

# What will Integrated Resorts bring to Japan?



Koji  
Ishikawa\*

IR is coming to town. “You better watch out. You better not cry. Better not pout. I’m telling you why. IR is coming to town.”

It is no secret that things take time in Japan, particularly in government. The introduction of integrated resorts (IRs) in Japan is no exception. This might not be widely known, but Japan began the discussion of legalizing casino gaming in some form back in 1999, six years earlier than Lee Hsien Loong, the Prime Minister of Singapore, and his cabinet, decided in 2005 to develop two IRs in Marina South and Sentosa Island.

The original idea promoted by then-Tokyo Governor Shintaro Ishihara was to develop a traditional casino, not an IR, on an empty plot of reclaimed land off Tokyo Bay in an area called “Odaiba”. The Tokyo Metropolitan Government was facing a serious budget deficit at that time (and still is now) and Mr. Ishihara with his “Odaiba Casino Vision” was viewed as a potential savior in overcoming the financial difficulty. The Odaiba casino vision, however,



could not manage enough political support, not only from the central government, but also from the general public. Mr. Ishihara officially abandoned the idea in 2003.

The very next year, a city-state roughly 5,000 kilometers southwest of Japan, issued a request-for-concept (RFC), inviting major IR operators to submit their proposals to the Singapore government. After a fierce competition for the limited number of IR licenses, Marina South was awarded to Las Vegas Sands and Sentosa Island was awarded to Genting International, each in 2006. Marina Bay Sands held the official grand opening in June 2010, and Resort World Sentosa did so in December 2012.

Ishihara's Odaiba Casino Vision, however, did not die. It instead lay in wait for the right conditions. When Shinzo Abe and his Liberal Democratic Party (LDP) took power again in the general election in December 2012, IRs, not casinos generally, became one of his major policies together with the Trans-Pacific Partnership and the 2020 Tokyo Olympic Games. Abe and the LDP also received somewhat unexpected local support from Osaka. Former Osaka Governor and former

Osaka Mayor Toru Hashimoto supported Abe's IR vision and was actively promoting IRs to occupy, again, empty reclaimed land, this time off Osaka Bay in a location called Yumeshima. The LDP and the Japan Restoration Party, headed by Mr. Hashimoto, jointly submitted the IR Promotion Bill to the Diet in December 2013. After several recesses and resumptions at the Diet, the IR Promotion Bill was finally enacted in December 2016. The Japanese government is now drafting the IR Implementation Bill, which is expected to be submitted to the Diet in late 2017 or early 2018. Since Ishihara announced his Odaiba casino vision in 1999, an additional 17 years passed before Japan decided to seek out Santa Claus with his big white bag full of money. The Christmas present is, however, still somewhere in the night sky with only a faint outline of its contents, yet glimmering with high expectations.

### A big present

Then, what is Santa Claus's present for Japan after 17 years in waiting? What is it worth? Is it big?

Yes, it is likely valuable and a big - very big present. For example, Osaka Prefecture estimated that the economic impact of an IR in Yumeshima would be approximately JPY 1.33 trillion (\$115.5 billion) by 2030, and JPY 630 billion (\$56 billion) annually going forward (The Nihon Keizai Shinbun, January 19, 2017, print edition). In Yokohama, another candidate city for a Japanese IR, the expected economic impact would be somewhere between JPY560 billion (\$5 billion) and JPY671 billion (\$6 billion), according to The Yokohama Chamber of Commerce & Industry (The Nihon Keizai Shinbun, November 25, 2016, print edition). Tokyo is silent at this stage on whether or not it will bid for an IR, likely as a result of the Tokyo Metropolitan Government being fully occupied with preparations for the 2020 Tokyo Olympic Games and issues surrounding the Tsukiji Fish Market. However, if Tokyo throws its Giants hat into the ring, another JPY1 trillion (\$8.9 billion) will be added to the Japanese economy. There are some other mid- and small-sized candidate cities like Hokkaido and Kyushu, and if you combine all of them, the nationwide economic impact of Japan IRs could reach JPY4-5 trillion (\$36-\$44 billion).

This amount is almost equal to the aggregate construction cost of the three largest infrastructure projects in the last two decades - Kansai International Airport (JPY1.5 trillion/\$13 billion for the 1st phase), Tokyo Bay Aqua Line (JPY1.4 trillion / \$12 billion) and the Honshu-Shikoku Bridges (JPY1.8 trillion / \$15 billion), totaling JPY4.7 trillion (\$40 billion). Kansai International Airport, Tokyo Bay Aqua Line and the Honshu-Shikoku Bridges were built and financed by the public sector. Japanese IRs will be by far the largest private sector investment projects in Japanese history. If this all comes to fruition, it will be a very good present for Japan and worth the long wait.

### Power shift

An investment of this size will definitely change many things in Japan at both the central government and local levels, not just economically, but also socially and politically. Firstly, as was the case with many IRs and casinos in other parts of the world, Japanese IRs will be a strong stimulus, particularly for the local economies where the IRs are located. Japan surpasses other developed countries in terms of the size of its aging population, as





well as the rapid rate in which its population is shrinking, the negative impacts of which are particularly severe and obvious in remote regions of Japan. Even some major cities like Osaka cannot escape from the resulting economic downturn and thus need stimulus. There are currently no other projects in Japan like IRs that can bring multi-billion dollar investments, create reasonably paying jobs and help battered local economies.

Secondly, local municipalities are expected to take the lead and play proactive roles in developing IRs. Under the current structure provided in the IR Promotion Act, local municipalities must first run as an IR candidate city, and invite and select IR operators with which the local municipality would develop an IR business plan. The central government may neither force local municipalities to run as an IR candidate city, nor block a candidate city from tendering a bid. It is fair to say that this accessible mechanism is rare in Japan where the central government traditionally monopolizes political capital, financial capital and human capital, and only reallocates such capital to local areas when and where absolutely necessary (e.g. Fukushima as a result of the March 2011 Fukushima earthquake).

Together with multi-billion dollar investments and local initiatives, Japanese IRs will empower local municipalities and will be a catalyst to change the traditional power balance between the central and local governments.

Thirdly, Japanese IRs will be planned, built and financed by the private sector. Projects of this size have not been done by the private sector in Japanese history. At both the central government and local levels, Japan does not have relevant experience and know-how to build and operate successful IRs. Japan has no choice but to rely heavily on experienced IR and casino operators that are already managing successful casinos and IRs in foreign jurisdictions such as Las Vegas and Singapore. IR operators will of course be subject to gaming license requirements and other regulations enforced by Japanese gaming authorities.

The success of an IR, however, is mostly up to the operators who know how to design, finance and operate attractive and competitive IRs. Without ideas and know-

how from experienced private sector players, it is possible that Japanese IRs will repeat the miserable failure of many public sector-led so-called "theme parks" and resort hotels built during the 1980's bubble economy and which burst immediately after that. In this sense, Japanese IRs will shift the power balance in Japan from the public sector to the private sector.

### Two-step selection process

The concept of IRs is new and foreign to Japan, not just socially and politically, but also legally. As such, many legal issues are likely to be confronted in drafting the IR Implementation Bill. One potential source of such legal issues is the so-called "two-step selection process" currently proposed by the Office of the Cabinet Secretariat. Namely, this process might be too complicated and create unnecessary legal risks for both local municipalities as well as IR operators.

Under the two-step selection process, a local municipality first selects an IR operator, and then they, as a quasi-joint venture, together bid for an IR. Specifically, the local municipality applies for an IR area designation, while the IR operator applies for an IR license.

It is not very clear, however, what will happen if an IR operator selected by a local municipality for some reason



cannot obtain an IR license from the central government (e.g., due to compliance issues in other jurisdictions). In such cases, will the local municipality be required to re-start the entire selection process again from the beginning? If so, the IR concept, business plan and local development plan would have to also be re-considered with a new IR operator. This would likely delay the entire project for at least several months or possibly even a year or more.

Moreover, although less likely, the local municipality could also face barriers to approval. What will happen if the IR operator can obtain the IR license, while the local municipality cannot obtain a designation as an IR area from the central government? The IR operator selected by the local municipality will be left with an IR license alone, but no IR area. These legal risks must be properly addressed in the coming IR Implementation Bill and its subordinate regulations.

### IR as a game changer

Contrary to current appearances, Japan was originally a country with a tradition of strong local leadership and ambitious entrepreneurs in the private sector. For example, Toyota, Panasonic, Hitachi, Honda and Nintendo are now world-class brands, but they originally began in rural areas, not in Tokyo. The Meiji Restoration of 1868, which ended the

Edo Shogunate that ruled Japan for more than 250 years and paved the way for a modern developed Japan, was initiated and realized by relatively low-level young samurais from rural areas.

The concept of IRs is clearly new and foreign to Japan, but what it will bring to Japan might not be necessarily new or foreign. Rather, it could remind Japan and its citizenry of who they are and what local areas and the private sector have been achieving until very recently. The introduction of IRs will be a game changer for Japan to shift, or restore, the power balance between central and local, and public and private. The IR Implementation Bill, which is expected to be submitted to the Diet later this year, would be apt to keep this in mind and be designed in a way to remind and unleash the hidden power of local municipalities and the private sector.

### \*About the author

Koji Ishikawa is Tokyo office managing partner for Greenberg Traurig. His academic qualifications include Waseda University (LL.B., 1993), New York University School of Law (LL.M., 2004), University of Nevada, Las Vegas, William S. Boyd School of Law (Visiting Scholar, from September 2017). Koji Ishikawa represents both domestic and international gaming clients in Japan.