

“Consolidated Business” with Rest of Asia

Public/Private Cooperation for More Start-ups

Interviewer: Hiroshi OKABE

“There is no shortage of means to redevelop Japan’s attractive points,” says Nobuyuki Idei, who founded Quantum Leaps Corp., a consulting firm for nurturing venture businesses and creating new businesses with established corporations after graduating as chairman and CEO of Sony Corp. The Japanese economy faces many challenges, such as a decline in population, unabated rises in crude oil prices, and deterioration in public finances. Idei maintains these issues can be overcome if Japan is successful in working out an appropriate national strategy. Emphasizing “Japan’s future is bright,” he discusses in a *Japan SPOTLIGHT* interview the course this country should take as Asia’s top-running economic player.

Photo: Quantum Leaps

Japan: Mere 2% of World Population But 10% of Global GDP

Japan did not play any part in the subprime mortgage crisis that was originated in the United States. But we feel the future of the Japanese economy has been seen negatively on the international market. Many say Japan’s economic reform has been derailed and its picture of growth strategy has not been painted yet. How do you see these pessimistic views?

Idei: If compared to corporate accounting, I think Japan cannot be regarded as a growing economy on an unconsolidated basis. Japan sees its population declining and its aggregate demand shrinking. The key word “growth” cannot be found in Japan as long as it remains closed and does things only within its national borders. But look at the fact that Japan’s population occupies only about 2% of the global population while its economy accounts for 10% of the world’s gross domestic product (GDP). This shows that Japan, in proportion to the global population ratio, has achieved economic efficiency five times better than the world average. Metaphorically, Japan has continued to use a small 1500-cc car so far. But its engine has reached a limit. This is the



Nobuyuki Idei, CEO of Quantum Leaps Co. & former chairman and CEO of Sony Corp.

current situation. Japan’s economic growth has evidently hit the ceiling if the country is seen as a single corporation. But it is not that Japan has no future. I believe Japan has a bright future.

You mean the need for a change in thinking toward broader-based economic management on a consolidated or global basis away from the conventional unconsolidated mindset. How should we view the current global situation and Japan’s position in promoting our nation-building under such a concept?

Idei: Japan ranks 10th in the world in terms of population. Most countries of a size similar to Japan’s have achieved

social maturity and are characterized by mature industrial economies of the 20th-century type. But Germany, which is in a similar situation as Japan, has built up an economic bloc with its surrounding countries Poland, Romania and Hungary, all of which see their population increase. In contrast, Japan continues to exist as a single entity and also as an isolated mature country. If Japan was located between Germany and France, the country would have faced a number of demands from them. For example, these neighbors would have urged Japan to improve its public finances. Under the current public finances, Japan cannot meet the requirements to join the European Union. Japan, an isolated state with unconsolidated accounting, remains a big spender of taxpayer money on wasteful public works projects.

Stop Depending Solely on U.S.

How should we best promote nation-building on a consolidated basis?

Idei: Japan is firmly dependent on the United States. Under the Japan-US security treaty, it is the United States that defends our country. Japan is under the protection of the United States. Behind the guardian, many Japanese businesses have posted profits through consolidation with the United States. This is the reason why Japan is said to catch a cold when the United States

sneezes. But the world has undergone a drastic change in its structure since 2000.

Firstly, the European Union has taken an expansionist strategy, linking with the natural resources of Russia and the Middle East. The EU has extended its strength toward Eastern Europe using Austria as a gateway and also toward the Middle East by incorporating Turkey. A major economic bloc encompassing the Middle East, Eastern Europe, Germany, France and Russia has continued to grow. Secondly, Asian economies such as India, China and Vietnam are growing fast. China and India are replacing Japan as economic partners of the United States. It is on these two powers that US dependence is rising most strongly. It is on India that the US industrial community is dependent and it is on China that US financial institutions are reliant. Japanese exporting companies have continued to achieve good earnings because they are exporting finished goods and parts to China, which is raising its interdependence with the United States.

Such a change in the global trend shows that the time is now over for the United States to treat Japan as a special partner for consolidated accounting. American taxpayers may begin to question sooner or later why the United States maintains a wasteful military presence in Japan. Rules were clear when Japan was dependent on the United States. What is most important for Japan now is to consider its strategy to survive in a multi-polar world. Japanese politicians need to clearly recognize that the era is over for Japan to stick to sole dependence on the United States.

China Top Priority in Japan's Foreign Policy

The world is changing to a multi-polar structure from a single-pole one led by the United States. How do you think Japan should cope with such a global structural change?

Idei: The highest priority to be given on Japan's political agenda is what to do with China diplomacy. Japan needs first to build up ties with its closest neighbor, South Korea, and then tackle China jointly with South Korea. Or, Japan may need to include Singapore as well for a three-way team or also involve Malaysia for a four-way alliance to cope with China. Such a strategy will be more and more important. Japan's conventional production- and export-oriented national strategy overlaps what China blueprints. So Japan faces difficulties in building up relationships with China. But no doubt China is the top-priority theme for Japan. The United States will never face off against China directly. Americans are well aware that a face-off with China would lead to a plunge in the value of the dollar. The United States and China are now in the same boat. Japan must fully understand such a situation.

How should Japan behave specifically in its foreign policy toward Asia, notably China?

Idei: When there is a change in rules, one needs to be strong enough to insist on one's own policy and assert one's wishes without accommodating oneself to others. Japan is small in the size of territory but ranks second in terms of GDP in the world. Japan is an overwhelmingly advanced country in Asia. But Japan will not be able to take the leadership in Asia unless it speaks out for its vision for the future in its own words. Metaphorically speaking, Japan is the only rich man in the neighborhood and has maintained close links with wealthy guys in other towns without keeping up friendly ties with the neighbors. Such behavior is disliked in the neighborhood. If Japan wants to be a respected Japan, the country needs to say clearly what it is thinking and to win a better understanding of its originalities from others. Japan should say clearly, for example, "That gathering is funny," "We will never provide such money," etc. Of course, Japan's argument would invite counter-arguments from others, and Japan may need to modify it



then. Continuing dialogues with other Asian nations through such an exchange of opinions is important. Japan has so far tried to solve problems itself, without involving neighbors, and turning to the United States for help when it encountered difficulties. Japan cannot gain respect in Asia if it continues to take such a stance.

Declare Itself a Peaceful State Again

In your book on the theory of Japan's evolution, you suggest that Japan work out its own national vision and declare itself a peaceful state. How is the proposal linked with Japan's strategy to shift its emphasis toward Asia?

Idei: Don't forget the fact that Japan is seen as a threat in the rest of Asia. Asian people harbor fears about the United States. They also fear that Japan might form an alliance with the United States and threaten them. On the other hand, Japan has maintained the so-called three-point non-nuclear policy of not possessing, not producing and not allowing nuclear arms onto its territory. But it is actually less well-known in the world that Japan has maintained such a policy. This is why Japan needs to issue a declaration again reaffirming that it is a peaceful nation. Even though possessing cutting-edge technology that can be converted to military applications, Japan's high-tech firms are unable to compete with foreign rivals because the use of such technology is restricted under the pacifist Constitution. Japan does not go to war, but it must allow companies

to do business in defense-related technologies to strengthen their international competitiveness. As a precondition for this, Japan needs to issue a fresh declaration reaffirming itself as a peaceful state.

We hear that sovereign wealth funds (SWFs) of the Middle East and elsewhere are paying attention to Japanese corporations. They are reported not seeking short-term investment returns but investing from a longer-range viewpoint in a bid to establish state foundations of Mideast oil-producing countries with an eye on the post-crude oil era. You are known to be active as a member of the advisory board of a Dubai fund. How do you see the overseas evaluation of Japanese businesses?

Idei: Overseas funds see Japan as a nice country that has accumulated technologies developed during the 20th-century industrial revolution. Japan produces 10% of the global GDP while its population accounts for only 2% of the world total. So it is natural that Japan looks attractive for foreign funds because of its efficiency and capabilities. However, SWFs and other foreign funds pay attention to Japan not as a state. They are interested in Japanese corporations that are undervalued. They are interested in the gap with their real corporate values.

“All-Japan Team” Needed to Develop Environmental Technologies

What strategy should Japan take to raise its value?

Idei: China, Taiwan and South Korea are running ahead of Japan in fields where Japan may be able to achieve growth in the future. Personal computers and semiconductors are among them. Japan must establish industries that can fully compete with foreign rivals in the 21st century. An all-Japan

team must be formed to achieve the target. Japan is said to have environmental technologies. But Japan has been negligent in making efforts to make those technologies exportable. Global environmental problems are high on the agenda at the Group of Eight summit in the Lake Toya hot-spring resort in Hokkaido. The Japanese government has so far been active in tackling challenges such as a reduction in the amount of lead in gasoline and improvement in the quality of water. But no one can answer clearly to a specific question about which company has the technology to maintain its long-term export competitiveness. Japan needs to make a more systematic analysis and work out a new industrial policy to develop its environmental technologies into an exportable industry.

We hear voices calling on Japan to aim at becoming a manufacturing-oriented state.

Idei: Japan is said to be No. 1 in terms of manufacturing. But it does not make sense unless it means No. 1 in the future, not at present. Japan should spend more on basic research to remain the No. 1 manufacturer. Japanese firms are taking in bad aspects alone from the US model of corporate management. For example, CEOs are appraised on a quarterly basis as is seen in the United States. They are negligent in making long-term investments. They will certainly have to pay for the negligence 10 years later. Environmental technology is one of the themes for Japanese manufacturers.

Japanese power utility firms appeal for a cut in electricity consumption in the summer. But this is a bizarre appeal. It means the power companies ask consumers not to buy their products. Of course, I know that power supply may run short in the peak of summer due to a sharp rise in demand for electricity for air conditioners. But this problem can be solved if each home introduces a solar power generator and a battery. Many people call for promotion of nuclear power as part of an anti-global warming strategy. I think Japan should put more emphasis on technological development of natural energy



sources such as sunlight rather than on nuclear energy. The whole of environmental technologies, including one on water, is the sort of challenge to be tackled by an all-Japan team.

New Industries in Ocean Development, Agriculture

Would you tell me promising fields other than the environment for new industries?

Idei: I am paying attention to the field of ocean development in that it may lead to the establishment of a new industry. Japan ranks 60th in terms of territorial space but seventh in the exclusive economic zone (EEZ). Japan's EEZ area equals nearly half that of the United States, which is the largest in the world. Huge amounts of resources are there. The number of Japanese firms that are developing those resources is unexpectedly small. Agriculture is also a promising industry. Japan's present-day agriculture lacks competitiveness as an

Photos: Quantum Leaps



Idei addresses a seminar organized by himself for young entrepreneurs to develop and exchange ideas. He has launched a group named after "Koinobori" (carp streamers), the symbol of a successful career, to support them.

industry because the ownership of land and the management of farming are integrated. Businesses should be allowed to use their biotechnology for modernization of Japan's agriculture. This country should promote new Japanese-style public-private partnerships in about 10 fields.

Some say Japan's financial service industry is weaker than those of the United States and Europe.

Idei: From a global perspective, Japan's capital market involves only stocks and looks small in scale. Japan also needs to reorganize the commodity market into part of the financial market in a departure from the conventional inconsistent management of piecemeal markets by various government departments in charge. Japanese financial institutions suffered from bad-loan problems in the latter half of the 1990s. American investment fund Ripplewood took over the collapsed Long-Term Credit Bank of Japan and revived it as Shinsei Bank. A similar financial crisis has hit the United States. No Japanese financial institutions would move to take over

US banks or brokerages that are hit by the subprime mortgage woes. When US investment bank Bear Stearns was in a crisis, it was probably only Japanese financial institutions that received no offers to take it over. I wonder if Americans thought Japanese financial institutions would only spend time and be unable to come to a decision on such an offer.

But there are some Japanese businessmen who are active internationally as is the case for Seattle Mariners outfielder Ichiro Suzuki in Major League Baseball. The other day, one of such businessmen visited me and asked for my backup, saying he has seized a chance. That businessman was willing to acquire an American bank. Major Japanese banks are too slow to do anything. But there are some active human resources in Japan who can take over a US bank. Japan's financial world has been consolidated into a few megabanks. Unfortunately, they sometimes show negative aspects of oligopoly, such as high charges, at this time.

Open the Country in a Controlled Manner

What is your idea on the best way to open the Japanese market?

Idei: I think Japan should open the country in a controlled manner. Japan must establish rules on the opening of its market. It is important to work out detailed rules that govern foreigners in entering the country's market. Particularly careful planning will be required to formulate Japan's immigration policy. For example, let's take the medical field. With physicians and nurses expected to be in short supply in Japan, we need to make all sorts of efforts to pave the way for those from the rest of Asia to able to work in Japan. One way is to standardize the medical license for Asia as a whole. But a careful approach is necessary to maintain the quality of personnel to be allowed into Japan. Otherwise, the country's social order cannot be maintained.

Do you have anything to suggest about the target of Japan's economic growth and also about the government's fiscal administration?

Idei: What is desirable for Japan from now on is not to boost its GDP numerically but to improve the quality of life. Japan will certainly develop into a nice state if it is successful in establishing a 21st-century model of international competition and working out rules for foreigners to enter this country for work. Currently, all the systems in Japan, including the tax system, are too old-fashioned. The government has imposed a too-heavy burden on the people. Taxes are imposed on income and home purchases. In addition, inheritance taxes are collected upon inheriting properties. It is rare to see a country collect triple taxes like this. The government aims to achieve a primary balance surplus in public finances. It is the Japanese people, not foreigners, who have purchased government bonds that are Japan's debts. It is not good to abruptly make it a political goal to achieve a budget surplus. JS

A brief profile of Nobuyuki Idei

Idei joined Sony Corp. in 1960. After being stationed in Switzerland twice, he played a part in establishing Sony France S.A. After heading Sony's audio and home video business groups, Idei became Sony president in 1995, later assuming the posts of chairman and CEO. He is currently chairman of the Advisory Board of Sony. He also served as a vice chairman of the Japan Business Federation, popularly called Nippon Keidanren, and headed the government's IT Strategic Headquarters. He founded Quantum Leaps Corp. in September 2006, aiming to create new industries and new business managers in Japan. He has continued various activities by convening meetings of junior and mid-level business managers. "The warm-up period is over. A fresh business can be launched by the end of the year," says Idei.

Hiroshi Okabe is a senior business news editor at Kyodo News.