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JAPAN'S NEXT DECADE

Opportunities for economy and society after the
2020 Tokyo Olympics

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Preface

Japan's next decade: Opportunities for economy and society after the 2020 Tokyo Olympics is an Economist Corporate Network (ECN) report. It is based on desk research and consultation with experts in Tokyo. The report is sponsored by Philip Morris Japan. The findings and views expressed in this report are those of the ECN alone and do not necessarily reflect the views of the sponsor.

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- Shinichi Hagiwara, president and CEO, Mitsui Foods
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- Steven Vogel, chair of Political Economy, Il Han New Professor of Asian Studies and professor of Political Science, University of California, Berkeley
- Randall G. Wada, CEO, JLT Holdings Japan
- Guenter Zorn, external director and chairman of the board, NSG Group

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Key findings

- By 2030, more than 30% of Japan's population—nearly every third person—will be over 65, but the rate of aging peaked in the mid-2010s and is now beginning to plateau.
- An aging population presents a market opportunity for companies that can recognise the needs of potential new customers, especially in the technology sector and IT and software industry.
- The number of employees in Japan who are over 65 rose from 5.7m to 8.6m in 2008-18 and their share in workforce will amount to around 20% by 2030.
- Up to 80% of Japanese companies in hospitality, nursing and transportation experience severe lack of workers. However, due to the decline in population, Japan finds itself in the unique position where the labour shortage presents a chance for the development of new automating technologies, without the risk of creating huge unemployment.
- Eliminating the gender employment gap and promoting women to full-time positions can bring Japan a 15% increase in GDP.
- Added value driven by the 4th Industrial Revolution in Japan can be as high as ¥30trn—in terms of economic impact, essentially another Olympics.
- The manufacturing sector in Japan has a very high level of automation potential—at 71%, it is 11% higher than that of the US. By 2025, with the use of the internet of things (IoT) and automating technologies, industries such as construction can improve productivity by 20% and manufacturing productivity can grow by up to 2% per year.
- Japan is lagging in the adoption of digital technologies, but there are still considerable achievements in innovation in Japan, particularly in manufacturing sector.
- The number of international tourists in Japan increased more than six-fold in 2011-18, making Japan one of the top countries in the hospitality industry globally in just a few years.
- The size of Japan's domestic tourism market still dwarfs the inbound at ¥20.5trn compared with ¥4.52trn. The government is aiming to increase annual revenue from international travellers to ¥15trn by 2030.
- If put together, the opportunities around the silver market, increased productivity, inbound tourism and diversity promotion could bring the national economy to a much larger size than the government's current target of ¥600trn.

Introduction

How the Olympics put Japan back on the world's agenda

Japan is back—and in the spotlight. Perceived as a laggard for decades, it is finally receiving attention, if not for staggering GDP growth, then as an example of how to deal with the population-related issues that many countries will face sooner or later. Moreover, in the age of “slowbalisation”,¹ uncertainty, looming recession and rising populism, Japan's slow-moving economy is increasingly seen to represent an enviable stability rather than stagnation. The prime minister, Shinzo Abe, has played a significant role in bringing Japan to the fore again through effective use of soft power, including the promotion of major events to be held in the country, such as the 2019 Rugby World Cup, the 2020 Summer Olympics in Tokyo and the 2025 World Expo in Osaka. Last, but not least, a dramatic boom in inbound tourism has also contributed to greater visibility.

So, now is the time for Japan to shine. However, the Japanese people tend to view the future with pessimism; the overwhelming majority of adults (76%) think that their children will be worse off economically than they themselves are.² The younger generation of Japanese (aged 13-29) is even more fatalistic, as almost 40% of them say they have little hope for the future.³

At the working lunch event organised by ECN to discuss the future of post-Olympics Japan, the necessity of changing perceptions and mindsets was a central topic. Shinichi Hagiwara, president and CEO of Mitsui Foods, summed it up: “Japanese people are too conservative. We hate drastic change, which disturbs innovation. That kind of mentality was a weapon previously, but, now—no more. A mindset change is necessary; however, there is no engine to promote it. Maybe diversity could be.”

Even such phenomena as an aging population and a shortage of labour can eventually present benefits, if tackled correctly. Moreover, tough challenges create a sense of urgency, engendering a more proactive approach on the part of business and government.

“The fact that Japan is facing all these new problems is actually good, because it puts the government under pressure,” says Akemi Tsunagawa, CEO of AI start-up, Bespoke. “And when the government is under pressure, they actually do take on new challenges and try new things that they've never done before. So, population decline and other negative trends are bad news, but it's also good because it leads to new things that have not been tried before.”

Olympic momentum

The 2020 Summer Olympic and Paralympic Games in Tokyo are playing a central role in the narrative of Japan's revitalisation. The direct economic benefits of this iconic event are forecast to range from ¥30trn (US\$282bn) to ¥32trn or around 0.6% of real GDP.⁴ The Olympic Games are also viewed by business executives as a great opportunity to boost morale and visibility, to “catapult the host city into the premier league of cities”.⁵

The cumulative effect of the Olympics brings more important results than simply faster GDP growth. Olympic euphoria has developed into a new national idea, driving the country and its economy forward. “The Olympics will be a great catalyst, showcasing all of the great things about Japan and

¹ The term was coined by Dutch writer, Adijed Bakas, to describe the reaction against globalisation and the slowing of economic integration around the world. Picked as one of The Economist's key trends of 2019: <https://www.economist.com/leaders/2019/01/24/the-steam-has-gone-out-of-globalisation>

² <https://www.pewresearch.org/global/2018/11/12/despite-rising-economic-confidence-japanese-see-best-days-behind-them-and-say-children-face-a-bleak-future/>

³ <https://www.bloomberg.com/news/articles/2016-11-23/in-japan-world-s-gloomiest-millennials-see-a-future-of-struggle>

⁴ https://www.2020games.metro.tokyo.lg.jp/9e1525ac4c454d171c82338c5a9b4c8a_1.pdf

⁵ <https://perspectives.eiu.com/strategy-leadership/legacy-2012>

Japan's next decade

Opportunities for economy and society after the 2020 Tokyo Olympics

Japanese society. There will be a huge positive effect from an incoming tourism point of view, but there is also domestic excitement, that will be created as well," says Randall G. Wada, CEO of JLT Holdings Japan.

Looking ahead

This positive trend does not have to stop when the lights go off after the closing ceremony. The legacy created by the Olympics should be enough for the country to start building what we call *Japan's next decade*.⁶ The key areas mapped out in this report indicate how to reap the benefits of the unique opportunities on offer: new markets, new technologies, new customers and new workers. Japan has transformed itself many times during the last two centuries. It can do it again.

⁶ As opposed to the 'lost decades' of economic stagnation in the 1990s and 2000s.

Chapter 1

Golden opportunities for silver business

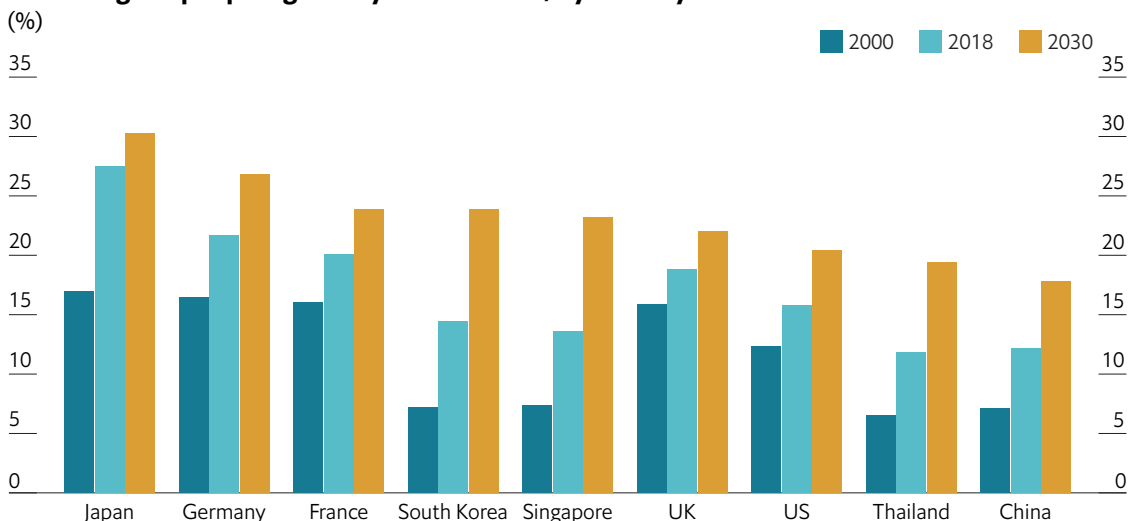
How Japan is harnessing the opportunities of an aging population

By 2030, more than 30% of Japan's population—nearly every third person—will be over 65.

Japan is the first developed country in the world to face the problem of an aging population. The statistics are well known: by 2030, more than 30% of Japan's population—nearly every third person—will be over 65. This is unprecedented in world history. The Japanese government and people are concerned as to whether their society is sustainable with such a demographic structure.

Japan is far from being the only nation experiencing a rapidly aging society. In some countries, such as South Korea and Singapore, the rate of growth of the senior population is actually higher than in Japan. In these countries, the percentage of people aged 65 and over will more than triple between 2000 and 2030. China will see this figure grow by around 250% in the same period, while, in Japan, the rate of aging peaked in the mid-2010s and is now beginning to plateau.

Percentage of people aged 65 years and over, by country



Source: UN Population Data, 2019

Governments and business executives in these countries will look to Japan for examples of success stories in dealing with senior customers or senior employees. By leading the way, Japan will be able not only to reap the benefits itself, but also to spread them around the world. "We have to change the socioeconomic system, mindset, lifestyle, workstyle, relationships in the family—everything, basically—to fit the 21st-century model. We don't have a pessimistic view; we think this is an opportunity for Japan to create innovation and to become the world's first 'brighter' super-aged society. This is a challenging issue, but it is an opportunity for Japan to change," explains Kazumi Nishikawa, director of healthcare industries division, Ministry of Economy, Trade and Industry of Japan.

Mining gold from the silver market

An aging population presents a new market opportunity for companies that can recognise the needs of these potential new customers. The obvious example is healthcare, but that is by no means the only one. The silver market is too often overlooked by IT and software developing companies, for example. As Chinese companies have already discovered, the elderly spend more on e-commerce, and for some services, such as TaoBao, a Chinese online shopping website, they are the fastest-growing user segment.⁷

The stereotype of the older person who is inherently suspicious of new technology is challenged on several fronts. For example, senior drivers in Japan are more inclined to buy autonomous vehicles than are people under 40. Seniors are not reluctant to accept new technologies; they are simply not targeted by the manufacturers, designers or marketing.

A robot for grandpa

Japan's growing silver market has huge potential, especially in the technology sector. Recently, Japanese robot manufacturers have released a swath of products developed and marketed specifically for senior customers: aibo, a robotic puppy with artificial intelligence (AI) made by Sony; Paro, a furry seal made by Japan's National Institute of Advanced Industrial Science and Technology; Pepper, a humanoid robot that can engage in conversation, made by SoftBank; and Panasonic's Resyone, a robotic bed that transforms itself into a wheelchair, to name just a selection.

New technologies such as AI present another possibility for solving problems of an aging society and driving new business industries. One of the pioneers in this field is the Japanese company, ExaWizards, which has developed social innovations with the help of AI platforms. The flagship product of the company is the AI-enabled deep-learning algorithm, Coaching AI. Coaching AI can make suggestions to improve nursing care, based on data received from cameras and smart glasses worn by nursing workers. Employing technologies of this kind could reduce the costs of nursing care by 20%, from ¥20trn to ¥16trn, by 2025.⁸

Rapid population aging presents obvious challenges to Japan, but, as highlighted in this chapter, it can also bring benefits to the companies that work strategically with the silver market. By showing how to overcome the problems of an aging population, Japan can become an example to other nations with similar issues, which will in turn create a huge positive impact in terms of the national image.

⁷ <https://www.economist.com/business/2019/08/10/the-elderly-are-the-next-big-growth-market-for-chinese-tech-firms>

⁸ <https://www.forbes.com/sites/japan/2018/12/19/can-ai-play-a-useful-role-in-nursing-care-this-tokyo-startup-is-leading-the-way/#4e94148b697d>

Chapter 2

Hard work: Japan's changing labour market

A shortage of workers forces an improvement in productivity

Up to 80% of Japanese companies in hospitality, nursing and transportation experience labour shortages.

The shortage of labour in Japan is close to constituting a national emergency. Hotels and restaurants (81.8%), nursing (79.2%), transportation (78.2%) and construction (75.4%) are the sectors facing the most severe lack of workers.⁹ In other words, the basic everyday needs of the population are becoming harder to satisfy.

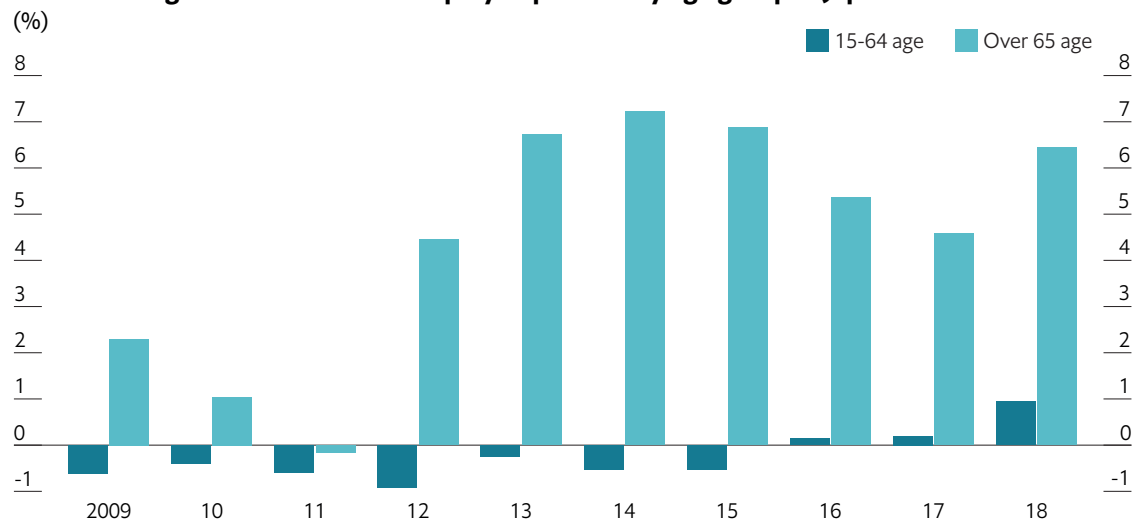
Nevertheless, Japan finds itself in the unique position where the labour shortage presents a chance for the development of new automating technologies, without the risk of creating huge unemployment. "Japan is pretty much the only country that has aging and shrinking of the population and a technology revolution happening simultaneously. That makes it the country where companies, government and everyone else can push forward this technological revolution without having, at least in the short term, many of the negative implications," says Yumiko Murakami, Head of Tokyo Center, OECD.

A greying workforce

One particular area where Japan already shows how an aging population can become an advantage is labour participation by the elderly. Despite the decline in the overall population, Japan's labour force increased from 66.7m to 68.3m in 2008-18, and most of that increase was provided by people aged 65 and over. In this age group, the number of employees spiked from 5.7m to 8.6m, while the main workforce age group of 15-64 saw a decline from 61m to 59.6m in that period. If this trend continues,

If the recent trend continues, the share of Japan's workforce who are over 65 will amount to around 20% by 2030.

Annual change in the number of employed persons by age group in Japan



Source: Statistics Bureau, Ministry of Internal Affairs and Communications of Japan, 2019.

⁹ <https://www.jccci.or.jp/hitodebusoku.pdf>

the share of the senior population in the workforce would amount to around 20% by 2030. And, most likely, that is not the peak; according to government surveys, only 13.5% of the population wants to stop working at 65, while a staggering 79.7% are ready to work to at least 70—some say they are willing to go on “as long as they are able”.¹⁰

Upskilling workers and bringing in foreign talent

The crucial challenge is not a lack of people willing to be employed, but the lack of people with the necessary skills. For example, in 2020 the country will have an estimated 370,000 unfilled positions in IT-related occupations.¹¹ In an interview conducted for this paper, Steven Vogel, professor of Political Science, University of California, Berkeley comments: “Japan needs to re-tool its labour market and its education and training system to meet the needs of the 21st-century economy. ‘Womonomics’ and the workstyle reform are a move in the right direction. The government has identified the right next step with its ‘human resource revolution’ slogan, but we have not yet seen bold steps. Those might include much stronger STEM training, especially in software engineering, and better retraining programmes.”

Logically, luring talent from abroad is the next step, and Japan is already making progress here. The economic benefits of foreign migrants are well-known: they drive productivity, increase the workforce numbers and bring new skills. All of that contributes to GDP growth; in Luxembourg, Switzerland and Finland, the overall impact of foreign workers on GDP growth came to around 2% during the last 50-year period.¹² Japan is moving in that direction, but stronger proactive measures are needed to get the best and the brightest to come to the country.

It is encouraging that both the business community and the government seem to understand that the labour shortage is one of the most serious problems for Japan. Reforming the labour market and workstyle culture, getting the best talent, increasing productivity and promoting diversity are all measures that can contribute to a positive outcome for Japan, but they have to be implemented systematically and efficiently.

¹⁰ https://www8.cao.go.jp/kourei/whitepaper/w-2017/html/zenbun/s1_2_4.html

¹¹ The Cabinet Office of Japan, Council on Investments for the Future (2017), Growth Strategy 2017.

¹² <https://www.oecd.org/migration/OECD%20Migration%20Policy%20Debates%20Numero%202.pdf>

Chapter 3 “Womenomics” in Action

Driving growth through diversity and inclusion

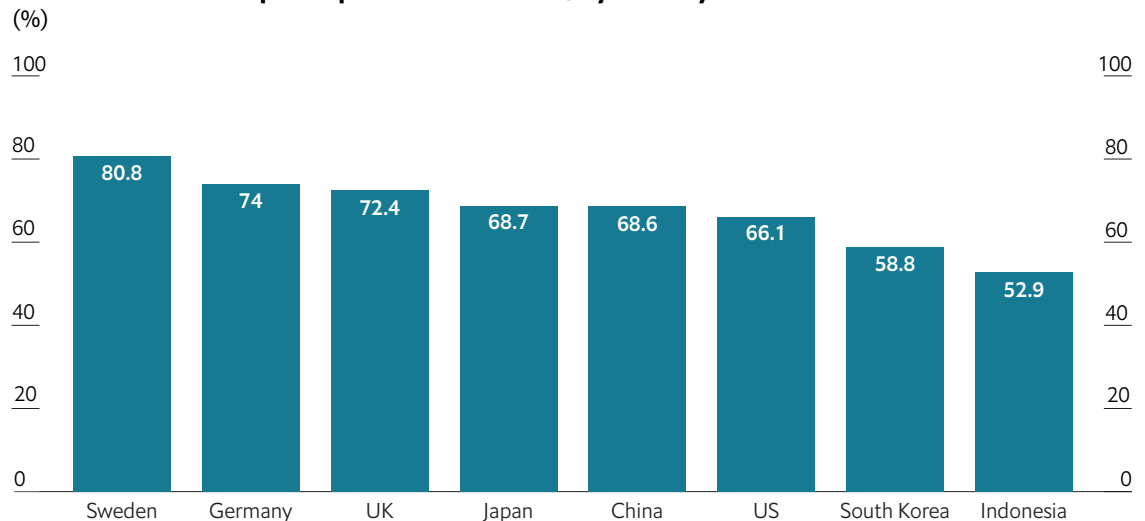
The Economist's Glass Ceiling Index consistently ranks Japan as one of the worst environments for working women among OECD countries. In 2019 it occupied 28th place out of 29 countries. Less than 5% of executive roles are occupied by women—a stark contrast both with other Asian countries (11% in China) and Europe (25% in the UK).¹³ How can Japan change this situation and what are the benefits of diversity and inclusion?

Hiring more women, migrants and senior workers and promoting them in their career paths drives up performance; “total diversity”, on average, leads to innovation revenue that is higher by 19 percentage points and EBIT margins that are higher by nine percentage points.¹⁴ In Japan, the case for diversity and inclusion has been brought to the masses by the advent of the 2020 Olympics in Tokyo, one of the mottos of which is “unity in diversity”.¹⁵ The government has heavily promoted the policy on “womenomics” in the media, and major Japanese companies have set the target for the proportion of female executives at 30% by 2030.¹⁶

Making womenomics work

The rise in the labour participation rate of women is one of the highlighted achievements of Japan's womenomics policy. At 68.7% in 2018, the rate was higher in Japan than in the US (66.1%) or South Korea (58.8%). This has already prompted US think-tanks to view Japan as an exemplar of how to tackle the problem¹⁷.

Female labour force participation rate in 2018, by country



Source: International Labour Organisation (ILO), 2019

¹³ <https://www3.nhk.or.jp/nhkworld/en/news/backstories/335/>

¹⁴ <https://hbr.org/2018/01/how-and-where-diversity-drives-financial-performance>

¹⁵ Formulated as: “Accepting and respecting differences in race, colour, gender, sexual orientation, language, religion, political or other opinion, national or social origin, property, birth, level of ability or other status allows peace to be maintained and society to continue to develop and flourish.” <https://tokyo2020.org/en/games/vision/>

¹⁶ <https://asia.nikkei.com/Business/Business-trends/Japanese-companies-set-goal-of-30-female-executives-by-2030>

¹⁷ <https://www.brookings.edu/research/lessons-from-the-rise-of-womens-labor-force-participation-in-japan/>

Japan's next decade

Opportunities for economy and society after the 2020 Tokyo Olympics

Eliminating the gender employment gap and promoting women to full-time positions can bring Japan a 15% increase in GDP.

However, most of the female employees in Japan (58% as of 2018) work in part-time, low-paying jobs with limited career prospects. If the participation labour rate for women reaches the same level as that for men, Japan's GDP could grow by in excess of 10%, and, if more women are offered full-time positions, by as much as 15%.¹⁸ "Japan needs diversity. Diversity does not only mean increasing the number of women in the workforce, but also more diversified thoughts and ideas. And, to do that, the first stage is increasing the number of women in the workforce. If we see the advancement there, Japan has a future. To create that, we need to work on the education system and labour laws and regulations," says Kaori Sasaki, founder and CEO of think-tank and diversity consultancy, ewoman.

Making womenomics truly work will require substantial changes in business and working culture. "When we talk about womenomics and we get to the bottom of it, we see that the rigid labour market structure that has not changed is at the core of the problem. Despite the tight regulations in the labour market, the companies could free their HR strategies in terms of seniority-based promotion systems and lifetime employment. These are the two most difficult conditions, not only for women, but also for foreigners and mid-hires—for them to do well when they join companies. If you actually limit these two very traditional Japanese practices, that would naturally open up opportunities for women, foreigners and basically all non-traditional employees," says Yumiko Murakami, Head of Tokyo Center, OECD.

Improving conditions for working women and promoting "total diversity" are crucial for Japan's next decade and beyond. The economic potential is huge, and the socio-demographic implications could benefit society as a whole.

¹⁸ <https://www.goldmansachs.com/insights/pages/womenomics-5.0/multimedia/womenomics-5.0-report.pdf>

Chapter 4 Kaizen 2.0

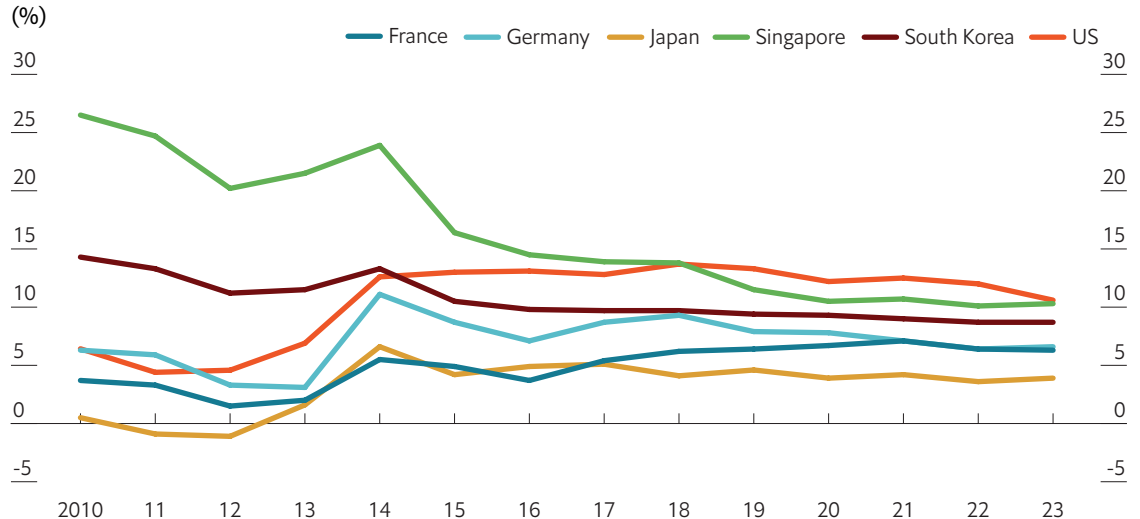
Unleashing the potential of innovation and automation

Added value driven by the 4th Industrial Revolution can be as high as ¥30trn.

With the decline of the industrial sector of the Japanese economy and the rise in the trend of offshoring production to developing countries that started in the 1990s, Japan lost a great deal of its competitive advantage. Japan's capital productivity (the growth rate of real GDP divided by the share of fixed investment in GDP) is one of the lowest in the world. In 2018 it stayed at just 4.1%, while, in the US and Germany, it was more than double that figure. The figure is forecast to remain in the 3.6-4.6% range for Japan in 2019-23.

Manufacturing played the leading role in Japan's post-war development and seizing the opportunity to advance it to a new level with emerging AI and automation technologies will be decisive for the future of Japan. As calculated by METI, added value driven by the 4th Industrial Revolution can be as high as ¥30trn—in terms of economic impact, essentially another Olympics.¹⁹

Capital productivity, by country



Source: The Economist Intelligence Unit, 2019

¹⁹ https://www.meti.go.jp/english/policy/economy/industrial_council/pdf/innovation160427a.pdf

²⁰ <https://www.mckinsey.com/featured-insights/future-of-work/jobs-lost-jobs-gained-what-the-future-of-work-will-mean-for-jobs-skills-and-wages>

²¹ https://www.kantei.go.jp/jp/singi/keizaisaisei/pdf/miraitousi2017_summary.pdf

The leaders of automation

The manufacturing sector in Japan has a very high level of automation potential—at 71%, it is 11% higher than that of the US.²⁰ The share of workers in production and administrative support is higher in Japan than in the US and these roles have greater potential for automation overall. As much as 26% of work hours are forecast to be automated by 2030, even in a midpoint automation scenario. By 2025, with the use of the internet of things (IoT) and automating technologies, industries such as construction can improve productivity by 20% and manufacturing productivity can grow by up to 2% per year.²¹ “GDP is a very simple calculation—it is really about population and productivity. We have

half of the population, women, who more and more are joining the workforce, with the opportunity to raise productivity—right here in front of us—this is a very large opportunity. And I don't know if we've been implementing or doing all we can do to achieve it," says David Semaya, executive chairman of Sumitomo Mitsui Trust Asset Management.

Many of the business leaders we consulted agreed. "GDP growth consists of labour force growth and productivity growth, and in labour force there is no growth. Unless we can achieve significantly higher productivity, Japan is going to be much smaller in terms of GDP growth. The only solution is for us to be like a bigger Singapore or a bigger Switzerland. How to make Japan like a bigger Singapore or a bigger Switzerland? This is a big agenda for Japan, for the better future of Japan," believes Masatsugu Nagato, president and CEO of Japan Post Holdings.

Japan's innovation potential

Japan is the country with the highest number of companies among the world's top 100 innovators²² and is consistently ranked among the 10 most innovative countries worldwide.²³ Nevertheless, it is lagging in the adoption of digital technologies and Japanese companies are rarely seen as equals to the giants of the digital economy such as Facebook or Google. "Japan has been slow with IT diffusion—both the government and industry should speed this up to tap the full benefits of the digital revolution. The Japanese government and industry have continued to invest in R&D, but they will have to increase that substantially to achieve and protect competitive advantage in key sectors," elaborates Steven Vogel.

However, there are still considerable achievements in innovation in Japan, even if they don't make the headlines. As explained by Guenter Zorn, external director and chairman of the board, NSG Group: "There is a lot of innovation in the 'old' companies. To say that innovation and growth are only coming from the new digital economy, where Japan is admittedly not as strong, is not correct. There is a much larger part of the economy that is built on real things—things we can touch, that we can eat, that we can use—and that needs to drive the modern economy. It's nice to talk about the Googles of the world, but, without the capabilities of manufacturing industry, none of their solutions would be possible. And here is where Japan excels. If you look at industries like automotive, machine tools or the glass industry, for example, you will find an endless number of highly innovative products made by Japanese companies."

Many Japanese companies possess the necessary capabilities to lead in automation and innovation. While not the most well-known company in Japan, let alone globally, Fanuc has been called "the planet's most important manufacturer" by Bloomberg.²⁴ Hundreds of manufacturers around the world use robots developed by this company; the most famous example is Robodrill, which plays a key role in the making of Apple's iPhone.

Innovation and automation are the two key spheres where Japan has always been very strong. However, it now faces the risk of losing competitive advantage owing to the slow adoption of digital technologies. The potential is there and companies need to find a way of getting back on track and integrating new technological capabilities into their business strategies.

²² <https://clarivate.com/derwent/campaigns/derwent-top-100-global-innovators-2018-19-report/>

²³ <https://www.bloomberg.com/news/articles/2019-01-22/germany-nearly-catches-korea-as-innovation-champ-u-s-rebounds>

²⁴ <https://www.bloomberg.com/news/features/2017-10-18/this-company-s-robots-are-making-everything-and-reshaping-the-world>

Chapter 5

Welcome to the new Japan

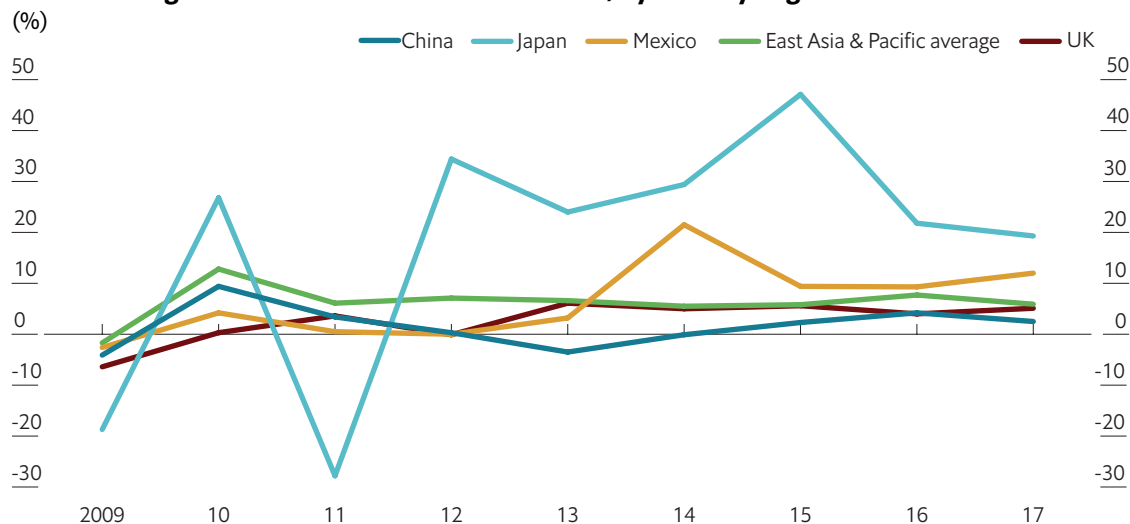
Japan is becoming a model for international tourism

The size of Japan's domestic tourism market dwarfs the inbound market at ¥20.5trn compared with ¥4.52trn.

Less than a decade ago, Japan was still regarded very poorly in terms of international tourism. In 2018 the contribution of the tourism industry to GDP was just 2.4%, substantially lower than in other OECD countries such as Iceland (9%), Mexico (8%), Spain (5.4%), France (3.9%) and the UK (3.7%), or some of the biggest non-OECD tourism-powerhouse nations such as Thailand (9.6%).²⁵ However, considering that now Japan is ranked as one of the top-5 countries in the world in Travel & Tourism Competitiveness Index and the number of international tourists is growing by double-digits every year, it is expected that the tourism industry's share of GDP will be much greater in the near future.

The inbound tourism boom started in Japan in 2013-14 and shows no sign of abating; between the lowest point, in 2011, and 2018 it increased more than six-fold. From 2012 Japan has seen consistent double-digit growth in the number of international tourists, becoming one of the top countries in the world in just a few years.

Annual change in the number of inbound tourists, by country/region



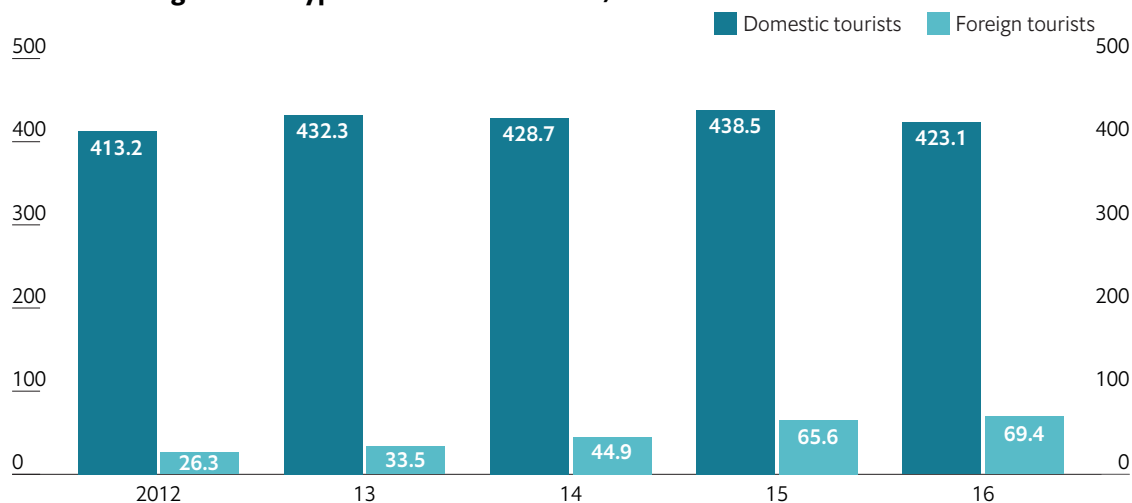
Source: World Bank (2019)

²⁵ http://www3.weforum.org/docs/WEF_TTCR_2019.pdf

Room to grow

Despite the growth in the number of foreign visitors, the domestic tourism market still overshadows the inbound market—in 2018, the former was estimated at ¥20.5trn, while the latter is still estimated at only ¥4.52trn.²⁶ International tourism accounts for only 16.4% of all guests in tourist accommodation in Japan.

Number of nights in all types of accommodations, m



Source: OECD Tourism Trends and Policies, 2018

Considering that Japanese people mostly travel in the peak holiday seasons and at weekends, this means that saturation of the market has not yet been reached and, with the right measures to attract more foreigners, Japan can easily accommodate them. The government's target of annual revenue from international travellers stands at ¥15trn by 2030.²⁷

The domestic market depends heavily on rich pensioners of the boomer generation and this demographic, like any other, will not last forever, as Yumiko Murakami explains: "Even though, at this point, domestic tourism is bigger than inbound, domestic tourism, basically, relies on senior citizens and young people don't spend that much on travel. So, if they don't change their business model now, it's a dying industry. And I think that shift—they have to do it now."

To Tokyo and beyond

It comes as no surprise that Tokyo occupies first position for the number of visiting foreign tourists. It is the safest metropolis globally²⁸ and the most attractive city in the Asia-Pacific region for "bleisure"—a combination of business and leisure.²⁹ Travellers to Tokyo rank it top for ease of transportation, overall safety and orderliness of the streets and quality of business facilities (shared meeting spaces, conference venues, etc.). The most popular leisure activity for them is, by far, the food experience, which is not surprising given that Japan's capital has the highest number of Michelin-starred restaurants of any city, both in absolute and per-head terms.³⁰

²⁶ <http://www.mlit.go.jp/kankocho/siryou/toukei/syouthityousa.html>

²⁷ <https://www.mlit.go.jp/common/001172615.pdf>

²⁸ <https://safecities.economist.com/safecities-index-2019/>

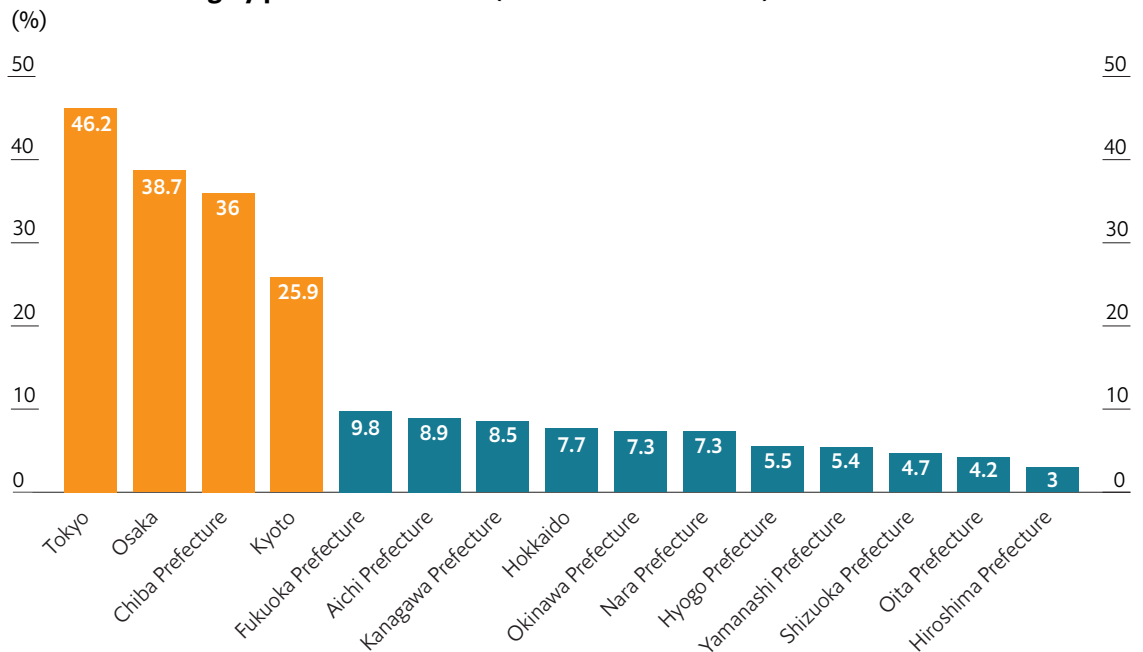
²⁹ <https://fivestarcities.economist.com/whitepaper/>

³⁰ <https://guide.michelin.com/us/en/article/news-and-views/michelin-guide-tokyo-2019-results>

Japan's next decade

Opportunities for economy and society after the 2020 Tokyo Olympics

Visit rate ranking by prefecture in 2017 (international tourists)



Source: Japan Tourism Statistics, JNTO, 2019

Tokyo, of course, is not the only city in the country to possess these traits and Osaka and Kyoto come relatively close to it in terms of visitor rate by prefecture. Other regions of Japan are still dramatically under-visited. Japanese provincial cities and off-the-beaten-track destinations can easily grab their share of inbound tourists if more work is done on marketing promotion and development of hospitality staff language skills.

The tourism sector is one of the greatest examples of how Japan can find new opportunities to revitalise itself. If more is done by the business community, local governments and start-up entrepreneurs, the hospitality sector can become one of the new engines of economic growth.

Conclusion

Less can be more

Despite serious challenges, Japan has immense potential for the future. If put together, the opportunities around the silver market, increased productivity and diversity promotion could bring the national economy to a much larger size than the government's current target of ¥600trn. This would require more than new programmes by the Cabinet Office or new strategies by business, however; a shift in perspective and change of mindset are needed to see the risks as opportunities to be realised by society as a whole.

Even if the highest projections are not realised and the level of GDP growth does not skyrocket, Japan can show the world that there is so much more to what defines the success of the country in the 21st century. "Beyond GDP" thinking was shared by many experts interviewed for this paper, and this could be seen as a next-level opportunity for Japan to lead in a world where double-digit economic growth is no longer perceived as an ultimate goal and sustainable development means a lot more.

As David Semaya puts it: "There is already thinking around the world, especially with the demographic challenge, that GDP is not necessarily the right benchmark for evaluation of a nation's success. Quality of life is so much better in Japan—maybe we make less money, but we live longer and we don't have the political upheaval we now see elsewhere."

In the current turmoil of conflicts and global political scandals, sustaining this environment is already an achievement to be proud of.

Japan's next decade: key findings

Challenges

- Rapid aging and decline of the population
- Labour shortage
- High gender gap in employment and low career prospects for women
- Low level of digital technologies adoption
- Sustainability of international tourism boom

Opportunities

- Becoming a model for other countries experiencing demographic changes and creating innovations in the silver market.
- Leveraging technology to soothe the labour shortage and boost productivity.
- Unlocking the full potential of diversity and inclusion.
- Creating innovations in the manufacturing sector and introducing more automating technologies.
- Increasing the number of inbound tourists and making the hospitality sector one of the drivers of GDP.

Japan's next decade

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