

Japan Rolls the Dice on Legalizing Casinos

David Suzuki, Blackpeak Group

Casinos were illegal in the world's third largest economy – until December 15, 2016, when the Japanese Diet passed [the integrated resorts \(IR\) promotion law](#). The legislation is only the first part of a two-stage process to legalize IRs, but casino operators are eager to finally have an opening in such [a lucrative, untapped market](#), which could potentially generate more than \$30 billion a year. However, the move is unpopular with the general public – a poll conducted in early December by Japanese broadcaster NHK found that 44 percent of the public opposed legalizing casinos, only 12 percent supported it, and the rest were undecided. Despite the tepid reception, Prime Minister Shinzo Abe's government is pushing ahead with the legalization because the government sees casinos as an important way to spur tourism and lift the economy.

To gain some insight on what this change means for Japan in the near- to medium-term future, RANE spoke to David Suzuki, a Director and Head of the Tokyo office at Blackpeak Group, an international investigative research and risk advisory firm that specializes in investigative due diligence, investigations and security, and business intelligence research. Highlights of the interview follow:

On the next stage in the legislative process

It will still take a few years before we begin seeing IRs in Japan, as we can expect the Japanese government to take all of 2017 to pass the implementation bill. The government is also compiling comprehensive addiction prevention measures in response to criticisms that there was a lack of discussion on the problem of gambling addiction. An entrance fee, prohibiting minors (under 20 years of age) and denying entry to gambling addicts are all being discussed, although the exact scope will be defined under the implementation bill. While there are regional models Japan could follow – such as South Korea, where Korean citizens are not permitted to gamble at casinos (except at Kangwon Land Casino in rural Jeongseon county) – Japan is not going to copy and paste a foreign solution. Furthermore, overly restricting the domestic market would be counterproductive to the Japanese government's goal, as the domestic gambling market is expected to be even bigger than the international gambling market.

On the commercial jockeying for casino licenses

After the implementation bill is passed, 2018 will be devoted to feasibility studies conducted by the various operators, such as MGM Resorts, Wynn Resorts, and Las Vegas Sands. All the big operators will try to get involved, but as they will likely have



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to team up locally, it will be interesting to see who emerges as a partner to these operators. A particularly interesting dynamic to keep an eye on is how [the rivalry between Steve Wynn and Kazuo Okada](#) will play out. The relationship between the two men – both of them eager to be players in the fledgling Japanese market – started deteriorating in 2011 following a public falling out over whether to focus on the Macau or Filipino market.

On where in the country casinos are most likely to be established

In 2019, the Japanese government will begin directly working with local governments to begin some kind of tender process for operators to bid on concessions. [Osaka](#) and Yokohama are both strong candidates for hosting IRs. Because the point of these IRs is to draw foreign tourists, IRs are likely to be built close to major tourist destinations, and the Yokohama local government has been particularly enthusiastic about the possibility of hosting IRs. A few years ago, there was much speculation that Okinawa could also host IRs – however, due to recent tension between Tokyo and Okinawa's prefectural government, Okinawa is no longer considered to be in the running. The various operators will likely break ground in 2020, around the time of the Tokyo Olympics, and construction will take at least two to three years.

On why the IR promotion law was passed now

Even though the Japanese government has been debating legalizing casinos since at least 1999, and a similar bill made progress two years ago (though was never put to a vote), the actual passage of the law caught a lot of people by surprise. However, the timing was by design, not accident. There are both economic and political reasons for this change.

Casino legalization is one small part of the Abe government's economic revival master plan. Japan needs to pass the IR promotion law now in order to avoid the post-Olympics "hangover." If the first IR opens in 2022 or 2023, that will help staunch the dip in economic activity that prior Olympics hosts have experienced.

Politically speaking, the ruling Liberal Democratic Party (LDP) was finally able to accomplish this goal because they are no longer as reliant on their junior counterpart, the [Komeito](#), following the July 2016 Upper House elections. Bypassing Komeito, which, backed by an influential Buddhist group, opposes gambling on principle, the LDP worked with Ishin no Kai to pass the IR promotion law in an extended session of the Diet.

On the criminal risks of legalizing gambling in Japan

Organized crime's involvement will not be as overt or blatant as some media outlets anticipate, but there are serious concerns that the legalization of casinos is a massive business opportunity for organized crime. Japan's organized crime is involved in various sectors of the Japanese economy, and the construction of the IRs alone will be a boon to them. Though the big, general contractors will be legitimate, once you get to the sub contractor or the sub-sub contractor level, some of them will have ties to and thus be effectively controlled by organized crime. Furthermore, in terms of staffing, a

lot of middle-tier staffing agencies are controlled by organized crime, so stakeholders are concerned that some employees dispatched by these agencies will be controlled by organized crime. It's just another way for organized crime to get involved in these activities. A sudden spike in criminal activities is not expected in the vicinity of the newly-minted IRs, and security will be well-managed, but organized crime's involvement will be an insidious risk.

About the Expert

[David Suzuki](#) is a Director at Blackpeak Group and head of the firm's Tokyo office. Through the course of his 20-plus year career, Suzuki has served as an undercover operative infiltrating international counterfeiting syndicates, testified as a Hong Kong government criminal prosecution witness, been a senior manager with a global risk consultancy, and founded and ran his own Hong Kong-based risk consulting firm. Suzuki is an expert on legally designated Japanese organized crime syndicates, non-legally designated criminal gangs, extreme right wing groups, and religious cults.

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