepared by the new Government Headquarters under the prime minister.

### **Structural reforms need to address labour supply, fertility, entrepreneurship and innovation**

While this review focuses on the spatial/territorial dimension of the two-fold challenge of demographic change and productivity facing Japan, economy-wide, as well as spatial, policies will have a vital role to play. In particular, reforms are needed to boost both labour supply, especially among women and older workers, and fertility. The evidence suggests that very low fertility is linked to labour market institutions and practices that make it difficult to combine careers with child-rearing. Japan already has exceptionally high rates of labour force participation for both men and women by OECD standards, but it also has an unusually large gap between male and female activity rates. If this gap were closed – i.e., if the female participation rate were to converge with the male rate – over the period to 2030, then the decline in the labour force would be reduced by two-thirds, even with no change in male participation rates.

Policies aimed at addressing conditions for all workers, particularly by reducing excessive working hours, expanding childcare provision and improving the work-life balance, could advance both economic growth and gender equity goals. In addition, they could help increase participation among older workers, as well. A number of OECD countries

have already shown how such policies can support both fertility and female labour force participation. The authorities are planning a significant expansion in child-care and after-school places, but measures are also needed to make the tax and benefit systems neutral with regard to work decisions by secondary earners in households: at present, there are significant incentives for second earners to limit their earnings. It would also be advisable to move ahead with more flexible arrangements for fathers, such as proposals for paternity leave and related benefits. More broadly, for men and women alike, there is a need to reduce excessive working hours and improve work-life balance.

Japan could also do much more to stimulate innovation and entrepreneurship, particularly outside the largest cities. Recent performance in both these areas has been lacking. Japan invests heavily in knowledge creation, but the return on that investment in terms of total factor productivity growth has been modest for many years now. The country also scores poorly on measures of entrepreneurship: entry and exit rates are low, and surveys data point to major weaknesses with respect to attitudes and skills, rather than infrastructure or institutions, which tend to be very good. These weaknesses are linked, insofar as many innovations, particularly disruptive ones, do not come from large, established companies – disruptive ideas need entrepreneurs to bring them to the market.

The Japanese authorities are well aware of these challenges and have unveiled a large number of proposals to address them, including new support for start-ups and programmes to support innovation and the growth of small firms. However, there is still much to do, including measures to address skill shortages and enhance entrepreneurship education, to strengthen links between firms and universities and, perhaps most important, to change attitudes to entrepreneurship, which is not widely regarded as a desirable career path. Entrepreneurship could be encouraged among older workers, in particular, by strengthening the protection of managers of bankrupt firms, something the government is now working on: hitherto, failed entrepreneurs have often risked losing almost all their personal assets, including homes and life-insurance policies. This is a particular deterrent to older workers, who cannot afford such risks late in their careers.

### **Policy makers must balance two key concerns in addressing the spatial consequences of depopulation**

The government cannot determine in advance where Japanese people will live in future. As population ageing and decline proceed, people and firms will “vote with their feet” and overly prescriptive attempts to prevent them from doing so would come at a prohibitively high economic cost. However, spatial planning at various scales, from national to local, will play a critical role in shaping the choices that households and firms confront and in avoiding undesirable social, economic or environmental outcomes. Policies regarding public services and infrastructure provision will also influence these choices. Infrastructure investment, in particular, will involve very difficult choices about where to maintain, renew or upgrade key infrastructures and where to downsize or decommission them.

The productivity imperative would seem to point to a need for greater concentration of people and activity as the population declines, in an effort to realise the potential productivity benefits of agglomeration, achieve economies of scale in infrastructure and service provision and sustain the global competitiveness of Japan’s major cities, particularly the Tokyo-Nagoya-Osaka urban mega-region. Although Japanese cities are not without their problems, a micro-data analysis of functional urban areas in Japan in 2013 finds that they are still characterised by relatively strong agglomeration benefits. This suggests that

further growth and integration of major urban centres could yield productivity gains. Japan has not exhausted its agglomeration potential.

The productivity-focused logic of concentration, however, must be balanced against the need for a sustainable settlement pattern. The authorities are concerned about the environmental deterioration that can occur in abandoned locations, as well as about the equity implications of leaving a substantial portion of the population living in places where depopulation trends may destroy the economic and social fabric of local communities. There is also a fear that over-concentration could leave the country even more vulnerable to both economic shocks and natural catastrophes, particularly in view of Tokyo's vulnerability to earthquakes. In any case, states are territorial entities with obligations to all their citizens, and no government could view the depopulation or impoverishment of large swathes of its territory with indifference. The government thus remains committed to sustaining a broader settlement pattern. Variety in the size and character of places is in any case no less beneficial than variety in the availability of goods and services. Firms and households choose cities of different size, or rural areas, as a function of their needs and resources, and there is no obvious reason for depopulation to change this.

Metropolitan competitiveness and regional revitalisation are thus two central themes in Japanese territorial development policies. Pursuing both goals with a population in decline and public finances under strain will be difficult, but the authorities are right to be concerned with both priorities. The global competitiveness of the country's major cities is the foundation of Japan's prosperity, but the government cannot and should not neglect the potential of non-metropolitan areas.

### **Striking this balance will require both long-term vision and a multi-faceted approach**

In August 2015, the Japanese government adopted a new ten-year National Spatial Strategy. The Strategy is set within a view of spatial development to 2050, which underscores the determination to implant a comprehensive and long-term approach and, in particular, to heighten the sense of urgency surrounding these issues in Japan's regions and cities. Though the great majority of Japan's subnational governments are already grappling with the consequences of demographic change, many – perhaps most – are reluctant to tackle it head-on. Plans and programmes are too often based on unrealistic forecasts, reflecting the hopes of individual communities that they will somehow continue to grow, even as the country's population drops. One of the emphases of the National Spatial Strategy is therefore concerned with ensuring that regions and cities prepare for the future in a realistic way.

The Strategy also reflects a desire to overcome institutional inertia and the tendency of bureaucratic structures to operate within narrowly defined sectoral policy “silos” when addressing such cross-cutting challenges as demographic change and structural reforms. This is also reflected in the formation of the new Government Headquarters for Overcoming Population Decline and Revitalising Local Economies under the Prime Minister. There are important potential complementarities among different strands of public policy that can only be realised with a whole-of-government approach, and that is what the government has been working to realise. Indeed, the process of elaborating and approving the Strategy, which involved a large number of stakeholders, has already worked as a co-ordination instrument, contributing to the formation of a consensus around shared goals and raising

public awareness of the issues. It has also helped mobilise regional and local efforts within a coherent overall framework.

### **The government sees Japan's future as compact, networked and diverse**

The central concepts defining the national-level vision set out in the National Spatial Strategy are “compact” and “networked”. The aim is to sustain a settlement pattern that facilitates the realisation of agglomeration economies while avoiding the abandonment of very large parts of the national territory.

- In order to ensure effective service delivery and realise agglomeration economies, the settlement of Japan should become more compact. This principle applies at different scales, from national to local. The authorities acknowledge that some areas will become effectively depopulated, but they seek to sustain a broad settlement pattern across the national territory rather than still greater concentration. At smaller scales, the shrinking of urban and rural settlements needs to be managed so as to maintain spatial coherence and the efficiency of service delivery.
- A Japan in which cities and towns are shrinking will need to be networked. Improved connectivity will be critical to maximising the potential economic benefits of agglomeration, especially when it comes to stronger links between neighbouring cities. Better connectivity among towns and cities, as well as within them, can help offset to some extent the loss of agglomeration potential that will occur as the population declines. Better networking of people and firms should facilitate innovation and the exchange of ideas, as well as goods and services.

Diversity and collaboration are the other key themes of the strategy. As the population declines, the competition among regions and cities for people and resources will intensify, driven largely by similarities among them – similar endowments, needs and aspirations. However, it is their diversity that may offer the best hope for the future. Most regions and cities will need to identify their specific natural, cultural, economic and social assets and potentials in order to attract people and investment successfully. This very diversity of endowments and strategies creates the possibility for collaboration, because it gives rise to the possibility of identifying potential complementarities among places and building strategies to exploit them. Fostering diversity thus offers a way to promote both regional innovation and collaboration across different communities.

### **A “compact and networked” approach is broadly correct but must be adapted to local circumstances**

The government's “compact and networked” approach is broadly the right one. However, it will need to be implemented in very different ways in very different places. For example, while it clearly points to the need for careful planning of Japan's “downsized” infrastructure, it need not imply a need for strong densification policies across all cities. Lower urban densities can bring environmental, social and economic benefits, as well as costs; the costs and benefits of different strategies for shrinking communities will need to be assessed and managed in specific contexts. Significantly, lower population densities tend to be associated with higher fertility, in Japan and elsewhere, because housing costs are one factor that often prompts families to have fewer children. Some reduction in density would also allow for the provision of more urban green space, something large Japanese cities often lack: indeed Nagoya, Fukuoka and Tokyo have estimated green space

per capita below the minimum level of nine square metres recommended by the World Health Organization (WHO).

Since the economic and environmental benefits of well-planned urban density depend in part on scale, there will be a strong case for trying to ensure that large cities retain fairly dense cores as their populations decline. In smaller towns and cities, though, lower densities could be welfare-enhancing at low cost in terms of productivity or the environment. Moreover, allowing different settlement patterns and lifestyles in different places will be critical to sustaining communities across the country. Yet even here, de-densification will need to be managed. Many of the core principles of compact urban development will need to be observed, even if densities are falling. These include mixed-use, transit-oriented development, careful planning of green space and the avoidance of leapfrog development. The critical point is not that all places should be very dense but that downsizing be managed in ways that preserve the coherence of places, facilitate efficient service delivery and avoid “perforated cities” – patchworks of settled and abandoned areas. There will need to be plenty of local experimentation and adaptation.

The “networked” dimension of the vision should also be approached carefully and in a multi-faceted way. It will, of course, be critical to ensure that central and local actors give due attention to the “soft” dimensions of networking communities, including governance co-operation across administrative boundaries, inter-firm connection in networks and collaboration in service provision (especially public transport) rather than focusing wholly on transport and communications infrastructures. Also important will be identifying ways to utilise and maintain existing infrastructures as efficiently as possible, particularly in view of the fiscal pressures Japan will be facing; big data can play an important role in optimising both infrastructure use and service provision. When it comes to *new* physical infrastructures intended to connect cities, towns and other settlements, the challenge will be to identify the most efficient connections (e.g. eliminating bottlenecks or gaps in existing networks). Given the fiscal constraint, effectively mobilising private finance and expertise will also be important, as will making the most of such resources as big data when evaluating proposals. Senior levels of government, particularly the national level, will also play a role in ensuring collaboration at subnational level and the avoidance of duplicative efforts or unproductive inter-jurisdictional competition.

### **Cities outside the big three metropolitan areas need to work together**

A great deal of attention has recently been focused on the revitalisation of small rural communities, but the challenges may be most daunting in its second- and third-tier cities. Urban and rural places are largely complements, not substitutes, in terms of the consumption opportunities and amenities they offer, as well as their production profiles. Moreover, because some people prefer rural living and because relatively small-scale successes can make a big difference locally in a rural setting, it is likely that many rural communities can and will find paths to a prosperous and sustainable future, even if they are smaller than before. Cities, by contrast, compete with one another, and larger cities typically enjoy important advantages when competing with respect to many urban functions. This suggests that provincial cities, as well as the suburban hinterlands of the major metropolitan areas, may face particular challenges.

The micro-data analysis of urban performance conducted by the OECD suggests that the benefits of agglomeration are already relatively weak in many of these cities and that this weakness may well be linked to fragmented governance arrangements, which

impede co-operation across administrative boundaries. The current policy framework offers several initiatives that could help address these problems. The National Spatial Strategy emphasises the need to strengthen the connections between nearby cities that are losing population in an effort to sustain urban centres capable of offering a full range of urban amenities and services and to strengthen agglomeration dynamics. Recent OECD work on urban growth confirms that cities can indeed benefit from the agglomeration dynamics resulting from such connections and that this can offset some of the competitive disadvantages they may suffer as a result of their small size. Moreover, the analyses also show that successful urban agglomerations tend to generate “lift” effects, raising growth in their hinterlands. That means that the growth of cities outside the Tokyo-Osaka-Nagoya mega-region could help improve performance across much of the country.

This will depend only partly on improved connective infrastructure: at least as important will be better horizontal co-ordination across municipalities and prefectures. Work on urban governance across the OECD highlights the importance of co-ordinating land-use, transport and economic development policies, in particular, at the scale of the functional urban area. That means co-operating successfully across administrative borders. This is not just a matter of collaboration among public bodies: business-to-business connections and links between regional firms, on the one hand, and nearby universities and research institutions, on the other, are critical to knowledge creation, entrepreneurship and innovation. Steps to co-ordinate or even merge local public corporations across municipal lines may also help to sustain service delivery. Efforts to promote horizontal collaboration should thus be reinforced and co-ordinated with national and prefectural infrastructure policies.

### **The national government can do much to foster such co-operation**

Historically prefectural and municipal boundaries in Japan have often been quite “thick”, making the kind of horizontal co-operation Japan’s cities and localities now need more difficult. Changing this has been an increasingly important priority for policy makers. The system of regional spatial planning is organised around regions that each encompass a number of prefectures, and there are special procedures for planning even across these larger regions, to address connectivity and environmental issues that cross over jurisdictional lines. The Government Headquarters, MLIT and the Ministry of Internal Affairs and Communications have been working to create “central agglomerations of co-operation” – in essence, co-operation contracts among local governments that facilitate policy co-ordination among them and, in many cases, the concentration of key urban facilities or functions in core cities that can then support service provision to the surrounding population. These efforts are welcome and should be reinforced. Earmarked grants may also have an important role in supporting this kind of cross-jurisdictional co-operation, creating incentives for co-operation among prefectures and municipalities that might otherwise tend to see each other as rivals. In many OECD countries, they are used when the services or investments to be financed have positive spillovers that transcend local or regional boundaries.

In Japan, as elsewhere, the dominant trend has been for central transfers to take the form of general-purpose grants, which is consistent with the aims of decentralisation. This should not change, since one of the critical challenges of the revitalisation effort is to stimulate bottom-up initiative and accountability: regions, cities and smaller local communities should not be looking to the centre to determine their futures. Specific grants,



by contrast, should be used sparingly to advance key revitalisation initiatives that might otherwise go un- or under-funded. They should be defined and implemented in a whole-of-government perspective to avoid a situation where different sectoral earmarked grant programmes multiply, confronting regional and local governments with contradictory, confusing or even perverse incentives. Conditional grant schemes often proliferate where such a government-wide perspective is lacking. The result is an erosion of local autonomy, confusion about central priorities and the creation of a plethora of spending programmes, which are hard to monitor and evaluate. The key is striking the right combination of top-down leadership and bottom-up initiative.

### **The global competitiveness of the major metro areas, especially Tokyo, is a critical priority**

The government's concern for rural and regional revitalisation does not imply a lack of concern with the development of Japan's major cities, especially Tokyo, which remains very much the motor of Japan's growth: during 2001-10, the Tokyo metropolitan area contributed almost 45% of Japan's economic growth and accounted for around one-third of total GDP. Sustaining Tokyo's position as a globally competitive metropolis will require improvements to both internal and external connectivity. Key priorities include better connections from the city's two airports to the centre, as well as increased airport capacity, a new maritime port outside the Rainbow Bridge, and new ring roads to reduce congestion in central Tokyo. These are all important concerns – the gateway role of global cities requires that external connectivity be strong – but policy makers cannot afford to focus solely on connective infrastructure and the urban fabric.

A review of Tokyo's strengths and weaknesses in the context of other successful global cities points to a number of other priorities not only for Tokyo but for the urban mega-region extending from Tokyo to Osaka:

- National-level legal, regulatory and fiscal regimes must be conducive to the attraction and retention of global players in fields like logistics, finance and knowledge-creation. The new National Strategic Special Zone for Tokyo, which aims to create “the world's most business-friendly environment”, is thus a welcome step. However, it will be critical to ensure that it is more effective than some past initiatives, such as the “Special Zone for Asian Headquarters” launched in 2011. The initial regulatory measures adopted are promising, but it will be important to keep revising deregulation menus in response to the needs of the business community.
- Liveability matters, so steps to ensure adequate *internal* connectivity, as well as environmental quality, urban cultural and recreational amenities, etc., are also critical. There is much that Tokyo can do to make itself more family-friendly, in particular – e.g. by promoting mixed-use development, using floor-area ratio (FAR) bonuses and other such incentives to promote the provision of childcare facilities in central areas, and locating more childcare facilities at or near transport hubs like railway stations. FAR bonuses and other incentives could be used more widely to promote green construction methods and the provision of urban green space. Steps to reduce mobility barriers in urban areas would benefit both the elderly and families with children.
- The international character of the city matters: it must be attractive to high-skilled expatriates from outside. Transforming Tokyo into foreigner-friendly city not only visitors but also foreign residents is an essential element of such an effort. Tokyo has already begun helping skilled foreign workers to find firms in search of their skills and

helping organise support for newly arrived workers and their families at community level. Other major cities could follow suit, for example, by expanding the multi-lingual provision of information for new arrivals about the education and healthcare systems and other local services.

### **Much can be done to maximise the benefits of the super-high-speed maglev rail line...**

Over the coming decades, Tokyo, Nagoya and Osaka will be linked by a new, “linear Shinkansen”, running magnetic levitation trains at speeds of more than 500km/hour. This is meant to foster the formation of an urban mega-region of more than 60 million people along the Pacific side of Honshū. It is hoped that competitive synergies will emerge as the international functions of the Tokyo area are linked more closely to the manufacturing excellence of the area around Nagoya and the cultural, historical and commercial functions of the Osaka metropolitan area. However, the speed and extent of this integration should not be taken for granted. A review of international experience with such projects highlights the importance of ensuring that complementary policies are put in place to support this investment.

For policy makers in the Tokyo-Nagoya-Osaka mega-region, this will primarily concern enhancing the environment for innovation, entrepreneurship and venture investment. The new line is unlikely to reduce the cost of shipping goods or to carry enough passengers to create a large, integrated labour market. Its main attraction for firms is likely to lie in providing access to and for highly-skilled employees with a high opportunity cost for their time, such as consultants, researchers and managers. This is less about large-scale labour market integration (though there is likely to be some long-distance commuting by high-skilled workers) than about new opportunities for business-to-business connections – above all, about innovation and investment flows. The benefits of the maglev line will depend greatly on getting complementary policies right, especially those concerned with venture investment and innovation.

### **...and the 2020 Tokyo Olympics**

Something similar may be said of the Olympics: it is difficult to assess their lasting economic benefit ahead of time, but there are clear steps that can be taken to ensure that Japan gets the most out of them. The experiences of other Olympic hosts, as well as Japan’s own experiences in 1964 (Tokyo) and 1998 (Nagano), point to some basic lessons. These include: relying as much as possible on existing infrastructure and facilities, upgrading where possible rather than opting for new builds; planning well ahead for the future use of the Olympic venues; and mobilising private finance effectively. In addition, some Olympic investments may have longer-term regeneration potential, particularly when it comes to transport and accessibility in and around Tokyo. There may also be important opportunities to realise other environmental and cultural benefits, by, e.g. designing a Green Games Programme and using the Olympic investments to promote (and showcase) best-practice standards in sustainable construction.

Japan will be the first super-ageing society to host the Games. While it will be desirable to try to limit the volume of new infrastructure to be built for the Games, the Olympics will still require substantial new construction. Ensuring that new infrastructures and facilities are barrier-free and accessible to all will be an important and tangible legacy of the Games. Japan’s technological prowess already gives it an edge when it comes to aiding people with mobility and visual problems and other special needs.

## Rural is not synonymous with decline

Rural Japan faces daunting challenges in a context of ageing, population decline and continuing urbanisation. Nevertheless, it would be a mistake to overlook its considerable strengths. While rural regions in Japan have tended to grow slowly – like all regions in Japan – they nevertheless exhibit certain strengths when seen in an OECD-wide context. GDP per capita in Japan's predominantly rural regions was about 13.6% above the OECD average for such regions in 2012, and labour productivity in such regions was about 10% above the OECD average for rural regions in 2011. Japan's predominantly rural prefectures have, moreover, enjoyed higher growth in GDP per capita than the OECD-wide average since 2000, and their labour market outcomes have been far better than average in recent years: all of Japan's predominantly rural regions recorded lower unemployment rates and higher activation rates than the OECD-wide averages. Rural regions in Japan also offer many advantages in terms of quality of life.

## Rural policy has changed considerably in recent years

For many years, rural development policy was almost synonymous with agricultural policy. This has lately begun to change, however, with the emergence of initiatives like the so-called “sixth industry” programme. “Sixth-order industrialisation” involves the creation of integrated value chains encompassing production, processing, distribution and sales activities by linking producers in agriculture, forestry and fisheries with partners who have expertise in the secondary and tertiary sectors. The name reflects the fact that rural producers of (primary) agricultural commodities are engaged in processing (secondary) activities and distribution/marketing (tertiary) operations. There are also measures to promote urban-rural exchanges like green tourism, children's experience of rural life and welfare farms, to foster collaboration with the medical, welfare and food industries, to promote the consumption of local foods and to support the development of biomass and renewable energy, as well as greater use of information and communications technologies (ITC) in farming and distribution. These are crucial priorities, since improved agricultural productivity – another key priority – could lead to depopulation in many places if it does not coincide with job creation in the non-farm rural economy.

Implementation of sixth-industry approaches is supported by the central government but still depends largely on local vision and initiative. In some cases, this involves increasing value added in traditional sectors, e.g. by developing high-quality or organic agricultural products with distinctive characteristics. In others, it involves linking some local activities to their tourism potential. This is a more promising approach than large-scale resort-oriented tourism. Apart from those places with truly spectacular tourist potential, like coastal resorts in warm climates, many successful tourist sectors are linked to other activities in the region – like wine tours in France or other forms of agri-tourism around the world. This suggests that experimentation with tourism and festivals as part of a regional branding and marketing strategy should be encouraged but that big investments in tourist facilities should be approached with caution and, as a rule, left to the private sector. Finally, some sixth-industry initiatives are decidedly untraditional, being linked to technical innovation or the attraction of knowledge-intensive services. In many OECD countries, rural areas with attractive landscapes and amenities – and especially for those that combine these attributes with good external connectivity – have emerged as attractive locations for start-ups in knowledge-intensive service activities.

## The keys to rural revitalisation are local initiative, local assets and a focus on local prosperity

In looking at the revitalisation initiatives undertaken to date, a number of success factors seem to stand out, many of which are consistent with asset-based community development (ABCD) approaches:

- Successful initiatives tend to be locally driven and outwardly focused. External support is not the decisive factor. Local communities actively seek external markets and ideas and welcome outside actors, rather than soliciting subsidies. This points to the role of non-technical innovation in revitalisation efforts, including new marketing methods and new service delivery strategies.
- They are based on local, often highly place-specific assets. Given Japan's demographic and fiscal situation, this is encouraging: local communities need to abandon any expectation of revitalisation on the basis of external action and focus on their own endowments and potential. For local policy makers, this implies a shift of focus from local deficiencies to local assets, both tangible and intangible, and local capacities.
- Social capital matters. A community's capacity for self-organisation is one of the most critical intangible assets, especially when it comes to co-production of services, an increasingly important form of collaboration between municipalities and citizens (e.g. community buses).
- It would appear that the most successful strategies so far are those that focus on prosperity rather than population. Many communities do not expect to return to their previous sizes; they may even shrink further. But they are working to establish a basis for future prosperity that will allow them to attract and retain young people, ensuring that, whatever their size, they will have a healthier and more sustainable population structure.

While the government has a clear policy aimed at avoiding a situation in which large parts of Japan become uninhabited, the prosperity, well-being and access to opportunity of its citizens are the primary concerns. How many people live in rural Japan matters far less than the prosperity and prospects of those who *do* live there. Of course, most settlements require a certain level of population to assure viability, but attracting people to a place is not an end in itself but a means to an end – the end of enabling them to offer good livelihoods and a good quality of life. This must be kept in mind, because many places may well have prosperous sustainable futures but with fewer people – as, for example, when structural change leads to a reduction in the labour intensity of the dominant local industry or when it leads to a shift in specialisation from more to less labour-intensive activities. The experiences of rural communities in places like Canada and Australia demonstrate that communities really can sometimes shrink their way back to prosperity, though the process is never easy and is often painful.

### Policies for shrinking places

Even if local revitalisation policies prove extremely successful, the fact remains that Japan's population is set to shrink substantially for decades to come. Many, perhaps most, cities, towns and other settlements will shrink in size. A focus on revitalisation should not lead to a neglect of the policies that will be needed for shrinking places; on the contrary, smart shrinking, capable of sustaining prosperity even as communities grow smaller, will require effective regional planning. The downsizing of infrastructure networks, in

particular, can be both complex and expensive, and it is closely linked in many places to the management of vacant sites in urban areas. To these must be added the service delivery challenges that arise with population decline.

A review of international experience with these issues shows that in some areas, such as designing public transport systems for areas with low population densities, Japan is very much in the forefront and continues to innovate, particularly in fields like demand-responsive transport. In other areas, the experiences of declining European and US cities suggest some important lessons for national and especially local policy makers:

- A “triage” approach to infrastructure management is needed in declining places, particularly with respect to roads and bridges. Transport is an area where savings may be easy, because there is often a great deal of intentional redundancy in networks. Asset-management is critical here. Better and more granular data can help cities and towns take stock of their assets, make better decisions about investment and maintenance, and operate systems more efficiently.
- Policy makers may ask whether redundant infrastructure capacities have alternative uses. This points to the benefits of rationalising such infrastructures and services at a regional scale, rather than municipality by municipality. Some materials may also offer an opportunity to offset decommissioning costs via recycling.
- European and US cities have pioneered a wide range of options for managing vacant sites so as to avoid the creation of visual and environmental dis-amenities and safety hazards. These include urban green infrastructure programmes, unconventional arrangements for allowing entrepreneurs and others to use such sites temporarily and community redevelopment programmes. Effective spatial planning can help to ensure that such initiatives serve to maintain the overall coherence and attractiveness of the urban space. Rural communities in some areas of Japan have already adopted strategies such as these in order to deal with farmland abandonment.

### **Japan is pioneering a response to policy challenges that others will soon confront**

Japan’s economic and demographic problems are dramatic, and the challenges they raise for spatial policies and territorial development are daunting. However, they are not insuperable, nor are they unique – other countries are following on the path of ageing and population decline. Where Japan leads, others will follow. It is therefore critical that Japan identifies and implements policies that meet these challenges. With the new Spatial Strategy, the creation of the Headquarters and a wide-ranging new revitalisation programme, the government has made an ambitious start, but the realisation of this vision of a Japan that is older and smaller, but also prosperous will take many years, and there will no doubt be surprises and policy adjustments along the way. It is important to note in this context that Japan’s post-war “economic miracle” unfolded in conditions of chronic labour shortage, a situation that led to specific employment and skills-development practices, as well as technological innovations, which differed from those found in more labour-abundant economies. These served Japan well for several decades. While today’s challenges are different and new approaches are needed, this history provides a reminder of the country’s ability to devise innovative solutions to complex problems and to generate very fast productivity increases in the face of labour-supply constraints. This is a positive legacy which Japan must now recover.



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