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DSI Vice Chairman Commentary

Key Strategy Issues (Vol. 284)

The global economy enters a new stage as Japanese companies quickly restructure operations
～Only one viable global strategy exists～

Rapid economic growth has continued in China and other Asian countries even amid the severe global economic downturn. In particular, the Chinese economy is showing remarkable strength as the global recession shows signs of nearing an end. Furthermore, recent events have shown that the U.S. is the driving force behind economic globalization.

At this time, Japan must not follow the paths of go-it-alone nihilism or resignation about stagnation or growth. The Japanese economy has been essentially flat during the past two decades in nominal terms with a GDP of about ¥50 trillion. That means everyone in Japan who joined the workforce since the asset bubble burst considers zero-growth to be normal. But since the "once-in-a-century recession" began, Japan has attracted global pessimism due to the country's lack of economic growth. In other areas of the world, globalization continues to advance despite the global financial crisis. The result is now clear: there are abundant business opportunities in many countries other than Japan.

Globalization is now dramatically altering how every company in the world operates. All these changes originate from the new realities of today's business environment. In particular, companies can: (1) target the new markets of emerging economies; (2) greatly cut costs by using cheap labor in other countries; and (3) pursue new growth strategies that take advantage of their much broader geographic scope of activities. New opportunities for growth are appearing even for companies that previously relied solely on domestic demand to expand.

Many Japanese companies are beginning to execute growth strategies that utilize economic globalization. Management is no longer held back by politicians or members of the media who assume that these companies are focused on growth above all else. Japanese companies have an outstanding reputation worldwide for the quality of their products. This reputation gives Japanese companies a big advantage in markets of emerging economies as the rising purchasing power of consumers boosts demand for high-end products.

Currently, however, there is a negative bias in Japan's stock markets. The causes are the public's pessimism and the lack of focus in the policies of the Democratic Party of Japan. This explains why Japanese stocks have been unable to keep up with the global stock market rally. But once this pessimism dissipates and the new government sets a new course for Japan, stock prices in Japan will probably catch up with the global rally in 2010.

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(1) Economic globalization has left Japan behind

No change in global economic expansion even after the financial crisis

At this time, we need to take a look at what has changed and what has not changed in the wake of the financial crisis. Why did this once-in-a-century financial panic happen? What was at the heart of this crisis? The pessimists have an explanation. They believe that this crisis marks the end of the age of rapid economic growth. The global economy will collapse and we will enter a period of slow growth. Optimists instead view the crisis as nothing more than a brief shock that will not significantly alter the pattern of growth and prosperity. I believe that the optimistic view is very likely to be correct. The time has come for an objective examination of current events without being swayed by the divergent opinions of optimists and pessimists.

Advancing to the second stage of economic globalization

First is the emergence of signs of a possible further expansion in globalization. We have seen the end of the first stage of economic globalization, which was driven solely by the U.S. From now on, domestic demand in emerging economies will also fuel growth. That means the second stage will be backed by two engines: emerging economies and industrialized economies. Nevertheless, a recovery in U.S. consumption is vital to a return to progress in economic globalization. Calls for protectionism are certain to increase if emerging economies grow while industrialized economies remain flat. Adopting protectionist measures would undoubtedly block further progress in unifying the global economy. Clearly, globalization requires a steady improvement in living standards in industrialized countries, too. Skill in creating new sources of demand is essential to achieving this improvement. In this respect, the U.S. is far ahead of other countries. I believe that the U.S. will continue to serve as the global model for consumer spending and good living. Annual population growth in the U.S. is steady at about 1%, which equates to about 3 million people. In addition, the U.S. has many highly competitive industries, notably the IT sector. Looking ahead, I think that the U.S. is very likely to remain the global standard for consumption in an industrialized economy.

Multiple growth drivers led by the U.S.

Second, there is no doubt that the U.S. will remain the nucleus of the global economy. In fact, we can even say that the U.S. is playing a leading role in the global economic recovery. There is absolutely no change in the global financial role (according to Joseph Schumpeter) of the U.S. as, in effect, the conductor of the economy. Specifically, the U.S. is taking the lead in quickly stabilizing its financial system, assisting U.S. financial institutions in rapidly eliminating problem loans, and establishing a new financial system.

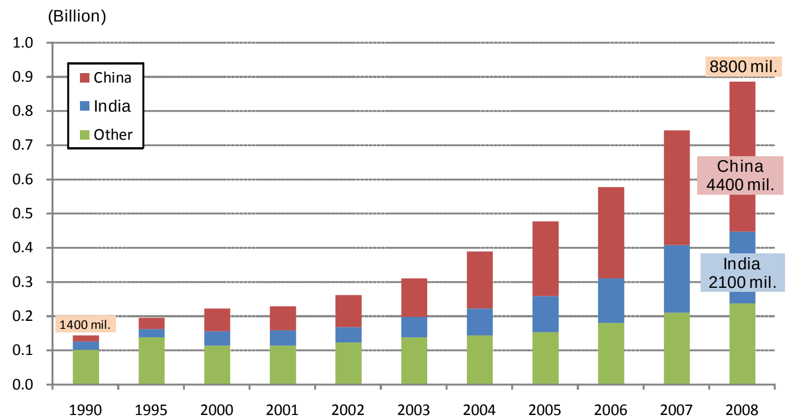
The third notable current event is the loss of self-confidence among Japanese politicians and opinion leaders. In Japan, we are hearing a lot of criticism of the financial crisis. People are naming the U.S., economic globalism and the market system as the culprits. In other words, there is growing negative sentiment to reject the existing paradigm for growth. But among businesspeople in Japan, there is growing positive sentiment to quickly capitalize on business opportunities. The contrast between these two camps could not be greater. Most likely, the businesspeople who see many emerging opportunities are correct. Among people embracing the negative sentiment, there is no sense of crisis that Japan might be left behind if nothing is done. When conducting international trade negotiations, Japan has an extremely reluctant stance because of the country’s worries about the deregulation of markets for agricultural products. As a result, Japan is falling behind China as well. China has been expanding free trade zones, signing free trade and economic partnership agreements with ASEAN and other trading partners.

(2) Why is globalization necessary?

Economic globalization holds the key to progress

Global economic growth and prosperity depends on achieving more advances in the international division of labor. There is a distinct role for each player in the global economy: the U.S., other industrialized countries, emerging countries, and resource-rich countries. No one can deny the benefits of globalization. At the same time, globalization requires companies to fundamentally reexamine their business strategies from three perspectives. First is the rapid expansion of markets in emerging economies. Two decades ago, only 700 million people in the world lived in a capitalistic economy. Today that figure is 5 billion. Most significantly, the expansion of capitalism has produced fast growth in Asian domestic demand in recent years. The aggregate GDP of major Asian countries, excluding Japan, has increased to about $10 trillion. This is twice as high as Japan's GDP. In general, per capita income of $3,000 to $5,000 is regarded as the starting point of a mass consumption society. According to the 2009 White Paper on International Trade by Japan's Ministry of Economy, Trade and Industry (METI), 880 million people in Asia, excluding Japan, have an annual income of more than $5,000. Half are in China, which is leading other Asian countries in its industrialization and creation of a mass consumption society.

Figure 1: Asian Households with Disposable Income of More than $5,000*



Note: Percentage of Households with Disposable Income of $5,001 to $35,000 X Population Sorce: Trade White Paper 2009

The rapidly expanding markets in emerging economies

China has become the world's largest market for almost all major products. Annual crude steel production is about 600 million tons. More than 10 million automobiles are sold each year. In fact, automobile sales briefly surpassed sales in the U.S., the world's largest automobile market. Moreover, there is rapid growth in the number of high-income individuals in China, which are the primary target of Japanese companies. In Japan, 12.8% of the country's 47 million households, which is about 6 million, have an annual income of at least ¥10 million. In China, there were 1.8 million households in 2005 with an annual income of at least 120,000 yuan. This is expected to increase to 4.2 million households in 2010 and 7.2 million by 2015 (according to a MasterCard survey). Assuming a purchasing power factor of six relative to Japan, 120,000 yuan is equivalent to ¥10 million. That means China will have a larger number of high-income households than Japan in just a few years. Furthermore, the income segment just below this one in China is increasing at an even faster pace.

Figure 2: Customers of Chinese Subsidiaries of Japanese Manufacturers

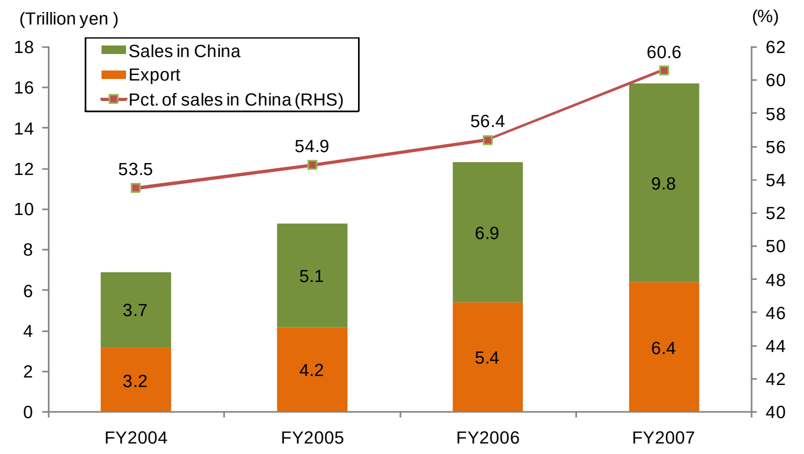
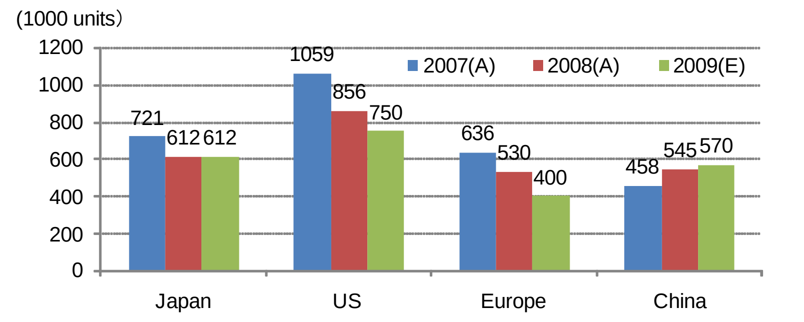
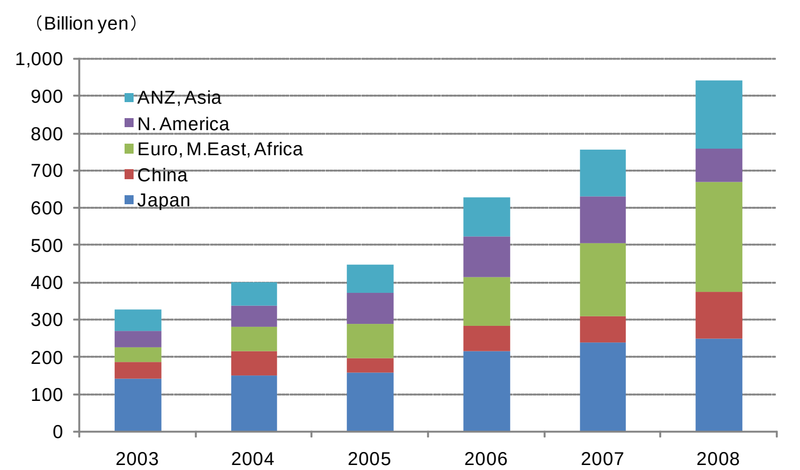


Figure 3: Nissan Motor Sales by Region



Sorce : Nissan Motor, Musha Research

Figure 4: Hitachi Construction Machinery Sales by Region



Sorce : Hitachi Construction Machinery , Musha Research

Some Japanese manufacturers are beginning to record higher sales volumes in China than in Japan. Examples include Nissan Motor, Komatsu, Hitachi Construction Machinery and Fuji Technica. According to the METI 2009 International Trade White Paper, sales within China of Japanese subsidiaries in China rose from 53.5% of their total sales in 2004 to 60.6% in 2007. In India, Suzuki Motor accounts for about half of all automobiles sold. In fiscal 2008, Suzuki sold 50% more vehicles in India than in Japan.

The increasing depth of China's domestic demand

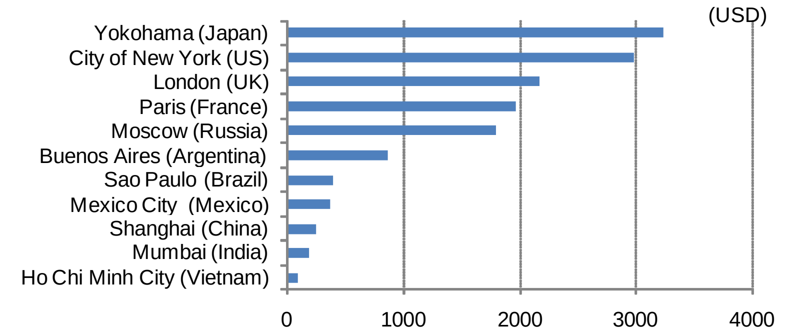
Rapid economic growth in China has benefited coastal areas much more than inland regions. But now, strong economic growth and urbanization have started in inland China. Coastal areas have been severely impacted by the global recession. However, owing in part to China's stimulus measures, inland regions have posted solid economic growth rates. Initially, there were fears about social problems caused by the many people who lost jobs in coastal cities and returned to inland farming villages. But it appears that most of these people have found jobs. A number of Japanese producers of consumer products have been increasing sales by targeting these inland regions of China. Shiseido, Unicharm and Pigeon are prime examples. Apparently, the emerging markets of Asia are becoming a lifeline for many Japanese companies.

Japanese agricultural machinery companies can no longer grow in Japan because the market is saturated. Naturally, they are turning their attention to China. The concentration of agricultural labor in China is very high. Arable land per agricultural worker in China is only one-seventh as much as in Japan. China has only half as many tractors as Japan, but its grain production is 30 times higher than in Japan. And Japan has five times more threshing machines than China. Because of the big difference in the use of machinery, Japan's agricultural productivity per capita is 42 times higher than in China and U.S. productivity is 80 times higher. This is an enormous opportunity for suppliers of agricultural machinery. Agricultural subsidies by the Chinese government are expected to increase significantly. Furthermore, U.S. and European agricultural machinery manufacturers lack the expertise in rice-growing equipment that Japanese companies have. This gives Japanese supplies a valuable advantage. The same is true of other areas of Asia. Kubota, Yanmar and Iseki are all rapidly increasing exports to Asia while moving quickly to step up overseas production as well.

Big cost savings by using cheap labor

Another benefit of globalization is the ability to greatly reduce expenses. Companies worldwide have gained access to the very inexpensive workers of China and other emerging economies. Using this cheap labor allows these companies to earn much higher profits. I call this the "cheap labor gift." The obvious beneficiaries are multinational companies in industrialized countries and consumers in these countries. But cheap labor is even good news for governments and companies of countries with emerging economies. Each beneficiary must then find ways to reinvest its respective excess earnings in a manner that can best sustain economic growth. This discussion ties in with the question of why China's economy has grown so rapidly. The critical factor is China's very high reliance on exports. China has been exporting about 40% of its output, far higher than Japan's 13% reliance on exports when its economy was expanding rapidly. By exporting much of its output, China was able to reap a significant share of the higher earnings from cheap labor for the benefit of the government and manufacturers. Capturing these earnings greatly increased China's ability to make investments to support more growth.

Figure 5: Monthly Wages of Ordinary Workers (2009)



Sorce: JETRO, Musha Research

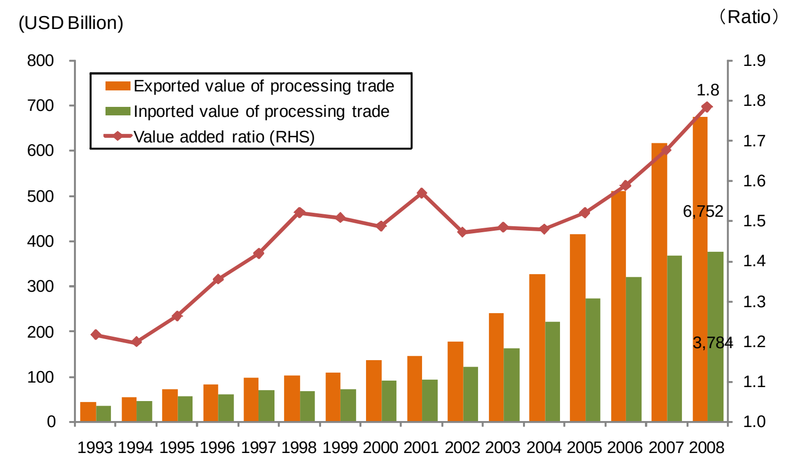
Boundary-less industrial concentration in Asia

Companies worldwide continue to earn substantial profits from factories constructed in emerging economies to cut costs. In fact, the world has reached the point where many companies could no longer compete at all without the "cheap labor gift." Originally, overseas factories did nothing more than simple processing and assembly. But now companies use these bases to add more value, such as by performing more sophisticated production processes and R&D activities. According to the METI 2009 International Trade White Paper, the value added ratio (exports/imports) for Chinese processing trade increased from 1.5 times in 2004 to 1.8 times in 2008. In addition, companies are enlarging the scope of activities transferred overseas to include not only manufacturing, but technology development and designs as well.

For example, foreign companies have started to shift to China the production of LCD panels, the key component of LCD TVs, semiconductors and other high-tech devices. China is currently conducting projects (2009 to 2011) aimed at expansion in four major industries: steel, automobiles, textiles, equipment manufacturing, shipbuilding, electronics and information, light manufacturing, petrochemicals, non-ferrous metals, and logistics. There are two goals: the use of more advanced technologies and growth in the scale of operations.

In pursuit of even lower costs, companies are currently moving production from China to Vietnam, Laos and Myanmar. Suzuki is constructing a factory near New Delhi that will begin producing vehicles in 2011. From this factory, the company plans to sell 1.3 million vehicles in India and export 1.4 million vehicles to Japan each year. Funai Electric used the cost-competitive products from its Chinese factories to gain a position among the major consumer electronics companies by purchasing the North American audiovisual operations of Philips. In North America, Funai Electric is the leading seller of DVD players and ranks fourth in LCD TVs.

Figure 6: Value of Processing Trade in China



Sorce: Trade White Paper 2009

The global model for management

The third form of change brought about by globalization is the need for companies of all types to create new models for growth. Global economic unification allows companies to conduct operations on a worldwide scale. This forces companies to restructure their business models. Management must completely redefine their activities. Where will they sell products? Where will they manufacture products? What is the best workforce composition? Where will the company procure funds? What will be the company's core competences? Every company has new opportunities. But competition in this age of globalization will determine both the next winners and losers in each industry. In Japan, many people believe that the financial crisis revealed that reliance on exports is a serious defect in the country's economic structure. To succeed, Japan must increase domestic demand to break away from this export-dependent structure. However, it is clear that no country can turn its back to globalization.

Many Japanese companies are using globalization to target new opportunities for growth. One example from many years ago is the acquisition of Firestone by Bridgestone, making Bridgestone the world's largest tire manufacturer. This illustrates how enlarging operations to a global scale can immensely increase a company's opportunities for success.

The objective of UNIQLO

First Retailing (UNIQLO) is an excellent example of a company that used globalization to create a fast-growth business model in the mature textile industry. The company's goal is to become number one in the world. Globalization has created low-cost producers of goods on a worldwide scale. In the past, these low-cost manufacturers often took the lead in establishing supply chains. In the apparel sector, wholesalers typically created supply chains. But today, retailers are establishing global supply chains in order to purchase goods directly from manufacturers. This began with the specialty store retailer of private label apparel (SPA) business model created by Gap in the U.S. UNIQLO established an enormous competitive edge by selling merchandise that precisely matches the preferences of Japanese consumers. UNIQLO's success points the way to the future of other Japanese companies. Combine Japan's leadership in technology and quality with low-cost production in other countries and a global marketing program.

(3) The international strategies of Japanese companies since 2008

The growing number of "in-in" acquisitions

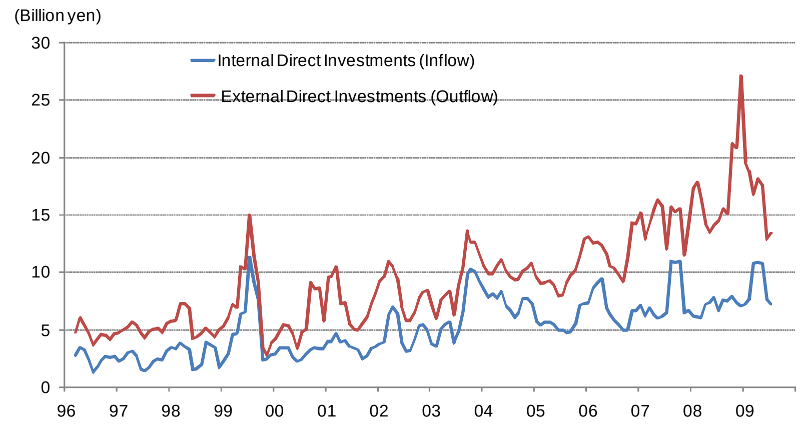
Next, let's see exactly how Japanese companies have become more global since 2008. One frequent method to become globally competitive is mergers and acquisitions, which is essentially a way to buy time. The number of acquisitions by Japanese companies increased rapidly until 2008. But there was a sharp drop following the Lehman shock. During the first seven months of 2009, the number of acquisitions was down 20% from the same period of 2008 and the value of acquisitions fell 40%. The drop-off was especially steep for purchases of foreign companies, a category that had recorded strong growth in 2007. Despite these declines, the number of acquisitions of Japanese companies doubled. As the financial crisis subsides, Japanese companies are slowly showing renewed interest in making overseas investments, too. There are several notable aspects of acquisitions by Japanese companies in 2008 and 2009.

(1) Most "in-out" acquisitions are targeting financial services companies and companies in industries serving mainly domestic demand rather than the export market. For example, JT and NTT DOCOMO used their large cash flows from operations within Japan to make acquisitions with the aim of becoming global players in their respective industries. Benefits are already starting to appear. In the financial services sector, Japanese companies rushed to buy investment banks, a sector where Japan has lagged other countries. Nomura Securities bought the European and Asian operations of Lehman Brothers, Mitsubishi UFJ Financial Group, Inc. invested in Morgan Stanley, and Sumitomo Mitsui Banking bought Nikko Citigroup from Citigroup. Other examples of "in-out" acquisitions are the purchase of Sepracor, a midsize U.S. pharmaceutical company, by Dainippon Sumitomo Pharma.

(2) For "in-in" acquisitions, transactions to gain the scale needed to be globally competitive are accounting for an increasing share of activity. This is true even for Japanese companies targeting internal demand that had been complacent due to their dominant market shares in Japan. Now many of these companies plan to use globalization to become even larger. Several mergers have taken place to benefit from economies of scale, including Kirin and Suntory, Renesas Technology and NEC Electronics, and Sompo Japan and Nipponkoa Insurance. In addition, Mitsubishi Chemicals plans to buy Mitsubishi Rayon and Japan Post and Nippon Express plan to integrate their parcel delivery operations. Another notable example is the purchase of Sanyo Electric by Panasonic in order to gain access to Sanyo's battery technology.

(3) For "out-in" acquisitions, the outstanding technologies and product quality of Japanese companies is undoubtedly appealing to foreign companies. However, the only notable recent activity is an investment in consumer electronics retailer LaOX by Suning Appliance, the largest consumer electronics retailer in China.

Figure 7: Japan's Foreign Direct Investments and External Direct Investments

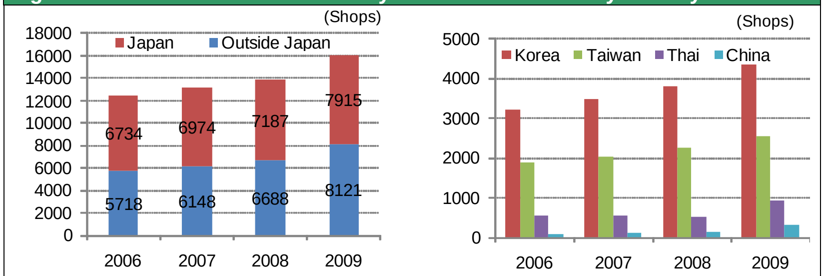


Sorce: MOF, Musha Research

Japanese companies target emerging markets

A second vector of globalization among Japanese companies is to start operations in emerging markets. By launching local operations, these companies can rely on internal demand rather than exports. For example, convenience store operator Familymart recently announced that it now has more stores outside Japan (mostly in Korea, Taiwan, Thailand, China and other Asian countries) than in Japan. In Shanghai, a convenience store war is taking place among Japanese companies. In the logistics sector, Yamato Holdings has decided to start parcel delivery operations in Shanghai. Also in China, Sankyu has started a scheduled delivery service for convenience stores in the city of Qingdao. The same holds true for the beer industry. China is the world's largest market for beer. Suntory has won a large share of this market in Shanghai. Asahi Breweries owns 20% of Tsingtao Beer, and Kirin Holdings is using a subsidiary and mergers to sell inexpensive beer in China. Unicharm, a manufacturer of personal care products, has been targeting Asian markets for many years. In fiscal 2009, this company, invested ¥15 billion to construct factories in China, Indonesia, India and Russia. This will increase its overseas factory network by 50% to 13 locations. To enlarge its presence in China, cosmetics manufacturer Shiseido in 2004 started opening its own stores to create a second sales channel along with department stores. Currently, there are about 3,500 Shiseido stores, mainly in inland areas of China. Shiseido is now the leading foreign cosmetics brand in China.

Figure 8: Growth in the Global Familymart Store Network by country



Sorce: Family mart, Musha Research   Sorce: Family mart, Musha Research

Development of products for emerging markets

A third aspect of globalization is the development of inexpensive (bottom-of-pyramid) products specifically for consumers in emerging markets. The high demands of Japanese consumers often create gaps between the types of products that succeed in Japan and in other areas of the world. For instance, many appliances and electronics products in Japan have outstanding performance and quality. But these products do not match the cost-performance requirements of many overseas markets. As a result, new competitors in Korea, Taiwan and other countries have often overtaken Japanese companies. To succeed, Japanese companies must sell quality goods at prices that match the purchasing power of overseas customers. The result has been the introduction of a series of lower-priced models with fewer functions that are designed specifically for emerging markets. Panasonic has established life style research centers in China, Vietnam and Germany. The centers develop products that precisely reflect the needs in their respective markets. Similar activities are taking place in the office equipment, automobile, machine tools and other industries. Even food companies like Ajinomoto and producers of household goods are working hard on creating inexpensive goods for emerging markets.

All these initiatives clearly demonstrate that Japanese companies are not giving up on growth. By aggressively capitalizing on opportunities linked with global economic expansion, these companies are determined to advance to a new stage of growth.

(4) Japan's Advantages = Technology, quality, premium prices for quality, teamwork and dedication

The clear quality advantage of Japanese products

Japanese products have clear advantages and disadvantages in the global marketplace. Quality is probably the greatest strength. Products of Japanese manufacturers have long had a reputation for excellent quality. Japanese companies outside the manufacturing sector are earning a reputation for outstanding quality as well. In the past, only exporters were recognized for the quality of their products. But now, we are seeing the emergence of superior quality at Japanese companies that had been serving only domestic demand and did not compete on an international scale. Non-manufacturers and producers of consumer goods are the prime examples of these companies. Incomes of people in emerging markets, especially in Asia, are likely to increase significantly. If this happens, Japan's reputation for outstanding quality will probably differentiate products from Japan and allow companies to charge higher prices (the "quality premium").

Japan's business style is earning renewed attention

Japanese companies are proving again and again their skill at innovation at the human level rather than merely in manufacturing and services. The development of hit products like the Wii (Nintendo), the Suica IC card (JR East) and the HeatTech heat-generating fabric (First Retailing/UNIQLO) illustrates this point. Japan's reputation for quality services extends even to tourism. A large increase in visits from affluent Asian tourists is expected, particularly from China now that tourists no longer need a visa to enter Japan.

Numerous foreign companies are beginning to imitate Japan's business style. Starbucks, for instance, used the Toyota kanban system to raise productivity by serving customers faster and enable the company to cut its workforce. Furthermore, Suning Appliance said it plans to use its investment in LaOX to gain access to this company's expertise in paying attention to every detail about sales areas.

New high-tech fields where Japan can use its superior technologies

Manufacturers in Japan still have a solid competitive edge concerning technologies and quality. Superiority is most pronounced with regard to high-tech components, materials and products. While Japan is not competitive in finished high-tech products like LCD TVs, cell phones and PCs it has a clear competitive advantage when it comes to components and materials, which depend even more on critical core technologies. There are numerous illustrations of parts using advanced technologies: glass back sheets for solar cells, semiconductor encapsulation materials, lithium-ion batteries for hybrid cars, photoresist for making semiconductors, motors, electronic components, and many more. Showa Shell Sekiyu entered the solar cell business by acquiring a plasma display panel factory from Hitachi. Showa Shell plans to invest ¥100 billion for the first phase of this project. In addition, Tokuyama, Shin-Etsu Chemical, SUMCO, Shinnihon Solar and other Japanese companies have announced plans to increase output of silicon for solar cells. Japan is the only country in the world with semiconductor-related expertise involving advanced materials, components and products. Synergies produced by this expertise give Japan a valuable advantage.

Japan will probably regain its position as the world's largest solar cell producer in 2009 after briefly losing this status to Germany. Standardizing production processes for solar cells and lithium-ion batteries is difficult because development is continuing on the required technologies. With no standardized processes, manufacturers in other countries will be unable to catch up with Japan for the time being. Japan should be able to preserve its technological superiority as a result. The Democratic Party of Japan has announced the goal of cutting Japan's CO_2 emissions by 25% by 2020. As entrepreneurs channel investments to measures needed to reach this target, we may see a big increase in demand for solar cells.

Environmental services, infrastructure and trading company activities

Japan has a big lead over other countries regarding environmental technologies, particularly semiconductor technologies and associated expertise. Water treatment is one area of strength. Japanese companies leading suppliers of pure water equipment, reverse osmosis membranes for desalinization, waste water recycling systems and other equipment. Japan also dominates the global market for carbon fibers used to make wind turbine blades.

Infrastructure is yet another market sector where Japan has a distinct advantage. Vietnam has selected Japanese technology to build its high-speed rail system. In the electric power sector, Japan has considerable expertise in nuclear power, which is attracting renewed attention as a source of clean energy.

Trading companies, a business category that no other country has, is in effect a type of international business investment bank model that is unique to Japan. In this role, trading companies have played a key role in economic globalization. During the past two decades, which are viewed as Japan's "lost 20 years," trading companies utilized interest rates of virtually zero to risk supply capital for projects that have created a foundation for growth. In the past, trading companies were merely a business model for ensuring reliable supplies of food and energy for Japan Incorporated. By making these investments, though, trading companies are finally moving away from this era.

(5) Where Japan is at a disadvantage

Lack of an aggressive spirit

Japan's strengths are accompanied by a number of weaknesses. Most significant are the extremely reclusive character of Japanese people and the reliance on teamwork. After its acquisition of the UK's Pilkington, Nippon Sheet Glass appointed a foreigner to serve as company president. But he did not remain very long. As an island nation, Japan may not be suitable as a location for a global headquarters. Itochu's decision to move its apparel business headquarters to Hong Kong may be led to more head offices relocations from Japan. The closed cultures of Japanese companies may explain why these companies are behind European, U.S. and Korean companies in surveys ranking the popularity of foreign companies in China. Another indication of this closed culture is the slow pace of naming foreigners to management positions at overseas group companies (METI 2009 International Trade White Paper).

Other problems at Japanese companies are the lack of an aggressive spirit and shortage of capital for investments with risk. During the financial crisis, many Japanese individual investors and companies (except some trading companies and other firms) cut back on overseas investments. The result was a negative cycle in which falling overseas investments caused the yen to strengthen, making investors even more reluctant to take on risk in other countries. Never before has Japan needed people with the aggressiveness to accept risks that could produce big returns as much as it does now. Moreover, the poor English language skill of Japanese people may soon become a critical weakness with regards to globalization. This is not merely a communication problem. The inability to speak English also reflects on the intelligence of Japan as a whole. English is the language used for most of the latest and most advanced information in the world. Making the right investment and business decisions without access to this information is virtually impossible.

Figure 9: Popularity Ranking of Companies (as an Employer) in China by Country

Evaluation criteria	Japanese companies	US/European companies	Korean companies	Hong Kong/ Taiwanese companies	Chinese companies
Popularity ranking of companies by country	5	1	2	3	4
Management efficiency	2	1	3	4	5
Compensation	3	1	2	4	5
Pay by merit	3	1	2	4	5
Skill-training programs	3	1	2	4	5
Transparency of management policy	3	1	2	4	5
Career development	4	1	2	3	5
Workplace environment	4	1	2	3	5
Delegation of authority	4	1	2	3	4
Acceptance of different culture	5	1	2	2	4
Contribution to society	5	1	4	3	2

Source: 2009 White Paper on International Economy and Trade

Japan's semiconductor industry lost the information war

Sometimes there is an explanation for a victory but never for a loss. For instance, why did Japan's semiconductor manufacturers end up as losers despite their overwhelming strength in the early 1990s? For the answer, we must consider the possibility that Japan is inferior in terms of its intelligence. Semiconductor investments surged in 1993 as the global economy began to recover. At that time, an extraordinary information vacuum in Japan prevented Japanese companies from quickly learning about this rebound. A number of factors were responsible for this vacuum: (1) Japanese companies were over-confident due to their past successes; (2) Japan was out of touch with international industry trends; (3) Japan adopted erroneous policies; and (4) semiconductor company executives made the wrong decisions. These incorrect decisions were caused by the Japanese system of managing by consensus, which prevented balanced management and the strategic allocation of resources. I believe that the Japanese follow-the-leader culture, the result of Japan's joint development system (an after-effect of an R&D system controlled by NTT) was another problem for the semiconductor industry. The bottom line is that Japan apparently did not use its highest levels of intelligence to determine the direction of the semiconductor industry.

Problems posed by Japan's financial services sector

One source of concern about this point is Japan's financial services sector. During the country's lost 20 years, financial institutions were forced to suspend the globalization of their operations. Furthermore, deflation robbed these institutions of both opportunities to earn profits and an aggressive spirit. All of the defining characteristics of Japan's financial sector became barriers to their ability to compete globally. The culture of managing by consensus, relying on teamwork, treating everyone as equals and using the Japanese language are all working against Japanese financial institutions. Global wholesale banking is now the nucleus of the financial sector. But Japan's ability to participate in this key market may be in danger.

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