Concentration of Corporate Functions

By Hirotaka Mano

The concentration of Japan's corporate functions in Tokyo, which started in the 1980s, continues unabated, though its tempo has somewhat slowed due to the bursting of the economic bubble and business stagnation. Concentration has also been spreading to the neighboring prefectures of Kanagawa, Saitama and Chiba, which constitute the Tokyo megalopolis.

Tokyo has seen an accumulation of all sectors of corporate functions, most notably headquarters functions. More than half the companies listed on the First Section of the Tokyo Stock Exchange (TSE), or those regarded as first-rate companies, have their headquarters in the capital city. Of the 1,021 companies listed on the TSE First Section in 1984, 599 (58.7%) were based in Tokyo, and of 1,122 listed in 1988, 647 or 57.7% were Tokyo-based. The number has continued to increase, though the ratio has dropped.

Foreign companies operating in Japan are similarly Tokyo-oriented. More than half of some 2,000 foreign companies are Tokyo-based, with about two-thirds or 25,000 of their 38,000 foreign workers deployed there. The trend is most conspicuous among financial institutions, with more than 80% of some 230 such companies Tokyo-based.

Demerits of extreme concentration

Concentration in Tokyo is not limited to headquarters functions. Even factories and research institutes are being increasingly built in the Tokyo area. Of Japan's 420,000 factories, about 93,000 or 23% are located in the Tokyo area. Research institutes are even more concentrated in Tokyo, with more than 46% of some 3,400 such bodies based there. Similarly, 40% of Japan's some 2,200 information service firms and more than 30% of its 1,800 venture firms are based in Tokyo.

This concentration of industries, people, information and culture in Tokyo stems largely from 1) the city's role as Japan's political, economic and financial hub, 2) the existence of a huge market in and around Tokyo, 3) Tokyo's function as Japan's information base, including transmission of Japanese information abroad and reception of information from abroad, and 4) Tokyo's international character and major role as a center of art, culture, entertainment and shopping.

The extreme concentration of industrial and business functions in Tokyo has, in its turn, contributed to make the Japanese capital not only a most economically efficient metropolis but one of the world's leading artistic, cultural, entertainment and shopping centers.

However, a dark shadow has begun to hang over the radiant capital. Take, for example, Tokyo's worsening traffic congestion and housing conditions. Traffic delays on expressways in Tokyo increased 1.6 times from 20,564 hours in 1980 to 33,408 hours in 1988. Street congestion within a radius of 50 kilometers from central Tokyo during the heaviest part of the rush hour now stands at 204% of road capacity, compared with 176% for the Kyoto-Osaka-Kobe area and 186% for the Nagoya area. The floor space for a household in Tokyo averages 60.3 square meters against the national average of 89.3 square meters.

Extreme concentration has made living costs uneconomical and subjected people working or studying in Tokyo to the metropolis's growing pains. Tokyo is increasingly criticized as an "unlivable" place. The rash of concentration in Tokyo and its peripheral areas has also harmed other regions by delaying their economic revitalization.

People moving into Tokyo outnumbered those moving out by an average of 55,000 annually from 1976 to 1980. The gap widened to 138,000 from 1985 to 1989. Greater Tokyo's population is steadily on the rise, from 28.7 million in 1980 to 31.8 million in 1990, accounting for 26% of Japan's total population of 123.4 million. The region's population is expected to further increase by 2.4 million to 34.2 million by 2000, representing 27% of Japan's expected population of 128 million by that time. Of the increase, 1 million will be due to inward migration. The year 2010 is likely to see the region's population grow to 37 million.

This huge concentration in the Tokyo area has reduced population in other regions. There was no population decrease in any prefecture in 1980, but in 1985 nine prefectures saw their population sag, and this number doubled to 18 in 1989. This drop in population depressed the economic vitality of these regions, widening the income disparity between Tokyo and other prefectures. Whereas in fiscal 1980 33 prefectures had a per-capita income index of more than 60 against a possible 100 for Tokyo, the number of such prefectures had dropped to 22 by fiscal 1988.

Decentralization Efforts

As early as the 1950s, concern about overpopulation in Tokyo, resulting from the concentration of industry there, led to the enactment in 1959 of legislation restricting the construction and expansion of factories in urban Tokyo. This to some extent prompted the building and expansion of factories in the provinces. Subsequent enactment of the Industrial Relocation Promotion Law in 1972 took government policy a step further by seeking to promote balanced industrial development through relocation of factories from the three metropolitan areas of Tokyo, Osaka and Nagoya to the provinces. The dispersion of factories alone was not enough to discourage concentration in Tokyo, however, because the growing importance of service industries led to a buildup in the capital of corporate headquarters, service businesses and urban-oriented businesses attracting young people.

Dispersion of corporate headquarters

has thus emerged as the only remedy for redressing the concentration. This initiative calls for the upgrading of key cities in prefectures outside the "Big Three" metropolitan areas and the establishment there of "Office Arcadias" to which industrial and business functions, particularly headquarters functions, will be transferred. This would have the dual effect of redressing extreme concentration in Tokyo and accelerating regional growth.

To realize this initiative, the International Trade and Industry, Construction, Posts and Telecommunications, and Home Affairs ministries and National Land Agency plan to jointly submit to the current Diet session a bill for upgrading key provincial cities and promoting the relocation of industrial and business functions there. Central to the bill will be public projects such as construction of interregional highways, privately owned and rental housing, sewerage systems and parking lots in the key provincial cities. These projects will be granted tax breaks.

Under the plan, the Japan Regional Development Corporation (JRDC) will develop industrial and business complexes each to be built on a 50-hectare site. Thirty such complexes will be built over a 10-year term. Companies moving into these complexes will receive assistance from third-sector companies financed by the JRDC. Companies relocating their industrial and business functions will be granted tax privileges including compensation for their fixed asset tax payment. These companies will be eligible for special financing from the Japan Development Bank, Hokkaido-Tohoku Development Finance Corporation, Japan Small Business Corporation and JRDC.


The Marunouchi area of Tokyo is traditionally where Japanese companies have their headquarters.

Outline of Office Arcadia

Though a model plan for the Office Arcadia is yet to be worked out, each arcadia will consist of four levels of facilities: 1) Core facilities will represent, for example, a company's entire or partial headquarters functions; 2) Supplementary facilities will include items such as a corporate guesthouse, cultural facilities (museum, art gallery or concert hall), welfare facilities (such as a staff recreation lodge), and a showroom, an exhibition room or information control facilities; 3) Support facilities will include social and international exchange facilities such as a conference hall, an international exhibition room and a TV conference room, life-related facilities such as housing, lodging, schools, clubs and hospitals, and control facilities for energy and security; 4) Basic facilities will include the information and communications infrastructure (communications satellites, mobile communications systems, integrated service digital networks, local area networks, etc.) and the high-speed transport infrastructure (speedway interchanges, high-speed railways, airports, heliports, etc.).

Doubt still persists as to whether companies can be persuaded to transfer their headquarters from the center of efficiency, Tokyo. It is uncertain whether this policy will succeed. The simple fact is that companies find the capital city most convenient. Even should they agree to move out, their destination would most likely be a place as close to Tokyo as possible.

Nevertheless, the myth that corporate headquarters must exist in Tokyo has now begun to crumble. Companies have finally started moving their headquarters functions to the provinces. Many business executives now feel that office rentals in Tokyo have become too high, transportation costs for their employees too expensive and the difficulty of finding housing for their employees too great in the capital region.

Employees, for their part, feel that comfort and affluence are becoming more important in their daily life, and are finding it absurd to spend as much as four hours a day commuting between their home and workplace. Employees today want more time with their family and want to live closer to their place of work.

Against this background, some companies have begun to relocate all or part of their headquarters functions to surrounding regions such as the new Makuhari subcenter in Chiba Prefecture and the newly developed business centers in Yokohama. Many others intend to follow suit.

A survey jointly conducted by the Ministry of International Trade and Industry and the Research Institute for Industrial Location Co., Ltd. shows that 50 (16.4%) of 304 companies responding to the survey had already moved their headquarters from Tokyo, 26 companies (8.6%) were considering doing so, and 121 companies (39.8%) planned to consider relocation in the future. Only 107 companies (35.2%) expressed no interest whatsoever in relocation.

As to a question regarding movable sections (with multiple answers), those considering relocating all headquarters functions numbered a meager 15. But 208 companies were prepared to move a training division, while 197 companies said they would consider moving their information processing division, 119 companies the design division, 108 companies the commodity development division, and 73 companies planning divisions. Up to 50 companies said they would even consider relocating divisions such as general affairs, staff management, labor management, accounting, finance, publicity and marketing, which are closely related to the accumulation of core functions.

According to the survey, locations to which headquarters functions had been or would be relocated were: within 50 kilometers of Tokyo for 29.6%, 50 to 100 kilometers 32.6% and 100 to 150 kilometers 11.8%. Thirty-two companies (10.2%) replied that distance from Tokyo did not matter to them.

Extreme concentration in Tokyo has thus begun to have a negative impact, but dispersion of headquarters functions to provincial regions is now emerging as a realizable possibility. This will have the dual effect of redressing excess concentration in the Tokyo area, while at the same time contributing to the important revitalization of Japan's provinces.

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Toyohashi: New Base for Imports

By Kazuhiro Takasaki

Located close to the central Japan metropolis of Nagoya and 300 kilometers west of Tokyo, the port of Toyohashi is emerging as a beachhead for European cars. Already, one British and two German automakers—Rover, Mercedes-Benz and Volkswagen Audi—have established import bases there, striving to penetrate the Japanese market.

They are using the port not merely as an unloading site but also as a full-scale import base, installing service factories for adjusting their products to Japanese specifications. They were attracted to Toyohashi by its convenient geographical location and relatively low land prices, as well as the enthusiasm of the local community.

Though conveniently located in the middle of Honshu, Japan's main island, Toyohashi was left behind during the industrial development of Japan's high-growth period, with few manufacturing industries developed there. The port of Toyohashi is relatively new, having opened in 1972. Since Toyota Motor Corporation built an auto plant there 10 years ago, the port has begun to develop as an export outlet.

Boost for imports

Goods exported through the port in 1990 totaled ¥1,026 billion and imports ¥120.6 billion. Automobiles accounted for as much as 98% of the exports, with all U.S.-bound Toyota cars shipped out via Toyohashi port. Though imports are still less than one-eighth of exports, townspeople expect that the arrival of cars, which are high-value-added products, will boost total imports and make it a balanced international port.

Leading the European automakers' advance into Toyohashi was Mercedes-Benz. Mercedes-Benz Japan Co., a Japanese corporation based in Tokyo, purchased a six-hectare tract of land in September 1989 and started constructing an engineering service center for adjusting German-built Mercedes-Benz cars to Japanese specifications. The Japanese subsidiary acquired another tract of four hectares in 1990 to construct a parts center and a staff training facility, which were almost completed in 1991. The first ship carrying Mercedes-Benz cars to Toyohashi arrived late in 1990. Since then 9,000 Mercedes have been marketed in Japan via the port.

Volkswagen Audi Nippon K.K. came next. The German company acquired a 17-hectare tract of land, where the construction of a service factory started in autumn 1990, and a provisional factory is already in operation. The full factory, to be completed in autumn 1993, will be capable of servicing 100,000 cars annually.

Rover Japan Ltd. began building a factory as soon as it announced its expansion into Japan in autumn 1991. Before the year was out, the first shipment of 900 Rover cars had already arrived there.

The three automakers' selection of Toyohashi as their Japanese import base was motivated above all by low land prices. Mercedes-Benz had first looked for a factory site in Yokohama so as to be near Tokyo, but gave up due to the limited availability of land and high prices, since it needed an area large enough for extensive parking and bonded areas.

Land prices in Yokohama at the time averaged around ¥300,000 to ¥450,000 per square meter. "Such prodigious land prices were beyond German corporate imagination," said Hajime Saburi, publicity manager of Mercedes-Benz Japan. "So we looked beyond the Tokyo-Yokohama area and were led to Toyohashi. We acquired our site at a price about one-tenth of land prices in the Kanto area around Tokyo. Even so, it was not easy to obtain approval from head office in Germany." Reclaimed land at the Toyohashi port is currently priced at about ¥30,000 per square meter, still very cheap compared with land prices in other major Japanese ports, according to local port officials.

Convenient geographical location was