

# Japan Analysis

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***Japan's competitiveness and attractiveness issues in 2014: The high-stakes goals of the Abe government, between discourse and reality***

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## EDITORIAL

In line with the topics introduced by the previous issue of *Japan Analysis* (focusing on Japan's openness to the world), this 35th issue of *Japan Analysis* explores the various actions recently initiated by the Abe government to make Japan a more attractive place for business and international investment. Japan's attractiveness seemed to be seriously damaged in the aftermath of the Fukushima nuclear disaster. In April 2014, the Japanese Premier allowed the broadcasting of a video recording – entitled “Open the Door to Success in Japan” and easily found on YouTube – in which he went so far as to praise Japan's improving business environment in grammatically flawless, albeit wooden, English. “Now is the time, the best time, I should say. The Japan you are looking at is different from the one you saw ten years ago. Japan is undergoing changes of a once-in-decades nature. For your investment into Japan, the opportunity now unfolding is also one that appears only once in decades”. This message serves as one of the pillars of an advertisement campaign coordinated by the Japan External Trade Organisation (JETRO)

in order to celebrate the country's regained attractiveness and Tokyo's win in the race to host the 2020 Olympic Games<sup>1</sup>.

This is not the first state-led, post-bubble recovery plan to attempt to bring the Japanese economy “out of its slump” and to defend its attractiveness with discourses on Japan's Phoenix-like resilience. However, what is unusual about the current context is the LDP government's dominance on the domestic political scene, at a time when opposition parties are particularly weak and fragmented. The lack of a strongly united opposition leaves room for ambitious mid-term reforms. Abenomics can be characterized as “ambitious” or “audacious” in terms of the size of its impact on government spending on infrastructure programs, and its inclusive, head-on approach to monetary and economic policy as well as social reform. However, the actions intended to drive Japan's overall change still rely, in part, on a public policy package which has been already tried, to a

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<sup>1</sup> The recording is also available on JETRO's official website: <http://www.jetro.go.jp/en/invest/>.

large extent, in Japan or other countries, often with mixed results. Examples include a “mega event” urban renewal policy model, designed to contribute to the renewal of infrastructure within Japan’s main metropolises through targeted deregulation of planning laws, and aimed at sustaining the construction industry.

Behind the notion of Japan’s real and perceived post-2011 renaissance, felt it was important to discuss the economic and concrete aspects of these attractiveness policies, and therefore to analyse the depth of the current and future changes that their aims entail. The first article of this issue, written by Jean-Yves Colin, offers a critical overview of the now-famous “Abenomics”, 18 months after its official beginning. While the Abe government’s choices imply new risks, the political ambition of the Japanese Premier did restore some confidence among economic stakeholders. At the same time, the preparations for the Olympic Games mean that many Japanese can look forward to a bright future until at least 2020, highlighting Japan’s role on the world stage and Tokyo’s status as a world city. Nevertheless, the spectacular nature of such a global sporting event cannot hide the problems raised by the long-term value and uses of the planned projects, as is underlined by Xavier Mellet’s focus on the list of buildings designed to host the Games and the eagerly awaited influx of tourists.

The very fact that the Japanese Prime minister chose to address potential investors in English rather than in Japanese with subtitles is quite significant. Sophie Buhnik’s translation presents an excerpt of the diplomat Komatsu Masayuki’s thoughts (originally published in a 2014 issue of *Chūō Kōron*) on the use of English during international conferences. Masayuki explains why it is long overdue for the Japanese people to address their lack of English fluency, since this deters Japan from defending its views in international

negotiations and thus from building a strategic position in world affairs. Finally, Arnaud Grivaud’s analysis of current issues translates an excerpt of an interview with Professor Tsuji Takuya, who explores the long-term effects of urban renewal programmes that concentrate on Japan’s biggest cities – and above all on the capital – at the expense of the regions most affected by demographic decline and outmigration. Takuya is especially interested in the possibility of a more equal distribution of wealth inside centralized urban areas.

# CLOSE UP ON THE NEWS

## 1. 18 months of Abenomics

– **JEAN-YVES COLIN**

Since its landslide victory in the elections held for the House of Representatives in mid-December 2012 – a victory more commonly considered as a major defeat for the Japan Democratic Party (DPJ) – Abe Shinzō made his economic vision for Japan, aptly named Abenomics, a symbol of his return to power and the signal of a desire for revolution, rather than evolution, after two “lost decades”.

Beyond Japan's borders, the arrival of Abenomics greatly aroused the interest of foreign observers. This interest was all the stronger because countries that feared that they might enter into a deflationary spiral similar to that experienced by Japan were looking for a solution they could apply to their own context. But after an initial phase of euphoria, this interest rather lost its vigour, at times giving way to scepticism or disappointment. (This is illustrated by an article entitled “Serait-ce le chant du cygne des Abenomics ?”

(A Swan Song for Abenomics?), appearing in *Le Figaro* on August 14th, 2014, just after the announcement that Japan's GDP had fallen by the equivalent of 6.8% annualized in the second quarter of 2014).

18 months later, it is still difficult, and premature, to assert that the Abenomics has succeeded or, on the contrary, failed: there are perceptible signs that the deflationary crisis closely associated with the “lost decades” could be over for the moment. But the Japanese economic landscape has not significantly changed, and the combination of a VAT rise from 5% to 8%, starting on April 1st, 2014, and a corresponding drop in GDP, has opened a new cycle for Abenomics, though structural reforms are still awaited.

### The double nature of Abenomics

Like every other economic policy, Abenomics has both a technical and a political dimension. The technical dimension is represented by the “arrows” of Abe's “quiver”. The first “arrow” challenged the Bank of Japan's (BoJ's)

governance and advocated for changes in its course of action. This resulted in a rare event for the discreet world of central banks, namely, that governor Shirakawa Masa'aki stepped down three weeks ahead of the scheduled end of his five-year term. Many felt that the independence of the central bank (which the bank gained in the late 1990s) would be compromised. At the time, the move away from the government and its Ministry of Finance was conceived as a shield against the so-called “misdeeds” that were typical of the decades from 1960 to 1980 (inflation, stagflation and an abundant cashflow that led to the rising stock and real-estate bubble of the late 1980s), as well as an attempt to solve the economic crisis by regaining the market's trust. The appointment of Kuroda Haruhiko, a former member of the Ministry of Finance, may have been seen as a move backwards, implying a renewed tutelage by the government even more than by the Ministry of Finance itself. The new governor rapidly allowed an unprecedented quantitative easing programme, boosting the money supply by 50,000–70,000 billion yen per year, and considerably inflating the BoJ's balance sheet, leading to the unabated rise of the Tokyo Stock Exchange (up by 80% in five months), to a level above 15,000 points. Simultaneously, the Japanese yen's value dropped by 20 to 30%, depending on the currency (e.g., from 80 to 100 yen per US dollar). It was hoped that exports would then rebound, in particular to the benefit of automobile and electronic industries, which have incessantly criticized the *endaka*<sup>2</sup> due to exacerbated rivalry with Korean, Chinese, Taiwanese and German competitors.

The main benefit of this first arrow was to boost confidence. Both the Japanese

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<sup>2</sup> Endaka literally means “expensive yen”, and defines a period of more or less abrupt revaluation of the yen, in comparison with the value of other international currencies.

business community, a traditional ally of the Liberal-democratic Party (LDP), and Japanese public opinion, regained hope. The latter was weary with years of weak growth and a lack of political leadership, shocked by the impacts of the Fukushima disaster on the use of nuclear energy, and stunned by the rise in the VAT. Public opinion expected that renewed growth would lead to wage increases and reduce unemployment<sup>3</sup>, and therefore to a rebuilding of the social pact that had linked the LDP to a silent majority of the electorate.

Afterwards, the Abe government launched two more “arrows”: a vast public works programme (costing 13,100 billion yen, or around 100 billion Euros), and the announcement of deep structural reforms, aimed at securing the boost in confidence and at sustaining the awaited economic upturn.

However, Abenomics also has purely political aspects. Firstly, its goal is to restore the LDP as the primary conservative force of Japan's political scene, and hence to make people forget not only three mediocre years of government by the DPJ but also the Koizumi years (2001-2006), which were extremely unsettling for many LDP bigwigs. This point was demonstrated when Koizumi, who had threatened the unity of the “old” LDP, ran for the municipal elections in Tokyo at the beginning of 2014 against the LDP's official candidate, and lost. Furthermore, Abe Shinzō wishes to bring a new prestige to Japan on the global stage, meaning that the success of Abenomics and the of Abe's more hard-line foreign policy are somehow interdependent. On an important personal note, such an achievement ought also to give him, at last, a level of political renown on par with that of his

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<sup>3</sup> In Japan, current unemployment rates are rather low (around 4%) with regards to those of European countries of even the United States. But they hide a casualization of labour and increasingly difficult access to job markets for young graduates.

father Abe Shintarō and his grandfather Kishi Nobusuke, in contrast with the negative image associated with his first term as Premier of Japan (2006–2007).

### **Will Abenomics succeed or fail?**

The beginning of 2013 let people feel that a rapid success was assured, thanks to the rise of the stock market, the low yen and positive economic growth statistics. The following months, however, tempered this first impression.

The first hitch occurred in May 2013, as the growth of the Nikkei and Topix index ended. The Nikkei index fell back from 15,000 to 13,000 points and, more importantly, returned to its earlier fluctuations. Between the fall of 2013 and mid-2014, the Nikkei again climbed above 15,000, but rarely higher. The slowing of the Nikkei's growth was first attributed to hedge funds or statistics indicating a decrease in industrial output in China. However, the fluctuations of the stock market index reflect insufficiencies in the domestic investor base, after more than 20 years of bear market. It also serves as a proof that the Japanese stock market is more and more reliant on "market news" coming from abroad, from China and Wall Street in particular. The stock market's ceiling of around 15,000 points signalled the end of the "honeymoon period" for Abenomics.

18 months later, some economic indicators are relatively positive:

- Thanks to Abenomics, the Japanese economy surged in 2013, by 1.5% over the calendar year but especially by 2.3% over the fiscal year – an event certain to feature in political debates at the National Diet. But the pace of this growth was rather uneven and most of it occurred in the first three months of 2014, as the expected VAT rise

boosted the economy.

2013 began with steady growth in real GDP, by 1.3% in quarterly variation (or 5.3% in annual terms), but this rhythm slowed to 0.7%, 0.3% and 0.1%, respectively, for the three following quarters. However, the results of the final quarter of 2013 must be compared with the first quarter of 2014, whose high level of growth (1.6% quarter-on-quarter, 6.7% in annual terms) is driven by an anticipation of consumption (2.2% QOQ) and investment (4.5%, against between 2% and 2.5% QOQ in 2013), as well as a rise in exports (6%) and in imports (6.3%) also linked to the VAT effect.

Yet the very positive outcomes of the first quarter of 2014, were cancelled out by the below-average results of the second quarter (-1.7% QOQ, or -6.8% in annual terms), which were caused by the very same factors: a marked decline in domestic spending, which can be interpreted as an after-effect of the rising prices (the cost of energy in particular) and possibly the disappointment of anticipated wage growth.

Nevertheless, Abenomics has positively impacted corporate activity: whereas, in recent years, firms had been using their financial resources for debt repayments and for increasing their liquid assets, they began to reinvest in 2013, including in SMEs, as is shown by the Bank of Japan's Tankan surveys. The most recent figures for hardware orders (17.1% from May to June, 14.4% QOQ, and even an estimated 2.9% for the private sector alone during the third quarter) confirm these positive trends.

- The consumer price index rise may suggest the end of the deflationary

trend after four years of unabated price drops (almost -2% in 2009 and -0.7% in 2010, followed by -0,3% in 2011 and a stable price index in 2012). The summer of 2013 saw positive growth: inflation (in annual terms) peaked at 0.7% in July, a clear acceleration from June (0.4%) and May (0%). Ultimately, the increase of the price index reached 0.4% in 2013. But it should be noted that most of this increase is linked to energy products<sup>4</sup>. The rise in VAT in April introduced a statistical turn to the index: since May, it has been growing at an annual rate of 3.4%, still under the strong influence of energy products. With these trends in mind, the BoJ is confident that it will be able to meet the government's objectives (an average 2% inflation rate).

- Abenomics has brought mixed results for foreign trade. Since mid-2013, monthly trade deficits have varied between 800-900 billion yen and 1,300-1,500 billion yen (with a few exceptions); the 2013 yearly trade deficit peaked at a record 11,745 billion yen, around 85 billion Euros (based on the euro/yen rate in late 2013). Japan's foreign trade balance is constricted by its energy imports and depends on changing demand from its main foreign trade partners (China, the United States and the EU). Soaring imports levels weigh heavily on SMEs, whose activity is geared towards the domestic market. However, Abenomics has had a positive impact on large firms like the automobile firms, even if the effect of the yen devaluation

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<sup>4</sup> The price of energy products increased by 7.1%, of which 5.8% was caused by a rise in the price of oil and LPG that Japan had to import in the aftermath of "11/3", and by a yen depreciation (one euro now equates to 135 yen, and one dollar to approximately 100 yen).

is slowly fading. This is shown by Toyota's financial results for the 2013 fiscal year: the firm raised its net profit forecast by 190 billion yen for the year ending in March 2014, almost twice as much as in 2013. For that matter, large Japanese firms have tended to be in favour of a weaker yen since the 1980s, but they also know that they cannot base their business strategies solely on the changing value of the Japanese currency. The last 25 years have shown the soundness of a policy aimed at freeing business from the constraints of exchange rates.

Therefore, attributing the good results of 2013 (and early 2014) only to the merits or innovations of Abenomics would be an overstatement. Japan notably benefited from an improving economic context overall, particularly in the United States. On the contrary, the IMF has recently released downward revised growth forecasts for 2014 (USA) and 2014-2015 (EU and China), which may compromise Abe's economic policy. It is also worth asking whether Abe's political line is as groundbreaking as some – mainly foreign – observers have boldly stated. The real novelty lies in the size of the BoJ's cash flow injections. In this sense, Abenomics blends an audacious monetary policy with the more usual LDP tools of the trade, like e.g. yen devaluation and public works spending.

### **What about the third arrow of Abenomics?**

The issues revolving around GDP growth, the size and necessity of a stimulus plan, or a rise in VAT, clearly illustrate the constant dilemma plaguing Japan and other countries like it: is it better to favour a financial recovery plan or, on the contrary, a short- to mid-term economic support plan?

This old debate has remained on the agenda, with a public debt/GDP ratio reaching an estimated 224% in 2013, which may have risen to 230% in 2014 given that the central government's deficit neared 9-10% in fiscal year 2014 (against -8.9% in 2011, -9.9% in 2012, and -10.6% in 2013). The Ministry of Finance restated its aim to reduce annual primary deficits by half for the 2010–2015 period, and is usually opposed to corporation tax cuts and to a “swap” between household taxation and corporate taxation. Up to now, domestic savings have absorbed the country's sovereign debt and helped Japan avoid a confidence crisis, although nobody knows what factor would trigger such a crisis, whatever the predictions commentators insist on making.

The Abe government knows full well that monetary policy is not omnipotent, and given the country's recent economic and inflation reports, Abe is aware that the BoJ itself does not really want to announce another round of quantitative easing, since the sustainability of its monetary policy largely depends on the US Federal Reserve's own decisions (and to a lesser extent, the ECB and the Bank of England). Since its budgetary policy is constricted, the government declared, right from its start, that it would capitalize on its previous success, with a third “arrow” consisting of structural reforms.

These reforms are divided between technical measures, which are not necessarily easy to implement, and societal reforms with long-term consequences, which are politically sensitive.

Technical measures include a project to lower the corporate tax rate, currently 35%. As Abe himself has stated, the rate is set to decrease in April 2015 (the beginning of the next fiscal year). The method of implementation is still unclear, but could include fixing a new rate

varying between 20 and 30%, progressive reductions in the tax rate, linked to a rise in VAT beyond 12%, or simultaneously setting tax cuts (so as to ensure a recovery in business investment and capital expenditures) and removing specific tax benefits under the guise of administrative simplification. One question still remains: will such adjustments lead public finances towards a new path?

Furthermore, the government wishes to alter the asset allocation policy of the Government Pension Investment Fund (GPIF, *nenkin tsumitatekin un'yō*). Currently, its 120 000 billion yen in assets (860 to 890 billion Euros) are allocated between two-thirds of bonds (more than half being private bonds) and one-third of shares (split equally between foreign and domestic shares), with a small remainder in cash. The objective is to bring the bond portion back to a level slightly above 50%, and thus to increase the proportion of shares. This shift has been well received by financial markets in principle, but requires legislative approval since it entails organisational changes. The GPIF has been diligently managed, and its transformation into the likes of Norway's Government Pension Fund-Global, Singapore's GICS or the Chinese CIC will not be achieved easily. Its staff (of about 80) must be increased in order to meet “market standards” for both skills and salaries. At the same time, it is very likely that its decision-making, control and audit processes will be revised. Such an overhaul may appear simply technical in nature, but in a context of continuous demographic decline, its extent will have a significant impact for the central State as well as the GPIF recipients.

In June 2014, the Committee for revitalizing financial and capital markets published a series of recommendations organised around four key objectives: (1) strengthening corporate governance in order to attract domestic and foreign investment, (2) promoting a renewed

asset management and financial innovation so as to build up a long-term, stable base of individual investors, (3) contributing to Asia's growth potential by improving the quality of Japan's financial institutions and infrastructure, and (4) developing financial talent with strong, globalized skills. This advice also comes with a variety of specific recommendations regarding the creation of a futures market for the new JPX-Nikkei 400 index, better audit systems, the introduction of subordinated loans and "LBO"-style techniques for the Japan Bank for International Cooperation (JBIC), corporate governance codes, and so on.

Another plan involves the designation of Special Economic Zones in Tōkyō, Ōsaka, Fukuoka, Niigata, Yabu and Okinawa in late 2013. Except for the last case, the goal of such zones is not to develop economically disadvantaged areas, but on the contrary, to support highly developed regions and their global attractiveness.

Whether technical and difficult to implement, or more anecdotal – like the plan to liberalise casinos and make them compete with Singapore's and Macao's – these very diverse measures will certainly contribute to stimulating the Japanese economy. But are they really enough to "revolutionize" it?

This goal is also associated with a number of social reforms. These include are plans to develop the female workforce<sup>5</sup>, deregulation in the agricultural and health sectors, deregulation of the employment market, and less strict immigration policies. Japanese public opinion did not find the first proposition controversial, as has been demonstrated by the harsh criticism directed towards "macho" politician Suzuki Akihiro, a member of the Tōkyō metropolitan assembly, who

<sup>5</sup> See Amélie Corbel, The Abe government and the gender equality issue: "towards a society where women shine", *Japan Analysis* no. 34, July 2014.

derided it. Yet many obstacles have slowed its implementation, such as the problem of developing an effective network of childcare facilities and nurseries (the government has promised to increase their number by one-third by 2019). Immigration policies however, even strictly controlled, have many detractors. On this point, it is useful to recall the claims made in 2005 by Finance Minister d'Asō Tarō, who is very close to Abe, about Japan's supposed cultural, linguistic and ethnic homogeneity<sup>6</sup>. The current government's immigration policy is geared towards attracting workers with special skills, or low-skilled workers for sectors faced with labour shortages such as building and public works. Legislative implementation of deregulation measures will need to overcome pressure from a number of lobbies, particularly in the agricultural sector, which used to be the LDP's most faithful supporters.

Time represents an important common factor for these projects, and includes both the time necessary for their development and subsequent implementation, and the time that must elapse before their effects on society and the economy as a whole can be assessed.

### **The future of Abenomics: potential obstacles and opportunities**

Some (tough) obstacles have already been mentioned, including a slowdown in partner economies, the public debt issue, and more specific problems holding back several sets of

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<sup>6</sup> Asō Tarō made these comments while Foreign Minister, during the official opening of Kyūshū's national museum, on October 15th, 2005. Their biased nature raised heated debates at the Diet. In Japanese: "Ichi bunka, ichi bunmei, ichi minzoku, ichi gengo no kuni ha nihon no hoka ni ha nai". See: "Foreign Minister Asō explains his remarks on Japan's monoethnicity" (*Asō gaisō: 'nihon ha ichi minzoku' hatsugen de shakumei*), *Mainichi Shimbun*, 7 December 2005.

reforms.

Another key issue involves changes in average wages. As long as consumer prices increase without a corresponding increase in wages, public opinion will certainly feel cheated. But company directors and managers, who have been used to industrial restructurings, exacerbated competition with merging rivals and careful cost controls for more than 20 years, will probably wait for a consolidation of growth before considering wage increases. They may prefer first to invest in capital goods. In this case, wage increases may follow, starting with variable remuneration. As of now, the level of economic recovery remains unclear. But business leaders have not lost faith in Abenomics.

Abenomics has met another obstacle, in the form of currency instability. The influence of a devalued yen on conflicts between Asian countries should not be underestimated. Judging by recent soothing declarations from the Cabinet Office, the government has not been neglecting this aspect of its monetary policy. The subject could become more controversial if China's or South Korea's economic slowdowns prove to be more severe than expected, or in the case of deteriorating China-Japan or Japan-Korea relations. It also offers as a potential tool for bargaining in international negotiations, such as the Trans-Pacific Partnership. The possibility of a yen re-evaluation must not be discounted.

A rapid surge in interest rates represents another quasi-systemic risk that would jeopardize the banking assets of many insurance companies and asset management firms, transforming Abenomics into Abegeddon. Such an abrupt increase could be caused by the global financial environment (e.g. a failed exit strategy from the quantitative easing policy, or a US budgetary crisis), or by a loss of credibility on the part of the BoJ.

The BoJ is well aware that the expansion of monetary aggregates should not outpace expected inflation rates; the BoJ is compliant but not laxist.

Finally, the government's ability to act and react is at stake. Since he set out a course of action, Abe Shinzō has had to tackle the challenge of coordinating these different instruments and must live up to the expectations of his fellow citizens with regards to monthly wages and incomes. The problematically complex interactions between the different aspects of his economic policy may give rise to more conflicts between his advisors and Ministers. Abenomics will be judged in light of its fine-tuning capacities and socially positive outcomes.

However, Abenomics has some trump cards in hand. Firstly, the initial "confidence shock" fixed some of the ongoing problems plaguing Japan's political scene and temporarily improved the economic situation. Barring incidents or party infighting, the government enjoys a strong majority which allowed an easy victory at the recent Tōkyō metropolitan elections. Contrasting with the nit-picking experienced by the previous government of Noda Yoshihiko, the budget was easily voted in. Last but not least, Tōkyō's winning bid to host the 2020 Olympic Games offers grounds for optimism, albeit not as bright as in 1964.

### **Conclusion: is the glass half-full or half-empty?**

It is too early to consider Abenomics as a success, but it would be excessive to call it a failure. Its positive outcomes have helped Japan to escape deflationary trends, at least temporarily and under the influence of external factors. It is in the interest of their partners that Japan and the Japanese benefit from an economic recovery. The current government has two major advantages: time and a strong

majority at the Diet, which is more than what Koizumi ever had.

Rather than becoming a model for the European Union, Abenomics works as a mirror. Both the ECB and the BoJ used unconventional monetary tools to implement their flexible monetary policies. Both are determined (or doomed) to sustain it, unless a change in the Fed's course of action forces them to revise their own guidelines. Since the 1990s, both Japan and the EU member states have had to deal with an existential debate about the rule of budgetary discipline – and the habit of breaking it for a temporary period – with regards to the risks of economic slowdown. Japan's sovereign debt, "in uncharted territory" according to the OECD, definitely represents a burden. However, Japan notably benefits from its sovereign debt's weaker exposure to international speculation. Nonetheless, interest-rate markets are not disconnected from equity markets: the latter, in Japan and Europe, are both sensitive to foreign investments or decisions and could face a potential backlash. Finally, Japan and the EU are both tackling a need for reforms. But in spite of its social conservatism and more-or-less hidden tensions within its society, Japan forms a more homogeneous nation-state than a community of states. With a touch of optimism, there may be some hope that reform tendencies will find an easier way there.



## **2. Large-scale urban projects and ambitions of excellence: "Tōkyō 2020", an opportunity for Abe Shinzō's government.**

**– XAVIER MELLET**

Tōkyō will host the 2020 summer Olympics. When it won the bid to host the world's foremost sports competition on September 7th, 2013, the Japanese capital finally put behind the failures of the past, when she lost the bid for the 2016 Games, and Osaka's failed bid for the 2008 Olympics. Compared with rival cities Madrid and Istanbul, Tōkyō offered a safer environment in terms of finance and urban management. This victory was described as the choice of reason and moderation<sup>7</sup>.

However, unforgotten memories of the 1964 Olympics set the bar all the higher. In that year, the Tōkyō Summer Games marked a keystone in Japan's economic transition: they offered the opportunity to show off the country's spectacular recovery, symbolised by the grand opening of the Shinkansen high-speed railway<sup>8</sup>. About half a century later, however, and in the aftermath of the triple disaster of March 11th 2011, Japan is undergoing a

<sup>7</sup> Yann Rousseau, "Tokyo va organiser en 2020 les Jeux olympiques de la modération" (Tokyo will organise the 2020 Summer Games of moderation), *Les Échos*, 9 September 2013.

<sup>8</sup> Driven by the "Izanagi boom", Japan's GDP outstripped France's, United Kingdom's and Germany's between 1964 and 1968.

lingering economic stagnation, and tensions with its Chinese and Korean neighbours have weakened its international position. The current context is thus far removed from the one prevailing in 1964, but the stakes and the much-anticipated trickle-down effects of organising such a global event are as crucial nowadays as they were 50 years ago.

Hosting the 2020 Olympics is almost a godsend for Abe Shinzō's government. Even though the application files were submitted to the International Olympic Committee when the Democrat opposition was still running the country, these coming Games fit the Abenomics strategy perfectly<sup>9</sup>. Tōkyō's victory announcement comes at a time when the Abe government wants to show how Japan, under renewed LDP rule, is moving forward. The announcement temporarily increased the Premier's popularity and the Nikkei 225 rocketed<sup>10</sup>. Many corporations and companies involved in the event benefited from the news, as investors are expecting a virtuous growth cycle<sup>11</sup>. The Olympics showcase naturally calls

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<sup>9</sup> For further analysis of the high stakes placed on Abenomics, see Sala Adrienne, "Abenomics: a return to traditional LDP policies or a new way out of the crisis?", *Japan Analysis*, no. 30, August 2013.

<sup>10</sup> According to TV Asahi, the government's popularity rating increased by 9 points between August 25th and September 29th 2013 (from 53.2 to 62.2%), then slowly eroded again. [http://www.tv-asahi.co.jp/hst/poll/graph\\_naikaku.html](http://www.tv-asahi.co.jp/hst/poll/graph_naikaku.html).

<sup>11</sup> Fabrice Node-Langlois, "Euphorie boursière à Tokyo après la victoire pour les JO de 2020" (Stock market euphoria in Tokyo after the announcement that Japan has won the 2020 Olympic bid), *Le Figaro*, 10 September 2013. Gresillon Gabriel et Rousseau Yann, "Cette nuit en Asie : la Bourse de Tokyo en forme olympique" (Tonight in Asia : the Tokyo stock market won the gold medal), *Les Échos*, 9 September 2013. Companies whose stock prices significantly increased included, Taisei Corporation (the future stadium developer), Mitsui Fudosan, Mitsubishi Estate, Sumitomo Realty & Development (real estate developers), JR East (mass transit railway operator) and the JAL and ANA airlines.

for major development projects. By choosing "Discover tomorrow" as the campaign motto, the authorities responsible for the application staked their success on Japan's reputation for technological innovation. Tōkyō, the so-called "most avant-garde, forward-thinking city in the world", intends to stage "the Games of excellence"<sup>12</sup>.

The present article aims to describe the local actors' endeavours, and thus to show how Japan intends to remain more competitive than its neighbours in a wide range of industries, far from the clichés of an aging, declining regional power. We will begin by describing the planned projects in detail, before examining the local authorities' globally driven approach to the showcase organisation. Finally, we will consider the positive externalities expected by the private sector. Taken together, these three dimensions of Tōkyō 2020 work to strengthen an image of regained dynamism.

## Planning for impressive world-class infrastructure

While Tōkyō may have won the bid on the basis of its perceived *sobriety*, "state-of-the-art advanced technology" is still a key characteristic of the Olympics-related projects. Those involved truly want to impress the international community with very high-tech buildings. Prime Minister Abe expressed his wish to give robots and robotics a leading role and therefore promised a "Robot Olympics" (*robotto olimpikku*), that is, an international competition to determine the best-performing

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<sup>12</sup> The introduction to Tokyo's application, simply entitled *Tōkyō 2020*, explicitly states this (in French, which is the IOC's official working language). The first volume of these files can be downloaded at the following link: <http://tokyo2020.jp/fr/plan/candidature/index.html>.

robots<sup>13</sup>. In this respect, Japan's demographic decline, which has driven the development of palliative care robotics, is transformed into a way to showcase Japan's ongoing technological prowess.

An intense construction phase will precede the Olympics. Only 15 of the 37 proposed venues already exist, and three of them were built for the 1964 Games<sup>14</sup>. 22 new sites will be created for the event, including 11 sites designed to remain afterwards. The application files divide the city into two parts: an inland "heritage zone" where few projects will be carried out, and the "Tōkyō Bay zone" where most of the venues will be located, mainly on artificial islands. According to the "Tōkyō remodelling plan", this zone will be radically transformed<sup>15</sup>. By popular vote, a new highway called "the Shintora route" will complete this plan: the 14km long highway will follow the route layout MacArthur originally wanted during the U.S. occupation. Starting from Kanda in Tōkyō's North, it will bypass the Imperial Palace via the West and connect to the future Olympic stadium, before running South-West to the bay. What Tōkyō governor Masuzoe Yoichi and his team called the "Champs-Elysées project" will emerge above the highway's underground

portion, located between the Toranomon and Shimbashi districts. It will consist of a 40m wide, 760m long avenue covered in luxury shops and, as the Francophile Masuzoe wishes them to be, Parisian-style cafés open to the street<sup>16</sup>.

However, the flagship project of this gigantic plan remains the future Kasumigaoka Olympic stadium, designed by architect Zaha Hadid<sup>17</sup>. It will be completed in 2019, just in time for the rugby World Cup organised the same year. The new-generation stadium – similar to the ones mushrooming all over Europe under the initiative of major football clubs – is intended to showcase Made in Japan technological savoir-faire. Conceived as a living space, it will feature a retractable roof and be surrounded with a walkable, elevated ring-shaped staircase<sup>18</sup>. It will be equipped with high-technology services, including state-of-the-art LCD screens behind each of the 80,000 seats and 2,000 smart toilets with sensors. A sports museum inside will offer augmented reality attractions and robots tasked with the duty of guiding tourists and spectators<sup>19</sup>.

But the stadium's current conception is also raising a range of controversies inherent to the construction of such large-scale projects

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<sup>13</sup> "Bringing out our workforce's full potential at a time of demographic decline. A change in our growth strategy" (Jinkō-gen 'kasegu chikara' migaku seichō senryaku de kō kawaru), *Yomiuri shimbun*, 17 June 2014.

<sup>14</sup> Two of them will be renovated, as underlined in the second volume of the application files (page 19).

<sup>15</sup> For further description and a map of the Bay Area planned projects, see: "Future Tōkyō's map: the Olympic Games will require a series of exceptional developments and a 'big Bay boom' has to be expected. Tōkyō will change for the Olympics (1)" (Tōkyō mirai chizu medama kaiatsu zokuzoku, 'gorin tokuju' de wangan būmu. Gorin de kawaru Tōkyō (1)), *Nihon Keizai shimbun*, 20 February 2014: [http://www.nikkei.com/article/DGXNASFK1300S\\_T10C14A2000000/](http://www.nikkei.com/article/DGXNASFK1300S_T10C14A2000000/)

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<sup>16</sup> "High hopes for new Shintora-dori", *The Japan News (Yomiuri shimbun)*, 27 March 2014. "Where are all the open-air cafes?", *The Japan News (Yomiuri shimbun)*, 5 June 2014. The Mori real-estate group provides a summary of the project in English: <https://www.mori.co.jp/en/img/article/130301.pdf>.

<sup>17</sup> Zaha Hadid's project was selected among eight finalists, whose projects can be seen there: <http://www.jpnsport.go.jp/newstadium/Portals/0/NNSJ/en/finalists.html>.

<sup>18</sup> A detailed summary and pictures are available on the Zaha Hadid Architects studio website: <http://www.zaha-hadid.com/architecture/new-national-stadium/#>.

<sup>19</sup> "New National Stadium to showcase technology", *The Japan News (Yomiuri shimbun)*, 30 June 2014.

and their lack of harmony with the surrounding cityscape. A group of Japanese architects has already launched a petition against the stadium's disproportionate size, and blasts the wasteful spending that the project entails since it is not meant to be used after the competition. Besides, its imposing structure does not fit with the neighbouring landscapes of the Meiji-jingu Shintō sanctuary<sup>20</sup>. Moreover, its building cost was rapidly revised upward, from 130 to 300 billion yen, after the announcement of Tōkyō's winning bid<sup>21</sup>. This became a source of sharp conflict between the national and municipal authorities, with the latter rejecting the government's request to carry 30% of the total cost of the stadium<sup>22</sup>. Thus the project had to be scaled back. The estimated cost has now been reined in to 162.5 billion yen, and the planned floor space from 290,000 to 211,000 square meters<sup>23</sup>. More generally, the costs related to the 2020 Olympics project have significantly increased since the bid was won. The authorities responsible can adjust the costs until February 15th, 2015, the deadline for submitting their final financing plan to the IOC. Aside from the stadium, the cost

of ten other facilities increased from 153.8 to 380 billion yen. To solve this issue, the Tōkyō metropolitan government wants to decrease the costs and make three projects more viable: the Sea Forest Waterway (*Umi no Mori*), the Youth Plaza Area and the Ariake Arena<sup>24</sup>. London did the same in 2012, in the aftermath of the 2008 Lehman shock.

## Opening Japan to the world

The Olympics also provide a chance to show Japan's service quality off to the world, and thus an opportunity to boost the tourism industry, a sector where Japan lags behind South Korea and China. Tōkyō went as far as making this a campaign motto for the Games, using the notion of *omotenashi*, which denotes a Japanese sense of hospitality<sup>25</sup>. Tourism is an explicit priority for the Abe government, which aims to double by 2020 the number of foreign tourists coming to Japan each year, from about 10 to 20 million visitors<sup>26</sup>. A great deal of effort has gone into meeting this objective, which is inherent to the Abe government's attractiveness policy.

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<sup>20</sup> “‘An attack on the beautiful sanctuary's forest’, the new national stadium is too large and has a floor space area three times larger than London's, says architect Fumihiko Maki” (‘Jingū no mori bikan kowasu’ 20-nen gorin shinkokuritsu kyokijō ōsuguru kenchikuka makifumihiko-san teiki tokomenseki rondon no 3-bai), *Tōkyō shimbun*, 23 September 2013.

<sup>21</sup> “A cost reduction plan for the 300 billion yen Olympic stadium” (Shin kunitachikyōgijō keikaku shukushō gorinaikatahari sō kōhi 3000 oku-en shisan de), *Yomiuri shimbun*, 24 October 2013.

<sup>22</sup> “National government, municipal government arguing over construction costs. Unexpected problems posed by the ‘new national stadium’” (‘Shin kunitachikyōgijō’ anshō, kaichiku-hi-meguri-koku-to ga tairitsu), *Yomiuri shimbun*, 28 October 2013.

<sup>23</sup> “A smaller design for the national stadium” (Shin kunitachikyōgijō, kihon sekkei-an o kōhyō... tōsho-an shukushō), *Yomiuri shimbun*, 29 May 2014.

The first effort deals with national transportation infrastructure, where Japan is also currently lagging. Closer to downtown Tōkyō than Narita, Haneda airport is supposed to play a major role in “absorbing” the massive influx of foreign visitors expected for the Olympics. A new runway was inaugurated in 2010 and the international terminals are currently being renovated. New flights, new landing paths

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<sup>24</sup> “The Olympics maintenance costs, smooth outlooks, the city considers three urban renewal projects” (Gorinseibuhī amai mitōshi-to ga 3 shisetu keikaku minaoshi), *Yomiuri shimbun*, 19 June 2014.

<sup>25</sup> See, for example, Christel Taginawa's presentation to the Olympic institutions [in French]: <https://www.youtube.com/watch?v=6hgygKWwhg>.

<sup>26</sup> “Bringing out our workforce's full potential at a time of demographic decline. A change in our growth strategy”, *op. cit.*

and a new monorail connecting the airport to the city have opened in 2014<sup>27</sup>. A long-term goal is to directly connect the two airports through a new train line linked to a new Tōkyō station promised by Masuzoe during his 2014 campaign<sup>28</sup>. This would contribute to a more systematic network renewal plan only partly achieved before the Games. Before then, new stations will be added to the Yamanote loop line, and the Marunouchi hub will be renovated. Moreover, a night bus line will run for the occasion: the taxi lobby had, up until then, forbidden such a possibility. The first night bus line started to operate between Shibuya and Roppongi districts this year<sup>29</sup>.

Another round of measures aimed at improving visitor capacity and increasing the length of tourist stays is also underway, in line with the *omotenashi* campaign. In a measure sure to please Japanophiles, a legislative change will extend the duration of tourist visas from three months to one year<sup>30</sup>. In an attempt to solve immigration issues with minimal pain, customs posts with faster lanes and facilitated procedures will also be installed in Narita and Kansai (KIX) airports<sup>31</sup>. More TV programs will

have English and Chinese subtitles<sup>32</sup>. The Abe government is keen on developing Wi-Fi and extending 5G mobile network services before the Games<sup>33</sup>. Finally, the Japanese state wants to double the number of duty free shops all over the country, from 4,600 to 10,000<sup>34</sup>.

According to the application files, there is also a further set of programs designed to promote Japanese traditions and Japan's renowned service quality. The Tōkyō metropolitan government intends to build new guesthouses in front of the Akasaka palace – a miniature Versailles created for the Crown Prince during the Meiji era<sup>35</sup> – to accommodate foreign dignitaries. Three plans have been drawn up so far. The first involves buildings inside the Hamarikyū park on the Bay shore, which served as an imperial garden before the defeat of 1945, and specifically the reconstruction of the pre-war Western-style villa destroyed during the Meiji era<sup>36</sup>. For other visitors, a mega-resort is under construction in Toyosu, a new site near the Tsukiji fish market (closed several years ago but still a tourist attraction because of its fish restaurants). This resort would include numerous shops, restaurants inside a “full belly emporium” (*mampuku ichiba*), Japanese baths (*onsen*), and should be open

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<sup>27</sup> “17 years later, the launch of a new monorail” (17-Nen-buri, shingata monorēru unkō), *Yomiuri shimbun*, 18 July 2014.

<sup>28</sup> “Metropolitan government elections in 2014, a questionnaire survey sent to the candidates (3)” (Tochiji-sen 2014 omona kōho-sha ankēto (3)), *Tōkyō shimbun*, 3 February 2014. For further analysis, see Xavier Mellet, “Electing Tokyo’s Governor: Hosokawa Morihiro and Koizumi Junichirō’s lost bet”, *Japan Analysis*, no. 33, April 2014.

<sup>29</sup> “Fewer night owls seen utilizing Tokyo’s 24-hour bus service in recent months”, *The Japan News (Yomiuri shimbun)*, 5 July 2014.

<sup>30</sup> “Bringing out our workforce’s full potential at a time of demographic decline. A change in our growth strategy”, *op. cit.*

<sup>31</sup> “Tourist visa requirements to be relaxed”, *The Japan News (Yomiuri shimbun)*, 17 June 2014.

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<sup>32</sup> “TV shows to get foreign-language subtitles by 2020”, *The Japan News (Yomiuri shimbun)*, 22 July 2014.

<sup>33</sup> Brian Roussel, “Tokyo veut allumer la flamme de la 5G aux JO de 2020” (Tokyo wants to light the 5G flame at the 2020 Olympics), *Les Échos*, 11 July 2014.

<sup>34</sup> “Bringing out our workforce’s full potential at a time of demographic decline. A change in our growth strategy”, *op. cit.*

<sup>35</sup> The Meiji era, from the name of Emperor Mutsuhito’s reign, lasted from 1868 to 1912. The palace was completed in 1909.

<sup>36</sup> “Tokyo considers locations for traditional guesthouse”, *The Japan News (Yomiuri shimbun)*, 21 April 2014.

to the public in 2015<sup>37</sup>. Simultaneously, the traditional guesthouse (*ryōkan*) association, the Kokkanren, expressed its desire to increase the number of foreign guests<sup>38</sup>.

### Positive externalities in the private sector

Major Japanese private companies are working closely with the local authorities to achieve the Olympic dream. Their shares jumped after it was known that Tōkyō had won the bid, and shining perspectives for 2020 encouraged them to pursue their efforts towards an upturn in economic activity. All the projects included in the urban renewal program for the Olympics will require close cooperation with large firms. For instance, JAL and ANA airlines will be primary actors in the Haneda redevelopment plans. As part of the luxury services industry is associated with many projects, the building sector is anticipating more synergies between post-Fukushima reconstruction efforts and Olympic games-related projects.

It is worth mentioning that the building sector's recent dynamism could already be felt before Tōkyō won the bid. In 2002, the Urban Renaissance Special Measure law designated specific zones inside the capital, where private investors could benefit from deregulatory measures (floor-space ratio relaxations, zoning deregulations and tax incentives in particular) and where they are allowed to design and then carry out their own redevelopment proposals

under certain conditions<sup>39</sup>. Since then, new upscale sky-scrapers and brand-new hotels targeting wealthy tourists and foreign visitors have flourished in Tōkyō. In June 2013, the Mori real estate company opened the 247m high Toranomon Hills tower, which will add to the series of sky-scrapers Mori already owns in Tōkyō (Ark Hills, Roppongi Hills, Omotesando Hills and Atago Green Hills). The list includes the Andaz hotel belonging to the Hyatt group, which will sell suites costing 1 million yen per night to foreign visitors, who make up one half of the targeted customers. The Mori Urban Planning Corporation is also involved in a dozen projects close to Tōkyō's future Champs-Élysées, especially within the Toranomon district, which Mori hopes to transform into a "new global urban centre", and a centrepiece of the future "best city in the world" Tōkyō aims to become. Other luxury hotels will also open this year, such as the Aman hotel, in December<sup>40</sup>.

Meanwhile, Mitsubishi Estate is in charge of building an immense leisure complex associating a hotel and baths in Ōtemachi, right in the middle of Tōkyō. Planned to open in the spring of 2016, the "Ōtemachi onsen" will be a 21-storey tower with three basement levels and 18 above ground. It required digging about 1,500 meters below the surface, so as to extract water at 36.5 degrees Celsius,

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<sup>39</sup> Raphaël Languillon-Aussel, "Crise immobilière et privatisation de l'aménagement à Tokyo", *Metropolitiques.eu*, 2013: <http://www.metropolitiques.eu/Crise-immobiliere-et-privatisation.html>.

<sup>40</sup> Marutani Ichirō, "The race to open hotels before the Tōkyō Games. Foreign capital and domestic energy" (Toshin no hoteru kaigyō rasshu... gaishi to kokunai-zei ga hibana), *Yomiuri shimbun*, 12 June 2014. "Toranomon Hills supports the 'best city in the world' campaign". Development by deregulation" (Toranomon Hiruzu kaigyō 'sekaichi no toshi' e atoishi kisei kanwa de tsugitsugi kaihatu keikaku), *Tōkyō shimbun*, 12 June 2014.

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<sup>37</sup> "A mega-complex for tourists in Tōkyō... with night-time views across Tōkyō Bay" (Tōkyōwan no yakei nagame nyūyoku mo... Toyosu ni ichi dai kankō zōn), *Yomiuri shimbun*, 20 February 2014.

<sup>38</sup> "Masatada Ono – Ryōkan proprietor welcomes foreign guests", *The Japan News (Yomiuri shimbun)*, 14 July 2014.

said to be ideal for body temperature<sup>41</sup>. The building will be operated by the Hoshino Resort group, which is planning the construction of a “luxury ryokan” called Hoshinoya Tōkyō<sup>42</sup>. A metropolitan-scale project aims at using pure groundwater to improve the water quality and reduce the blue-green algae concentration inside the imperial palace’s moats<sup>43</sup>. But the environmental risks of implementing this water transfer are not easy to assess.

The Olympics have fed these growing trends of “urban recentralization” by offering optimistic prospects. For instance, they have stimulated housing demand, especially within the bay area. Private companies have associated themselves with the remodelling plan. Mitsubishi Estate will create large condominiums for the upcoming Harumi Olympic village, and Sumimoto Realty & Development will do the same for Ariake<sup>44</sup>. The Okura hotel, considered one of the most upscale in Japan, will undergo renovations and enlargements. Next year, the Peninsula hotel plans to equip its roof with a helipad for a helicopter transport service operating from Narita.

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<sup>41</sup> “‘Successful bore sparks enthusiasm for ‘Ōtemachi Onsen’, a spring judged fit for medical treatment’ (‘Ōtemachi onsen’ wakuwaku kussaku seikō ryōyō izumi ni bunrui), *Yomiuri shimbun*, 16 July 2014. ANN News has produced an introductory video: [https://www.youtube.com/watch?v=LAC\\_c1pAFo&list=UUGCZAYq5Xxojl\\_tSXcVJhiQ](https://www.youtube.com/watch?v=LAC_c1pAFo&list=UUGCZAYq5Xxojl_tSXcVJhiQ).

<sup>42</sup> Hoshino Resort’s press release emphasises the hospitality of traditional inns: see <http://global.hoshinoresort.com/cms/images/Press-release-HOSHINOYA-Tokyo-.pdf>.

<sup>43</sup> “Palace moats may get subway water cleanup”, *The Japan News (Yomiuri shimbun)*, 23 July 2014.

<sup>44</sup> “Olympic Games are boosting condominium and co-property demand in the Tōkyō areas” (Gorin kōka manshon ni mo tonai no bunjō zōka wangan eria kyakkō), *Yomiuri shimbun*, 13 September 2013.

The authorities are clearly looking for growth coalitions. If the Games are sometimes nicknamed the fourth “arrow” of Abenomics, it is clear that they contribute to the second, i.e. economic revival through deregulations and public works. The Tōkyō metropolitan government has agreed to help by defining free trade zones in 9 of the 23 districts (*ku*) in order to attract foreign investors<sup>45</sup>. Led by Prime Minister Abe, the Economic Revitalization Headquarters declared in October 2013 that they would relax building regulations even more in the city centre<sup>46</sup>. Moreover, a new bill on the legalization of gambling and casinos – forbidden until now – symbolizes one more reorientation<sup>47</sup>.

## In conclusion

It is ironic to think that Tōkyō’s application, originally spearheaded by the Democratic party, will ensure a mid-term political stability for the LDP government. The scope of the urban projects has brought water to the Abenomics mill, while mitigating the negative impacts of the rise in VAT. The upcoming building projects give some tangible content and meaning to the voluntarist and nationalistic “Japan is back” narrative<sup>48</sup>. Last but not least, they have helped to put the Fukushima disaster – “Japan’s third

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<sup>45</sup> “Tokyo Gov. Masuzoe off to good start both abroad and at home”, *The Japan News (Yomiuri shimbun)*, 14 May 2014.

<sup>46</sup> “The government plans to internationalise Tōkyō and Ōsaka before the Olympic Games” (Senryaku tokku gorin o zenmen seifu hōshin kettei Tōkyō ya Ōsaka kokusai-ka suishin), *Yomiuri shimbun*, 19 October 2013.

<sup>47</sup> “Cities show best hand to win casino bid”, *The Japan News (Yomiuri shimbun)*, 3 December 2013.

<sup>48</sup> An expression the Prime Minister often uses to sum up Japan’s return to the international scene much as Reagan did for the United States: [http://www.mofa.go.jp/announce/pm/abe/us\\_20130222en.html](http://www.mofa.go.jp/announce/pm/abe/us_20130222en.html).

great defeat” – behind the country<sup>49</sup>. These are the reasons why national and local authorities are striving to take on an enormous ambition, making these Games a symbol of Japan’s rebirth, just as it was in 1964.

But if we enlarge the scope of analysis to the whole Japanese territory, beyond Tōkyō, several issues deserve to be raised. The expected leverage effect tied to sports mega-event is in no way evident and on the contrary, has come under increasing criticism<sup>50</sup>. The planned facilities, both public and private, only target rich customers and foreign visitors, so that it is easy to question their supposed trickle-down effects for Japanese commoners. Tōkyō was recently accused of being a “demographic black hole”<sup>51</sup>. We could therefore legitimately ask whether the Games will actually have a positive effect for the society and country as a whole, insofar as the capital is capturing almost all the investment. Developmental gaps could widen even more, between a capital that drains the country’s human and material wealth, at the expense of the rest of Japan.

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<sup>49</sup> After Commodore Perry’s “black vessels” forced Japan to “open up”, in 1854, and following Japan’s defeat in 1945.

<sup>50</sup> Sanchez Fernanda and Broudehoux Anne-Marie, “Mega-events and urban regeneration in Rio de Janeiro: planning in a state of emergency”, *International Journal of Urban Sustainable Development*, vol. 5, no. 2, 2013.

<sup>51</sup> Masuda Hiroya, LDP member and ex-governor of the Iwate Prefecture, coined these terms. « Japan’s shrinking society 1-1 / ‘Black hole’ Tokyo draws youth, faces collapse in future », *The Japan News (Yomiuri shimbun)*, 28 April 2014.

## POINTS OF NEWS

**3. Komatsu Masayuki, “On the art of refuting foreigners’ views during international conferences” [Kokusaikaigi de gaikokujin wo ii makasu hōhō], *Chūō Kōron*, November 2013, pp. 40–45. *Translated from Japanese source by Sophie Buhnik.***

*Born in 1953 in the Iwate Prefecture, Komatsu holds a PhD in management from Yale University. After being appointed by the Fisheries Agency (Ministry of Agriculture, Forestry and Fisheries) in 1977, he was tasked with representing Japan at international negotiations and at the International Whaling Commission. He has authored numerous books and articles.*

### **Three reasons why the Japanese are not good at negotiating**

We often consider that the Japanese have low negotiating skills because they do not speak English very fluently. I rather think that their difficulty speaking other languages is not the only reason. The causes are deeper and more complex. Leaving aside linguistic weaknesses, better explanations include lack of message content and meaning on one hand, and a risk-averse attitude on the other.

The expression “3S”, standing for “Silence, Smile, Sleep”, has often been used to deride Japanese behaviour during international conferences. But the suggestion that Japanese either smile and keep silent or end up falling asleep in meetings is both highly derogatory

and exaggerated. From the outside, the fact that Japanese delegates rarely protest or state their claims directly can seem very strange. It looks like these individuals, by saying nothing and sitting idly, are trying to avoid taking risks. But if they stay silent, their position will not be taken seriously and they will have to give in to disadvantageous agreements decided by other nations. Since it has negative consequences, this risk-averse attitude is, then, self-defeating. However, this is exactly the type of attitude that the Japanese government and its people tended to adopt after the war.

### **The right techniques for speaking at international conferences**

When I attended scientific committee meetings of the IWC (International Whaling Commission), talks about maintaining or developing research-oriented whaling were often the source of painful memories, especially when I had to duck claims from countries opposed to whaling. Members from English-speaking countries would deliberately use words that were abstruse even for native English speakers. In the face of such strategies, I devised two techniques to parry them.

The first technique consists in adding another official conference language that does not belong to the English-speaking sphere, thus calling for the presence of conference interpreters. Aside from English, other official working languages recognized by the UNO are French, Chinese and Russian. Basically, committee meetings are held in English, but another official working language can be added, French for instance. Interpreters must therefore attend the committee, and they may ask people who speak too fast to “slow down” and look for clarifications when unable to translate some words. This is how I parried their strategy. (...) Consequently, I managed to have proper and beneficial conversations with the “fast talkers”.

As a second, more conventional technique, I managed to lay the foundations for debate by talking with my counterparts. Since initial statements become the basis for further discussion, if we prepare these well and take the initiative, we can then lead the discussions. The more you express yourself, the more you can have the upper hand in debates.

But when we do not speak fluently, there remains the question of how we can gain the upper hand in discussions (...). If we can frame the discussion in our own terms, we can compensate for the anxiety linked to a foreign language deficiency, and if we have to express ourselves, it is helpful to prepare our arguments and topics well in advance. Being merely defensive is vain. If you want to be understood, it is better to state your case in black and white (...). The art of negotiations is to make sure your counterpart understands clearly what you want.

### **Even after seven years learning English and two abroad, I am no bilingual**

If I exclude the preparatory years before my university entrance examinations, I have studied English for 7 years, starting at 22 (when I was recruited by the Fisheries Agency). Later, at 29, I was a visiting student at Yale for two years. With all this training, I believed my English would reach perfection. I was naive. An enormous amount of work was needed to meet assignment goals while I studied at the business school of an Ivy League university, so I immersed myself everyday in English for two years, to the point of waking up bathed in sweat. Once I returned to the Agency, it was my duty to translate what our Indian colleagues were saying for my superiors. However, I did not really understand their English. And I would also be lying if I said I could understand U.S. English perfectly. No amount of daily English newspaper reading prevented me from stumbling upon unknown

words. It has been barely five years since that I have been able to read English newspapers and magazines effortlessly. However, I still resort to my electronic dictionary occasionally.

One thing I would like to emphasize is that we should never relent in our efforts to learn English. Improving our vocabulary, in particular, is a lifelong effort. Nowadays, when I read English sentences, I look for all the unknown words, rather than skim-reading. But other people prefer this method (...). If we do not understand everything word by word, there are things we will neither be able to assimilate nor express. In contexts as tough as international negotiations, you must not neglect any word. Now, I try to ensure that I read a hundred pages of an English book every weekend. Compared to reading in Japanese, this requires maybe twice as much time but I am gradually beginning to read faster.

One thing I gained during those two years abroad was self-confidence beyond language skills. By overcoming a massive number of homework assignments on a daily basis, I gained the power to say "from now on, I can overcome any difficulty". If I remember well, even though I was asked to read English texts every day, I had doubts about my ability to understand their substance. For example, the word "Macy's" would come to my ears, and if I did not understand that it was the name of a department store, it would mean nothing to me. But if we say the names of big Japanese automobile brands, like Honda, Suzuki, or Toyota in front of an international audience, it rings a bell. I feel that if I hear words whose substance escapes me, it means that I do not understand the societal and cultural context those words imply. This is why mere grammatical improvements do not suffice. It is necessary to gain a sensitive knowledge of the culture of the country whose language we are learning.

This may sound very difficult, but in the end the impacts are extremely positive. When the topic of the negotiations is specific, the appropriate terms to learn are limited in number, and the extent of what we must study is limited too. Instead of vaguely learning English "in general", the easiest way to gain power in negotiations is to familiarize yourself with the details of the topic that will be discussed as if you were born there.

(...)

### **Learning English, learning in English**

Recently, it has seemed that English teaching at school gives priority to verbal communication. In my case, however, what improved my skills the most was reading texts in vast quantities. If one wants to argue in English, one cannot enrich one's vocabulary without reading texts. One should not only learn words by heart, it is also necessary to let another culture permeate you (...) by discovering information on the English-speaking world, through texts.

This is why we are allowed to expect that our English teachers have a deep, wide-ranging knowledge of this culture. Before giving subtle lessons on the use of particles, if there is no teaching of the content, no language transmission will take place. Nearly anything will do, whether Marx, Shakespeare or Rowling's *Harry Potter*. We need teachers who can teach English philosophy as well as English literature: the point is, they must not only teach English, but also teach *in English*. If such professors cannot be found in the vicinity, it is good to rely on books. As for recent publications, I am thinking of Michael Sandel<sup>52</sup>. Once you have read it in Japanese, why not go for the original version?

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<sup>52</sup> Political philosopher and Harvard University professor.

## Suggestions to communicate our ideas

The first way to express our ideas and opinions to our counterpart is by showing a sense of respect toward him or her, and by using clear and understandable words (...). When we are fighting for high stakes (as it is the case with international committees), some violent words might be exchanged and anger might be expressed. However, if we keep in mind this sense of respect even in dire circumstances, then we can differentiate between childish disputes and grown-up tactics.

When I say “clear words”, the reader may be thinking of simple things. But, in truth, it is hard to only use easily understandable terms. To express yourself simply, things must be black and white (...). To have things black and white, we must be able to make our own selection of words. To have this capacity to make sound judgements, we need to focus on what we know, and to think carefully. Having to choose an answer or an argument implies that we may have to exclude other potential answers.

I do not think that Japanese do not know how to tackle English. It is just that English suits people who are used to thinking and to making decisions quickly (...). English does not forgive the language ambiguities that the Japanese condones. “Avoiding ambiguities” puts an emphasis on asking questions when we do not understand. (...) Therefore, we should not take “questioning power dynamics”, and its search for firm realities, lightly. This is all the more true when we talk with foreigners. If foreigners from different cultural backgrounds speak together, all sorts of misunderstanding can result.

The following story is a fair example. A foreign woman who had lived abroad for a long time was talking with women from the neighbourhood, and as she heard the

expressions *are* and *sore*<sup>53</sup> again and again, she asked for their meaning. Nobody knew how to explain them to her. This anecdote exemplifies, I dare say, the experience of oral ambivalence in Japanese communication. Maybe the Japanese will never notice this if they stay among themselves, but if a foreigner lives among them, this Japanese-style ambivalence hinders communication.

## Let us show our leadership skills

At the university where I am a Professor, I give courses about leadership and international negotiations, and modulate my approach to teaching depending on the students – Japanese or foreign – I have in front of me. So far, I have not been able to utilize teaching materials in English properly with Japanese students. They feel that the written content of English texts is too idiosyncratic. For instance, when giving a course on leadership and political responsibilities, famous figures like Gandhi, Mandela or Aung San Suu Kyi do not instantly ring a bell for young Japanese. Saying that “no organisational reforms will take place without risk-taking” speaks volumes to some foreigners but much less to Japanese. My class was followed by students majoring in disciplines like administration, politics, law, and medicine, who asked me if I was reporting on my experiences at the Fisheries Agency and if this had any universal value. As leaders are individuals from specific backgrounds, learning leadership theories and practices, requires that individual examples be given. 1,000 men, can offer 1,000 different and valuable leadership skills. It thus seems simplistic to draw general rules from this logic. Rarely do foreign students raise this type of question. (...)

At the end of the day, if we say “a leader must be prepared to die for the sake of his

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<sup>53</sup> *Are* and *sore* are demonstrative pronouns that Japanese use depending on the position of the object.

ideas and for men in general”, this principle is familiar to people whose countries were invaded or attacked by other foreign powers in the past, or fought a war of independence. It is a condition of being able to show positive leadership qualities. But Japan is a country where nobody has put his life in danger in order to gain independence from an invading power. (...) This is, in my opinion, a structural reason why the Japanese are not good negotiators.

### **Japanese, please, accept more risks**

Everything I have said stems from my observation of risk-averse attitudes among Japanese people today. Taking a risk means reducing the level of exposure to risks linked to a wait-and-see policy. Taking risks requires one to be open-minded. If people do not have a spirit of openness, they atrophy when they get older. By gaining knowledge, we can enlarge our universe. This is how the world is divided into people who dare to take risks and people who do not dare to do anything. I believe that many Japanese lost their taste for discovery as they grew up in the moderately enriched post-war society, leading to the contemporary zeitgeist of stagnation. Education, in Japan, is more focused on lessons than on the pedagogy of doubt. We do not train enough individuals who can think by themselves. And when involved in international negotiations, people must think by themselves and bluff, because they may one day feel betrayed by countries they trusted (...).



**4. Tsuji Takuya, “Let us concentrate our investments inside the centralized urban areas of our regions” [Zenkoku no chūsū kyoten toshi ni shūchū toshi seyo], *Chūō Kōron*, July 2014, pp. 46–53. Translated from the Japanese source by Arnaud Grivaud.**

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**The State is willing to change its strategy**

In the post-war period, characterized by an exploding Japanese population, the archipelago’s urban areas sprawled and multiplied. Japan’s territory developed, sometimes anarchically, and many cities expanded without limits. The central State and local governments worked together for a spatially equal distribution of infrastructure and services such as education, firefighting, care and medical services.

But nowadays, vacant houses and wastelands can be seen everywhere. Water pipes, roads, and schools are becoming more and more obsolescent or even abandoned. It has become impossible, in an aging society whose demographic decline weighs on public

finances, to maintain each of these services in every local government, like we have done until now. It is therefore necessary to concentrate investment in mid-size cities and gather the remaining population there so as to form dynamic urban areas and reinforce cooperation between these centres and their peripheries.

Municipal mergers and local government cooperation have been heavily debated. Politicians, high-ranking officials and citizens are often worried, but these worries have not evolved into concrete actions. Many local governments admit that the Japanese population as a whole is declining but they do not easily admit that their own territory has lost inhabitants. Cities consider that an aging and shrinking population is the problem of peripheral communities. At the same time, these communities think they should benefit from public and state-led revitalization measures as a priority, since they are particularly concerned with the shrinkage of public infrastructure. Consequently, the many initiatives to merge cities and make them collaborate have not brought convincing results until today.

It is in such a context that Abe's government, which has placed regional revitalization at the heart of its policy, recently launched the project to form "central urban areas" (*chūsū kyoten toshiken kōsō*) as well as a new "intensive urban structure strategy" (*shūyaku-teki toshi kōzōka senryaku*). The national government also tried to persuade local governments to establish plans for extending infrastructure life cycles and monitoring public facilities. To ensure the proper maintenance and renewal of public infrastructure, unused facilities may be removed.

(...)

However, nobody is able to say whether these strategies will bear fruit. Therefore, after a brief analysis of the "extremely polarized society" (*kyokuten shakai*) concept, I would like to explain the objectives, mechanisms and stakes of the State's new public policy direction. I will thus highlight the key points of merging and inter-urban cooperation.

### **Truths and inaccuracies of Masuda's articles on the "extremely polarized society"**

The Japan Policy Council<sup>54</sup>, chaired by former Internal Affairs minister Masuda Hiroya, has published two articles in the magazine *Chūō kōron* (in December 2013 and June 2014), which predict the emergence of an "extremely polarized society". It means that metropolitan areas, and first and foremost Tōkyō, are hoovering up the country's population, while peripheries are dying out. The emphasis on this problem elicited a strong public reaction. This issue is now a focus of media attention, including newspapers and special NHK programs as well as regular morning and evening broadcasts.

However, there is no strong evidence that people plan to leave non-metropolitan regions. In comparison with the high growth era (1954–1973), the number of young women is lower but more and more households are willing to go back to the peripheries of Japan. As a consequence, the idea that there is less migration from rural areas to metropolitan areas than Hiroya's articles assert is still deeply ingrained in the mind of many citizens.

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<sup>54</sup> The Japan Policy Council is a think tank created in the aftermath of the March 11th, 2011 disaster. It is chaired by Masuda Hiroya, ex-governor of the Iwate Prefecture – heavily affected by the tsunami – and former Minister of Internal Affairs. Its members include university professors, researchers, and businessmen.

Nonetheless, even if peripheral regions are more resistant than predicted by Hiroya's articles, and even if young adult women stay in these areas after they have left their parents, it does not change the fact that the whole Japanese population, as well as the average population density, is diminishing. A study by the Ministry of Land, Infrastructure and Transport (MLIT), published in March 2013, predicts a more limited rural exodus than Masuda's calculations does, by dividing the country into a square kilometre grid in order to analyse internal population movements for the period 2010–2050. According to this document, the territories whose population would be reduced by half in 2050 represent more than 60% of currently inhabited areas. On the other hand, territories whose population is expected to grow are almost exclusively situated inside Japan's main metropolitan areas.

### **“Central urban areas” projects backed by public financing**

In an aging, shrinking society, if we let residential areas sprawl even more, local governments are doomed to go bankrupt. The way to address this challenge is simple. It is necessary to recentralize the population and strengthen local cooperation between local authorities, with the long-term aim of increasing birth rates.  
(...)

The project cited above is intended as one of a number of “protections against further population decline”. It consists in defining as “central urban areas”, zones in which designated big cities (*seirei shitei toshi*) and core cities (*chūkaku toshi*)<sup>55</sup> whose daytime

<sup>55</sup> There are 20 designated cities, which must have more than 500,000 inhabitants. The 43 core cities must have more than 200,000 inhabitants. A recent reform abolished the former “special cities” (*tokureishi*) that will become core cities.

population is at least 1% higher than night-time population, will sign a “cooperation agreement” with their outlying cities<sup>56</sup>. 61 cities fit this definition. The three biggest metropolitan areas (Tōkyō, Ōsaka, Nagoya), however, are not part of the project.

These “cooperation agreements” must be approved by the elected bodies of the local authorities involved in the project. Once they sign, these bodies must jointly provide health and social security services, education and transportation, territorial planning as well as other services needed by citizens. Recent decentralization reforms introduced these agreements in May 2014. Therefore, the “central urban areas” of various urban regions should be able to support highly specialized services, of a level similar to those found in the Tōkyō metropolitan area. The ultimate goal is for central urban areas to develop highly specialized health services or international tourism industries on their own.

This also means that a funding mechanism would be implemented, suitable for local cooperation and based on the existing laws. After a transitional system was set up for the fiscal year 2014, a long-term funding mechanism linked to general grants and subsidies from the State (*Chihō kōfuzai*), will begin in the 2015 fiscal year.  
(...)

Until now, most of the planned projects were dependent on the State or on the Prefectures for the definition of merged areas and shared prerogatives. Within “central urban areas” however, local authorities can make decisions autonomously, albeit under certain conditions. Local governments will be able to base their decisions on realities on the ground. In this

<sup>56</sup> An increasing day-time population indicates that the core city attracts workers and/or students living in outlying suburbs, which testifies to the fact that they play a leading economic role within their region.

respect, this project is not so different from the “autonomous residential areas” set up in 2008, first mooted under the Fukuda administration. While the two projects share several similarities, there are two main differences. Firstly, conditions for becoming a core city were raised from 50,000 to 200,000 inhabitants. Secondly, funding increased from several tens of million yen allotted within the framework of the special allocation mechanism, to several hundred million yen managed by the State general grant system<sup>57</sup>.

The mechanisms supporting the “autonomous residential areas” project were revolutionary, but its financing measures were restricted. Thus it was common to see a lack of enthusiasm on the part of designated and central cities with large population numbers. Regions where the general grant system was more profitable were peripheral ones with small populations. Outside of the three main metropolitan areas, core cities with large financial resources would receive low funding.

It seems very to allow the release of more funding and general grants on the condition that designated and core cities agree to sign a “cooperation agreement” with outlying cities. While Japan has a tradition of balanced regional development, such reorientations fit with a post-growth era and constitute a remarkable shift in planning paradigms. We must hope that this strategy will help regions to keep their citizens, especially the younger ones, and stop their “flight” to metropolitan areas.

### **The pitfalls of the “central urban areas” project**

Nevertheless, there remains a wide array of problems. Despite the fact that a “cooperation agreement” is necessary, peripheral cities who

signed the agreement will not benefit from the funding system<sup>58</sup> and are therefore reluctant to join the project. Moreover, Prefectures that have already designed a balanced planning strategy will have to revise their masterplan, as they are likely to be in open conflict with the municipal authorities and mayors of core cities. For the Prefecture governor, the fact that his or her main political rival is the mayor of the Prefecture’s biggest city has often damaged their relations.

It often happens that the mayors of outlying municipalities call on the governor rather than the central city mayors. Similarly, members of the National Diet link themselves with peripheral areas where decisions are made quickly. Thus, they do not always appear as powerful allies for designated cities. As well as some jealousy on the part of peripheral municipalities, core cities do not always know the size of the funding they will get, and local cooperation is problematic when administrative and political costs are high.

However, suppressing this new mechanism will not be easy. It is not possible to set up more generous financing schemes for peripheries with a declining population, where public policy efforts are increasingly ineffective. Creating public facilities and attracting businesses there for the sake of “balanced regional development across the Prefecture”, overlooking the needs of core cities, no longer fits the needs of a post-growth society.

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<sup>57</sup> In general, this system is intended for exceptional financing needs, for instance after a natural disaster.

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<sup>58</sup> Core cities and designated cities will indeed receive the grants, and use them according to the cooperation agreement.

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