



# Japan Will Find Its Way for Economic Resurgence through Abenolympics

— With an economic impact that will reach seven times larger than the existing forecast, the Japanese economy will continue to grow until 2020.

**TAKENAKA Heizo, Professor, Keio University**

## Government must resolve to make the most of the Tokyo Olympics

Tokyo will host the 2020 Summer Olympics and Paralympics. Since Tokyo was selected as the host city I have been using the term “Abenolympics.” This implies that Abenomics, the economic policy advocated by the Abe administration, is now bolstered by a tailwind, the Olympics. The Tokyo Metropolitan Government (TMG) estimates that the production-inducing effects of the Olympics will be 3 trillion yen over the next seven years. However, the actual effects are expected to be much larger than that. The Olympics are expected to bring about three economic effects: (1) the effect on construction and building work and other ordinary activities, (2) attraction power, and (3) saving face. A preliminary calculation (by the Institute for Urban Strategies, the Mori Memorial Foundation) shows that as long as appropriate policies are adopted, economic effects from the Olympics will be seven times larger than the existing estimates, or even much greater than that if everything goes well.



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Needless to say, what the Olympics are expected to bring to us is compelling inspiration, and economic effects are only the secondary product. However, the importance of effectively making the most of the impact from the Olympics and Paralympics is significant for Japan, which currently faces many challenges. Yet should Japan fail to take advantage of this, it will mean that it will have lost a precious opportunity to achieve a real economic revival. The key point is that the economic effects of the Olympics will never be able to be achieved through passive activities. There are mountains of challenges to be dealt with, including the securing of competent human resources, financing and deregulation. Both the government and the private sector are required to have strong determination to overcome these challenges. Japan, which has been facing stagnant economic growth since the collapse of the bubble economy, now needs to resolve itself to making the most of the Olympics.



This report studies the three economic effects: effects on construction and building work and other activities, attraction power, and saving face. With these effects, we will be able to see the environment in which we can feel that Tokyo is now changing dramatically, and sense the need for and impact of reform that we have failed to achieve despite the efforts we have made. The year 2020 when the Olympics will be held has already become the final year for a number of official policies, such as it being the target year for achieving fiscal consolidation. Moreover, of the main items of the key performance indicators presented in the growth strategy announced in June 2013, the target year of thirty items, such as raising the business environment ranking from fifteenth to the third and doubling the amount of inward direct investment, is 2020. In this way, the Olympics are likely to become a centripetal force for Japanese society as a whole. In light of these anticipated effects and to further boost the power of Abenomics, I would like to propose preparation of a comprehensive policy program, Reform 2020, with an eye on the 2020 Olympics.

### **Economic effects will reach about seven times that of existing estimates**

The first economic effects from the 2020 Summer Olympics and Paralympics are on construction and building work and other such activities. These are direct effects, including implementation of public works and an increased number of visitors. The TMG has also made a preliminary calculation for this. In line with such a calculation that was based on a conventional method, the input-output table, the TMG concluded that the Olympics would bring about production inducement effects of about 3 trillion yen, 40% of which would be felt outside the metropolitan area. However, 3 trillion yen over seven years is considered a very conservative projection. Based on this, added value inducement effects are 1.4 trillion yen, equivalent to only 0.04% of the GDP on a yearly basis. This is due to the fact that the calculation was made with facility development expenses limited to repair work of stadiums and other facilities carried out by the TMG and consumption of visitors who directly come to Tokyo for the Olympics. In reality, because there will be a number of factors that will impact economic development toward 2020 as described above, investments and consumption are considered to expand further in the future.

Based on awareness of these issues, the Institute for Urban Strategies of the Mori Memorial Foundation, for which I serve as the chairman, has made a new preliminary calculation. This calculation adopts a method that uses the input-output table in the same manner as the TMG, but there are differences in certain preconditions. For example, the new calculation includes such expenses as advance spending of 10% of project expenses for the Outer Ring Road (Nerima-Setagaya), extension of part of a subway line (Toyosu-Sumiyoshi), and commencement of half the capacity of possible operations of the Narita and Haneda access railway, in facility development expenses in addition to those included in the TMG's calculation. Moreover, for consumption, by referring to the impact during the London Olympics, the number of employees is estimated to rise 210,000 by 2020. The new calculation also takes into account the precondition that the total of 200 companies, or forty companies each year in 2017–2020, will be developed in tandem with the development of Tokyo's Special Zone for Asian Headquarters and National Strategic Economic Growth Areas. It is true that all these preconditions are daring, but they are all achievable if attraction power effects and face-saving



effects materialize in the way described below.

Our new preliminary calculation shows that production inducement effects will be approximately 20 trillion yen; seven times those prepared by the TMG (including part of the effects of the attraction power and other factors). Added value inducement effects will also reach approximately 10 trillion yen, apparently raising the annual GDP growth rate by 0.3%. The notable point in these estimates is that employment inducement effects will amount to a workforce of approximately one million over seven years. Expecting such strong employment effects is considered to be a positive development in normal circumstances, but Japan is currently facing a noticeable shortage in the labor force, particularly in the construction-related sectors. Japan has finally obtained opportunities to boost its economic growth and employment, but if the reform and the opening of the labor market fail to take place, there is a concern that it will waste such opportunities. As expressed below, Japan cannot afford to take a passive attitude of simply waiting for economic effects of the Olympics to come into being, but rather it is required to have determination to implement domestic economic reform to capture these opportunities. Without that, the hope for the Olympics' effects will end up as pie in the sky.

### **Attraction power by making the most of the Olympics, the best contents**

The second economic effects are those exerted while the attraction power of Tokyo and Japan further improve. Attraction power is merely the ability to attract people. Indeed, the Olympics and Paralympics are now the world's best contents. Approximately 70% of the world's people are believed to watch the Games on television and through other media. Therefore, through a variety of programs that Japan presents as the host country, Japan and Tokyo will be able to at once to gain the world's attention over several years before and after the Games. London, which hosted the last Summer Olympics, successfully captured these opportunities.

The Institute for Urban Strategies of the the Mori Memorial Foundation, as mentioned above, has over the last six years announced its Global Power City Index, which shows the ranking of global cities based on indexing of a wide range of comprehensive strengths, including economic, cultural and social, by combining seventy different indicators. Every year four cities, New York, London, Paris and Tokyo, respectively ranked one through four, have been solidified as the top competing cities. However, in 2012, New York, which had continually maintained the #1 spot, fell to #2. London, host city of the 2012 Olympics, took over #1. Of the seventy indicators that determine the rankings, in the sections of culture and exchange in particular, London made significant improvement. The biggest point was that during the period before and after the Olympics the number of international conferences held in London increased rapidly. As the Olympics drew nearer, London attracted rising attention and news about its challenge of new urban development became widely known. This apparently prompted the decision of a number of organizations in different sectors to hold international conventions in London. London's attraction power quickly rose to a high point. Obviously, efforts the city made to host such conventions were significant in this.

In tandem with an increased number of international conventions, the quality and capacity of hotels in London also improved significantly. Actually, the number of five-star class hotels is believed to have recently been declining, but this does not mean that the number of hotels is declining. Rather,



the global standard of five-star hotels has continued to rise. As a result, the quality of hotels in Tokyo has been declining in relative terms. However, after Tokyo was selected to host the 2020 Olympics and Paralympics, major hotels and other organizations in Tokyo started to announce major renovations and expansion plans. Construction of hotels will result in great economic inducement and employment effects.

Another point for which realization is hoped for in attraction power effects is considered to be contribution to the Cool Japan Strategy. The Cool Japan Promotion Council has already established an action plan, and the government's growth strategies are backing it. In accordance with government estimates made during the Democratic Party of Japan administration, the market scale of the global cultural industry has recently amounted to around 530 trillion yen, and is estimated to exceed 900 trillion yen. However, Japan's sales in this market, excluding food, only reach about 2 trillion yen at the present. Many concerned parties recognize Japan's potential in the market. For these reasons, the Ministry of Economy, Trade and Industry is hoping to make Japan's cultural industry, including entertainment content, fashion and food, an industry that can also generate profits overseas.

However, statistics shows that the only sector that has surplus exports over imports in this culture-related industry is games, while other sectors, such as movies, music and books, are all showing trade balances in excess of imports. Since these sectors are in fact failing to forge effective countermeasures, it is certain that the Olympics, a great event, will bring superb opportunities to them in breaking the current stagnant situation. The point, however, is how we can make this happen. Initiatives, unlike those completely led by the government, as was the case in the past, must be taken.

### Significant face-saving effects

I also want to point out the effects of the Olympics on face-saving activities that will even exceed the effects on the aforementioned construction and building work and other activities as well as attraction power.

A number of economists have been reporting the economic effect of the Olympics to date. Among such reports, research conducted by Professor Andrew Rose of the University of California is especially remarkable. His research team statistically investigated the countries that hosted the Olympics from 1950 to 2006 and identified the intriguing fact that the trade volume in such countries during a period before and after the Olympics increased by as much as 30%. The factor that attributed to such development was that, to save face as the host country, these countries in many cases eliminated their own traditional regulations related to trade and foreign exchange systems. In other words, they were forced to take actions and, as a result, domestic reform was implemented and the economy was revitalized. These effects are believed to be particularly hoped for in Japan, where there is a group of people with vested interests to protect and oppose economic reforms whose implementation is considered normal by global standards by using their unique reasoning.

One simple example is the expansion of international flights through Haneda Airport. Over the last ten years, at meetings of the Council on Economy and Fiscal Policy I have been expressing my view of making Haneda an international airport. As a result of these efforts, Haneda Airport has recently started international flight services though their level is still limited. However, the reason that the



related ministries and agencies cite for this development still failing to produce sufficient results is opposition by Chiba Prefecture or by Narita. It is true that when Narita Airport was constructed, there was a widely shared view that Haneda was no longer capable of accommodating rising demand and a new airport needed to be built. It is also true that, facing a major movement of opposition in certain areas against construction of Narita Airport the related parties were forced to make extraordinary efforts in developing an airport. However, overseas visitors to Japan would have little understanding of the relationship between Tokyo and Chiba. Because the value of the airport located near central Tokyo has recently been refocused on a global scale, it appears only natural to see progress in expanding the use of Haneda. In this environment, it will significantly damage Japan's overall interests if the promotion of Haneda as an international airport fails due to consideration of past events. Putting aside the airport's history, to externally save face by prioritizing the convenience of overseas visitors, as well as for the sake of the overall interest of Japan, a new airport system will be developed by taking advantage of the Olympics as good timing for resetting the mindset. The hope is that this type of effect from the Olympics will occur.

### **The Olympics as a courtroom**

In relation to the effects mentioned above, I would like to see a certain level of courtroom effects that the Olympics plays in the policy decision-making mechanism.

To start with, who determines policies? This is an undying question for decision-making theories, which are divided in having policies determined by the prime minister, the Diet, effectively by bureaucrats, or by public opinion. All these theories are partly correct but still none show a comprehensive answer. In considering this matter, there is a key insight in the fact that a number of the private members of the parliament are participating in policy decision-making. The Council on Economy and Fiscal Policy and the Council for Industrial Competitiveness, which are chaired by the prime minister, currently exert strong influence over policies. Five (including the governor of the Bank of Japan) and ten private members of parliament are respectively appointed to these councils. And if the councils of each ministry are counted, the number of private people involved in policy making is significantly high. The most important role these private members of parliament play is creating courtroom effects. This is a term I created, but such terms are often used in private conversation among people in the Kasumigaseki ministry area and Nagatacho political area.

Assume there is an issue over introducing deregulation in certain matters, and it is discussed in the councils. If the private members of parliament demand deregulation, the related ministries and agencies express the effectiveness and appropriateness of existing regulations. Then the private members oppose such arguments, to which the ministries and agencies make counterarguments. If the public can see these discussions through meeting minutes, a social pressure forcing implementation of deregulation will emerge. As a result, the ministries and agencies will be forced to adopt deregulatory measures. This is a simple example of courtroom effects.

The point I want to stress is the fact that hosting the Olympics and Paralympics will strengthen courtroom effects. Obviously several conditions are required to be met to achieve such a development. The most important is that after active discussions take place in the courtroom, a politician who



makes judgments must take clear leadership. If a decision is made midway by equally compromising between opinions for and against, reform will never take place. The fact that we cannot afford to forget is that the economy does not simply improve only because the Olympics Games are taking place. The key to face-saving effects is to carry out positive domestic reforms by taking advantage of the Olympics while paying attention to global trends, which eventually lead the economic revitalization. In this sense, without efforts being made to achieve reforms, which are backed up by the political leadership, the Abenolympics effects will never successfully come into being.

As mentioned, the growth strategy determined in June 2013 set out approximately thirty key performance indicators that need to be achieved by 2020. Assume that all these indicators are achieved and that consequently the real GDP growth is strengthened to 2% as drafted in the medium-term fiscal plan for economic and fiscal strength (announced on August 8), taking into account the present potential growth at just under 1%, GDP growth supported by Abenolympics effects will be at a scale in the tens of trillions of yen. This figure will even exceed the one based on our preliminary calculation (Institute for Urban Strategies, the Mori Memorial Foundation).

### Tokyo's scenery will change

One of the effects that Abenomics has had is that it changed the scenery of the Japanese economy. Japanese stock prices increased as much as 66% over the last year (as of the end of November 2013); a significantly large increase among major countries. Policies referred to as three arrows have not yet produced their full effects except in certain sectors. However, a change in the political stance has been reflected in a change in market expectations. *Keiki*, which means “economy” in Japanese, is a term that appeared in *Hojoki* [Account of my hut], written by Kamo no Chomei, and literally means the scenery of the air. Over the last year, expectations for the Japanese economy changing for the better have spread rapidly.

However, Abenomics will face difficult challenges that it will have to overcome in the future.

The Abe administration has adopted a policy of three arrows: (1) aggressive monetary easing to dispel the deflationary mindset, (2) flexible fiscal policy (targeting fiscal expansion in the short-term and fiscal consolidation in the medium-term) and (3) growth strategy. The monetary policy in 1 is already underway, and short-term fiscal expansion in 2 has also been put into practice. However, the administration must admit that medium-term fiscal consolidation in 2 and the growth strategy in 3 still have yet to set in. The year 2014 will confirm whether or not the anticipated outcome of the monetary policy in 1 materializes. And in the same year, the administration must show its commitment to achieving the medium-term fiscal consolidation in 2 and growth strategy in 3. In this sense, Abenomics is now approaching a critical stage.

In this environment, Japan is about to seize the chance to change its economic outlook from a vague hope to more specific and visible growth. Tokyo has recently started to show actual visible changes in its scenery. If the hosting of the Olympics is able to add new changes to the city, the current economic foundation backed only by hope of expansion will be reinforced by real substance, and such development will at the same time strengthen the foundations of the government.

Tokyo's scenery has started to change. Let's look at two specific examples.



The shape of a large road that connects Toranomon, the central area where the Ministry of Finance and other ministries are located and official policies are established, and Shinbashi, has started to appear. It was once called the MacArthur Road and is a major road planned immediately after the end of World War II (although it is believed that it was not necessarily planned by Douglas MacArthur himself). Named Shintora-dori. It is planned for completion in 2014. With numerous fashionable stores opening along the road, it is expected to become equivalent to the Avenue des Champs-Élysées in Paris. In the middle of this major road, the construction of a giant building, Toranomon Hills, by the Mori Building Co., with floor area equal to that of Roppongi Hills, is currently progressing. It will have a unique structure in which the road runs under the ground of the building, and is expected to have a luxury hotel, the first operations by the group that owns the hotel in Japan, on its top floor. Closer observation of the road reveals that it is connected to the Olympic village in Tsukiji in the south and runs through Akasaka to the National Stadium in the north. There also appears to be a plan to develop a bus terminal attached to Toranomon Hills. This reminds us that Tokyo has in fact never had a central bus terminal. The moment when the city dramatically changes in this way will provide a great opportunity for completely changing its scenery by reviewing, in an unbiased way, all possibilities that were considered impossible and abandoned. By taking advantage of the hosting of the Olympics, if this type of project starts going ahead in advance of the original plans it will yield significant changes in the economy and in society.

Another good example of Tokyo's scenery changing is the development taking place in Shinagawa. The Japan Rail (JR) Tokaido Line currently runs from the southwest and terminates at Tokyo Station. The JR Takasaki Line, Utsunomiya Line and other lines that run from the northeast terminate at Ueno Station. This results in two rail yards – one in Tabata for trains for northeast services and the other in Shinagawa for trains for southwest services. There is now a plan for the Takasaki Line, Utsunomiya Line and other lines to be extended from Ueno to Tokyo, and they will be directly connected to the Tokaido Line in FY2014 (Tohoku-Jukansen Line). When the plan is completed, only one rail yard will be needed. This is how a project has started to develop the 15-ha Shinagawa rail yard closely located to the central Tokyo area and with a high development value. This development was introduced to the public in part of the daily news that a new station would be developed between Shinagawa and Tamachi Stations. If a new station emerges in 2020, it will be the first in forty-nine years, since Nishi-Nippori Station was established in 1971.

The Shinagawa area has various points worth paying attention to. All trains of the Tokaido Shinkansen (bullet train) stop at Shinagawa and that area is closely located to Haneda. Shinagawa will also eventually be a terminal for the linear motorcar services. And the area is close to a waterfront district. Looking at the development in Shinagawa from a different perspective, during the Edo period, the center of Tokyo was Ryogoku and Nihonbashi, and then moved south to the Marunouchi area, while spreading to different areas in accordance with their functions and characteristics to Kasumigaseki, Roppongi, Shinjuku and Shibuya. The development of the Shinagawa area is also able to be considered the extension of such southward advancement.

The current situation in which areas in Tokyo are visibly changing, as described above, can be regarded as a chance given to Japan to strengthen its economic functions. Global competition is a popular term these days and the real picture of global competition has the aspect of a strong



inclination toward inter-city competition. This is because today's industries are mainly comprised of knowledge-intensive industry established in urban areas. Moreover, facing the age of competitive innovation, the importance of cities as a base for developing innovation has been on the rise. From an artistic standpoint, functions of cities in which a variety of human resources communicate are also receiving increasing attention.

The tendency to prioritize the functions of Tokyo, a megacity, is also apparent in Japan's past urban city administration. Until the time around the first oil crisis, population inflows continued from regional areas to the three major cities. To stop these trends, Japan's national land policy then was based on programs that facilitated dispersal of the population to regional areas.

However, since then, population inflows from regional areas have mostly been directed to the Tokyo area, while inflows and outflows in the Osaka and Nagoya areas came to be equally balanced. Soon after the collapse of the bubble economy, population inflow to the Tokyo area temporarily stalled, but since then inflows of regional population only into Tokyo have been continuing. This clearly shows that the industrial structure in Japan has shifted to the knowledge-intensive industry established in the major urban areas.

Amid these trends of the presence of Tokyo continually rising, the scenery of towns has started to visibly change. Tokyo will also be able to use the framework of the National Strategic Economic Growth Areas in the future. Therefore, there are a number of exciting projects about to begin in Tokyo –construction of a rapid railway system between Haneda, Tokyo and Narita; provision of full-scale international flight services through Haneda Airport; realization of twenty-four-hour operation of transportation systems in central Tokyo; completion of Shintora-dori as a road equivalent to the Champs-Élysées; and a significant increase in the number of five-star hotels in Tokyo.

## Japanese economy will stage long-term expansion until 2020

Hosting the Olympics and Paralympics will provide Abenomics with a full-scale tailwind. It has become clear that the economic effects of the Olympics will reach seven times the existing forecasts even by conservative calculations. However, these effects can only be achieved when the strong political commitment to pursue domestic reform by taking advantage of the Olympics is fulfilled. A passive approach will produce nothing. In line with the expansion of construction demand, one million new workers are expected to be employed. However, if the labor market is not reformed, the level of such new employment will not be achieved. I hope that, by making the most of the face-saving effects of the Olympics, regulatory reform that has been avoided will take place immediately.

Seventy-three months of continued economic expansion, the longest economic expansion since World War II, were achieved during the period of reform led by Prime Minister Koizumi Junichiro. The bottom of the current economic cycle is believed to be November 2012. Therefore, if the current economic growth can be sustained as long as that during the Koizumi administration, the Japanese economy will be able to continue to grow until 2020, when the Olympics take place. If so, there will be a chance for the Abe cabinet to become the longest serving administration since World War II. With strong aspirations to realize such events, the government is now required to handle the great opportunity of Abenolympics. If Reform 2020, a comprehensive reform program aiming at 2020, is





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prepared, and reform is carried out consistently in the period when the centripetal force, the hosting of the Olympics and Paralympics, is in place, the third arrow of Abenomics will acquire greater strength.

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Born in 1951 in Wakayama Prefecture. Graduating from the Faculty of Economics of Hitotsubashi University in 1973, he became the Minister of Economic and Fiscal Policy and continued to serve as the Minister for Financial Services and Minister of Internal Affairs and Communications, among other positions. In 2013, he was appointed by the administration of Prime Minister Abe Shinzo as a member of the Government Council of Industrial Competitiveness. He has published a number of books, including *Takenakaryu sekaijin no susume (PHP business)*.

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