REGIONAL COORDINATION AND ITS BACKGROUND: SHOULD KANSAI BE HEADING FOR REGIONAL COORDINATION LIKE VÄSTRA GÖTALAND?*

By SAWAKO MARUYAMA†

This paper aims to analyze the similarities and differences between the Kansai region in Japan and the Västra Götaland region in Sweden. Main findings of the analysis are summarized as follows. Firstly, the two regions have similar problems, and these have led to similar solutions requiring local autonomy and regional coordination. Secondly, unlike Västra Götaland, Kansai is facing problems of coordinating tasks between prefectures and the geographical identity of the administrative districts. This causes the difference in the framework of regional coordination. Thirdly, firms and local governments in Västra Götaland, which experienced EU accession, are more internationalized than those in Kansai. These facts suggest that both regions are at different levels of achievement affected by the differences in local governance.

1. Introduction

There are several similarities between the Kansai region in Japan and the Västra Götaland region of Sweden. From an economic perspective, both regions are the second largest economy in their respective countries, and have experienced a downturn of heavy industries in the past. Politically, both are introducing administrative coordination for local governance. These two facts are closely related, because there is the potential that new political frameworks and policy measures in the region will offer the conditions for regional growth and stimulate both regional economies. The two regions seem to target the same goal, while some region-specific factors may affect the framework and function of coordination differently in each region.

This paper analyzes the regional economy as a background of regional coordination, and the framework of that coordination in Kansai and Västra Götaland. The purpose of this paper is to consider the following questions: What do Kansai and Västra Götaland have in common concerning the economic structure and how do they differ? Have they introduced the same type of regional coordination? What can Kansai learn from Västra Götaland, which has proceeded further with regional coordination? Kansai and Västra Götaland are appropriate examples to compare, since Japan and Sweden have similar local self-government systems with three levels. The implementation of regional coordination is occurring at the middle level – prefectures in Japan and counties in Sweden. Several prefectures in western Japan form the Kansai region and are trying to establish an administrative coordination. Västra Götaland, which is far ahead of Kansai in terms of regional coordination, has already transferred the functions of counties to the integrated body.

This paper is organized as follows: In section 2, the economy of both regions is analyzed fo-
cusing on industrial structure. The similarities of the two economies are also mentioned. Section 3 discusses the framework of regional coordination of the local self-government system. The differences in the internationalization of both regions are discussed in section 4. Section 5 summarizes the findings and offers concluding remarks.

2. Regional Economy

2.1 Kansai region

Generally, the Kansai region consists of the six prefectures of Osaka, Hyogo, Kyoto, Nara, Wakayama and Shiga (Figure 1). The six prefectures form one commuting area. 21 million people live in the region, and it accounts for 16% of the Japanese population (Table 1). The population and businesses are dispersed over three major cities of Osaka, Kobe and Kyoto. The population density in Osaka, the largest prefecture, is 4669.7 persons per square kilometer and is not so high when compared to Tokyo with a population density of 6015.7. Kansai also forms one business area; the companies which have their headquarters in urban areas often have plants in Nara, Wakayama and Shiga.

Kansai has long been the political, economical and cultural center of western Japan. The industrial development of Kansai started with the textile production at the end of the nineteenth century. In addition, the electric machinery industry, including home electrical appliances, grew in Osaka after the Second World War. Heavy industries such as steel and shipbuilding also developed. Along with industrial development, the population increased strongly due to an inflow of people from other parts of western Japan. The peak of the Kansai economy is said to be in the 1960s. After that, two oil shocks hit the Kansai economy and these were followed by the appreciation of the yen which started in 1985. The oil shocks decreased the demand for heavy industries, and the yen appreciation caused the relocation of production bases to over-
seas. These factors triggered a long stagnation of Kansai economy.

Figure 2 shows the composition of Gross Regional Product (GRP) by sector in the Kansai, Kanto, and Tokai regions. One feature of Kansai is its well-balanced structure among manufacturing, wholesale and retail trade in comparison with the Kanto and Tokai regions. Furthermore, the manufacturing sector does not rely on a specific industry; three types of manufacturing – light industry, heavy industry and assembly industry – are contained evenly.

The long-term stagnation in Kansai is likened to ‘land subsidence’, which actually happened in the 1960s because of an extreme withdrawal of underground water. The share of Kansai in the Japanese GDP declined from 19.3% in 1970 to 15.6% in 2008. Several reasons are pointed out for this slowdown of the economy. One of them is the relocation of plants to outside of Kansai in order to avoid the relatively high labour cost and land prices. Three acts concern-

Table 1 Profiles of Kansai

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<tbody>
<tr>
<td>Total</td>
<td>20,903,173</td>
<td>27,343</td>
<td>764.5</td>
</tr>
<tr>
<td>Osaka</td>
<td>8,865,245</td>
<td>1,898</td>
<td>4669.7</td>
</tr>
<tr>
<td>Hyogo</td>
<td>5,588,133</td>
<td>8,396</td>
<td>665.6</td>
</tr>
<tr>
<td>Kyoto</td>
<td>2,636,092</td>
<td>4,613</td>
<td>571.4</td>
</tr>
<tr>
<td>Shiga</td>
<td>1,410,777</td>
<td>4,017</td>
<td>351.2</td>
</tr>
<tr>
<td>Nara</td>
<td>1,400,728</td>
<td>3,691</td>
<td>379.5</td>
</tr>
<tr>
<td>Wakayama</td>
<td>1,002,198</td>
<td>4,726</td>
<td>212.0</td>
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Figure 2 The composition of GRP by industry in Japan, 2008
ing the restriction of plant location in urban areas encouraged the outflow of plants. These acts aimed at saving and improving the environment damaged by industrialization, and were applied only to Kanto and Kansai regions. The Kanto region succeeded in shifting towards a service economy, while the service industry in Kansai could not grow enough to lead the regional economy. In addition, the two oil shocks during the 1970s hit the steel and shipbuilding industries, which were leading sectors of the Kansai region at that time.

Another reason for the long stagnation is the concentration of businesses in Tokyo. Many large companies based in Kansai have had dual headquarters in both Kansai and Tokyo. Some of them consolidate the function of headquarters in Tokyo for the sake of efficiency. Because the function of headquarters is to make decisions for new products, services, operations and technology, and to decide the route of procurement and partners for outsourcing, moving the headquarters to Tokyo caused local companies, especially small- and medium-sized enterprises (SMEs), to lose business opportunities. At the same time, the absence of headquarters slows down the decision making of Kansai branches. Moreover, most of the foreign-owned companies choose to locate their headquarters in Tokyo. Since the 1990s, local governments have tried to promote the location of foreign-owned companies to stimulate the regional economy. However, it is not easy to attract foreign-owned companies even though Kansai is the second largest region in Japan.

These facts have brought the eagerness for economic revival to both businesses and local governments in Kansai. For the prefectural governments whose revenues highly depend on the corporate taxes, the stagnation of the regional economy is immediately connected to the smaller capacity of administrative services. They have tried to implement some measures for stimulating the regional economy – for example, providing subsidies for investment, financial support to SMEs, and so on. However, it is difficult for prefectures to maintain all of these measures because of decreasing revenues. Moreover, this is a challenge on which a region as a whole must work on for the following three reasons. First, most Kansai companies have their headquarters in Osaka, but put their plants in other prefectures in Kansai, such as Nara and Shiga. The business climate of a prefecture is closely connected with those of other prefectures in Kansai. Secondly, the location of business partners is also Kansai-wide. Thirdly, the commuting area is broader than one prefecture. For example, 740 thousand people commuted to Osaka prefecture from other Kansai prefectures and Mie in 2005.

2.2 Västra Götaland region

Västra Götaland is the second largest region in Sweden, following the capital city Stockholm. The population of Västra Götaland accounts for 17% of Sweden, however, it is less than one-tenth the area of Kansai (Table 2). More than half of the population in Västra Götaland live in Göteborgsregionen including Göteborg, the center of Västra Götaland, and 12 munici-

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1) To avoid the contraction of the services, most of local governments issue local bonds. The redemption of the local bonds is another problem for them, although we do not discuss it in this paper.
2) Kansai companies often locate their plants in six Kansai prefectures and neighboring two prefectures of Okayama and Mie (Osaka Prefectural Institute for Advanced Industry Development, 2008). This indicates that actual industrial area of Kansai spreads out in eight prefectures.
3) Statistics Bureau of Japan, Population Census 2005. Western part of Mie prefecture is dormitory suburb of Kansai.
Västra Götaland consists of Göteborgsregionen and three counties with small population – Sjuhärad (major city: Borås), Fyrbodal (Trollhättan), and Skaraborg (Skövde) (Figure 3). This means the labor market is dispersed (Ernstson et al., 2008).

Göteborg has developed as an international port city thanks to good access to Britain and other parts of Europe. In the eighteenth century, Göteborg started to grow as a commercial and industrial center in connection with iron production. Manufacturing such as textiles, shipbuilding and the automobile industry also led to the development of the region. Since then, Borås has long been a city connected to the textile industry. In Trollhättan and Skövde there are large-scale automobile plants.

The industrial structure of Västra Götaland has one feature in common with Kansai: it is well-balanced in comparison with Stockholm and South Sweden. The GRP composition of

### Table 2 Profiles of Västra Götaland

<table>
<thead>
<tr>
<th></th>
<th>Population [2011]</th>
<th>Area (km²) [2011]</th>
<th>Population density (per km²) [2011]</th>
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<tbody>
<tr>
<td>Total</td>
<td>1,665,316</td>
<td>24,560</td>
<td>67.8</td>
</tr>
<tr>
<td>Göteborgsregionen</td>
<td>937,722</td>
<td>3,718</td>
<td>252.2</td>
</tr>
<tr>
<td>Fyrbodal</td>
<td>259,802</td>
<td>7,684</td>
<td>33.8</td>
</tr>
<tr>
<td>Sjuhärad</td>
<td>211,263</td>
<td>5,764</td>
<td>36.7</td>
</tr>
<tr>
<td>Skaraborg</td>
<td>256,529</td>
<td>7,393</td>
<td>34.7</td>
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(Note) Göteborgsregionen includes Kungsbacka.
(Source) Statistics Sweden, Statistikdatabasen.
Västra Götaland is not biased as in Stockholm, where the service sector accounts for 29.3% (Figure 4). Conversely, the manufacturing sector of Västra Götaland depends heavily on the automobile industry. This fact suggests that the economy of Västra Götaland is sensitive to business cycles, similarly to the Tokai region where Toyota and Suzuki locate their headquarters and an industrial agglomeration is formed.

In the 1970s, similar to Kansai, oil shocks steeply decreased the demand for steel and ships which were the main export products of Västra Götaland. In spite of the subsidies from the central government, the shipbuilding industry in Göteborg could not recover (Schön, 2007). Such prolonging measures for declining industries delayed the shift of industrial structure and caused a long stagnation until the 1980s. In comparison to Stockholm, where service and public sectors created jobs, Västra Götaland didn’t have such a creation of new employment. Furthermore, in the middle of the 1990s the Öresund Bridge connected the Skåne region in south-

![Figure 4](image)

(Source) Statistics Sweden, Regional accounts 2008.

Figure 4 The composition of GRP by industry in Sweden, 2008

Table 3 Economic size of Kansai and Västra Götaland

<table>
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<th>Gross Regional Product in million US dollar [2008]</th>
<th>Number of Business establishment [2009]</th>
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<tr>
<td>Kansai</td>
<td>770,901</td>
<td>1,055,346</td>
</tr>
<tr>
<td>Västra Götaland</td>
<td>79,383</td>
<td>155,457</td>
</tr>
</tbody>
</table>

ern Sweden to Copenhagen, the capital of Denmark. It was expected to enlarge the economic area across the border, and to provide more business opportunities for companies in Skåne. Västra Götaland had neither a favorable industry like services in Stockholm nor an effective revitalization project as in Skåne. These disadvantages of Västra Götaland, which caused a sense of crisis, brought about the discussion of regional coordination.

After a long stagnation, Västra Götaland started to explore a way towards regional integration in the 1990s. In recent years, the Swedish economy shows a sharp growth of GDP at around 5%. This is said to be a result of the reform of some systems and policies after the bursting of the bubble economy in 1990.

2.3 Similarities of the two economies

What are the similar economic features of Kansai and Västra Götaland? As Table 3 shows, the two regions are quite different in size. The GRP of Kansai was 770 billion US dollars in 2008, almost ten times that of Västra Götaland. The number of business establishments is also quite different between the two regions. The differences in features of the two economies are unclear from the simple comparison of economic size.

Concerning industrial structure, Kansai and Västra Götaland share some similarities. First, the composition of GRP, compared to other metropolitan areas in Japan and Sweden, shows that the two economies of Kansai and Västra Götaland are well-balanced with bases in manufacturing, commerce and services. This feature suggests that these two economies have already favorable conditions for development, and that the effect of a specific industry on the business climate, such as automobile industry in Aichi prefecture, is weaker than in a region which relies on one industry. In addition to numerous global manufacturers in the region, such as Panasonic and Sharp from Kansai, or Volvo and SKF from Västra Götaland, there has long been an agglomeration of wholesalers, trade-related services and logistics. This is related to the fact that both regions have developed as international trade centers.

Secondly, both economies experienced long-term declines due to a contracting demand for heavy industry. As mentioned above, a shrinking demand for heavy industries damaged regional economies during the 1970s-1980s. Moreover, since the 1990s the globalization brought further structural changes. The shift of economic circumstances under globalization encouraged the internationalization of large companies. They transferred their plants overseas to establish efficient global supply chains. At the same time, it caused a decrease of domestic demand, especially for subcontracting SMEs. Industrial cities like Osaka and Göteborg with the agglomeration of SMEs faced a serious problem. These problems have generated a strong demand to change the current situation of the region, and consequently it became one of driving forces for the introduction of regional coordination.

Thirdly, both regions recognize the importance of promoting new industrial agglomeration. Experience of long stagnation has made them eager for new industries which stimulate their economies and create job opportunities. Local governments offer policy measures to encourage growing companies in targeted fields such as life-science. For example, a model called ‘Triple-helix’, which aims to develop collaboration among companies, universities and local governments, is observed in the field of bio technology in Västra Götaland. A similar frame-
work is also prepared in Kansai as a collaboration of ‘San-Kan-gaku’.

These similarities of industrial structure might occur coincidentally. One possible reason to induce similarities is that the existence of international ports in Kobe/Osaka and Göteborg historically contributed to the regional development. Meanwhile, it is obvious that both economies are facing the same problems caused by the industrial structure. Some of the problems are induced by a common status of “the second largest” region in each nation – problems are not easily solved because they are not capital cities. The capital cities, Tokyo and Stockholm, succeeded in attracting headquarters of companies, and also in shifting toward service economies from the 1980s. In addition, capital cities are internationally well-known and therefore need less effort to attract investment by foreign companies. Kansai and Västra Götaland, being the second largest economies, don’t enjoy such advantages.

The comparison of the two regions reveals that Västra Götaland seems to respond better to some of problems, especially those related to globalization. Major differences have appeared in the internationalization of SMEs and administrative organization. This issue is discussed in section 4.

3. Regional Coordination

3.1 Regional integration of Västra Götaland

In 1998, Region Västra Götaland (Västra Götalandsregionen, here after VGR) was established with the integration of Skaraborg, Älvsborg and Bohus county councils and parts of the City of Göteborg. These county councils (landsting in Swedish) were mainly responsible for medical care, dental care, and public transport. Each county had a directly elected assembly for the decision-making of their policy measures. These were integrated into one regional assembly as the establishment of the region and the process of decision-making transferred to it.

The discussion of regional integration in Västra Götaland started in the beginning of the 1990s. One of the motivations was the mismatch of borders of each county. The administrative borders were almost unchanged from the first geographical borders set in 1634 (Jensen, 2004; OECD, 2010). Before the integration, the administrative areas were different from economic areas measured by commuting distance. Such a mismatch of borders made it difficult to carry out policies efficiently. After a long and careful discussion, regional integration of VGR started in 1998 as an experiment along with the Skåne region. The experiment was carried out for more than a decade and was a success. Västra Götaland chose to continue as a full-fledged organization in 2011.

The establishment of the region aimed, first of all, to integrate the system of medical care to improve its efficiency. Counties in Västra Götaland were too small to maintain sufficient medical care. The transport system is another issue that can be more efficient at a regional level than at a county level. This is important in order to connect the dispersed small labor markets of Västra Götaland. Each of the major cities is more than 60 km away from the others, which is further than the cities in Stockholm and the Skåne region (Ernstson et al., 2008). Another aim was to transfer the discretionary taxation from the central government to the region so that it could shoulder more responsibility. The policies of the central government were implemented
by the county administrative boards (län in Swedish) which shared almost the same geographical area with county councils. The transfer was expected to strengthen the regional economy, because it enabled the region to implement policy measures with democratic decision-making. After the integration, VGR dealt with other areas such as culture, education, tourism and regional development.  

3.2 Regional Coordination Bodies in Kansai

In the Japanese local governance system, the obligation of prefectures is to implement policy measures which cover a broad area across municipalities. It includes maintenance of rivers and roads, water supply, secondary education, and medical care. Furthermore, most prefectures voluntarily conduct additional measures. For example, the Osaka prefectural government has 11 departments and undertakes medical care, urban development and housing, human rights and gender equality, welfare for children, elderly and handicapped care, education (including preschool, primary, secondary, higher, and vocational), industry and labor, agriculture and fishery, in-bound tourism, and crisis management – a broader area than Swedish landstings (Figure 5).

Regional coordination has also been discussed for a long time in Kansai. In recent discus-

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4) Regional development policy includes infrastructure development and industrial support for regional firms. As OECD (2010) explains, “the principal objectives of regional policy were greater equity and balanced development during a period of rapid industrialization...The main instruments used were wealth redistribution through financial transfers by the national government accompanied by large-scale public investments, especially in lagging regions.” In addition to these traditional regional development policies, policies focusing on growth and competitiveness are becoming more important. It means that the targets of policies have expanded from infrastructure to “entrepreneurship and innovation, education and training, culture and the environment” (OECD, 2010, p.16).
there are three frameworks for the coordination discussed in parallel – regional cooperation, regional associations, and the province system (Table 4). Regional cooperation was the first framework introduced practically in Kansai during 2007-2011. The framework in Kansai was called *Kansai Kouiki Renkei* in Japanese. Nine prefectures and four municipalities joined this regional cooperation: Fukui, Mie, Shiga, Kyoto, Osaka, Hyogo, Nara, Wakayama, and Tokushima prefecture, plus the four ordinate-designed cities of Kyoto, Osaka, Sakai and Kobe city (Figure 6(a)). The regional cooperation dealt with following fields: culture and tourism, environment, crisis management, disaster prevention, publicity and regional development. It aimed to smooth the cooperation between the existing policies of each prefecture. Within this framework, the members kept their own tasks and their regional cooperation had no function of decision-making. Therefore, this framework is the ‘loosest’ coordination among the three. At the same time, it was too weak to coordinate the measures among prefectures. The mea-
sures of prefectures were already established through the decision-making process of each prefecture. The regional cooperation could not force them to change measures or practices. As a result, only tourism and publicity were successfully administered fields within this framework. In October 2011, the institution of regional cooperation dissolved in accordance with the start of the following second coordination.

The second coordination is the regional association called ‘the Union of Kansai Governments’ (hereafter the UKG), or in Japanese, Kansai Koiki Rengo. The purpose of this framework is to integrate a part of the tasks of member prefectures. The seven prefectures of Shiga, Kyoto, Osaka, Hyogo, Wakayama, Tottori and Tokushima and four ordinate-designated cities are members (Figure 6(b)). The UKG works in the field of disaster prevention, culture and tourism, industrial promotion, medical care, environment, licenses, and training for governmental staff. These are originally the tasks for prefectures. In order to improve their efficiency, some measures of these fields are transferred from prefectures to the UKG to coordinate among prefectures. However, not all the functions are in practice yet. A few measures, such as the operation of the helicopter emergency medical service, have been implemented.

A large difference from regional cooperation mentioned above is that the UKG has an indirectly-elected assembly which consists of the representatives from prefectural assemblies. The UKG can make its own decisions regarding measures covering a broader area. The operation of the UKG started in December 2010, and the first assembly was held January 2011. Meanwhile, prefectures keep having their own measures for governance, and the assembly of the UKG is not strong enough to control these prefectures’ measures.

The third framework of coordination, the province system (Doshu-sei in Japanese), has not been realized yet. The province system has long been discussed but has only become well-known in recent years. The province system involves the transfer of all tasks and decision-making processes of prefectures to the provincial government and the integrated directly-elected assembly. The process of decision-making is the same as that of VGR. This framework ideally can be the most powerful tool to improve the efficiency of the local government. The governor of the province is expected to have a strong authority to control the allocation of governmental services. However, its feasibility is not high because, for most prefectures, it would mean the loss of self-government, or ‘being acquired by Osaka’.

3.3 A comparison of two regions

What are the similarities of regional coordination between the two regions? One common background is that both regions have experienced economic stagnation. This fact became a strong driving force of the regional coordination. Two initiatives are implemented or planned for stimulating the regional economy. One is to integrate the process of decision-making among counties/prefectures. The other is to transfer the discretionary taxation or authorities from the nation to the region. Kansai and Västra Götaland have made a strong request for the latter. The reason why these regions demand the transfer is that each region has different prob-

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5) Toru Hashimoto, ex-governor of Osaka Prefecture, insisted strongly on the introduction of the ‘Kansai-province’, by applying the province system. On the contrary, governors of other prefectures are suspicious of the province system, worrying about the loss of self-government.
lems connected to industrial and economic structures. Meanwhile, regional development policy has been the task of the central government – or at least the central government has a strong authority over it – in both Sweden and Japan. A problem in this process is that there is no direct reflection of opinions from regional residents and businesses. Therefore, the two regions strongly request to transfer the authority of regional development and tax revenue sources so that the region can decide its own policies. Moreover, the transfer of tasks and tax sources from the nation to the region is required for an improvement of efficiency. The integration of prefectural assemblies, prefectural government bodies and the county administrative boards can lead to cost-cutting and the improvement of regional finances because of the reduction of governmental staff and the members of the prefectural assemblies.

On the implementation of these two initiatives, Västra Götaland got off to a good start by introducing a new framework for regional coordination and its own regional development policies regarding both of these initiatives. On the other hand, Kansai, where three different frameworks have been brought up for discussion, seems to have difficult challenges. The comparison between the two regions reveals those differences as follows.

Firstly, the tasks at the county level before the coordination were limited for Västra Götaland in comparison to Kansai. The structure of local self-government in Sweden has been likened to a ‘sandglass’ – with landsting at the bottleneck. This enabled Västra Götaland to create a new system without an adjustment among the existing measures of county councils. In contrast, prefectures in Kansai already have measures which cover broader fields. One of the aims of regional coordination in Kansai is trimming down overlapping administration and policy measures. Coordination for the sake of efficiency often involves the reduction of public services. The reduction of existing measures is harder to agree on than the creation of new measures.

There was a similar discussion in Västra Götaland. Swedish municipalities were main actors for regional development policies before the actual establishment of the region. At that time, it was argued that the region should not force the change of the industrial measures of the municipalities. Also, the region should not infringe upon the authority of the municipalities. They started with policies on development of infrastructure or education and research, which did not overlap (Pierre and Schütt, 2004).

Secondly, in Västra Götaland the geographical identity of the administrative district named län (nation) and landsting (county/region) helped facilitate the smooth transfer of tax revenue source from the nation to the region. On the other hand, the issue of administrative borders in Kansai can be an impediment to the regional coordination.

County administrative boards in Japan cover areas which consist of several prefectures. The geographic coverage differs according to the county administrative boards. For example, the jurisdiction of the Kinki regional agricultural administration office and the Kinki district transport bureau includes the six prefectures of Shiga, Kyoto, Osaka, Hyogo, Nara and Wakayama.

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6) Actual implementation in the region is done by the county administrative boards of ministries.
7) For example, most of the municipalities in Kansai are unwilling to cooperate with each other concerning the measures for attracting business establishments (Kansai Institute for Social and Economic Research, 2010, p.119). Although this is a case for municipalities, the same is true for the discussion for prefectures. The reason behind this is their relationship as competitors –only the municipality which succeeds in attracting investment can enjoy the increase of tax revenue. The effect on other municipalities, such as an increase of employment, is limited.
Meanwhile, the Kansai bureau of economy, trade and industry (METI-KANSAI) and Kinki regional development bureau have jurisdiction over the aforementioned six prefectures plus Fukui. In addition to this, the composition of member prefectures varies for each framework of regional coordination (Table 5). The member prefectures of the ongoing coordination UKG are seven: Shiga, Kyoto, Osaka, Hyogo, Wakayama, Tokushima, and Tottori. In this union, Nara, which is one of the core prefectures of Kansai, has not joined, and two prefectures participate from outside of Kansai. In order to realize the transfer of tax revenue source and authorities, it is essential to solve this problem of geographical mismatch.

Thirdly, there is a large gap of the population and economic size between the two regions. This brings about different motivations for regional coordination. The problem of Västra Götaland before the regional integration was inefficiency caused by dispersed small counties. The
integration of the counties allowed the region to enjoy an economy of scale with 1.56 million inhabitants. Furthermore, the region became large enough to be subsidized from the regional development program of the European Union. In contrast, all of the prefectures in Kansai are bigger than Västra Götaland. For such a region with a huge population, there is a question whether the integration always accompanies an increase in efficiency. For example, OECD (2006) points out the possibility of diseconomy of scale from the negative relationship between population and income for OECD mega-cities.

There is another challenge for Kansai concerning membership. In Kansai, there are the four ordinance-designated cities of Osaka, Sakai, Kyoto and Kobe city. The ordinance-designated cities which have a population of more than 700,000 inhabitants are allowed to implement some of the tasks of the prefecture. These cities can establish their own measures in the fields of urban planning, health centers, and so on. In many cases, the ordinance-designated cities voluntary set up other measures including regional development. Regarding the fields with which an ordinance-designated city deals, a prefectural government has no force to decide the measures applied within the city. Therefore, the participation of the ordinance-designated cities in the coordination is essential to improve the efficiency of the region. In the UKG, this has been realized with the participation of Osaka and Sakai city in April 2012, followed by Kyoto and Kobe city in August 2012. In Västra Götaland, Göteborg was a similar case called landstingsfri kommun (landsting-free municipality) which was responsible for medical care. It was not a major obstacle, because the tasks of the county council were limited.

4. Internationalization and the region

4.1 Globalization and firms

In the previous two sections, we discussed mainly the domestic factors behind regional coordination. Meanwhile, we have to pay attention to other factors affected by globalization during the 1990s-2000s, because globalization has changed the economic circumstances for both private and public sectors in the regions. How have firms and administrative organizations in Kansai and Västra Götaland tried to adapt to them? Is there any difference between the two regions?

We start by summarizing what has happened under globalization in Japan and Sweden. Generally, globalization of an economy is interpreted as an integration of a national economy into an international economy with increasing movement of people, goods, and capital across borders. Changes in production and consumption are observed significantly; large multinational enterprises (MNEs) have established global value chains and distributed their products and commodities all over the world. Usually, companies internationalize their activities with the mode of trade, foreign direct investment (FDI), outsourcing, and technology alliances.

The amount of world trade increased rapidly after the Second World War. Swedish compa-
nies, which are facing a narrow domestic market, have chosen to expand their business overseas since economic development started. This results in the creation of many well-known MNEs and their high degree of transnationality. From the 1980s onward, increasing FDI accelerated further expansion of trade volume. A trigger for outward FDI by Japanese firms was the Yen apprehension after the Plaza Accord in 1985. The Yen apprehension caused the decrease of export demand, and many large firms chose to transfer their production base overseas. One popular destination of FDI has been East and Southeast Asia, where labour costs are cheap and FDI-attractive policies are offered. Since the 1990s, China joined FDI-destination countries. Companies in developed countries have enjoyed these cost advantages by transferring their plants or outsourcing their production. At the same time, this led to the increase of imports from Asia. As a result, these encouraged the growth of the world economy.

Inflows of foreign capital also brought a substantial change to the Swedish economy. In the end of the 1980s, mergers and acquisitions for Swedish large companies by foreign investors began to increase. Merged companies includes those which had strong effects on Swedish economy, such as Asea in 1987, Saab Automobile in 1989, Pharmacia in 1995, and Volvo cars in 1999. As a result, the number of employees working at foreign-owned companies increased substantially. In 2009, the share of employees of foreign companies accounted for 15.4% (Tillväxtanalys, 2010).

How has globalization affected SMEs in the regions? SMEs have three possible alternatives: expanding their businesses abroad, staying in the domestic market, or introducing foreign resources. The first alternative includes activities such as export and foreign production. Usually, SMEs with overseas expansion are classified by two major motivations: firms which start with their own strategy to lower the production costs, and firms which start operation upon the request from existing trade partners, in many cases large companies. However, as Dunning (1977) points out, foreign production requires a large amount of capital and some kinds of ownership advantage. Therefore, it is not easy for SMEs who are lacking of capital, human resources, and other resources such as technology, brands, or management skills to engage in those activities. In fact, the number of SMEs engaging in overseas business is not large among Japanese SMEs. Only 1% of manufacturing SMEs engage in outward FDI (Small and Medium Enterprise Agency 2012, p.75). Even the share of exporters, which are the first mode of overseas business and less risky in comparison with FDI, accounts for only 2% of Japanese manufacturing SMEs. The reason behind their behaviour is that Japanese SMEs can still acquire business partners and sufficient orders in their huge domestic market – with fewer risks. In contrast, SMEs in Sweden expand their business overseas, although the degree is at low level as in Japan. Since the domestic market in Sweden is limited, it is usual for them to be motivated to cultivate foreign demand. 13% of Swedish SMEs export to foreign markets (Tillväxtanalys, 2012). Internationalized SMEs, which engage at least one mode of international activities including trade, FDI, offshoring and so on, account for 24.6% nationwide, and 27.1% in Västra Götaland. This is much higher than the 16.1 % for Osaka firms at the same status of internationalization, which includes both large firms and SMEs. 10) Easy access to markets abroad is

another reason for SMEs in Västra Götaland, where popular trade partners such as Germany and Norway are geographically close.

The second alternative – SMEs which engage only in domestic activities – dominates in number among Japanese SMEs. Under the Yen apprehension in the 1980s, some SMEs switched their emphasis from business partners overseas to domestic partners. A number of Kansai firms are satisfied with their domestic businesses, since there are still sufficient opportunities without the risk of foreign markets. 11) However, recent globalization affects even domestic activities negatively through two channels. One channel is increasing import competition in the domestic market in contrast to competition in overseas export markets in the 1980s. The products of SMEs often compete with imported goods from developing countries, as their products tend to be relatively labour-intensive goods (Maruyama, 2013). In addition, the import competition is severe for some regions where SMEs form industrial agglomeration. The other channel is a decline of orders from large companies. MNEs often localize their procurement as they transfer their production overseas. Such an establishment of global value chains may lead to a decrease of orders to SMEs. Furthermore, a shrinking Japanese market because of a declining birth rate and a growing aging population raises another problem.

The third alternative is to increase the introduction of foreign capital. This trend at first appeared in the 1990s. Facing the burst of the bubble economy in the early 1990s, governments in both Japan and Sweden tried to find a way to stimulate their declining economy. They introduced FDI-promotion policies to stimulate inward FDI which had remained at a low level. For example, the Swedish government deregulated restrictions for the entry of foreign investors, and the Japanese government prepared a system for M&As. As a result, the number of foreign-owned firms in Sweden increased from 2,563 in 1990 to 13,636 in 2009. 12) Foreign-owned firms currently account for 1.5% of the total number of firms. Recently, inward FDI has become dominant in the service sector and in the field of R&D rather than the manufacturing sector. In addition, cross-border M&As for SMEs are increasing as means of acquiring sufficient capital, expanding sales networks, and continuing operations of companies with difficulty of finding successors.

Meanwhile, the number of foreign companies in Japan has grown slowly. In Japan, the number of foreign-owned firms was 3,329 in 2009 and they accounted for 0.2% of the total number of firms. 13) There are more foreign firms in Sweden than Japan, although the total number of Japanese firms is twice that of Swedish firms. In addition, the inward FDI performance index of Japan, which indicates the ranking of the relative inflow of FDI to its economic size, was 136 among 141 economies in 2009, despite the fact that the inward FDI potential index was ranked 26th. 14) These figures suggest that Japan is less open to foreign capital and businesses. Moreover, most foreign-owned firms locate their headquarters either in Tokyo or other sur-

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11) In interviews and discussions with some Kansai firms and local governments, many mentioned that they felt no necessity for internationalizing their activities.
12) Tillväxtanalys (2010). The definition of foreign-owned firm, which is called foreign controlled enterprise in the Tillväxtanalys’s report, is a firm held more than half of the voting power by one or more foreign investors.
13) Statistics Bureau, 2009 Economic census for Business Frame. Companies with more than 50% of foreign capital.
14) UNCTAD (2011). Regarding Sweden, the inward FDI performance index and potential index ranked 71 and 13 respectively.
rounding areas. In the Göteborg region, 2,261 foreign-owned firms located their headquarters in 2009.\textsuperscript{15} In contrast, only 10% of foreign-owned firms are based in Kansai. Concerning M&A, not many cases are observed among SMEs in Kansai, and this is partly explained as resulting from an attitude of cautiousness of Japanese companies towards cross-border M&A investment of foreign capital.\textsuperscript{16}

These facts suggest that companies in Västra Götaland have promoted further internationalization. Some managers of local companies in Västra Götaland consider that the EU membership affected their operation and internationalization (Ström \textit{et al.}, 2005). For SMEs in Kansai which are choosing the second alternative, staying in the domestic market, it is necessary to develop their skills and technologies to differentiate their products from imported products even in the domestic market, or to enter into overseas market in order to avoid negative effects for being out of the global value chains. In addition, the third alternative, introducing foreign resources, is supposed to increase with rising interest for the technology of Japanese SMEs from emerging countries such as NIEs and China. At the same time, the stagnation of inward FDI in Japan is a result of a lack of understanding about the current trends of FDI. A large part of recent FDI inflow to developed countries is conducted by means of mergers and acquisitions. Conversely, most local governments in Japan expect greenfield FDI, with which new firms are established and job opportunities are offered.\textsuperscript{17}

Local governments in Kansai and Västra Götaland regard these as challenges to share within their regional development policies. Concerning the first and second alternatives, local governments are required to have additional supporting measures other than the traditional finance support. The third alternative means that local governments are facing new stakeholders of foreign investors.

\textbf{4.2 The internationalization of the administrative organizations}

In order to implement supporting measures for the internationalization of SMEs, it is essential for local governments to internationalize themselves. Internationalization of local governments has two dimensions: the internationalization of policy measures and the internationalization of local government as an administrative organization. We first review regional development policies of the UKG and VGR as regarding the first dimension. Next, we discuss the internationalization of administrative organization. Concerning this, we employ a framework in Berg and Lindahl (2003) with two components: internal factors including international strategy and resource allocation within an organization, and external factors represented by international participation.

With respect to internationalization of policy measures, there is a clear difference between ...

\textsuperscript{15} Business Region Göteborg (2010).

\textsuperscript{16} METI-KANSAI asked local concerns about cross-border M&As in a questionnaire sent to local companies (METI-KANSAI, 2009). Major concerns are summarized as follows: change of company culture, continuing employment, continuing projects, pursuing a short-term profit, continuing independence of operation, leakage of technology, difference of language, loss of customers, change of the company name, increase of work. In the report, they also point that some of these concerns are denied by actual M&A cases. Meanwhile, some of them, such as ‘pursuing a short-term profit’, are experienced by some companies in Västra Götaland, above all those which introduced foreign capital from private-equity funds (Ström \textit{et al.}, 2005).

\textsuperscript{17} In fact, greenfield FDI is not always welcomed by local firms due to the increase of competition with local firms.
the UKG and VGR. The regional development has long been an issue for member prefectures of the UKG, and while it is rather a new task for VGR. This difference affects the extent to which regional development policies at a regional level are integrated.

Some prefectures and cities in Kansai, especially in the metropolitan areas, have prepared measures for SMEs to export or to start overseas production. Sending business missions overseas, arranging matchmaking meetings for SMEs, and making opportunities to establish networks are major examples of measures by Osaka prefecture. These supporting measures for internationalization are not shared among prefectures at the level of the UKG. One reason is that member prefectures are reluctant to give up their own measures. Consequently, current cooperation is only with small-scale activities, for example, common use of public research and test institutes in the region and product certification systems for government procurement. Another reason is that prefectures have difficulty finding an advantage of cooperation in the area of regional development policy. The UKG has arranged some matchmaking meetings between SMEs and domestic large companies. It was useful for SMEs in small prefectures which had less opportunity to join such events. Large prefectures like Osaka, which could arrange meetings alone, had a small benefit in spite of the cost of arrangement among prefectures. Moreover, overseas support-desk services for regional companies of the UKG are provided by Osaka prefecture. Such uneven costs and benefits make it difficult to share common regional development policy, or internationalization of those policies. As a consequence, the main actors of regional development policy are still prefectures, not the UKG, and there remain gaps in policy measures among member prefectures.

For VGR, regional development policy is a new task on the one hand and many municipalities were already engaged in internationalization issues on the other hand. The supporting measures for internationalization by VGR are similar to those of prefectures in Kansai, such as consulting, providing opportunities of matchmaking and financial supports, and offering locations in science parks. These are financed for each project under the decision of the assembly, and some of the projects are supported by EU Cohesion Policy. The latter is a significant difference from Kansai. The EU Cohesion Policy is financed by EU structural Funds, and it means that there is a transnational level of governance in addition to the central government. Innovative entrepreneurship, cooperation initiative and innovative environment, and sustainable development are fields related to the second objective of the EU Cohesion Policy, “The Regional Competitiveness and Employment Objective” (Mål 2). International cooperation such as the cross-border programs (Interreg IVA), the transnational programs (Interreg IVB), and the interregional cooperation programs (Interreg IVC) is supported as the third objective, “The European Territorial Cooperation Objective” (Mål 3). Furthermore, there is another function to support international networks other than EU: for example, an expanded collaboration between Göteborg and Oslo in Norway (Göteborg-Oslo Samarbetet) and Assembly of Euro-

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18) See Lindahl and Berg (2004) for the detail of the internationalization of Västra Götaland. We note that municipalities kommun, not landstings, were the main actors of international operation before the start of Västra Götaland. One of the typical international activities for municipalities is friendship city arrangement. In addition, some departments are involved in international projects for specific area. In addition, an extragovernmental organization West Sweden was engaged in international issues, above all those concerning EU, as representative of 65 municipalities and landstings.
pean Regions (AER).

Next, we look at the internationalization of administrative organization. We begin with considering the case of Kansai concerning the following three points: international strategy, resource allocation within an organization (internal factors), and international participation (external factors). As for international strategy, the UKG drew up their industrial vision, “Kansai Region-wide Industrial Promotion Vision”, in 2011. However, there is no reference to internationalization, but it only notes the “creation of an international research and development base”. Moreover, there is no section for international operations, nor sufficient allocation of international personnel in the UKG. These facts show that there is no explicit internationalization of internal factors in the UKG. Instead, these internal factors are developed at the prefectural level. For example, the internationalization strategy of Osaka prefecture includes economy and growth in their goals. In addition, prefectures have specific sections for international operations with allocation of international staff. At the same time, there is the problem that these sections do not usually engage in regional development policies. The responsibility for regional development projects is often found in the division of commerce and industry where internationalized personnel are lacking, or it is sometimes shared between both divisions. As regarding external factors, the UKG has not established any international network. This is because the UKG is quite a new organization. Some prefectures have extended relationships with foreign counterparts than usual friendship city arrangement, however, this type of activity is not shared among member prefectures of the UKG. From these facts, the internationalization of administrative organization in Kansai is summarized as follows: there is internationalization at the prefectural level, while no integration of those policies is found at the level of the UKG.

VGR differs substantially from the UKG concerning all of these three points. VGR was expected to deal with international issues before the establishment. The task of regional development, which included international issues, was transferred from län to VGR. On that process, they expressed their goal in the regional development strategy (Regional utvecklingsstrategi, Lindahl and Berg, 2004, p.450). They aim to be an internationally known region through an active co-operation with other foreign regions, and through works with international organizations. To achieve this goal, VGR prepared a unit for international co-operation and the EU Cohesion Policy in the section of regional development. Moreover, VGR attempts to have a firm connection with the EU; an office of VGR is located in Brussels to affect the regional policy of the EU. These facts suggest that VGR has internationalized their internal factors of administrative organization. Then, how about external factors? As mentioned in policy measures, VGR has a number of international networks with many regions in the EU and other parts of Europe. From these facts, the administrative organization is internationalized for both internal and external factors, and it is more advanced than the UKG. Advanced internationalization of VGR is to some extent a result of EU accession. It enabled Västra Götaland to apply regional development policy to the EU Structure Funds. At the same time, it required the internationalization of the local government, since applications for the EU fund per se were international

19) For example, Osaka prefecture has expand economic exchanges with Val d’Oise county of France.
Therefore, the EU membership promoted both internal and external internationalization. In contrast to this, for Kansai, there is no political factor which stimulates internationalization, nor corresponding framework such as the EU. Japan does participate in economic frameworks such as the Asia-Pacific Economic Cooperation (APEC) or bilateral economic partnership agreements; they aim for trade liberalization and other economic cooperation, but local economies are not covered. Therefore, they are too weak to leverage local governments into internationalizing their operations.

5. Concluding Remarks

This paper investigated some similarities and differences between Kansai and Västra Götaland. Major findings from the analysis are summarized as follows. Firstly, the two regions have similar industrial structures and experiences of economic stagnation as a motivation of regional coordination. Secondly, the two regions share an expectation for regional coordination to stimulate their regional economy and to improve the efficiency of the local government. Västra Götaland succeeded in the integration, while Kansai is just now trying to figure out an appropriate framework. The comparison of the two regions showed that there were some difficulties of integration unique to Kansai. First of all, Kansai must solve the geographical border problem in order to introduce the province system and to transfer the tax sources and tasks from the nation. Thirdly, the extent of internationalization between the two regions is different; Västra Götaland is more advanced in internationalization of both private and public sectors. The EU membership has affected governance at a regional level.

The two regions of Kansai and Västra Götaland move in the same direction of ‘regional coordination’, while they are at different degrees of achievement. The structure of local governance affected these differences. Under the system characterized as ‘sandglass’, Västra Götaland had fewer obstacles for the integration of landstings with limited functions. Prefectures in Kansai, in contrast, take time, costs, and efforts to arrange existing policy measures. This difficulty appears clearly in the internationalization measures for regional development. Moreover, Kansai needs to clarify their motivations and goals in order to realize further integration without a strong driving force such as the EU. At the same time, simple adaptation of the same system as Västra Götaland – the province system – would not necessarily result in good governance in Kansai where prefectures already have a lot of tasks. These differences in achievement are reflected in the realization of regional development policies. Therefore, Kansai has to find an appropriate, efficient, feasible framework. Nevertheless, the regional economies of Kansai and Västra Götaland are facing the same challenges, for example, aging managers of SMEs, the difficulty of finding successors, concentration of the young generation in the city and decline of them in suburbs. Further research on specific measures would be useful for regional development.

20) Berg and Lindahl (2003) point out that many municipalities are driven by the EU membership to formulate international strategy.
21) In fact, other regions in Sweden, including the Kalmar region, choose regional coordination with an indirectly-elected assembly much similar to the UKG in Kansai.
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