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### Title

Consensus Building in Shopping District Associations and Downtown Commercial Revitalization in Japan

### Permalink

<https://escholarship.org/uc/item/2vq9j4b0>

### Journal

Berkeley Planning Journal, 22(1)

### Author

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### Publication Date

2009

### DOI

10.5070/BP32215360

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# **Consensus Building in Shopping District Associations and Downtown Commercial Re-vitalization in Japan**

By Taotao Bi-Matsui

## **Abstract**

This paper examines the impact of the Japanese model of placing responsibility for downtown commercial vitalization with incorporated Shopping District Associations (SDAs), via a comparative study of successful and unsuccessful shopping districts in downtown Chiba City, Japan. Under the Japanese model, small property owners must agree to part with, or upgrade their properties, in order to implement vitalization plans. SDAs are responsible for “consensus building” among property owners. However, the complexity of the issues, SDA organizational characteristics, and the failure to utilize mediators to resolve conflicts, have made consensus building a difficult undertaking. SDAs that experienced difficulties in consensus building often lost opportunities to utilize public funds for downtown commercial vitalization, which has contributed to the continuing decline of those shopping districts.

## **Introduction**

Promoting the development of downtown shopping districts where small retailers are concentrated has been an important policy of the Japanese government in the postwar period. With the goals of building vibrant downtowns and fostering competitive locally owned small businesses, the Ministry of International Trade and Industry (MITI), now the Ministry of Economy, Trade and Industry (METI), has implemented several policies. For example, beginning in 1964, MITI provided a vast amount of funding to incorporated Shopping District Associations (SDAs) for implementing Shopping District Modernization Projects. Under such projects old stores were renovated or torn down and shopping malls (jointly owned by the original property owners) built in their place. In 1974, MITI enforced the Large-Scale Retail Stores Act to restrict the opening and enlargement of

large stores in an effort to limit competition to the small retailers.<sup>1</sup> Further, in 1998, MITI enacted the Act on the Improvement and Vitalization in City Center (AIVCC), hammering out a policy of revitalizing the commerce of downtown areas with projects planned and implemented collaboratively by central government agencies, local governments, SDAs, businesses, etc. From fiscal year 1999 to 2005, budgets earmarked for downtown vitalization totaled more than 1,027 billion Japanese yen (approximately 10 billion U.S. dollars) per year.

The outcomes of these efforts has been highly uneven, with some districts thriving under the new policies and others struggling. One significant source of difference has been the major institution responsible for implementation at the local level – the incorporated SDAs. This essay, which draws on a longer-term study of SDAs in Chiba City, Japan,<sup>2</sup> attempts to illustrate just how important SDAs are to downtown revitalization, and to examine some of the serious internal and external challenges they face. These challenges often impact their ability to build consensus amongst their membership, and helps determine their ability to raise government funds and ultimately fulfill their mission.

## A Brief History of Shopping District Associations in Japan

In Japan, downtown shopping districts primarily developed in two ways: (1) the proliferation of small retailers and service businesses in areas that saw increases in population during the first two decades of the 20th century (Suzuki 1980; Ishihara 1985); and (2) black markets that appeared near main railway stations following World War II, developed into shopping districts by the 1950s (Ishihara 2004). Today, most businesses in downtown shopping districts remain small independent local retailers or restaurants,<sup>3</sup> many of which are operated by the property owners themselves.

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<sup>1</sup> This law was repealed in 2000 and the “Law concerning the Measures by Large-Scale Retail Stores for Preservation of Living Environment” was enacted in its place. Unlike the old law, which was enacted to protect small retailers, the new law’s purpose is to protect living conditions in the areas surrounding large retail stores.

<sup>2</sup> The analysis is based on: (1) a review of vitalization project documents — including guidelines, meeting minutes, plans, project records, and newspaper and magazine articles; and (2) interviews with key persons involved in vitalization projects, including Chiba City officials, directors of the two SDAs, and Chiba Chamber of Commerce and Industry staff.

<sup>3</sup> According to a 2006 study conducted by the National Federation of Shopping Center Promotion Associations, unplanned shopping districts (including downtown shopping districts) in Japan averaged a total of fifty-nine stores. The average number of national chains in such districts (including supermarkets, discount stores, convenience stores, drug stores, fast-food restaurants, etc.) was only four stores.

By 2006 there were over 3,500 incorporated SDAs in Japan (National Federation of Shopping Center Promotion Associations 2007). All incorporated SDAs fall under one of two categories: (1) Shopping District Cooperative Associations (Cooperative Associations), established pursuant to the Small and Medium-sized Enterprise Cooperative Association Act (Cooperative Association Act) of 1949; and (2) Shopping District Promotion Associations (Promotion Associations), established pursuant to the Shopping District Promotion Association Act (Promotion Association Act) of 1962. The primary difference between the two associations is the make up of their memberships. Because the Cooperative Association Act's purpose is to bring small businesses within the same industry together as a means of achieving economy of scale (Ishihara 2004), the Cooperative Association is primarily comprised of small businesses, i.e., large businesses and local residents are precluded from membership. Conversely, the Promotion Association Act, which was enacted to provide a basis for incorporating shopping districts, is more inclusive and does not exclude large businesses or residents from membership.<sup>4</sup> In 2006, more than two-thirds of incorporated SDAs were Promotion Associations (National Federation of Shopping Center Promotion Associations 2007).

SDA members serve in their capacity as business or household representatives. High level decisions, including project approvals, annual budget approvals, and the election of directors, are made via a vote at the Members' General Meeting. Although SDA bylaws generally provide that matters presented to the members will be decided via a majority vote, in practice, projects that require members to part with their properties or make financial contributions usually require a unanimous vote (Ishihara and Ishii 1992).

In SDAs that lack full-time staff, the directors must also perform routine clerical work, such as bookkeeping, etc., often in addition to their full-time job or business outside the SDA. A 2006 study showed that more than half of incorporated SDAs had no full-time staff (National Federation of Shopping Center Promotion Associations 2007).

## **The Challenge of Diverse Property Ownership and Public Funding**

Since their beginnings, the Japanese government has expected incorporated SDAs to play an important role in downtown commercial vitalization. For example, the Promotion Association Act of 1962

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<sup>4</sup> After the enactment of the Promotion Association Act, many Cooperative Associations converted to Promotion Associations in the interest of enhancing membership.

provided that Promotion Associations were to “implement district improvement projects, assist with land-use planning, and with executing projects that are planned by central or local government.”<sup>5</sup> Until the enactment of the AIVCC in 1998, an important feature of Japan’s promotion policies was the linkage between and expected resolution of the issues of the development of downtown commercial districts and the modernization of small retailer operations (Suzuki 2001). Because most local small businesses participated in incorporated downtown SDAs, the Japanese government expected such SDAs to play the primary role in implementing downtown commercial vitalization projects.<sup>6</sup>

Notwithstanding the Act’s language, most incorporated SDAs have not fulfilled this expectation. According to a 2006 study of SDA activities, conducted by the National Federation of Shopping Center Promotion Associations, the vast majority of projects promoted by the government were not even in their planning stages, let alone completed (as shown in Figure 1).

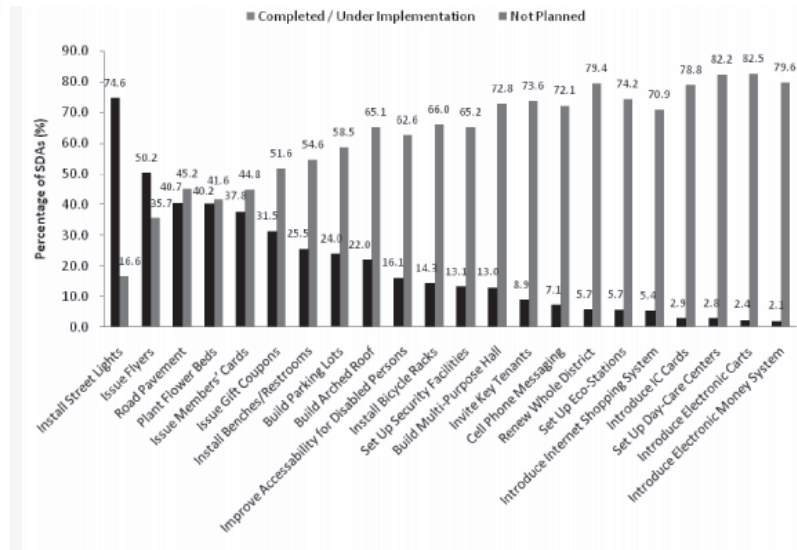
One source of these difficulties is property ownership. In Japan, where ownership of downtown properties tends to be highly dispersed (Sorensen 2002), the biggest issue in implementing vitalization projects has always been persuading the large number of property owners to part with, improve, or modernize their properties. Buying out the properties has never been entirely possible through expropriation, in light of the rights accorded to Japanese landowners under the post-war constitution, nor through market mechanisms when owners are not interested in selling (Sorensen and Funck 2007; Sorensen 2002). Thus, one of the necessary functions of SDAs is to serve as a membership forum for consensus building on potential projects. This function is critical since local governments, understanding the importance of consensus building in project implementation, as well as the difficulty of resolving conflicts between the interested parties, grant vitalization funding to districts where SDA members are able to reach agreement. SDAs with organizational structures that make it difficult to reach consensus, for example SDAs with diverse membership and/or lack of staff, often fail to procure government funding.

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<sup>5</sup> Following enactment of the Promotion Association Act, Cooperative Associations that existed before the Act continued to receive public funding, and are still expected to play a vital role in downtown commercial vitalization.

<sup>6</sup> The enactment of the AIVCC in 1998, separated the issues of downtown vitalization and the modernization of small retailers, and introduced “Town Management Organizations (TMOs),” which included both SDA directors and non-SDA members (e.g. staff from Chamber of Commerce and Industry), to coordinate downtown commercial vitalization projects. However, since few TMOs implemented any vitalization projects (METI 2005), METI ceased advocating the establishment of new TMOs, and most existing TMOs were dissolved by 2006. Today incorporated SDAs are still the major organizations responsible for implementing district commercial vitalization projects.

Figure 1. Activities of SDAs in 2006



Source: National Federation of Shopping Center Promotion Associations (2007).

A closer examination of these organizational difficulties points to three root challenges which impact the abilities of SDAs to build consensus - whether around sharing project costs through collaboration or through selling property - and hence raise government funds for redevelopment:

1. diversity of membership - because most downtown shopping districts formed spontaneously, members of SDAs usually vary greatly with respect to their type of business, scale, financial capacity, managerial style, etc. Thus, their opinions toward vitalization projects likewise usually vary, making consensus difficult to reach.
2. older business owners without successors - many businesses in downtown shopping districts are operated by older owners who have no successors and are living on a pension and/or personal savings. This makes them reluctant to rent out their shops, and it is often difficult to persuade them to invest in their property.
- 3) lack of staff and mediators - many SDAs lack staff to perform even routine office and clerical functions, leaving the directors, whose time could be more productively spent, responsible for such tasks. Additionally, as Susskind and Cruikshank (1987) point out, when the issue is highly complex, it is hard for the parties to deal with their

differences on their own; a mediator is often the only solution. However, although shopping district vitalization is highly complex, SDAs usually do not utilize mediators.

These organizational difficulties within the Japanese model of placing responsibility for downtown commercial vitalization with SDAs can be clearly seen in Chiba City, Japan, where the case of two nearby districts faced with similar initial circumstances saw radically different outcomes.

### **SDAs in Downtown Chiba City, Japan**

Chiba City, located 25 miles east of Tokyo, is the capital of the Chiba Prefecture<sup>7</sup> The city's total land area has changed very little since the 1980s, while its population has steadily increased to nearly one million in 2007. Through the end of the 1970s, annual retail sales and floor space in Chiba City increased rapidly. The increase in floor space leveled off in the 1980s with the enforcement of the Large-Scale Retail Stores Act, which placed restrictions on the opening and enlargement of big stores. However, as a result of deregulation in the early 1990s, retail floor space has increased despite inconsistent sales. From 1991 through 2007, total retail floor space per person increased substantially, while retail sales per person decreased.

Chiba City's downtown commercial area developed after World War II, with a proliferation of shops opening along the 0.7 mile road connecting the former National Railways Chiba Station, the Chiba Prefectural government buildings, and the former City Hall. This area includes three incorporated SDAs: Sakae-cho, Chiba-ginza; and Chuo-ginza, two of which, Sakae-cho and Chiba-ginza, are similar with respect to location, development, and their relationships with Chiba City.

The Sakae-cho and Chiba-ginza SDAs are separated by a distance of less than 300 feet. Both districts similarly developed from black markets, were composed mainly of small retailers and restaurants, and were prosperous prior to the move of the National Railways Chiba Station in 1963. The current state of the districts could not be more radically different – while Chiba-ginza SDA has been active in district vitalization, and the district has evolved into the city's central business district, Sakae-cho SDA has implemented few vitalization projects since its establishment, and the district is now nearly deserted. Although these differences can not be entirely attributed to the activities of their SDAs, neither can they be ignored.

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<sup>7</sup> Prefectures are analogous to states in the US.



## Sakae-cho

The Sakae-cho shopping district developed from a black market in front of the National Railways Chiba Station. Its SDA was established toward the end of the 1940s. It included a board of directors, but had no office or staff. Board meetings were held at bars or restaurants, and were akin to drinking parties (M. Yamamura, interview). In 1963, as part of the War Damage Reconstruction Plan in Chiba City, the nearest train station to Sakae-cho – the National Railways Chiba Station, was moved approximately 2,000 feet westward, causing a sharp decrease in foot traffic in the district. In 1965, in the interest of attracting more customers, the Sakae-cho SDA incorporated to a Promotion Association. However, the SDA still lacked an office and staff, and board meetings continued to be held in bars and restaurants. As a result, few important issues regarding district vitalization were discussed, and no meeting minutes were recorded.

In 1966, Sakae-cho was designated by the prefectural ordinance as a Sexually Oriented Businesses (SOBs) Restriction Exemption Area. Although a number of SDA members expressed opposition to the designation, no vote on whether to oppose the ordinance took place, and ultimately the SDA took no action (M. Yamamura and T. Ono, interviews). Consequently, Sakae-cho, which had no SOB stores in 1961, transformed into one of the most popular agglomerations of SOBs in Japan in the 1970s (Shukan Taishu 1997).

During this period, many retail store and restaurant owners in Sakae-cho changed their commodities or services to meet the needs of the new customers. However, Sakae-cho's SOBs began to decline in 1987 when Japan had its first incidence of AIDS (Shukan Shincho 1987). In order to sweep away the tawdry image and revitalize Sakae-cho, the SDA directors, funded by the Chiba Prefecture and Chiba City, drafted the "Sakae-cho Redevelopment Project" in the late 1980s. The project's purpose was to consolidate properties owned by small landowners and build a jointly owned mall that would include a spa, hotel, discount store, theater, concert hall, and condominiums. The project was planned to be implemented by the Sakae-cho SDA. However, it took five years for the directors to persuade SDA members to agree to participate in the venture, and such agreement was conditional on Chiba City purchasing the proposed theater and concert hall.<sup>8</sup> Chiba City, which initially showed interest in buying the property toward the end of the 1980s, ultimately rejected the acquisition when the economic bubble collapsed in the early 1990s. The project thus fell through. As a result of the project's failure,

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<sup>8</sup> SDA members expected that Chiba City's purchase would cover one-third of construction cost (T. Ono and M. Yamamura, interviews).

the SDA's Vice Chief Director, who lacked staff and was burnt out by the work put forth on the project's behalf, resigned. Additionally, following the failure of the proposal, the Chief Director only sporadically attended board meetings.<sup>9</sup> No further projects of significance have since been implemented. Sakae-cho is now nearly deserted.

**Figure 2. Closed Short-Stay Hotel and Movie Theater in Sakae-cho (next page)**



## Chiba-ginza

The Chiba-ginza shopping district developed from a black market in front of the Keisei Line Chiba Station. The Chiba-ginza SDA was established in 1947. It had a small office directly above a noodle shop that was owned and managed by the first Chief Director. The SDA included a group of active young members, led by a young director, Kazuo Uekusa, who was more enthusiastic about working for the SDA than managing his own variety store (K. Uekusa, interview).

In the 1950s, the Chiba-ginza SDA initiated several district improvement projects, including building an arched roof over the shopping area, and incorporating to a Cooperative Association in order to qualify to receive construction subsidies. In 1960, using loans borrowed from private banks, the SDA purchased a parcel of land disposed of by the Chiba Prefecture and employed two staff. In 1965, the SDA built a four-story association building on the land, using part of the space as its office and meeting room, and leasing part to a local book store.

Like Sakae-cho, Chiba-ginza also experienced a drastic decrease in foot traffic as a result of the National Railways Chiba Station's move.

<sup>9</sup> The Chief Director stayed in the position till 1998.

Additionally, the loss of two local department stores – one burning down in 1971, the other moving out in 1972, led to a further reduction in customers. Thus, in 1972 the Chiba-ginza SDA began lobbying Chiba City to implement an Urban Redevelopment Project (Type 1). Finally, in 1978, Chiba City agreed to the project, which was to be centered at the Chiba-ginza SDA building and the adjacent block (Mikami 1984). Construction began in 1985 after the city obtained key tenants (e.g., a hotel owned by the large real estate group Mitsui Fudosan Co., Ltd., as well as the Chiba Chamber of Commerce and Industry) and decided to purchase unsold floor space for a Cultural Center and Children's Science Museum. The project, which was completed in 1989, was the first public-private joint Urban Redevelopment Project implemented in the city (Chibachuo District Urban Redevelopment Association 1989).

Also in 1985, Chiba City proposed the "Shopping District Modernization Project" to all incorporated SDAs within Chiba City. The project's purpose was to renovate old stores and to build parking structures. The estimated cost was 510 million Japanese yen (approximately 5 million U.S. dollars), with two-thirds to be funded by the Prefecture and City, and one-third to be shared by the SDA members. All SDAs in Chiba City were eligible to apply.

In Sakae-cho the SDA failed to even raise the topic for discussion. However, Hiroshi Inoue, Chief Director of the Chiba-ginza SDA, not only raised the topic, but with great persistence was able to persuade all members to agree to the project. The SDA was awarded the contract in 1987, and the project completed in 1990. Today Chiba-ginza is Chiba City's central business district.

As this comparison of the Sakae-cho and Chiba-ginza SDAs shows, although Chiba City's economy has influenced the amount of public funds available for investment in the downtown commercial vitalization, the activities of SDAs played an important role in their likelihood of procuring available government funding. The SDA that moved quickly (i.e., the members quickly reached consensus on a proposed project and then swiftly applied for the project) was selected to receive funding. The SDA that had difficulties in consensus building, due in part to a lack of leadership and a lack of staff to facilitate consensus building and project planning, lost not only the opportunity to develop rapport with the government but also the opportunity to submit a project proposal and apply for public funds when the City had funds available to invest in the downtown area. Consequently, the latter SDA procured little public funds and implemented few vitalization projects.

## Conclusion

Promoting the development of downtown shopping districts has been an important governmental policy in Japan in the postwar period. However, many downtown shopping districts have been unable to utilize this policy and the corresponding funding to their advantage. The Japanese model of expecting SDAs to plan and implement vitalization projects is a major part of the problem.

Clearly, other factors have also led to the decline of downtown shopping districts in Japan, as they have in the US and other developed countries. Such factors include changes in land use, transportation, and retail shopping patterns, each of which continue to present obstacles to downtown vitalization. In addition, dispersed land ownership and constitutional rights accorded to landowners have also negatively impacted downtown commercial vitalization.

However, the experiences of the two SDAs in this study suggest that the institutional building of SDAs can improve consensus building capacity, thereby improving the implementation of downtown commercial vitalization projects. For example, training SDA leaders, employing fulltime staff, establishing a SDA office, and retaining professionals for land use planning and mediators can be quite beneficial. In addition, governmental reforms of subsidies to allow for the provision of funding for the institutional building of SDAs may also improve consensus building capacity. Such capacity may take years to develop; however, better managed SDAs are vital for downtown vitalization in Japan.

## Acknowledgements

This research was supported by a grant from the Japan Productivity Center. A special thanks to Carrie Makarewicz, Alex Schafran, Hector Fernando Burga, and the anonymous referees for their valuable feedback and assistance.

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## **Interviews**

Kazuo Uekusa, former Chief Director of Chiba-ginza SDA.

Masao Yamamura, former Chief Director of Sakae-cho SDA.

Takanori Ono, former Chief Director of Sakae-cho SDA.

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