



# Integrated Resort model that Japan should build up

By establishing the IR promotion law, "Casinomomics" will finally begin in Japan. Based on the successful cases in Asia and the opinions of overseas experts, we examined the issues/risks, potential impact and the necessary actions.

## Progress status of IR legislation in Japan

In December 2016, IR (Integrated Resort) Promotion Act, commonly known as "Casino Law", was promulgated and enforced. It would be difficult to establish casinos by the initial target, 2020 Tokyo Olympic and Paralympic Games. However, the Japanese government and the people have great expectations as a booster of economic revitalization.

On April 27, 2018 the basic requirements of IR facilities were presented by the government. There

is an essential requirement to have 4 facilities in IR other than the casino – conference halls, entertainment facilities such as shopping malls, domestic trip suggestion facilities, and hotels. As Japanese government proposed in the requirement plan (see Chart 1), IR means not only a casino but a large complex with hotels, conference facilities, restaurants, bars and entertainment facilities. They are aiming not only to earn money from gambling, but also to revitalize surrounding industries.

On June 20, 2018 the IR bill was passed by the House of Representatives. While preparations for IR opening are in progress, risks such as addiction

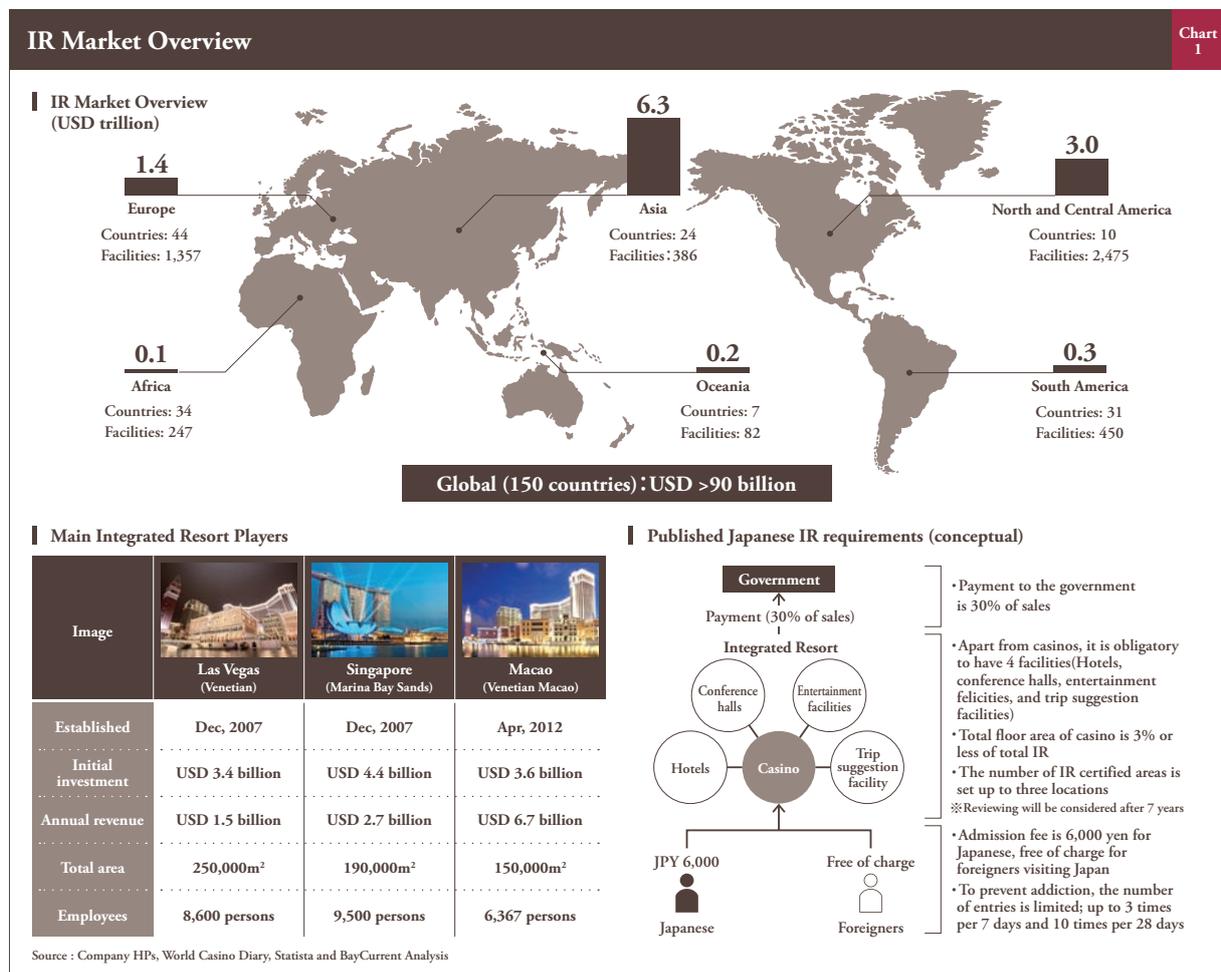
and money laundering are pointed out. For fully utilizing the opportunity of IR establishment, what should Japan aim for and what should Japan pay attention to? Let's think about along with best practices overseas.

## Global IR market trends and major IRs

Prior to Japan, many foreign countries have proactively promoted IR establishment. There are already about 5,000 IR/casino facilities in the world, and its global market size is over 90 billion dollars. This is an enormous market equivalent to other notable markets such as the world robotics market of about 90 billion dollars (2025) and the EC market in Japan of 87 billion dollars (2017). Also, in 2016, Okada Manila, the first casino to be run by Japanese people, pre-opened by Mr. Kazuo Okada, a former chairperson at Universal Entertainment

(To be opened in 2019). The total construction cost is said to be 3.8 billion dollars, far exceeding the establishment cost of the New National Stadium in Tokyo (2.25 billion dollars), which was little criticized by its expense, shows how big the market size of IR and casino is.

Las Vegas comes to our mind when hearing casinos, but as shown in the chart below, in fact Asia is the largest IR market. Macau earns approximately 33 million dollars a year in casinos in 2017, which is about 50% of GDP. Singapore opened two IRs in 2010, Marina Bay Sands, and World Sentosa. Marina Bay Sands has now become the landmark representing the country, and it contributes greatly to the acquisition of commercial customers and tourists. In Asia, IR is a shadow booster of economic growth in fact.



## Can we prevent the threat posed by gambling?

### Learnings from best practices

Although the IR market is very large, there are concerns about establishing casinos which are unusual in daily life. In general, 3 concerns regarding the casino establishment exist:

- ① Increase in economically compromised people due to gambling addiction
- ② Deterioration of security
- ③ Increase of funds source for criminal organizations

### ① Will gambling addicts increase?

If many Japanese get into a gambling addiction, it becomes far from economic revitalization. However, in fact, addicts have not increased since the establishment of casinos in most countries. They are rather decreasing. In Singapore, addict rate decreased from 2.9% before casino opening of 2008 to 0.7% in 2014. In Korea, it also decreased from 9.5% in 2008 to 5.4% in 2014.

However, it did not decrease automatically, and remember that the above countries have prepared national mechanisms to prevent from addiction.

There are two major points to be strengthened by Japan for prevention of gambling addiction. The first one is admission restriction. Strict regulations should be enforced, as in Singapore where the entries to casino can be restricted by not only the user himself / herself but also his / her family members.

The second is care for addiction patients and pre-addicts. In foreign countries it is possible to receive consultation and treatment without charge, and these costs are usually borne by casino operators.

Although it is best not to become addictive, as Professor Bonhardt at the University of Nevada said, "There are individual differences in the probability of becoming addicted, and furthermore it easily fluctuates depending on individual circumstances. There is no one who will never become addicted." We must learn from advanced countries and make a sustainable mechanism

to care for addicts and pre-addicts.

### ② Will the casino bring in deterioration of security?

easy to make a conclusion even if examining some cases. According to Professor Grinols at the University of Illinois, the crime rate was higher in the areas where casinos exist in the 1980s and 1990s of USA. Meanwhile, in other states, there was a study saying that the income gap in the region was minimized due to an increase in employment through the casino establishment that as a result, the crime rate declined.

Regarding the intensity of the crimes, the majority of crimes around the casino in Singapore are theft and fraud. In contrast, a horrible incident occurred in Chile - a man lost in the casino shot a gun and two died in 2017. Therefore, it was pointed out that casinos could increase the intensity of the crimes there.

Implications extracted from these cases are that there is no one specific solution to prevent deterioration of security, and that city-specific actions should be taken based on local characteristics. Then, what kind of action should be taken in Japan?

In general, most Japanese people are new to overseas cultures. In order to avoid conflicts with foreign visitors increasing due to the casino establishment, education for residents near IR facilities is important to deepen local people's understanding of different cultures. Also, the casino is a special place where money is betted. Therefore, the risk of emotional violence should be mitigated with the highest attentions. It should be a prerequisite to maintain strict crackdown on dangerous goods such as a knife at entrance and thereby.

### ③ What is the key to prevent money laundering?

#### Technology utilization and information sharing between casinos

One of the biggest problems concerned with casinos is money laundering. In order to prevent this, Mr. Floyd, an anti-money laundering officer at Caesars, notes that not only identification at chip exchange but also the latest technology utilization and side-by-side cooperation across casino operators are important. "It

## Gambling-related regulatory situation by country

Chart 5

Japan is trying to establish stringent regulations that are comparable to those of other countries. However, based on the fact that Japanese are more likely to rely on gambling, it will be necessary to further improve best practices in other countries

■ To be specifically examined

Objectives	Rules/Regulation	Singapore	Las Vegas	Korea	Japan (As of May 2018)
Prevent gambling addiction	Admission limit	Can be set by oneself and family	N/A	15 times a month	3 times per 7 days and 10 times per 28 days
	Entry restriction by a third party	Can with advance family registration	N/A	N/A	Not defined yet
	Admission fee (Own nationals)	JPY -9,000	Free of charge	JPY -500	JPY 6,000
	Care for Addicts	Free consultation Hotline and advice hospital visit	Free consultation Hotline and advice hospital visit	Free consultation with gambling addiction center	Not defined yet
Security maintenance	Security check on entry	Passport + baggage inspection	N/A (Security guards ask questions as necessary)	N/A (Security guards ask questions as necessary)	Not defined yet
	Dress code	None (General clothing is allowed)	None (General clothing is allowed)	None (General clothing is allowed)	Not defined yet
Prevent money laundering	Background check at chip exchange	JPY>400,000 cash deal JPY>800,000 credit deal	JPY>250,000 credit deal JPY>1,000,000 cash deal	(No available data)	Not defined yet
	Information sharing among casinos	Information such as dangerous persons is shared	Information such as dangerous persons is shared	(No available data)	Not defined yet

is not easy to completely eliminate counterfeiting or overlooking of identity cards. In order to make casino a clean place, it is important to conduct identification using information that is difficult to counterfeit, such as face, vocal cords and habit of walking. And it is essential to share that information among casinos. " To address organized crime, it is also necessary to work with competing organizations.

### Is Japan really safe to introduce casino?

It is a realistic and effective approach to take actions based on past statistics and case studies. However, Professor Bernhardt said, "More than 80% of the past studies are targeted at the WEIRD (Western, Educated, Industrialized, Rich, and Democratic) cultural spheres. This could be literally "weird (strange)" for Japan, and we have to carefully judge whether the past research can be applied directly to Japan. "

The characteristics and personality of Japanese are different from those of Westerners in many cases. Although it may sound surprising, it is said that Japanese are more likely to become gambling addicts than others. According to the survey in 2014, the Ministry of Health and Welfare has announced that 4.8% of the population (about 5.4 million people) are suspected of addiction in Japan\*1. In addition, Japanese are the world's No. 1 in amount for charging

to smartphone games, and are the races that feel attractive to the randomly-obtained rewards (so-called "Gacha"). It is certainly necessary to watch carefully if relatively-addict able Japanese people can be controlled well with the past- level systems only.

It is difficult to create a perfect system at the time of IR establishment. However, as Professor Bernhardt emphasizes, it is important to continuously monitor the situation and flexibly take actions. It is truly a pull-able lever for Japan to pay close attention and keep on strategy adjustment without sticking to the rules once decided.

### What is the benefit that IR will bring to Japan?

Next, let's think about the benefits caused by establishing IRs.

As often reported, the effects of IR on the country are mainly following 3 items;

- ① Increase of tourists
- ② Creation of employment
- ③ Increase in sales of surrounding industries

Are these benefits can be expected in Japan similarly?

\*1 Based on a survey in 2013 conducted by Ministry of Health, Labor and Welfare

## ① Increase of tourists

### Foreign IRs driving the development of tourism industry

In countries that have already established IRs in the past, the number of tourists generally rises steadily. For example, the number of foreign tourists visiting Singapore has increased from around 10 million people to 15 million people in just four years after opening two IRs of Marina Bay Sands and Sentosa. In addition, the total consumption of foreign tourists also increased 1.5 times from 2008 to 2014 after IR opening. IRs have obviously contributed greatly to their economy. Even in Macau, after acquiring a casino license in 2001, tourists have increased by more than 10 million people in 10 years.

### Is there room for further increase in foreign visitors in Japan?

In Japan, by the efforts of the Japan Tourism Agency, the number of foreign people visiting Japan is rising. From 2008 when the Japan Tourism Agency was launched, it increased to about three times by 2017. It has exceeded 20 million people a year. Japan ranked 16th in the worldwide visited country ranking in 2016 (29th in 2010). Also, it ranked 12th in tourism revenue rankings. Japan is looking into the top 10 in the near future. The current administration intends to continue expanding the tourism business in the future, with the goal of achieving 40 million visitors by 2020 and 60 million by 2030.

But concerns also exist. About 90% of the 20 million visitors come to Japan for sightseeing purposes, while the visitors for commercial purposes accounts for only 10%.

Based on the past statistics, tourists will increase if IR is established, but the effort to attract commercial customers need to be taken in order to reach the government's targets.

## ② Creation of employment

### Are there sufficient workers?

In Singapore, in addition to direct employment of about 20,000 people, it is said that about 60,000

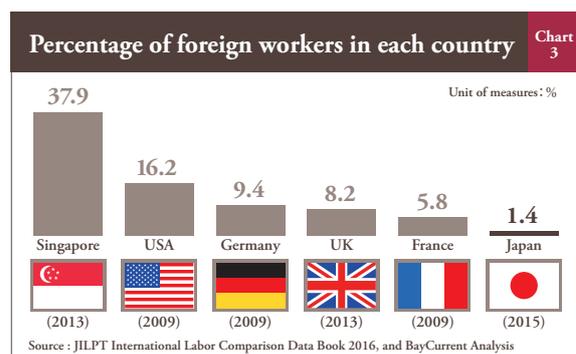
indirect employment has been created. As of 2017, in Macau, 55,000 people, about 10% of the population of 600,000 people, work in the casino industry. The casino is the foundation of employment there. When Yumeshima in Osaka prefecture of Japan opens, it is estimated that 97,000 jobs will be created by the start of business and 70,000 employment will be generated for the annual operation after opening.

However, it is necessary to consider the possibility for satisfying such large employment demand with only Japanese workers. The labor population rate in Japan is on a downward trend, falling from about 60% in 2016 by about 5% in the next decade. In addition, the income of IR and casino workers is not high and it is not typically a popular occupation. For example, it is common for casino dealers in the United States to be hired at the minimum wage and have a fixed annual income of about 20,000 to 30,000 dollars. Of course, in the United States, income of tips will also be added here, but unfortunately there is no custom of tips in Japan. In Japan, unless we do not make it more attractive job with other factors and ingenuity, many people may not apply for it.

### Leverage foreigners and make IR a symbol of 'opening of the country'

The word "global" has been emphasized for a long time, but unfortunately Japan is still far from the vision. As shown in Chart 3, the foreign workers ratio in Japan is extremely low among developed countries.

Even if you look at the outbound, the number of Japanese student going abroad is currently on a downward trend, now it has declined from 80,000 persons a year in 2004 to 50,000 now. In this situation, the possibility for Japanese to grow up as "global talent" is very limited.





Taking this situation into account, we should actively recruit foreigners to casinos and IRs. In addition to solving foreign employment problems, IR can be a place to experience diversity.

There are also many foreign customers in the IR, so the labor of foreigners is necessary. "The casino must be transparent. If an unfamiliar language is spoken around, the customer will be anxious. To be truly enjoyable, the staff should speak in customer's native language." said Mr. William of Caesars Corporation.

In addition to securing labor, we can expect globalization of Japanese labor workforce there. Working in English with foreign colleagues would be attractive for overseas-oriented young talent. If you are hesitant to go abroad, it is also an idea to start working in the country and create opportunities for globalization.

Foreigner employment also has a large ripple effect. Improving the employment rate of foreigners will lead to an increase in inbound international students, expansion of surrounding businesses and diversity of Japanese companies. Through improvements in the employment environment starting with IR, now should be the real opening of the country.

### ③ Increase in sales of surrounding industries

When establishing IR, not only neighboring industries such as real estate, hotels, food service, and travel industry, but also surrounding industries such as security companies and equipment makers will benefit. The economic impact in Singapore is said to well exceed 9 billion dollars per year, a very attractive figure.

However, just building a casino does not mean the economy will automatically start turning around. What is important is customer experience.

### Casino is NOT the 1st choice for foreigner

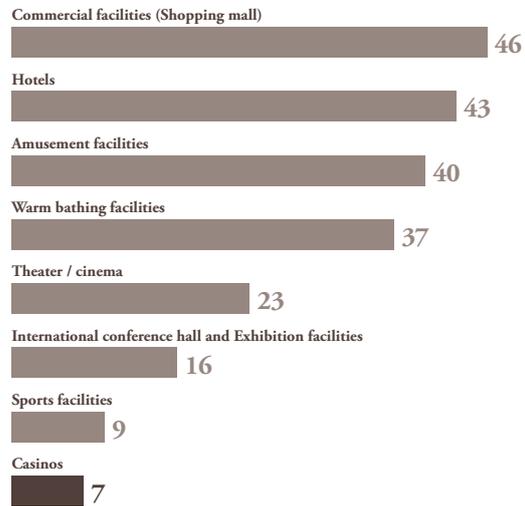
As the survey in Chart 4 shows, casinos are not wanted facilities to visit in IR. The promotion act is called as the "Casino Bill", many people feel like casinos are the main feature. However, remember that the casino is only a part of the IR facilities and that customer's expectations are outside the casino.

## Facilities that people would like to visit in the IR

Chart 4

Survey : Favorite facilities in IR (UOM %; Upto 3 selectable)

(Number of respondent samples: 6,274)



Source : DBJ, and JTB Foundation Research Report

### Cross-organizational cooperation is essential

A marketer at Singapore's World Sentosa, said, "There are not many people planning to travel to Sentosa for the casino purpose. The casino is a facility that generates nearly 80% of the IR's revenue, but it's just a place to stop by along the way to other facilities. It is important for players at IR to work together and to design customer journey.

"In fact, in Singapore casino advertising is prohibited by law. Although the casino is the biggest income source, it cannot be directly advertised like "please come to the casino". Therefore, Sentosa has refined the attractiveness as a resort. Universal Studios Singapore and Marine activities are very popular and have acquired family guests. Together with these attractions, they have prepared large conference halls and banquet halls to attract many companies' off-site meetings. Customers who visit for business purposes will drop money at the casino at the end of the day. It is not an "Integrated" Resort in a true sense unless various facilities are aligned across organizations for target customers.

## **Incorporation of MICE is the key to success of Japan's IRs**

The three benefits above have been achieved in the past IRs, and Japan can benefit similarly in the short term too. However, IR should be a symbol of opening up Japan including business in order to continue economic growth over the long term while wiping out the risks and concerns. For that purpose, IR should be designed in consideration of MICE attraction.

### **What is "MICE"? How important is it?**

MICE stand for Meeting (discussion and training), Incentive (incentive tour), Conference or Convention, and Exhibition. It is said that such commercial customers give economic effect more than twice the number of tourists, and it is obviously a big booster of economic revitalization. In addition, MICE is said to contribute in creating opportunities for business innovation and improving the competitiveness of the country / cities / enterprises by utilizing the city as a place for such business events. Let's see cases of foreign countries.

### **Acceleration of open innovation**

Approximately 4,000 companies exhibit at CES (Consumer Electric Show), the world's largest exhibition held in Las Vegas each year, and 170,000 people from more than 150 countries participate in. It is noteworthy that nearly 1,100 venture companies have exhibited in the last 5 years, and a cumulative total of about 1,350 million dollars have been invested in them.

That business partnership is one of the most difficult challenges for Japanese companies. In fact, only 49 companies participated in CES, which was only about 1% of the total. If Japanese companies do not accelerate to collaborate with external organizations now, they will lose to foreign companies that began collaborating earlier.

### **Growth of human resources and companies**

Promotion of MICE will improve globalization and diversity of individuals, companies and society.

Technical University of Munich's research team has announced that a proportional relationship exists between diversity and creative possibility of innovation. Companies rich in diversity had higher sales of products and services announced in the last three years. In addition, according to Forbes magazine, the management who emphasizes diversity in innovation creation is over 85%. CEOs of the United States gathered and established a program called "Action for Diversity and Inclusion". More than 250 companies including IBM and Unilever participate in it. The movement proves the high degree of interest in diversity. It is often said that "In Japan, venture companies and new services are unlikely to be born". One of the reasons is definitely the lack of diversity.

### **Status of MICE in Japan -Unsatisfactory situation-**

MICE is expected to improve innovation power and diversity that Japan today is not good at. We cannot help saying that the present situation in Japan is unsatisfactory. In 2016, Japan is ranked 7th in the world and 3rd in Asia, in the ranking of number of global exhibitions and exchange associations. As mentioned above, few commercial customers visit for incentives. If Japan is a country that aims to become the world leader in economics and technology, this figure is unsatisfactory

### **How to attract MICE -Ideal image of IR to attract MICE in Japan-**

#### **Analysis of IR types in foreign countries**

How should Japan promote MICE attraction? There are various kinds of MICE. The needs are different for each, and the necessary resources are also different. In big Expo, "convenient access" from the city and places to have a casual dinner with people met in the expo is important. On the other hand, what "Meeting" and "Incentive" seek is not a convenient city but an "extraordinary" place. If you go to familiar places with familiar colleagues as an incentive tour, you probably will not come up with imaginative fresh ideas. In other words, specific MICE attraction strategy should be designed according to the characteristics of the area where IR is established.



If casinos are built in Japan, certain customers can be expected with brand newness, like Macau before a long time ago. In next few years some customers could be attracted to a simple IR. However, as Mr. Clayton, CMO of Galaxy Entertainment says, "Casino is no longer a top priority when customers plan a travel," additional attraction approaches are absolutely necessary.

### Japan should show direction of IRs

Up to 3 IR operation licenses (casino operation licenses) are expected to be issued in Japan. If these 3 operators intensively compete for customers, the country would not receive the greatest benefit.

For example, Singapore properly distinguished the features of 2 IRs. Marina Bay Sands located in the center of a city with good access has facilities good for 1- to 3-day conferences and exhibitions and luxury restaurants suitable for a subsequent meal.

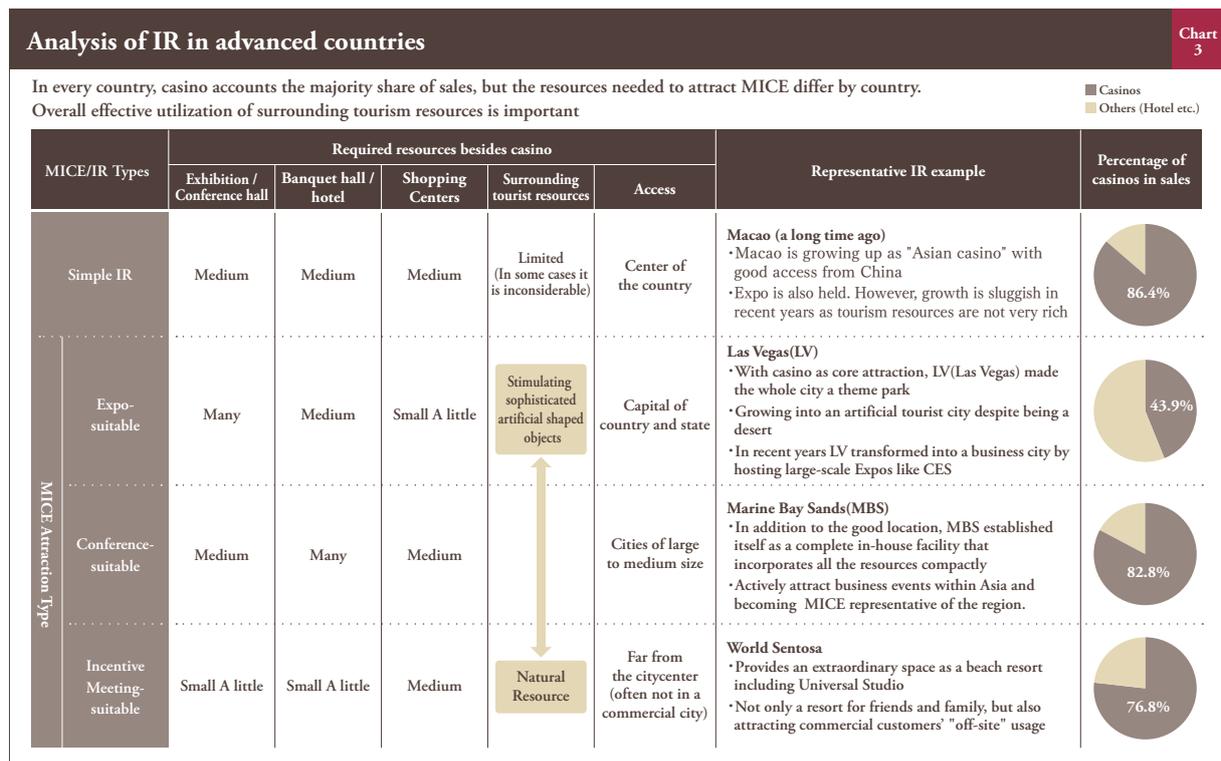
On the other hand, World Sentosa provides an extraordinary experience on islands off the city. They are mainly targeting not only traveling for families but also off-site meetings and incentive tours. Even in Japan, each applicants (municipality) should not decide the concept freely. Like Singapore,

the country should define which region aims at which MICE segments. Mr. LEE, who served as an important position from the time of World Sentosa development and now COO of Hong Kong's leading real estate developer, also said, "Osaka may not be suitable for employees' incentive tours. The big city should make great use of its charm as a big city, while the local city should pursue its own characteristics. It is expected that the candidate sites for MICE will be selected based on the bidding from municipalities, but it would be good idea to have local governments apply for each concept, not the entire IR.

### Required improvements for MICE attraction

Nevertheless, MICEs will not be attracted by merely preparing the facilities. MICE's trend-setters are needed, and this point is a big difference from other countries.

Chart 6 shows the MICE industry structure. In the future, it is necessary to strengthen 4 main areas in order to fully leverage IR opportunities and to invite MICEs.



## ① Cross-industry collaboration

As trend setters of MICE industry, CIC (Convention Industry Council) and JMIC (Joint Meeting Industry Council) are quite famous in abroad. They are the communities that analyze and discuss what type of MICE is needed now and in the future. It should be noted that players from various countries belong to these communities. Therefore, it is possible to share information across countries by inviting companies and organizations with unobtainable insights. On the other hand, there seems to be no foreign company in Japan's industry group. With advances in technology, the trends and industry structure of the world are rapidly changing. In such times, cross-border cooperation is indispensable for the invitation of leading international conferences and exhibitions.

## ② Role of Professional Congress Organizers (PCO)

~Proposal required instead of simple operation support~

In order to invite MICE, evolution is also required for the companies in response for supporting the conference operation. They need to conduct not only traditional tasks such as interpreting and logistic arrangement after the event has been decided, but also sales and proposing activities that attract exhibitions and events positively. In Japan, few players with such functions are present.

Removing the language barrier of Japanese is a basic requirement. Even in Asian emerging countries, business people can speak English well. As these countries become more attractive as economic spheres, it will be more difficult to invite MICE in the future unless we actively appeal MICE's significance in Japan and cities.

Mr. Georgio of Innovation Enterprise, points out the importance of event organizers. "What is important at these events is interactive two-way communication between the presenter and the audience," "There is little learning by just listening. Japan will need good facilitators to capture the opinion of the audience and ask questions to the presenter."

In other words, event organizers themselves also have their own unique themes and insights from

the industry and are required to lead discussions. For example, Kenes Corporation in Switzerland has taken advantage of specializing conference themes in medical care, and has been evaluated not only by managing events but also providing educational contents. A consortium of companies with deep insights into the industry and consulting firms familiar with trends may also take over these functions

## ③ Role of city convention bureau ~Don't mindlessly follow foreign IR business players~

Since no Japanese IR business player exists, a foreign-owned company will establish IR in Japan with high probability. It is important to learn the findings of past successful people, but do not forget the importance of the city convention bureau, which will convey the charm as the city.

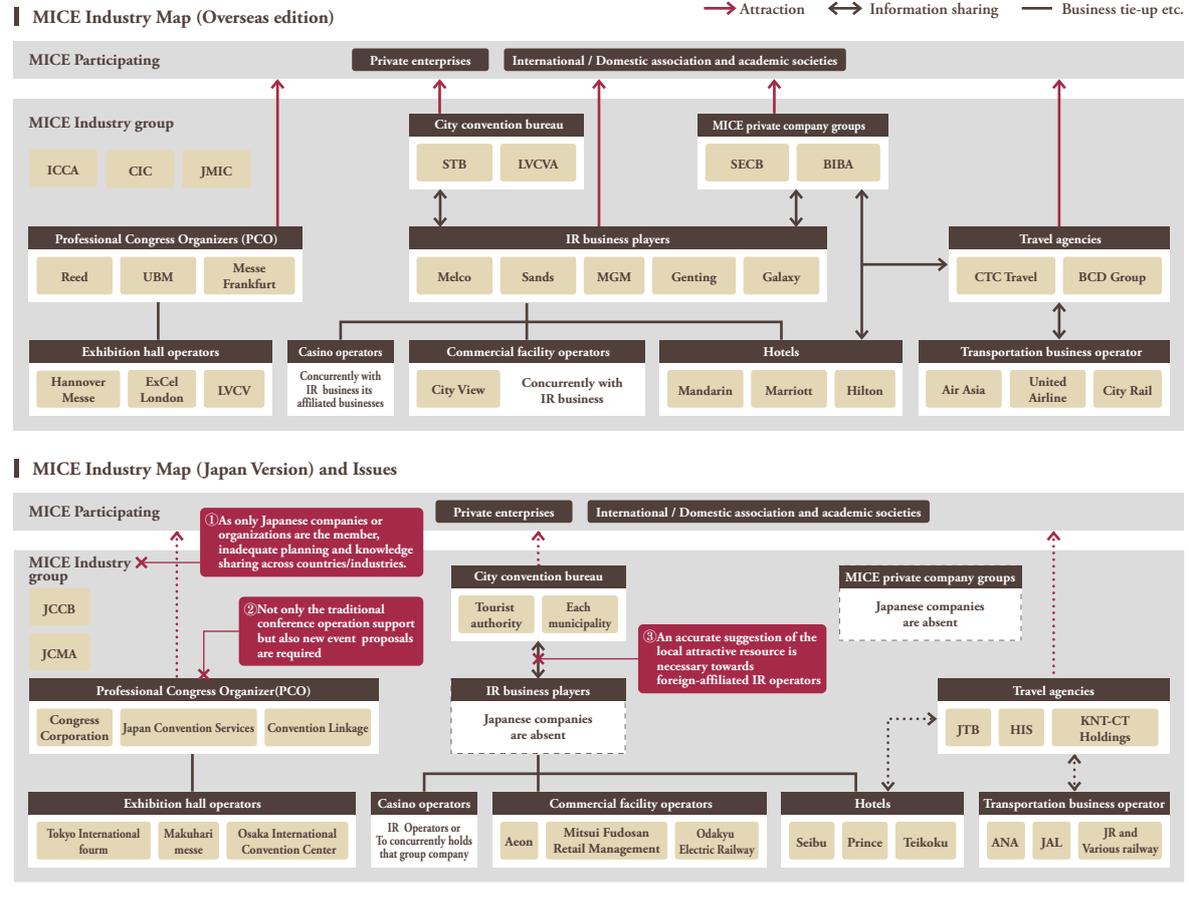
For example, Macau has achieved great growth as a casino city, but they cannot fully utilize the surrounding tourism resources. Macau has a historic church founded in 1837, called Penha Church. People can overlook the Macau Peninsula from there and enjoy a great view. However, only a few percent of the approximately 30 million tourists visit this spot.

Also, do not forget to take consistency with each city's growth strategy. Which facilities should be used to attract MICE and the visitors? What kind of industry does the city develop –like agriculture, finance, or manufacturing? The value of establishing such uniqueness of the city will definitely appear after a few years.

Las Vegas has long been a city of casinos. However, background to a steady effort as a city, casino revenue now accounts for only 40% of the total and revenues such as entertainment and Expo are outpacing casinos and evolve into commercial cities. For example, CES, the leading event in Las Vegas, was originally established in New York and later in Chicago. In 1995 the CES was successfully attracted to Las Vegas. The Bellagio hotel with famous fountain opened in 1998, and the following year the Venetian Hotel began operation. They have promoted the development of the city like an entertainment park.

## MICE Industry Map

Chart 6



Also, they attracted circus and musicals to Las Vegas so that commercial customers have fun after the event. This year Las Vegas collaborated with Bellagio at CES and carried out a drone show. The whole city is exactly like an exhibition. Nevada forecasted a decline in casino revenue and has grown Las Vegas as a city of entertainment and a king of Exhibition.

Culture and tourism resources of Japan have high uniqueness. Also, the city view changing every season is also the characteristic of Japan. As the seasons and the scenery from the window changes, even usual meetings become more inspiring. What Japan should appeal to customers is never a casino nor an artificial imitation resort. It is important to incorporate local characteristics of areas that foreign companies cannot notice. Therefore, a joint management organization of IR should be formed by organizing a consortium together with local governments and local companies.

## Toward the establishment of IR in Japan

The establishment of IR will definitely produce significant changes. In particular, foreign workers will increase as foreign-affiliated IR companies penetrate into Japan. It is inevitable that unknown things will come from foreign countries into Japan.

Unknown things make us feel awe. However, in times when global and diversity are essential requirements, we must accept unknown. Japan had been “Galapagos” country and people prefer to be very stable shown by its lifetime employment. Since it will be more difficult to secure stability, it is vital that Japan address the instability with the diversity of human resources.

Mitsuki Nishino:  
Senior Manager, BayCurrent Consulting Singapore Office  
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