

APIR Commentary No.20

The Tokyo 2020 Olympics: how can Kansai maximise the economic benefits?

There are competing views as to whether and to what extent hosting an Olympic Games tends to benefit a national economy,¹ but now that Tokyo has been awarded the summer games for a second time, business communities around Japan are considering if and how the economic effects of the games will spill over to regions beyond the capital. Interest in this is particularly strong in Kansai, an important centre for tourism and sports in Japan, and a region which accounts for around one-fifth of the nation's population and GDP. This commentary examines how and to what extent Kansai might benefit from the Olympics, compares the economic effects on UK regions of London 2012, and considers what could be done to maximise the economic benefits to Kansai before and after the Tokyo 2020 games.

Olympic spillover

Calculating the economic impact of an Olympic games has been called a “Herculean task” by the [Financial Times](#), while one report on the economic legacy of London 2012 stated baldly that the Olympics “are not and never have been an investment project with decisions based on expected returns, and the majority of benefits that the Olympics deliver are intangible” (Sivaev, 2013: 3). Regardless of whether the total benefits ultimately exceed the total costs, Olympic games can bring economic benefits in both direct and indirect ways. The direct channels include (1) job creation related to the construction of sports facilities and other infrastructural developments, (2) tourism, and (3) spending on games administration and security. Indirect

¹ See, for example, this 2004 PriceWaterhouseCooper paper: <http://www.cfr.org/world/economy-olympics/p28806>. Also, this 2012 Council of Foreign Relations discussion: <http://www.cfr.org/world/economy-olympics/p28806>

channels may include (1) increased demand for intermediate industries, (2) higher levels of economic activity due to improved infrastructure, (3) long-term up-skilling in sections of the labour market through games-related training and experience, (4) increased investment, and (5) increased consumer spending due to the ‘feel-good factor’ that seems to come from a country winning, planning, and hosting the world’s largest sporting event.

While some of these gains are limited by their physical nature to the host city itself, other effects can benefit more distant regions of the host country. The Tokyo-Osaka bullet-train line, opened nine days before the start of the 1964 games, is one high-profile example of such a spillover; increased demand for intermediate manufacturing and services firms across a country prior to a games is another. During the bidding process, the Tokyo 2020 bid committee took pains to emphasize that economic benefits would accrue to the [country as a whole](#) from the games.

The spillover effect to Kansai is likely to be conveyed through a number of channels. Directly, strong transportation links with the capital mean that Kansai can expect to attract a share of the increased international tourism that will come before and after the games. Indirectly, there is likely to be some raised demand for intermediate firms in the years leading up to 2020, as well as some effect from increased consumer spending on Olympics-related goods and services, which would include such items as new running shoes or new television sets on which to watch the games. Finally, a less obvious boost could come through the diversion effect of conferences and domestic tourism re-directing to Osaka, Kyoto, and Kobe, as Japanese business and leisure travellers seek to avoid the expected congestion in Tokyo in the games year.

A small GDP boost

What magnitude of gains might Kansai and other Japanese regions expect? According to the bid committee’s own forecast, published in June 2012, the total impact of the Tokyo games will be around 3 trillion yen (US\$37.9 billion at June 2012 exchange rates), with 56% (1.67tn yen, US\$21.1bn) going to the capital, and 43% (1.29tn yen, US\$16.3bn) to the regions. In terms of employment, it was estimated that Tokyo would see 84,000 new jobs generated, with

the rest of the country together seeing 68,000. The “ripple effects” of increased economic activity due to improved infrastructure was expected to raise those figures further. Given the size of its gross regional product (GRP; US\$1.04tn at the June 2012 exchange rate, or \$841bn at the current exchange rate)² and population (21.4 million in 2011), the impact of Kansai’s share of gains of that magnitude would be minimal. Even if it were to obtain half of the \$16.3bn predicted to flow out from Tokyo (an optimistic assumption), that would still be equivalent to less than 1% of Kansai’s GRP.

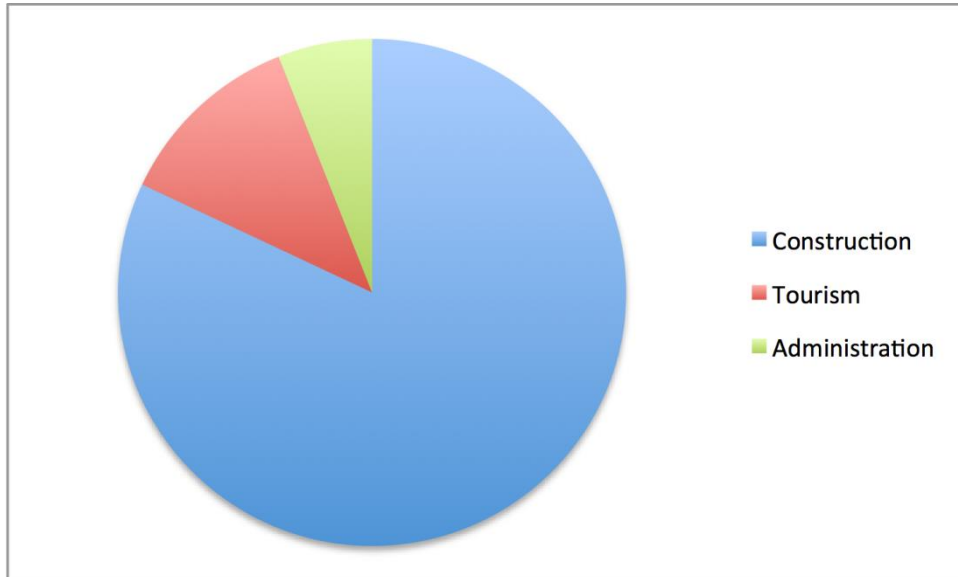
The London case

The experience of the regions of the United Kingdom in relation to the London 2012 Olympics offers an interesting comparative case study. Like Tokyo, London had existing advanced infrastructure and previous experience of hosting the games. A detailed study in 2012 suggested that fully 50% of the London games-related GDP gains would go to regions outside the capital and the neighbouring south-east of England, with nine of the twelve UK regions experiencing a GDP boost of 5% or more. Construction would account for 82% of those GDP gains, tourism 12%, and administration expenditure 6%. Net tourism was expected to increase by 10.8 million visits, measured across the period 2005-2017 (Oxford Economics and the Lloyds Banking Group, 2012).

² The bid organizers used the rate of \$1:79.45 yen. The rate at time of writing was 1:98.43. Calculations are based on the 2010 figures for Kansai GNP, published by APIR:
http://www.apir.or.jp/ja/research/files/2013/08/APIR_KEIQ_No19.pdf

Figure 1: Economic Impact of London 2012 Olympic Games by sector.

Source: Oxford Economics and Lloyds Banking Group (2012).



In order to maximise the economics gains, the UK established “CompeteFor”, a public- and private-sector programme designed to allow suppliers from around the country, including Small and Medium Enterprises (SMEs) to compete for games-related contract opportunities. The national tourism board, “Visit Britain”, implemented a concerted campaign that succeeded in increasing visitor numbers by around 1% and average visitor spend by 4% in 2012 (HM Government and Mayor of London, 2013: 51), although the latter may have been related to outlay on event tickets. It was also reported that the investment promotion body, UKTI, helped secure almost £10 billion (US\$16bn) of FDI and other Olympics-related contracts for the UK in the year after the games (HM Government and Mayor of London, 2013: 46).

Taken together, these figures offer an indication of the sectors most affected by hosting an Olympic games, and also show that regional spillovers have the potential to be quite large if appropriate policies are implemented to diffuse and maximise the economic benefits across a country.

The Tohoku effect

In comparison, Japan’s particular economic geography - heavily concentrated around the Tokyo/Kanto region - makes it likely that there will be less regional diffusion of intermediate

demand than was the case in the UK. Secondly, Japan has the lowest levels of inward FDI of any G8 country,³ which means that Tokyo will be much less competitive than London was in attracting inward investment, although domestic investment may still rise. Moreover, in preparing for the games, Japan also faces one unique structural constraint related to the post-2011 disaster recovery: the ongoing large-scale efforts to rebuild the Tohoku region that are already absorbing supplies of labour and resources in the construction sector.

The additional demand for Olympic infrastructure building projects is starting to drive up the costs of materials and wages in Tokyo. Shortages of skilled construction labour have been reported, and rising costs mean that construction companies are struggling to submit tenders in line with [project budgets](#). The bidding processes for the modern pentathlon and basketball arenas were recently reopened after all participating firms withdrew their bids in the first round in July, apparently due to rising cost concerns. Regions such as Kansai may see some knock-on effects in this sector: construction workers could be attracted by employment opportunities to Tokyo or Tohoku, and wage rates may also have to rise locally to address the growing differential with the capital.

That said, initial Olympic budget forecasts in all games since 1960 seem to have been minimum estimates which in practice have always been exceeded: with “100% consistency” and by an average of 179% in real terms, according to one study (Flyvbjerg and Stewart 2012). The London games, for example, overran its original budget by more than 100%. Taking into account both this pattern and the Tohoku influence, it seems likely that total games-related expenditure will rise from the original estimate of US\$5bn. As a result, the total economic impact both for Tokyo and for regions like Kansai could be higher than the organising committee’s forecast.

Conclusion: How to win the Olympics race

To some extent, the degree of regional spillover in Japan will be determined by whether the national government and the Tokyo organizing committee choose to follow the sorts of

³ See, for example, page 7 of my own recent piece on Abenomics::

http://www.apir.or.jp/ja/research/files/2013/08/Abe-and-Japan-Standing-Tall_.pdf

procurement, tourism and investment promotion policies that allowed UK regions to share in the benefits of London 2012. At the same time, Japan's regions can and should pursue policies to make the most of the economic opportunities that Tokyo 2020 will provide. For Kansai to maximise its benefits before and after 2020, it could focus on two related areas.

The most important direct channel for Kansai will be tourism - persuading athletes, officials, and other overseas visitors to include the region in their itineraries. Kyoto and Nara hold a particular attraction for foreign visitors wanting to experience 'traditional' Japan, Kobe combines a modern seafront area with a historic European quarter, while Osaka offers a dynamic and friendly modern Asian city, with all of these in close proximity to the nature-rich surroundings of Wakayama prefecture and Awaji Island. A long-term tourism campaign should be implemented to entice Olympic tourists down the Tokaido corridor in the years before and after the games, flying into Narita airport and out of Kansai International (KIX) or vice versa.

Second, with its highly-developed sports infrastructure and enthusiastic fans, Kansai should also market itself as an attractive base for hosting national training camps prior to the games, and might even bid to host certain events (as happened at London 2012), like soccer matches at the planned new Gamba Osaka stadium. Hosting training camps or events would bring some direct revenue, and moreover create personal connections on which future interactions and business opportunities could be built. The small town of Nakatsue in Oita prefecture offers an interesting model of this: it hosted the training camp for Cameroon's national football team - the "Indomitable Lions" - prior to the 2002 Japan-South Korea World Cup, and fostered a warm and ongoing relationship with that country that last year celebrated its [tenth anniversary](#).

The economic gains from hosting major sporting events are sometimes overstated (Owen 2005), and it is natural that the lion's share of the benefits from any Olympic games will go to the host city. Even so, past experience from the 2012 games and a statement of intent from the 2020 games organizers both suggest that Japan's regions should also expect to see some degree of benefit in the coming years. In Kansai's case, this increased economic activity is likely to be less than 1% of GNP. This is not a huge amount, but neither is it insignificant in the current global economic climate. Maximising the economic gains from an Olympics is a marathon, not

a sprint, and by actively pursuing targeted strategies such as those described, Kansai can improve its performance in the race to benefit from Tokyo 2020.

Comments are most welcome. Email: contact@apir.or.jp, tel: 06-6485-7690

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