

Preface

This volume deals with the important subject of *Political and Fiscal Decentralization*, which is now under discussion and reform by governments in many Asian countries including Japan, India, Indonesia, and China. The progress with fiscal decentralization in Asia has attracted much attention from policy makers and scholars around the world as they consider their own reform programs.

In the early stage of economic development and nation-building, the concentration of power and resources was undoubtedly a necessity to politically unite the nation and to make the economic takeoff possible. As a result, the political system of a new nation-state was usually organized under an authoritarian central government. With economic development, however, civil society and the business sector demanded that the government offer better public services and utilities as well as better opportunities for employment and business development. Particularly as the regional disparities in living conditions kept widening, the people and businesses in outer regions desired governments to be closer and more responsive to them and demanded *decentralization* of political and fiscal administration. Recognizing this, bureaucrats and politicians began to seriously search for the ways and means of political and fiscal decentralization. For instance, in Indonesia even in the 1970s and the 80s, to talk about the possibility of federal system was a taboo for the newly borne nation. Now, as one article in this book shows, Indonesia has adopted a decentralized political and fiscal system.

After World War II most East Asian countries not only achieved political independence but also, in a few decades, reached the middle income country level over US\$1,000 in per capita GDP. The ensuing demand for decentralization has been prevalent in almost all of the countries in Asia. For many years, however, decentralization was more

discussed than acted on. *De facto* these countries were all victims of concentration and urbanization. The country papers in this book will clarify the reasons for the gap between arguments and realities.

Japan has been no exception. Very recently, however, the popular Prime Minister, Junichiro Koizumi, brought up this issue as the central theme of his government (2001–2006). In his election campaigns, he made wise use of two slogans: “from Center to Local” and “from Government to Private.” *Decentralization* and *privatization* have become the timely key words for Koizumi to capture the trendy desires of the Japanese public at the time of Centennial change. Particularly after the success of Thatcher-Reagan liberalization and deregulation and following the end of the Cold War, *privatization* became extremely popular in Japan and actually enhanced the political interest in *decentralization*. Clearly the Japanese public wanted the government policies to be closer to them, and they wanted less intervention in private businesses from the governments at the same time. Three Japanese papers in this volume will explain the most recent practice of decentralization policies in Japan.

The experiences of Socialist countries, China and Vietnam, are different from those mentioned above. The articles on these two countries show the differences in institutional arrangements and the serious problems associated with large-scale privatization of State-Owned Enterprises as well as with decentralization of administration. It may be pointed out here that transition from Socialist planned economy to Capitalist market economy were started by the initiatives of Deng Xiao Ping in China in 1979, long before Gorbachov took the office of Secretary in the Soviet Union in 1985. Even in Vietnam the *Doi Moi* reform toward market economy started in 1986. By the end of the 20th Century, the success of *Socialist Market Economy* and *Doi Moi* had put the two Socialist economies at an almost equal place in the mixed economy as the rest of East Asia. Needless to say, there are many important problems about *privatization* as such to consider, besides *decentralization*. I have treated them in another book: *Transition from Socialist to Market Economies: comparison of European and Asian experiences*, edited with T. Sato and W. James (Palgrave and Macmillan). Fundamentally, however, the essays in this book show that China and Vietnam are facing many of the same issues in *decentralization* as are other Asian countries. In Japan the two reforms: *privatization and decentralization* have progressed in parallel. Arguments on political decentralization had been going on since

the pre-war days, but in 1981 the government committee on Local Administration supported continuing the discussions, with no commitment to immediately implement the political and administrative decentralization. Again, however, the Committee on Local Administration Reform was set up in the Prime Minister's Office for 1989–92 and recommended passing a law to allow merger of prefectures. That law was in fact enacted in 2004. This opened the way for the long-debated “Do-Shu Sei” (Province-State System), so that political and administrative reforms to merge several prefectures is now legally possible. On the other hand, the Nakasone Cabinet (1982–87) succeeded in privatizing the National Railroad and opened the way to the next privatization of NTT (National Telephone and Telecommunication Public Enterprise) and most recently the Japan Post in 2007. These policies had some aspects of decentralization, because they subdivided the National Railway Corporation into several companies in different regions, and NTT and The Japan Post into several private companies.

It may be surprising to find few comprehensive studies on the subject of decentralization in Asia. Serving as directors of the research institutes at Kyoto University, Osaka International University and the International Center for the Study of East Asian Development (ICSEAD), Kitakyushu about forty years, I have long recognized the importance of these two subjects, but could undertake only a large project on transition economies, leaving the theme of decentralization in Asia utterly untouched. The difficulty was to mobilize an international team of economists and political scientists to undertake such studies.

In 2002 when the Mayor of Kitakyushu City, Mr. Koichi Sueyoshi, initiated a series of international conferences on Asia. I immediately suggested the subject of *Decentralization Policies*. He strongly supported it, probably because it was an urgent and controversial problem in Japanese politics then as well as now. Since, however, my knowledge and experiences in this area were limited, I decided to hold a preparatory workshop first. Inviting academic experts in Japan and Asia, the authorities of the World Bank (Vice President Yukio Yoshimura, Tokyo office) and the Asian Development Bank (Dr. Jung-Soo Lee, Tokyo office head), I asked them how to organize such a conference. Thanks to their enthusiastic support and help, we could identify many experts in Asia and the US and successfully organize the first Asian Development Conference in November 2003.

At the Conference 22 papers, including a keynote Speech by Prof. Roy Bahl, Georgia State University, were presented by the experts of Asian countries and the World Bank. In addition, an especially important panel discussion by three Japanese practitioners of Decentralization was held. They were: Governor Hiraku Kajiwara (Chairman of the Governors Association), Mayor Koichi Sueyoshi, Secretary General Keiji Araki (the Reform Committee for Promotion of Decentralization, Prime Minister's Office) and Prof. Tatsuo Hatta (The University of Tokyo). The details of the program and the summary reports are given in the Appendix to this book. The Proceedings of the Conference: *Development and Decentralization in Asia*, were made available in English and Japanese by Kitakyushu City and ICSEAD in 2004. The panel discussion report mentioned above is available only in the Japanese edition. In this book, however, Chapter II by H. Ikawa not only covers the main points of their discussions but up-dates the development of decentralization policies in Japan.

This book is, however, not just an outcome of the conference. Five years have passed since the time of first ADC. Decentralization policies have been implemented in various ways in almost all Asian countries. The authors have revised their papers to give even more up-to-date information on their country situations and to evaluate the recent progress with decentralization. All the papers have been carefully edited and re-edited by the two editors.

We are very pleased to have completed this book. We hope that this book will open up further discussions on many issues of *decentralization* like those related to urbanization, industrial location, and environmental problems. I regret that some experts from Korea and China could not join us due to the inconvenient timing. I must also apologize for the delay in editing and publishing this volume. I sincerely hope that the volume will still satisfy the needs for the academic discussions of the subject and make a modest contribution to decentralization policies in Asia as well as in the world. Lastly, I express my hearty gratitude for Dr. Sadayuki Takii's help in my editorial work in telecommunication from ICSEAD all the time.

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