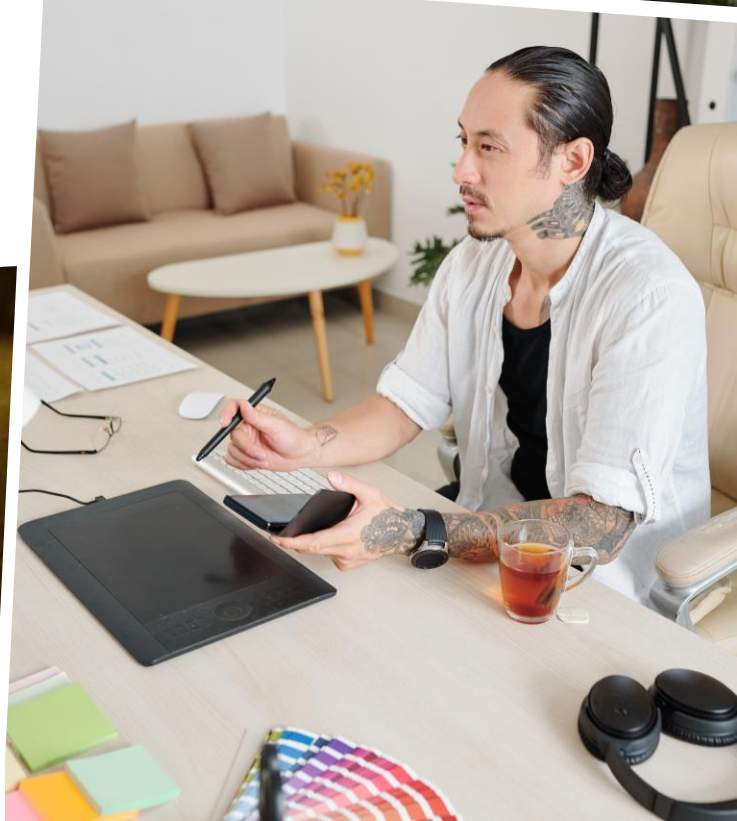


EVOLVING URBAN DESTINATIONS

How the blending of work
and travel is reshaping cities
in Asia-Pacific for the better

CITY APPENDIX





TOKYO

1. UNDERSTANDING THE TRENDS

As the first shrinking megacity in the world and the financial hub of Japan, Tokyo faces unique socioeconomic opportunities and challenges. Tokyo prefecture comprises 23 special wards, each an administrative entity with its municipal government and which play a vital role in the capital politically, economically and culturally, overseen by the Tokyo Metropolitan Government (TMG). Moreover, there is a high level of jurisdictional complexity involved in the development and management of Tokyo.

1.1. COVID-19

Japan's economy shrunk by 4.8% when first hit by the pandemic in 2020.¹ The delays in Japan's digital transformation posed a significant challenge to its recovery, with a lack of online resources or online procedures available to invigorate recovery efforts. As people stayed home, 38.2% of workers in Tokyo reduced their commuting time by 50% or more². Workers also reduced their trips to Tokyo's CBDs due to the rise in telework, resulting in the short-term decentralisation away from its CBDs.

Tokyo faced the highest number of Covid-19 infections in Japan. In 2021, Tokyo's population decreased by 0.1%,³ for the first time in 26 years. This outflow was exacerbated by remote working. However, as pandemic recovery continues, the population is expected to bounce back. The 2022 Basic Resident Register Migration Report noted a net inflow of residents, with 758 people migrating back into Tokyo as of September 2022.⁴

¹ Japan's economy shrinks 4.8% in 2020 due to Covid-19, BBC, 2021.

² Will Covid-19 Reshape Cities in Japan?, Keisuke Kondo, 2021.

³ Tokyo loses population for first time in 26 years amid pandemic, The Japan Times, 2022.

⁴ Tokyo metropolitan area's population migration report for two consecutive months in September, Nikkei, 2022.

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1.2. SUSTAINABILITY

Tokyo is prone to natural disasters, with a 70% chance of a major earthquake striking the city in the next 30 years.¹ As such, the city is focused on developing disaster resilience by adopting digital tools to improve and expedite the dissemination of information regarding weather events to the public.

Wider systems of healthcare providers are set to be implemented, to ensure public health and safety in the face of such natural disaster events. With one-third of Tokyo comprising low-lying areas, the city faces huge risks of flooding from typhoons and storm surges. Government bodies have discussed greater cross-jurisdictional cooperation for evacuation plans.

TMG has set targets to reach net-zero by 2050, as part of its sustainability agenda and position as an advanced economy within the G7.² TMG aims to accelerate green financing, launching subsidy schemes for foreign investors and green tech companies to attract green businesses into the Tokyo market².

The Tokyo Bay area will see major sustainable developments in the next decade, with plans to build a high-tech carbon-neutral city that employs technologies such as carbon capture and clean energy. This mega-project looks to boost Tokyo's competitiveness and restate its position as an advanced city. New planning paradigms look towards greening the city, which will curb rising temperatures and increase the quality of life for its residents.

1.3. OTHER TRENDS

Digital transformation is one major trend impacting Tokyo's future. While the country has shown delays in its digitalisation, Tokyo has been looking towards rapid digital transformation to boost its connectivity and advance into a smart city. Public digital infrastructure such as 5G and data-sharing systems have been rapidly expanding. Such infrastructure aims to encourage more cross-sectoral collaboration for various services, and the establishment of operations by advanced tech companies and startups – both boosting Tokyo's international competitiveness.

Urban planning and greening strategies are also utilising cutting-edge technologies that are innovative and predictive. Indeed, acceleration of digital transformation through using cloud platforms to enable innovation and scale new growth.

Another major trend affecting Tokyo is its changing urban demographics. Tokyo faces a continuing population decline, due to a large ageing population and consistently low birth rates. More than 27% of the population in Japan is over 65 years old³, and the birth rate was 1.43% as of 2017³ – well below the replacement level. On the urban fringes of Tokyo lie geriatric villages that are depopulating rapidly, resulting in the disappearance of communities and the rise of abandoned homes in the suburbs. The government is looking to encourage higher birth rates, but the number of single households in Tokyo is rising.

¹ On shaky ground: Is Tokyo prepared for the 'Big One'?, The Japan Times, 2021.

² Tokyo: The Future of Finance in Green, Reuters, 2022.

³ Research strategy against an aging society with low birth rate, Nomura et al., 2019.

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2. FUTURE OF TRAVEL AND WORK

Tokyo is navigating its growing trends of teleworking, seeing a rise in co-working spaces for flexible work but also seeing the possibility of remote working arrangements tempering in the near future.

As for its tourism industry, Japan saw a peak in inbound arrivals in 2019 with over 31 million international visitors – which took a steep fall of 92% since Covid-19.¹ As restrictions loosen, Tokyo is welcoming back travellers, seeking a bright future for its tourism recovery.

2.1. THE NEW NORMAL OF WORK

Tokyo's work landscape is largely changing due to Covid-19 disruptions and the digital transition, through new work arrangements, the adoption of automation, and immigration laws.

- **Rise in co-working spaces:** In 2020, the flexible office market in Japan was estimated at 80 billion yen,² seeing growth since 2017. The demand for co-working spaces is increasing in Tokyo, with its flexible office market expected to climb.
- **Flexibility desired by employees:** 38.4% of workers in Tokyo wish for hybrid work arrangements.³ Employees with families show a stronger desire to prioritise family over work. More want to work shorter hours, even if it means a pay cut.
- **Strong government support for flexible work:** In 2021, the Tokyo Metropolitan Government provided subsidies of up to 800,000 yen for each company that had at least 70% of staff working from home for a minimum of 3 months, incentivising businesses to promote flexible work amongst their employees.⁴

- **Growth of satellite offices:** The national government has set a budget of 10 billion yen for municipalities to help businesses set up satellite offices in regional areas.⁴ Several Tokyo-based IT firms have opened satellite offices spread across Japan, to allow employees to utilise them as alternative workspaces, encouraging better work-life balance too.
- **Slower uptake of telework:** When infections were widespread across the city in May 2020, only slightly over 20% of workers were working remotely, with this rate unchanging in 2021.⁵ Additionally, 41% of workers surveyed by Ashita-Tech in 2021 were pessimistic that flexible arrangements would endure for the year.⁵
- **Japanese traditional workplace values:** Japanese work culture places strong values on seniority and hierarchy. With the high emphasis employers place on face-time and physical interaction, trends of remote working may not persist.

“ The parameters to measure productivity is very different in Japan. Being in the office deems you productive, but the younger generation wants it to be more results-oriented and flexible. ”

Dhruv Kohli,
TU Berlin

¹ Japan's Inbound Tourism Boom: Lessons for its Post Covid-19 Revival, IMF, 2020.

² Coronavirus Pandemic: Growing number of Japanese turn to flexible offices, CGTN, 2022.

³ How Will Covid-19 Reshape Cities in Japan?, RIETI, 2020.

⁴ Tokyo government promotes WFH with subsidies to companies, HRMASia, 2021.

⁵ Back to the office? How Japan might work after Covid-19, Nikken, 2021.

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- **Digitalisation transforming work:** Both public and private sectors are accelerating their digital transformation, moving away from an overreliance on outdated technologies and towards more efficient digital tools such as cloud platforms, AI, and big data – increasing the confidence of workers to conduct more technologically-advanced work. Digitalisation also catalysed remote work uptake in Tokyo.
- **Rapid automation of jobs in the next decade:** Japan leads the world in the potential for jobs replaced by automation. 56% of occupations and activities in Japan are highly susceptible to automation due to their highly repetitive nature, and it is estimated that 16.6 million jobs will be displaced by 2030.¹ While this may alleviate the issues of labour shortage, the country will still require 1.5 million workers in the next 10 years to fill up skills gaps.
- **Relaxing immigration policies to welcome workers:** Demographic pressures and its economic burdens have spurred the Japanese Government to revise its tight immigration policies, with a new immigration law implemented in 2018 to welcome highly-skilled and semi-skilled workers across the economy, allowing for a 5-year visa². In a 2022 survey, a total of 19% of firms said they were securing foreign workers, compared to 13% of firms in the 2017 survey,³ both conducted by Reuters. This reform is expected to alleviate labour shortage issues but may raise challenges of language barriers and fears of wage depression for local workers.

2.2. THE NEW NORMAL OF TOURISM

Historically, inbound tourism has been the main growth engine of Japan's tourism industry. However, the country experienced a 92% drop in inbound visitors in 2020⁴, the lowest figure since 1964. The long-anticipated Tokyo Olympics 2020 was expected to create a huge tourism boom in the city, but was upended by the pandemic and postponed, causing significant economic losses, with an estimated 90 billion yen lost in ticket revenue.⁵

While Tokyo's tourism industry experienced major losses, international demand for travel to Japan has quickly risen as borders reopen, with a successful recovery of its tourism industry expected as overseas tourists return.

- **Micro-tourism in rural destinations near Tokyo:** When restrictions were placed on prefectural borders, locals looked to travel within their own prefecture, with day trips and overnight stays in rural areas outside Tokyo becoming popular in a bid to avoid close-contact crowded spaces. Micro-tourism has been cited as Japan's first step towards recovering tourist demand.



¹ The future of work in Japan: Accelerating automation after Covid-19, McKinsey & Co., 2020.

² Japan passes controversial new immigration bill to attract foreign workers, The Washington Post, 2019.

³ More Japanese firms are raising wages to combat labour shortage: Reuters poll, Reuters, 2022.

⁴ Japan's Inbound Tourism Boom: Lessons for its Post Covid-19 Revival, IMF, 2020.

⁵ The Economic Impact of the Tokyo 2020 Games, Tokyo Updates, 2022.

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- **Government initiative to boost domestic travel:** At Japan's first stage of re-opening its economy, the Japanese Government stimulated domestic travel demand by launching the Go To Travel campaign in 2020, which provided subsidies of up to half of travel expenses for locals, such as accommodation and hotel stays. "This campaign served as a way for the locals to discover their own local areas," says tourism professor Kimo Boukamba. Regional travel within Japan saw a significant boost as a result, with Tokyo's prefecture citing the highest usage of coupons at 69.6%.¹ Thus, the majority of domestic travel took place near Tokyo.
- **Travel concentration focused within Tokyo:** The regional distribution of tourism in Japan is highly skewed, with 48% of tourist stays and 60% of inbound tourist expenditures in 2015 concentrated in metropolitan areas – most notably Tokyo.² Foreign tourists are increasingly venturing out to outlying rural areas. However, they still remain highly concentrated around Tokyo, within the Kanto region.²

“Tokyo will continue to be the hotspot of Japan's tourism. Travellers usually position themselves in Tokyo, before travelling outwards via rail.”

Vibhu Jain,
urban
consultant

2.3. THE GREAT MERGING – NEW LIFESTYLES

- **Growing desire for workcations:** With more flexible working arrangements arising from the pandemic, the idea of workcations is growing more popular in Japan, with 72.4% of respondents being aware of workcations and 23.1% of them hoping to take one, according to an employee attitudes survey conducted by Cross Marketing Group in 2020. Japanese employees expressed interest in workcations, expecting these work-leisure trips to boost their productivity by providing them time to refresh and spend time with their families², bettering their work-life balance.
- **Slow implementation of workcations:** According to a survey done by Cross Marketing Group, implementation of workcations is still highly uncommon, with only 7.6% of companies allowing it.² This is largely due to labour management issues and deeply entrenched traditional workplace beliefs. Implementation of workcations is skewed and sees greater adoption within bigger, international companies in Japan.

Regional governments in Japan have also sought to promote workcations in a bid to move towards new work reform and to boost travel demand in Japan.

- **Japan Workcation Alliance:** Formed in 2019, the Alliance gathers 7 prefectural and 58 municipal governments to encourage migration from urban to rural areas through workcations, with aims to incentive this type of travelling, by enabling local municipalities to revitalise their economies.³

¹ White Paper on Tourism in Japan, Japan Tourism Agency, 2021.

² Japan's Inbound Tourism Boom: Lessons for its Post Covid-19 Revival, IMF, 2020.

³ Japan's local governments launch 'workation' alliance to boost regional revitalisation and work-style reform, The Japan Times, 2019.

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Regional governments in Japan have also sought to promote workcations in a bid to move towards new work reform and to boost travel demand in Japan:

- **Government support to set up workcation spots in nature areas:** Japan's Ministry of the Environment has set incentives to financially support tourism and accommodation facilities within natural areas, to help improve the infrastructure needed for teleworking, such as building digital infrastructure and reliable broadband. The Ministry has chosen approximately 500 projects to provide subsidies for, of which of them include 34 national parks and hot spring locations across Japan.¹
- **Financial incentives for migration out of Tokyo:** The national government is providing funding of up to 1 million yen to those relocating to rural areas but working remotely from an office in Tokyo. Tech businesses setting up in the countryside can also receive grants of up to 3 million yen. Such financial incentives aim to disperse the concentration of human resources beyond the capital city.²

“ While office culture continues to be strong, there is a growing awareness in Tokyo about remote working - which people are gradually starting to leverage on. ”

Vibhu Jain,
urban
consultant



SHIRAHAMA IT BUSINESS OFFICE

Shirahama, a resort beach town in the Wakayama Prefecture, opened an IT Business Office which has been welcoming Tokyo-based IT firms into its space, seeing 11 companies set up there as of 2020³.

According to Professor Kimo Boukamba, "Shirahama helps decentralise economic activities from being clustered in big cities like Tokyo, rerouting congestion and shifting economic activities to more local areas."

From the Shirahama office, employees are able to provide system support services for corporate clients nationwide. Apart from the panoramic ocean views in the office space, employees are able to participate in local activities and explore nature sights during their free time, which they say has motivated them to work harder during office hours, thus boosting productivity.³

¹ Japan to groom national parks as destinations for 'workcations', Nikken Asia, 2020.

² Get Paid by the Japanese Government to Move to the Countryside, Japan Insider, 2021.

³ New Workstyle Blooming in a Nature-rich Town, JapanGov.

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3. A NEW WAY FORWARD

As Tokyo navigates these new and evolving changes to its work landscape and tourism sector, the city must harness the opportunities that arise, to solve its emerging economic, social and environmental issues. While Tokyo sees rapid development and reimagining of its city, the public and private sectors must skillfully work together to overcome challenges in adopting this emerging future of work and travel.

3.1. OPPORTUNITIES

With remote work gaining popularity during Covid-19 lockdowns, these new flexible work arrangements can pose a huge opportunity for alleviating the country's labour shortage issues. Some of these opportunities include:

- **Retaining talent through flexible working arrangements:** Attracting and retaining young talent by offering a choice of work style is vital as the workforce shrinks and labour shortages become increasingly pressing. Such hybrid arrangements are essential to draw talents such as parents with young children or international workers.
- **Improving work-life balance can alleviate urban demographic issues:** By encouraging shorter hours, workers can experience better work-life balance. This is likely to encourage more social interaction, possibly encouraging the growth of families, and alleviating issues of low birth rates long-term. Remote working can also increase reverse migration into rural areas, revitalising rural towns that are facing massive depopulation.

- **Revitalising rural areas to welcome tourism:**

The pandemic has emphasised Japan's potential for domestic travel to rural destinations outside metropolitan Tokyo. The government also seeks to triple the annual number of visitor nights in these rural areas to harness tourism, as an economic tool to revitalise these non-populous towns.

- **Highly advanced transport infrastructure and connectivity:**

The country boasts globally renowned railways within Tokyo and across cities. Modal share of trains in Tokyo is 48%, with a daily ridership of 40 million people as of early 2020.¹ Japan's railways are known for punctuality, reliability and safety. These extensive rail networks provide the opportunity for travellers and workers in Tokyo to travel to greater areas in Japan.

3.2. CHALLENGES

To enable Tokyo to unlock opportunities for its future of work and tourism, there are some challenges that the city faces which must be addressed.

- **Resistance to work reforms:** Employees have cited that their bosses only assign work or opportunities to those in-office, disadvantaging those working remotely. Some Japanese employers hold beliefs that workers must be physically watched by superiors to ensure productivity and evaluate performance. Thus, the potential for flexible work is quite limited. "There is still a huge face-time office culture, which even the pandemic restrictions could not overcome," says Vibhu Jain, urban consultant.

¹ Keeping the megacity on the move, Lee Kuan Yew World City Prize, 2021.

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- **Skilled labour shortage:** Japan is estimated to face a shortage of 1.5m workers by 2030.¹ Employers are in urgent demand for employees with digital skillsets but face a shortage of skilled workers available. The tight labour market makes it tough for employers to free up resources needed to develop new opportunities for workers. Few managers are equipped with resources to help workers upskill and adapt to rapidly changing technologies.¹
- **The concentration of tourism in Tokyo:** Pre-pandemic Tokyo saw huge concentrations of tourism in its metropolitan area, leading to high congestion, and negative environmental impacts such as pollution. In 2016, tourists spent over 30% more time in Tokyo, Osaka and Kyoto than they did outside the cities, translating to estimated missed revenues of 600 billion yen for other areas². This raises the concern that overtourism will occur again in Tokyo as the city welcomes back inbound tourism.

3.3. KEY ACTIONS TO BE TAKEN

To harness these opportunities and overcome its challenges, the city must do more to work towards labour and work reforms, to alleviate digital skills gaps and labour shortages. More concrete solutions can be put into place, to implement the structural change needed to accommodate the future of work and travel in Tokyo and greater Japan.

BY POLICYMAKERS

- **Incentivise workcations in rural areas:** To encourage flexible working, the Japanese Government can encourage work-leisure trips by providing incentives and travel subsidy schemes to workers. For example, the Japanese Government's Go To Travel subsidy campaign was a huge success in boosting domestic travel, and thus more initiatives can build on this work and be rolled out to encourage people to work and travel around Japan.
 - **Boost digital literacy and adoption in rural communities:** While Tokyo's digital infrastructure is highly advanced, Japan's rural towns are lagging in their digitalisation. However, digital adoption and the use of digital tools are crucial to attracting tourism through social media marketing, e-payments, and online booking systems. Thus, policymakers can set up the necessary infrastructure in rural areas to accelerate their digitalisation through digital centres and broadband as well as implement upskilling programs for locals to equip them with digital skills.
 - **Attract international workers:** To resolve severe challenges of labour shortage, policymakers can seek to attract foreign talent by relaxing regulations through longer work visas and lower visa costs as well as alleviating language barriers in administrative processes by providing English translations and developing more user-friendly applications.
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¹ The future of work in Japan: Accelerating automation after Covid-19, McKinsey & Co., 2020.

² The future of Japan's tourism: Path for sustainable growth towards 2020, McKinsey & Co, 2016.

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BY INDUSTRY

- **Support flexible working:** Companies in Japan should recognise the value of flexible work in retaining and attracting talent. Companies can mandate flexible working by formally including flexibility in their work policies. To show support for flexible working, employers can establish remote working allowances to cover increased utility bills and equipment costs, as done by Honda Motor Co. and Yahoo Japan. Employers can also better providing virtual meeting options, to facilitate remote and hybrid working for its employees.
 - **Transition to more flexible workspace types:** Companies can adopt more flexible office space such as open floor plans or activity-based spaces to encourage more interaction and cross-collaboration between workers, to reduce barriers of hierarchy. Companies that can operate remotely should consider setting up satellite offices in rural areas or nearby cities such as the Shirahama IT Business Office, to encourage workcations and boost work-life balance necessary to retain talent.
 - **Digitally upskill workers:** To overcome the challenges of skilled labour shortages, companies can enhance the skills of their workers by developing business translators, building awareness about cybersecurity, and providing resources to help workers adapt to rapidly changing technologies.
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“ The bottleneck for the movement of people out of Tokyo lies in the lack of opportunities the Japanese countryside offers, resulting in resistance to migrate out of their comfort zone. More policies should continue to be set up to encourage this movement to rural areas. ”

Dhruv Kohli,
TU Berlin

