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Pandemic may help rectify Japan's economic overconcentration in Tokyo

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Executive Summary



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Overconcentration of economic activity in Tokyo, long regarded as an unhealthy imbalance, has started to show signs of change, largely in response to COVID-19 contagion fears and broader adoption of teleworking. It is important for the government to seize, not squander, this opportunity by mounting a strong policy push to geographically rebalance the economy. Prospective benefits of such rebalancing include revitalization of regional economies through greater utilization of their local resources.

Net out-migration from Tokyo in May was a one-off but...

In May, 1,069 more people moved out of Tokyo Metropolis to elsewhere in Japan than moved in. Tokyo had previously not experienced a monthly net outflux of population since at least July 2013, when Japan first started tracking domestic migration inclusive of foreign residents. The net outflux was attributable to a sharp drop in in-migration to Tokyo in response to Tokyo's then high COVID-19 case count and the late date on which the government lifted its emergency declaration in Tokyo relative to other prefectures. However, net out-migration from Tokyo proved short-lived, with net in-migration resuming in June.

Even so, with COVID-19 contagion fears likely to long persist, they may be a drag on in-migration to Tokyo. To parlay a slowdown in Tokyo's in-migration into a geographic rebalancing of the economy, the government would need to mount a strong policy push.

Highly economically efficient Tokyo is primary engine of Japanese economy

Tokyo's population as of 2016 was 13.62 million, 10.7% of Japan's total population. Its share of nominal GDP, by contrast, is 19.0%, nearly double its population share. In other words, value added per capita in Tokyo is roughly double the nationwide average. By this measure, Tokyo is a highly economically efficient region.

The main factor behind Tokyo's economic efficiency is a high concentration of industries with high labor productivity. Another contributing factor is that major corporations' headquarters are heavily clustered in Tokyo. Their proximity to each other is conducive to efficient business activities. As a hub where a wide variety of resources are concentrated, Tokyo inarguably has a history of driving innovation and growth in the Japanese economy's overall productivity.

Economic overconcentration in Tokyo has numerous drawbacks

On the downside, one frequently cited drawback of the overconcentration of population in Tokyo is an adverse living environment. Hardships endured by Tokyoites include traffic congestion, shortages of childcare and eldercare facilities, overcrowded rush-hour trains, high rents and high prices in general. Tokyo's lack of childcare facilities is blamed as one cause of Japan's low birth rate.

These hardships are natural outcomes of profuse in-migration to Tokyo. High rents and a high general price level should theoretically deter in-migration to Tokyo. In actuality, however, they do not because Tokyo offers many advantages, including high wages and employment opportunities at Japan's biggest corporations.

On the whole, however, the downsides of the Japanese economy's lopsided concentration in Tokyo may already outweigh the economic benefits. Experts have warned that geographic clustering of companies may generally be detrimental to innovativeness. Another frequently sounded warning is that economic overconcentration in Tokyo places Greater Tokyo's core functions at risk of being suddenly knocked out of commission by a local earthquake or other natural disaster.

To mitigate such risks, the government has long been floating trial balloons about relocating functions from Tokyo to other regions, but it has made little progress in doing so to date. Although relocation of central government ministries and agencies out of Tokyo would be a natural centerpiece of regional economic revitalization policies, only the Agency for Cultural Affairs is slated to be entirely relocated out of Tokyo.

The flipside of Tokyo's gravitational pull on both people and companies is rural depopulation and moribund regional economies. Rapid population losses have left outlying regions without the means to fully utilize their land and financial, human

and other productive resources. Such resource underutilization depresses Japan's overall economic efficiency.

Will COVID-19 ameliorate economic overconcentration in Tokyo?

Worries about COVID-19 or other infectious diseases may play a part in reversing economic overconcentration in Tokyo to some degree over the longer term. While Tokyo encompasses 2,194 km² of land, a mere 0.58% of the total area within Japan's borders, it is home to 10.7% of Japan's population. With such a high population density, Tokyo poses more communicable disease risk than anywhere else in Japan. Tokyo's share of new COVID-19 cases as of July 31 was 35%, 3.3 times its population share.

Meanwhile, telecommuting, widely adopted in immediate response to the pandemic, will likely become a permanent fixture to some extent, though more so at some companies than others. Even now, the government is strongly urging companies to remain on a 70% work-from-home footing.

The more jobs that can be done remotely, the less need for physical proximity between employers and employees. In a world of mass teleworking, the efficiency benefits of economic concentration in Tokyo would clearly diminish.

Employees who wish to work remotely would have less need to continue living in high-cost Tokyo to commute to their jobs. At least some such employees should be able to relocate to suburbs or exurbs that offer a better living environment.

Resource utilization benefits in outlying regions

If Japan's geographic population distribution were to rebalance away from Tokyo or big cities toward outlying regions, business opportunities in the outlying regions would increase in response. Even big-city companies would likely expand into outlying regions. Companies long based in outlying regions would likewise benefit from a better operating environment. Additionally, outlying regions would be able to more effectively utilize currently underutilized local resources such as land, human resources and public infrastructure like roads and public utilities. Increased resource utilization should in turn boost outlying regions' economic efficiency. Lastly, outlying regions may also see a resurgence in cultural activities, perhaps even a cultural renaissance. In sum, economic rebalancing away from Tokyo

should yield substantial benefits.

Hoping for a strong policy push

That said, we doubt the long-entrenched trend toward ever greater economic concentration in Tokyo will change much in the natural course of events.

The government has placed top priority on a digital government initiative, including digitalization of administrative services, in its Basic Policy on Economic and Fiscal Management and Reform recently approved by the Cabinet. If this initiative comes to fruition, it would presumably enable ministries and agencies to more easily confer and coordinate with each other remotely. If the government finally moves forward in earnest with relocating ministries and agencies out of Tokyo by virtue of such e-government capabilities, it may spur private companies to follow suit. Geographic rebalancing of the economy is on the agenda of even the government's Council on Investments for the Future, which is tasked with envisioning a new mid/post-pandemic society. We hope the government seizes, not squanders, this opportunity by mounting a strong policy push to reverse the trend toward ever greater economic concentration in Tokyo.

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