

# Globalism and Hokkaido Economy



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## 1. Globalism

We can observe the new dimension of the world economy. The increasing number of bilateral, multilateral and regional FTAs (Free Trade Agreements) promoted the liberalization of trade, which was not realized for many years after the World War II. Even though free trade was theoretically supported by economists, the governments preferred to control the trade to protect domestic industries which do not have comparative advantages.

The integration of the world economy was enhanced in the last two decades. The emergence of EU (European Union), NAFTA (North American Free Trade Agreement) and AFTA (ASEAN Free Trade Area) accelerated this trend and more than 200 FTAs were concluded all over the world. The negotiations under WTO (World Trade Organization), on the other hand, made little progress for many years.

Japan has already concludes bilateral FTAs with 6 ASEAN countries, Mexico, Chili, Switzerland and a regional FTA with ASEAN. Most of these countries are not the big traders of agricultural products and a few trade frictions were remained each other. In contrast to Japan, Korea, our neighboring country, has been very eager to embark on FTAs and succeeded to conclude them with advanced countries such as USA and EU.

Another factor which promoted the integration of the world economy is the rapid development of ICT (Information and Communication Technology). Through the easy access to all kinds of information including prices of the products, we can realize the law of indifference. Namely, one product one price, as it can be found in the text books of economics, has emerged in the business field. ICT brought both the low pricing and high pricing. For instance, to the abundant resources such as unskilled labor, low wages will be paid. To the scarce resources such as highly talented baseball players in the Major League, quite high payments will be offered.

Sharp decrease of the transportation costs also accelerated the integration of the world economy. Frequent travelling by business people can be another factor to promote the business with foreign partners.

Globalism or globalization has both pros and cons. The competition in the business field has been intensified. Those companies which produce the standardized products must face hard price competitions. It will widen the income gaps among people. The rich will be richer and the poor will be poorer. It will also enhance more business opportunities. The world market is open or has less entry barriers to all the companies which want to be global players.

Globalism will be resulted in the two different kinds of the economic activities, they are standardization and differentiation. Almost all the big cities in the world such as Tokyo and New York are getting more similar. People can enjoy same sceneries and convenient transportation system

such as subway networking which covers all these cities. Differentiation is another key word which characterizes the globalization of the economy. Some local or regional economies should have the identities which will help them to survive under the globalism.

## **2. Hokkaido Economy**

### **2.1 Historical Perspective**

In order to develop the Hokkaido Island, Hokkaido Development Authority was established in 1869, immediately after the Meiji Restoration. The authority was reorganized to be the Hokkaido Local Government in 1886. For financing the new businesses in Hokkaido, Hokkaido Development Bank was founded in 1900. The Hokkaido Local Government introduced the 1<sup>st</sup> Development Plan of 1910-1926 and 2<sup>nd</sup> Development Plan of 1927-1946, respectively, for the purpose of the further development of Hokkaido.

The population size of Hokkaido showed tremendous increase from 58 thousand in 1869 to 1.6 million in 1900, and 3.3 million in 1940. The rapid economic growth of Hokkaido was enabled by the new land development, migration from the Honshu Island, and development of the infrastructure up to the year 1900. After 1900, agriculture sector and resource-based manufacturing were the major driving forces for the economic growth.

After the WW II, the population of Hokkaido continuously increased until 1960 and reached over 5 million. Japanese economy as a whole began to revive and Hokkaido contributed to it by accepting the returnees from former colonies. Hokkaido became the major producer of the foods and the natural resources such as coal for steel and other industries.

### **2.2 Current Economic Structure**

Table 1 shows the industrial structure of Hokkaido and Japan in 2005. It reveals some specific features of Hokkaido economy. Firstly, The GDP share of the primary industry which includes agriculture, fishery, and mining has larger GDP share in Hokkaido than the corresponding figure for Japan. The secondary industry in Hokkaido has smaller GDP share mainly because of the stagnant manufacturing sector. The construction sub-sector, on the other hand, has larger share than its corresponding figures for Japan. The tertiary industry has the lion's share in GDP both in Hokkaido and Japan. Within the tertiary industry, the GDP share of the public service in Hokkaido surpassed its share in Japan.

The reasons for smaller manufacturing sector in Hokkaido will be attributable to some factors. One was that the spillover from Tokyo in the manufacturing sector did not reach Hokkaido in the 1970s and the investment directed to Asian countries after 1980s. The other was the late introduction of the petrochemical industry which used be one of the major industries.

The larger shares of construction and public service had been another industrial feature of Hokkaido for many years. With tight budget of Hokkaido in particular and Japan in general will force to change the economic structure which depended too much on the local and central government budget.

Table 1 Industrial Structure of Japan and Hokkaido in 2005  
(The shares in GDP)

Industry	Hokkaido	Japan
Primary Industry	3.6%	1.5%
Secondary Industry	17.5%	27.9%
Manufacturing	9.3%	21.5%
Construction	8.0%	6.4%
Tertiary Industry	78.9%	70.6%
Public Service	10.5%	5.7%

(Source) Hokkaido Government.

## 2.3 Trade

Hokkaido does not play important roles in trade. In terms of value, the export from Hokkaido occupied only 0.6% and the import into Hokkaido occupied 1.8%, respectively. The major export products from Hokkaido are machinery, steel and car parts. We can easily identify the companies which exporting these products. More than half of the imported materials are natural resources such as petroleum and coal. For many years petroleum occupied around 40% of the total imports in Hokkaido.

## 3. Strategic Sectors

Hokkaido Government has identified three strategic sectors, namely, health, environment and international sector. The growing concern towards physical health and healthy foods will be included in health sector. Providing health care services will be a part of this sub-sector. The clustering of the food industry which connecting all the processes to produce foods will be another example. Environment friendly industry can be the promising strategic sector. In this sector, energy saving system, new energy and recycling will be the major issues to be settled.

Here we would like to focus on international aspects. Some Hokkaido products will have competitiveness in the world market and they are expected to penetrate into the foreign markets. Base on the high labor and land costs, it is necessary to produce high value added products. In this regard, food and food related materials with Hokkaido brand will have more opportunities to enter into the newly developing countries such as China. We need to identify the targeting markets and promote marketing. For this purpose, both public and private sectors should cooperate to cultivate foreign markets.

Besides exporting Hokkaido products, attracting foreign tourists will contribute to revitalize local economic activities. Hokkaido has some advantages compare to other part of Japan to fascinate foreign people, especially those from Asian countries.

Japan has been a big investor in USA, Europe and Asian countries. However, we failed to invite foreign capital to stimulate Japanese economy. Hokkaido should try to attract foreign investors since we are always facing the shortage of investment. We can not expect increasing domestic investment

and should pay more attention to the foreign capital.

#### **4. The Way Forward**

For the future development of Hokkaido, we should consider the way forward. The key words will be resources, growth center and competitiveness.

If we rely on the current resource endowment in Hokkaido, the policy options will be limited. The two pronged strategy should be introduced. It will be inevitable to create new resources such as human resources for the further development of the Hokkaido economy. The local government should play important roles by distributing the budget for education. At the same time, under the limited resources, government should select some strategic sectors and allocate existing resources to them since it takes time to create new resources.

The new growth centers which will include leading industries and related industrial clusters should be settled. As it was argued in the development economics, we can not expect the balanced growth all over Hokkaido. In the first stage, the unbalanced growth should be pursued and the later some spread or spillover effects will enhance the economic activities of the neighboring areas of the growth centers.

We should introduce new paradigm. The comparative advantage theories based on the static resource endowment can explain only the trade between developed and developing countries. The simple comparative advantages can not explain the trade between developed countries. More than 70% of the world trades were occupied by developed countries, where they have comparative advantages in the capital intensive products. This fact reminds us the importance of the competitive advantages.

How can we be competitive? There will be some answers. Firstly, we should produce high value added goods and services for both domestic and foreign markets. Secondly, we should consider the market segmentation. The targeted markets will not be the BOP (bottom of pyramid) but the high income segments. The last, but not the least, will be product and/or service differentiation. It is related to the market segmentation.

We have been spending so much time to draw up the plans. The economic situation surrounding Hokkaido and Japan has been changing quickly and it is time for us to take actions.