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Interview with Tsunehiro Watabe,
Chairman & CEO of CVC Asia Pacific Japan Ltd.

he Fourth Arrow of “Abenomics” — the Wisdom of Business People

By *Japan SPOTLIGHT* Editorial Section

The economic reforms announced by the administration of Prime Minister Shinzo Abe, and the consolidation of Japan’s growth, can be further strengthened by the wisdom of Japanese business people. We may call this the fourth arrow of “Abenomics” since such business people’s ideas may have initially been stimulated by Abenomics.

Japan SPOTLIGHT had an interview with a distinguished Japanese leader of financial business, Tsunehiro Watabe, who has had long working experience overseas, in particular in France, to get some insights into Abenomics from a more international perspective.

JS: What do you think about the current situation of the Japanese economy?

Watabe: Since the change of government, I think the Japanese economy has been undergoing a stable recovery. Until now it had been in very critical situation facing a number of difficulties, such as the EU debt crisis, the great disaster in Japan on March 11, 2011 and the continuing damage to seriously hit areas, and the yen’s appreciation, in addition to long-term issues such as depopulation and aging. What we call “Abenomics” has so far worked very well, in particular thanks to its first arrow, namely an aggressive loose monetary policy, in changing people’s attitudes from pessimism to optimism and correcting an excessively strong yen and raising share prices. In addition to this policy’s positive impact on the Japanese economy, the signs of a stable recovery in the United States and of stable expansion in Southeast Asian economies such as Thailand and Indonesia, offsetting the setback to the Chinese economy, have had a positive effect on the business mind of Japanese industries such as automobiles and other exporting firms. I think the key to bringing the Japanese economy onto a continuing growth path in the long run will be the realization of specific policies formulated to achieve the so-called growth strategy, the third arrow of Abenomics following loose monetary policy and an active fiscal policy. I also believe the speed of the implementation of such specific policies will be vital to the future of the Japanese economy. I hope the Abe administration will clarify the specific contents of its growth strategy and a timetable as soon as possible.



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On the other hand, in responding to a questionnaire by a research institute studying how ordinary people feel about the current economic situation, 74% of people on the street, when asked whether they actually have any sense of a business recovery in their daily life, said they did not, while only 17% said they did. I have some concerns about this and I guess it means we still need more time to see the benefits of Abenomics spreading widely among the people.

I also have concerns about the continuing European debt crisis and the unstable political situations in the Middle East and elsewhere. These factors could lower expectations of world growth. However, overall, like many others, I believe that Abenomics will create a sound and stable environment for the growth of the Japanese economy and thus make a good contribution to the global economy.

JS: What can private Japanese firms do to encourage economic growth in addition to Abenomics?

Watabe: In a country like Japan with scarce natural resources, creative technologies which can make our products distinctive, the capacity to develop such technologies into new products, and competence in selling them will be crucial to surviving competition. On this basis, Japanese firms should be actively engaged in international business as global companies.

To achieve this, I believe the most important prescription for Japanese business is to change the contents of education for children. Current Japanese education forces kids to learn a wide



range of things by heart and follow a single guideline in studying, without fully respecting the diversity of thoughts and ideas, and this will end up in preventing them when they grow up from being innovative and having new ideas, which should be the source of any firm's competitiveness.

My daughter went to a kindergarten in France at the age of three. One day, the French teacher gave homework to the kids and asked them to think about the Moon and to let her know their thoughts about the Moon on the following day. There are no correct answers to this, but the process of logical thinking about such things and free thoughts and ideas are respected in France. When Japanese kids are grown up, they cannot join in heated debates appropriately with French grown-ups who have had such an education. In the ENA, the most prestigious "Grande Ecole" in France, students are obliged to voice their views in class on whatever the topic may be for 15 minutes. Innovation, the source of competitiveness, can only be produced by such intellectual discipline, I believe.

Even after joining a company, Japanese freshmen are forced to observe that company's own particular guidelines as rigorously as

possible. In such a working environment where nobody can step outside of the company's explicit and implicit rules, such as has been the case generally in Japan up to now, it will be very difficult to create innovative goods.

We certainly have innovation and innovative products in Japan, for instance carbon textiles for use in aircraft such as the Boeing 787, hydrogen-powered cars, and washlets. But we do not have as many as in France. That is a problem.

I would commend Japanese students to go overseas and study at universities or institutes abroad. Even at the University of Tokyo, less than 20% of the students study abroad. This is not a high percentage for the highest-level university. I have concerns about young Japanese businessmen who are today allegedly reluctant to go overseas for business. They are becoming so inward-looking.

JS: How would you assess a Japanese corporation's management capability in handling innovation, apart from its competence in maintaining equity or equality among employees?

Watabe: I am skeptical about their capability to create innovation. Japanese business executives in most cases regard any innovation by young employees as unacceptable for their conservative corporate culture, having been immersed in "Japanese management" for a long time, even though they are always saying that innovation is very important and their young employees should be as innovative as possible. But when they see innovation in reality, their conservative attitudes do not accept it.

I believe that the most effective way of encouraging innovation would be to offer financial rewards to any employee who invents new technology or a new product.

The case of the invention of a blue light emitting diode in Japan shows how important paying pecuniary incentives to any inventor is. Though the case ended up in reconciliation legally, the inventor of this technology was not happy at his company's way of resolving its conflict with him over the incentive, and he went to an American university to join their academic faculty. This episode shows how such competent people may leave Japan forever and settle overseas where their achievements could get a fair evaluation.

Another example is a financial advisory fee at an investment bank in the US or Europe paid in accordance with its achievements. Even

in the case of cross-border M&As by Japanese firms, a financial advisor, playing a key role in their business decisions, could often be selected from a Western investment bank to help those companies in making important decisions. This means that even Japanese banks higher in ranking in terms of their balance sheets, including overall deposits, than any Western bank are not well equipped to give competent financial advice on M&As because of the lack of such a salary incentive system in addition to the training issue. The salaries of bankers in Japan are not determined by their achievements but by traditional customs or the salary increase system seen at the majority of the banks. In such a corporate culture, it is difficult to expect any changes or innovations emerging. As I said, Japanese financial advisors can only take care of simple and easy M&A cases, whereas financial advisors working for an American bank, and being rewarded with enormous pecuniary incentives if successful, handle the complicated and crucial cross-border M&A cases that will be vital to deciding a company's future. Working for such an investment bank is truly challenging, but hard work and competence will always be rewarded. I think such a system is a key to innovation.

JS: What do you think about employing more foreigners in Japanese companies? Would it be a good way to achieve further internationalization of a Japanese firm?

Watabe: Yes. Their knowledge and working experience would be useful for a Japanese firm to develop overseas markets. We have to understand that there is no other way for us but to work on developing new markets overseas, because we are facing a shrinking domestic market due to depopulation and aging and market saturation. To take full advantage of their skills, it will be important to avoid any discriminatory treatment for foreign employees in terms of wages and promotion. It will also be important for all the Japanese colleagues working with foreign employees to refrain from engaging in any exclusive activities or behavior, such as gathering for lunch or dinner always by themselves.

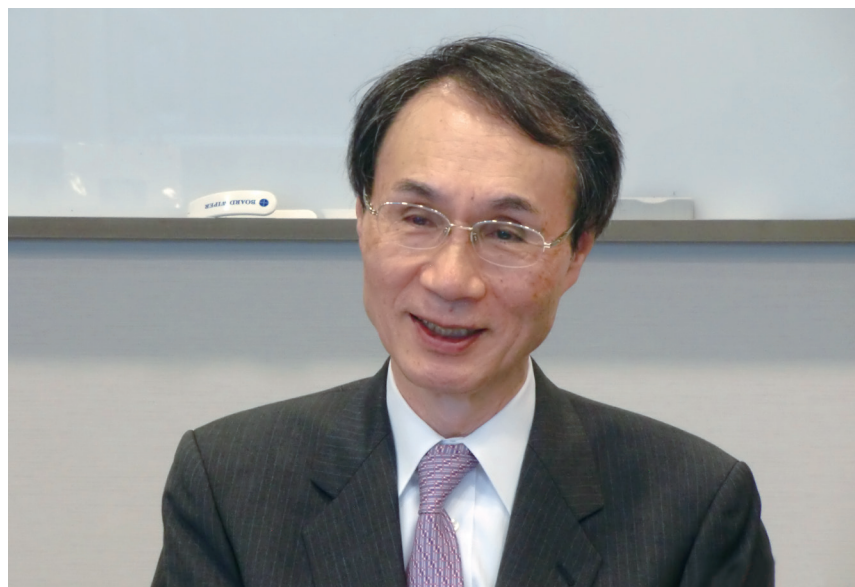
I fully support a policy to attract FDI into Japan as much as possible, which is proposed in the growth strategy of Abenomics. Attracting FDI could result in having many more foreign professional experts in Japan. Regulatory reforms will be important to achieve and

consolidate this path. For example, foreign nurses who have been working in Japan for a number of years are today obliged to pass an extremely difficult Japanese language exam to be qualified to continue to work as a nurse in Japan. In the light of the serious shortage of nurses in Japan now, it would be far better to relax such a rigid obligation.

JS: Assuming that attracting FDI into Japan is crucial for growth, will it be necessary to transform Japanese corporate governance rules to make them consistent with international standards in order to achieve this?

Watabe: Yes. It is difficult to imagine that a company will grow by adhering only to our own rules and customs of corporate governance, since our growth strategy can only be realized by selling our own technologies, goods and services in overseas markets. So we would have no other option but to change our own corporate governance rules to meet international standards, which would give us a common background in international deals and transactions.

JS: If we have more foreign employees and executives in Japanese firms, do you think it would be desirable to have internal management meetings in English?





Watabe: This is certainly a good idea. Yes. I think it would be desirable, if the English level of all the attendees of the meeting, including the foreigners, is roughly the same.

But we would need to be careful about many possible misunderstandings as a result of miscommunication among attendees with different levels of English. If all the attendees are Japanese, then apart from using the meeting to brush up their English, it would be desirable to use Japanese as the language of communication.

JS: Diversity is a key word for promoting innovative management in companies. In this light, what would you think about the further effective utilization of the female labor force to improve our productivity, in addition to having more foreigners? This is also considered one of the important growth strategies of Abenomics.

Watabe: Against the background of depopulation and aging, and

also the increase in the number of women with more advanced education and skills, needless to say it will be very important for Japanese firms to take full advantage of such women as human resources. We should promote full employment of women in any field in order to catch up with other developed nations, as Japanese is unfortunately far behind in this regard.

In achieving reforms in all of these issues, the key is the attitude of the top management. If the top management of a company clearly understands the importance of utilizing the female labor force, this company would be the best place for women to demonstrate their full competencies.

JS: What do you think will be most important for elderly people to remain happy in an aging society? Is there anything that businesses could do? This question is related to another aspect of Abenomics that aims at more effective utilization of elderly people continuing to work in a happy state of mind.

Watabe: The favorite topics of elderly people are often said to be health, pensions and grandchildren. Their happiness must be based on these three things. Elderly people would find their greatest happiness in good health and living with their family, but their daily life needs to be secured and respected by society and communities. In order to maintain such a “sense of happiness” for elderly people, companies would have to continue adequate and seamless growth in their business activities.

Above all, I believe respect from society and communities will be most important. It would be extremely useful if companies asked retired people who are in good health and still keen on contributing to business, and who have useful skills and experience, to give technical advice to young employees or introduce their own human networks in the industry to such young colleagues.

I believe we can provide elderly people with a strong sense of happiness in ways that enable them to maintain their contacts with business for as long as possible.

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