

September 14, 2009 (Monday) 17:00-17:45

Dialogue: Sum-up session of Day-1:

How Asia should create new industries through the development of new infrastructures

Haruyasu Asakura: COO, Innovation Network Corporation of Japan

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Yasuyo Yamazaki (moderator): President, The Sun-Based Economy Association

Yamazaki (moderator)

- Let's begin with how we think about Japan and Asia in terms of systems.

Idei

- This morning, Dr. Takafumi Matsui gave a speech about the earth and human systems. Up until now, discussions between Asia and Japan regarding cooperation and co-existence seemed out of place, perhaps because of the belief that Japan's systems have broken down. When thinking about our relationship with Asia and the world, we must first realize that ever since economic growth stagnated in the 1980s, Japan's systems have broken down.
- Singapore is working with the Chinese government to create a number of eco-cities in such places as Tianjin. I envy the fact that they have already established a cooperative system with China. In Japan, the government, corporations and people do not seem to be functioning properly as a system.

Yamazaki

- If Japan was functioning properly until 1989, what do you think were some of the factors?

Asakura

- During an era where indirect financing led to economic growth, systems were working well. However in Japan now, risk money in the form of indirect financing does not secure adequate growth. The reason behind this is the

destruction of the system as a whole. There are two main problems. The first is an industrial structural problem. Because corporate resources are not efficiently coordinated, good people and good technologies do not lead to profits. The second problem is an immature risk money supply system. In other words, such sorts of methods as venture capital, buyout funds and other methods that use equity have yet to set root as a culture here.

Taniya

- Until the 1980s, growth was considered the answer to all problems. However, Japan became a society where it is difficult to create change. In the United States, the capital markets have no tolerance for unprofitable divisions and create new venture companies with spin outs. In Japan, however, unprofitable divisions languish, which makes it difficult for strong venture companies to come into being.
- There is a limit to relying on domestic demand or earning profit by selling products and services. In addition, increasing profit of global companies and increasing income of the nation's citizens are two different issues. Regarding the latter, I see no other solution than to ride on Asia's wave of growth by providing technology and services to Asia while at the same time investing in equity and bonds.

Yamazaki

- Until 1989, Japan was the world's factory and as was coined in the phrase, "Japan as No.1," was a major export country. This all collapsed in the 1990s. What do you think about the change in global corporations and its impact on Japanese systems?

Idei

- When I became president of Sony in 1995, I set two business directions. The first was globalization and the second was entry into the IT sector. We quickly sensed the limits of the manufacturing industry, and had no choice but to diversify into content, finance and other businesses. It was a decision made when we were feeling the difficulties of being a global corporation, where our

overall sales were growing, but our domestic sales were not growing as fast.

- From the 1980s during the “Japan as No. 1” era, in the late 1990s with the development of IT and the resulting growth of global finance, the US quickly left Japan behind. Mr. Taniya’s comment earlier gave me the impression of a British-style way of thinking, but from the company perspective, I think there must be other options.

Yamazaki

- Despite concerns that Japanese electronics and IT were developing in isolation from the rest of the world’s standards (in Japan, called the “Galapagos Syndrome”), Japan adamantly tried to protect its domestic market. In the end, however, overseas markets grew. While overseas investments by Japanese companies have increased by 200 trillion yen, national income has decreased. What will nurture the domestic economy?
- There is one model where through the pension system, we invest in growth regions, which will be reflected in national income and result in increased consumption. In terms of supplying risk money through stocks, I think there is a need to promote industrial transformation other than with just listed shares.

Asakura

- Japan’s manufacturing industry has the ability to create special things, and while many of them are isolated in terms of world standards (suffer from the Galapagos Syndrome), they do create a sense of satisfaction in users. In specific segments, such as white goods, which we once thought was totally dead as an industry, I think Japan is still globally competitive. Because of the accumulation of knowledge gained from past R&D in Japan (which in the future, R&D may no longer pay), Japan makes a number of appealing products from the perspective of countries that have reached a certain economic level. Japan lacks business development power, but it has an advantage of being located close to growth markets.
- When thinking about Japan’s national strategy, we should refer to France’s business development model. France is an agricultural country that has

nuclear power technology as well as a top-class automotive industry. There are manufacturing companies, such as LVMH, which are able to compete in a market that has no relation to cost of goods, as well as service businesses, such as Veolia and SUEZ, which are involved in water and recycling, respectively. Behind this French role model of diverse industry development is exceptional management of a nation.

Yamazaki

- Mr. Asakura cited some examples of where countries in Europe that were at one time said to be in decline changed the way they did things and due to better management on a national level, were able to secure high rates of growth. Veolia is a top-ranking water company but aside from their technological superiority, they have a very competitive system. Mr. Idei, given your extensive experience in Europe, what are your thoughts regarding other European companies?

Idei

- While there is a tendency to focus on currency unification when it comes to the EU, as can be seen from the example of the European Coal and Steel Community, there is regional specialization, with United Kingdom in finance, Germany in manufacturing and France in military supplies and nuclear power. The complexity of Europe is something that can not be mimicked in Japan.
- The simple reason Japan was able to grow so much is because everything was destroyed during World War 2. While I would not say we need to do something along the lines of Kakuei Tanaka's "Plan to Remodel the Japanese Archipelago," I do think we need to go back to square one once and for all. For example, we should create a new city for the development of new systems of infrastructure rather than restructure current cities. We need to regenerate our systems and create new industries.
- In the future, Japan also has to diversify. Rather than make similar types of cities, like Kyoto as an example, we need diversity. Having all resources concentrated in Tokyo was an emergency measure for post-war restoration, but

now it needs to be re-examined.

Yamazaki

- While you say that Tokyo grew out of the ashes of the war, I think our current situation may be even worse than immediately after the war. As I wrote in my book, “Kan Tokyo Wan Kousou,” the metropolitan system has totally broken down. In 20 years, the number of senior citizens will increase by 80 percent and per capita income will drop dramatically. Against that backdrop, it will become impossible to manage sharp price increases in energy and food. This point is not adequately debated.

Taniya

- While Western companies are adept at creating standards and becoming main contractors, Japanese companies are stuck at supplying parts. Because we cannot anticipate future growth at home, there is no other way but to secure our position by participating in Asia’s growth.
- With the financial crisis, there will be more restrictions regarding leveraging, and money will be invested in Asian infrastructure and other areas where there is a definite need and growth is almost certain. It is best if infrastructure is built by companies of that particular country. Japan must co-exist and support Asian companies, and in that sense, perhaps is more suitable to the task than Western countries that tend to want more control.

Idei

- With current regulations and restrictions that resulted in a vertical structure, it is hard to imagine cooperative ties can be made. Japan must first develop some sort of project that cuts across this vertical structure. Public enterprises, fearing regulatory agencies, have always worked hesitantly within whatever limits they sensed. We need to destroy that inward-looking mindset. For example, while China’s super express train system may be more comfortable in terms of the actual physical ride, it is in Japan, not in China, where you have a Shinkansen operational system that enables the transport of a huge number of people every 3 minutes. We must do away with our belief that Japanese

technology is superior and think about the strength of the system as a whole.

Yamazaki

- In Japan, so many private companies are focused on just Tokyo that they do not think about cooperatively working across industries and expanding into Asia.
- China is a quasi-public sector economy, and municipalities are given the freedom to work with private companies to compete against other cities. In Japan, on the other hand, “quasi-public” means “debt ridden,” which equals “bad.” This is perhaps one of the reasons why we cannot stimulate our domestic economy.

Asakura

- At what level is the decision-making process most efficient? When information is limited, it is more effective when things are centralized. In a current era where information is intricately linked and tangled, it is more efficient when decisions are made on location. On the other hand, our world perspective is somewhat biased and when thinking about a region’s autonomy, we must have objective information about our own region and municipality. We need a system that is decentralized and makes decisions based on highly objective information.

Idei

- While they say that strategy comes from choices, Japan needs a large national vision. In contrast with the US’s short-term-perspective financial capitalism, Japan should create a more homo sapiens type of long-term capitalism, a road that is totally different from that of China or the US. However, there is no need for Tokyo to control rural regions in a type of centralized power structure. We need to create a system where individuals can unleash their potential outside the box.

Yamazaki

- A strategy drawn up by a nation on one hand and decentralized autonomy of municipalities on the other. An interesting example is Singapore. GIC, Temasek and other investors are working with a 30-year long-span perspective

on what conditions are necessary to enhance the country's strength. In China's regional decentralization system, there are many areas that are clearly superior to that of Japan's. We have much to learn from each other.

Idei

- One reason that Singapore may find it easier to work with a socialist country is that their system is easy to understand. Singapore is buying land in China and developing an eco-city. There is no such equivalent of Japan working overseas to create a city. Japan has become a country that merely provides modules.

Taniya

- I couldn't agree with you more. Japan is extremely inward-looking but in a world where everyone is now looking to Asia to grab a chance for success, there is no way Japan can join without considering how it can contribute to Asia. In addition to technology, Japan can contribute to Asia's growth by investing part of its more than 200 trillion yen in pension assets. Through pension fund management, Japan can contribute not only to the increase in national income, it can also provide high-quality support that will sustain Asia's long-term growth.

Yamazaki

- There have been three messages here – the need for a national strategy, for corporations to break out of the mold and for municipalities to have greater autonomy. The challenge now is how to realize these things.

Idei

- Perhaps one problem is that Japan always tries to do everything on its own. Like Singapore, we need to work with countries like Taiwan, Hong Kong, Vietnam and the Philippines in a sort of economic diplomacy. If Japan can think of a framework that will strategically create new industries, it will have great potential to grow rapidly in a short period of time.

Yamazaki

- I am from Hakata, which during the Edo Era, grew rapidly because it collaborated with other Asian countries. I would like to conclude today's

remarks with the thought that it is not enough for our country to change. We must work together and change together with other countries.

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