

Japan as a Revitalised Hub: Industries, Policies and Capacity Building Issues

Ow Yam Huo
(Republic of Singapore, age 23)

(full text)

1. Introduction

I went to Tohoku on an exchange trip almost a year after the tsunami and it was a sobering experience. While clearing the rubble, we could not help but to wonder how Japan, famed for her efficiency, managed to stall her reconstruction efforts. In Tokyo, we were also amazed at life and zest of the megacity. However, we noted that much of the architecture hailed from the 'lost decade' and there was little new construction. All these observations befuddled me. Doubtlessly, Japan is a prosperous nation, however, deep down within me, I expected more from Japan. In view of this, this essay offers suggestions into the course of direction that Japan can possibly take to revitalise her economy and contribute to the global economy. Ultimately, I strongly believe that Japan will be able to surpass herself once again!

2. Brief Roadmap

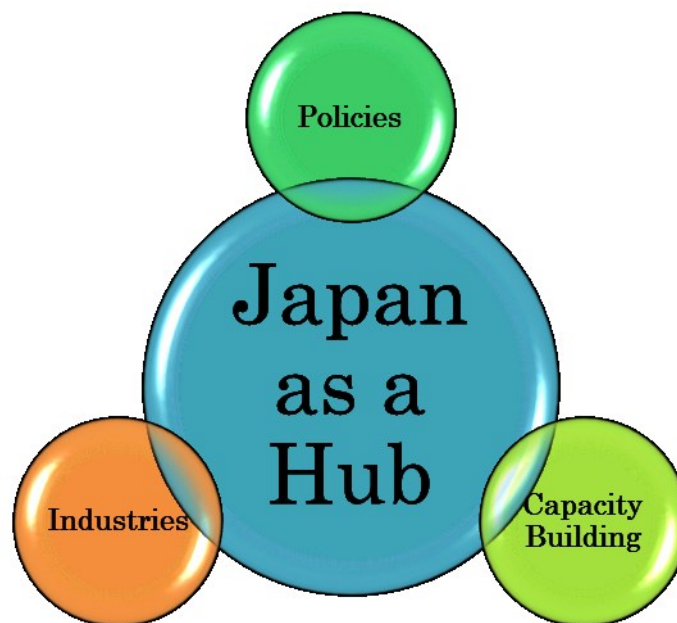
Along with economical stagnation, Japan still faces social and ecological problems as well, which range from declining fertility, suicide rate, aging population, lack of work-life balance and more.

After more than 30 years of trade surpluses, Japan's trade deficit rose to 2.49 trillion yen in 2011. And although Japan enjoys a high standard of living, its GDP per capita is only ranked 31st in the world. It is lamented that the Japanese working lifestyle is stressful and bureaucratic. 30,000 lives are lost every year through suicides. Japanese workers on the average work much longer than the workers of other nations. With such a myriad of problems, it is almost impossible to formulate a root to these problems and any solutions proposed must thus be holistic. Marching into the future, Japan has to improve her economy and add value in a slightly different and more innovative way.

Japan is at the frontier, for she is a fully developed country compared to 50 years ago. She has to be the leader and vision. She has to view human resource as her best resource and optimise this precious resource. In addition, Japan needs to be recognised for being the leader in quality, technology and design. However, can Japan go beyond being a leader?

I have integrated my various solutions into a single concept: Hub. Japan is already a leader in many fields but being a Hub goes beyond being a leader. A hub is a concentration of the best where people can go to find the network and be linked to the world. Being a Hub will mean that Japan will be the most advanced and connected nation and shape the future direction of the world.

In this essay, I have identified a few key industries, policies and capacity building ideas for the short, medium and long term which I believe is what Japan can excel in and what the world needs.



3. Proposed Industries

Not only should Japan aim to be the leader in these industries, Japan should also strive to be the hub in these fields as well because Japan is well-equipped with the necessary capabilities. I have identified 6 industries, namely: Tourism, Healthcare, Green Technology, Creative Industry, Transport, Financial services and Trading. Most of these industries belong to the tertiary and quaternary sectors as they show the greatest potential for growth and value-added.

3.1 Creative Industry

The Japanese Creative Industry refers to [J-pop](#), [manga](#), [anime](#), [fashion](#), [media](#), [architecture](#), [cuisine](#), and more. Not only is this industry thought to be worth 64.4 trillion yen and employing as many as 5.9 million people, it will also be a form of soft power projected to other nations and cultures.

Japanese cuisine is well received world-wide, and Japanese fashion houses such as Uniqlo is doing well in fashion retailing globally. Indeed, Japan has a variety of amazing creative industries that she can be proud of. It is an opportune time to take the lead and be the hub as the global market of creative industries is expected to expand rapidly.

Japan has already established a new Creative Industries Promotion Office to promote cultural and creative industries as a strategic sector and came up with "Cool Japan," The current challenges include issues of piracy and the lack of distribution hubs or overseas outreach. Hence, Japan has to capitalize more on the overseas demand of her creative industries by creating more bases overseas, dedicating more resources into marketing

efforts and enhancing countermeasures to deter piracy.

Most importantly, I believe that Japan can act as a melting pot where there exists a fusion and integration of other cultures. In this way, Japan can truly be the hub for all cultures and work on attracting the best from various cultures in other countries. 'Cool Japan' can go beyond self-projection, she can be the nexus of global integration as well. This will not only foster greater creativity in Japan, the world will also be amazed at the new creations that will stem from Japan. Japan can be a cultural superpower where cultures are able to fuse together and flourish together with Japanese culture.

3.2 Tourism

I had been thoroughly amazed by my travel experience in Japan as she boasts of many historical sights, scenery, ease of travelling and cultural delights. Yet, I am surprised that she is not featured in the top ten most visited countries. However, a brief look into the TTCI report revealed a few areas for improvements.

Japan did not do well in the 'Prioritization of Travel and Tourism', 'Policy rules and regulations' and 'Tourism infrastructure', in particular 'ATMs accepting visa cards', and 'Presence of car rental companies'. All of the above are relatively straightforward to change, for instance the government could allocate more budget and step up on efforts such as an aggressive push for more UNESCO sites. However, one concern that sticks out is the poor ranking of price competitiveness, which is hard to tackle. Yet, two noteworthy improvements can be made to improve the tourist' experiences. Firstly, reduce the extent and effect of taxation and next, to reduce or waive ticket taxes and airport charges.

While working on the areas of improvements within the country, JTB can also increase its marketing efforts and also further target developing countries for the longer term as developing countries have increased their tourism spending over the past decade significantly and will continue to do so. For instance, In 2012, China became the largest spender in international tourism globally with US\$102 billion. Russia and Brazil are noteworthy examples as well.

Lastly, as a Hub, Japan can collaborate with other nations, such as South Korea, on more travel packages and easier transits. This will increase the number of visitors to Japan and generate more revenue for the downstream activities such as the hospitality industry. Therefore, Japan can indeed be both a leader and hub for tourism in the region.

3.3 Transport & Logistics

Japan's dominance in the auto industry is evident and Japan should further capitalise on the transportation industries and technology know-how. This is a strength that can be further enhanced and replicated in other modes of transportation through greater investment in the aviation, rail and shipping industries.

In addition to the manufacturing side, it can further develop itself as an aviation and shipping Hub. This will

become increasingly important with the exploration and exploitation of Arctic region. It has been predicted that new shipping routes will be implemented and rich resources will be discovered in the polar caps. Japan is strategically located in the region to serve as a hub and trading port. Hence, Japan has to further invest in her status as a transportation and logistics Hub now to catch the wave of the future.

3.4 Financial Services and Trading

In the 1980s, Japan as a financial centre was undisputed. However, Tokyo may be losing its top financial status in Asia as Hong Kong and Singapore are now emerging quickly as they attract investors with low taxes and minimal regulation. Hence, relative to her economic power, Japan's financial and capital markets have not realized their full potential yet. Yet, it will be a mammoth task as being a global financial Hub is not just about "more spacious apartments, earthquake resistant offices and plusher sports clubs."¹

Notably, the Institute for Management Development ranked the Japanese banking regulation as 44th out of 61 countries. As for the indicator for financial institutions' transparency, Japan was ranked 45th out of 61 countries. These rankings are far behind the top few financial centres in the world and Japan certainly has to improve her regulatory framework.

Indeed, Japan has to provide greater transparency and freedom from the regulators which will increase the predictability and ease of trading and investing. Japan also has to provide diverse, innovative financial products and services at reasonable cost, which means she should lower her high corporate and personal income taxes as well. Japan can also further promote the entry of domestic and foreign entities by granting greater access to more sources of funding.

3.5 Healthcare

Japan should improve the access and quality of her healthcare system as it will be strategic on two levels.

Firstly, China will be facing health issues such as rising trend of diabetics due to the changing lifestyles of the Chinese. Japan can be better equipped to treat Chinese patients as China may not be able to cope with their patients themselves. With a better healthcare system, Japan could also benefit from medical tourism from the region.

More importantly, this will help to ameliorate Japan's increasing demand for healthcare as the rates of obesity and diabetes have risen and the healthcare system is further strained by a rapidly aging population. Therefore, there is a need to both increase the capacity and quality of healthcare in Japan.

The current problems include the misallocation of medical resources, and the marked differences in the quality of healthcare. A large part of these problems is due to the lack of central control over physicians, hospitals and allocation of medical resources. Hence there is difficulty in funding, allocation, and providing of quality care.

¹ The International Herald Tribune

To tackle these issues, there should be a central healthcare system for the allocation of medical resources, hospitals and physicians. Moreover, there needs to be an integration of the hospital network so that hospitals will be bigger and more specialised. Research has repeatedly shown that outcomes are better when the hospitals and physicians undertake a larger number of specialised procedures. Moreover, incentives should be provided to improve the quality of care, mainly by evaluating the performance of hospitals and physicians, and giving high and fair remuneration or otherwise.

Japan must act quickly to ensure that her health care system can be sustained. By reforming, she can control costs without compromising either access or quality, and high end treatment and biomedical breakthroughs will follow as well. This will not only benefit Japan's aging population, it will also serve instructive as Japan becomes a role model to the world while boosting her medical tourism industry.

3.6 Green technology

A new energy strategy that would terminate Japan's reliance on nuclear energy has been recently announced and it would replace the lost power by various renewable resources.

This strategy is not only feasible for the future of Japan, it is also prescient because the world needs to embrace renewable resources for the future. The international market for renewable energy resources is increasing rapidly and Japanese companies such as Sharp have already been important players in the production of solar collection technologies. If the shortfall in Japan's nuclear power is supported by solar energy, Japan will be the second in the global solar market behind China. Japan has the technological capabilities and potential to be the best in these fields by further supporting the green technology industry and encouraging the development of innovative power technologies. This leadership is critically needed in the face of global climate change.

3.7 Evaluation of Proposed Industries

The future global economy is bright but volatile, hence if Japan is open to new ideas and responsive to changes, she has reason to be optimistic. Undeniably, these economic changes will require much capital investment and involve unpopular trade-offs, but in the long term, they will greatly increase the strength of Japan's economy. Progress can only be achieved by looking outwards and embracing the changes. Hence, being a hub and focusing on high-end manufacturing and services will give Japan the leading edge and benefit the global economy too.

4. Proposed Policies

In order to be a Hub, Japan has to embrace policies which will make her more competitive across the board and increase the standard of living for her population. Many of these policies may not be easy to implement, especially with volatile politics involved. However, these changes are necessary to remain relevant in the future global economy and Japan can start by applying the principle of 'Kaizen' which emphasizes gradual continuous improvements.

4.1 Repopulation into the Rural Centres

Rural development in Japan has not been fully successful even though the Japanese government has sufficiently developed the physical and social infrastructure in rural Japan. And critics have commented that economic development including the physical & social infrastructure development may not be the true reason for the migration of the rural people.

Hence, an initial proposal is that, the government could promote the rural lifestyle and provide economical incentives for residents who choose to stay in the rural areas. As the village population reaches the critical mass, it will bring about a virtuous cycle with greater income generation and education standards. Rural development and repopulation will lead to a sizeable population upgrading their lifestyles, hence increasing the demand for commodities such as furniture. Ultimately, there will be increased consumerism and inflation as more facilities and infrastructure can be developed on a larger scale. Last but not least, for Japan to be a hub, the rural population has to be well-connected to the city in terms of network and infrastructure. This repopulation of the millions to the sub-urban or rural centres will create another internal engine of growth, and most importantly, connect the villages to the world.

4.2 Work-Life Balance

The falling fertility rate is a huge intractable problem for Japan and many developed countries. Japan has to increase her birth rate in order for any policies sustaining such a big economy to be sustainable. Research has shown that birth rate can be improved with a better work-life balance.

Moreover, as Japan embraces more of the service industry, work-life balance is more critical than ever as it is essential for white collar to foster their creativity and efficiency. Notably, two of the most important challenges against achieving a work-life balance in Japan are the “personnel assessment system” and “overtime payment”. This system of valuing long hours over productivity and work-life balance should be changed and this has to start with the senior management of the industries. The government can do much to help, either with mandatory policies dictating maximum hours per week, or incentives thrown in for companies with good work-life balance scheduling.

In addition, parents in Japan find it difficult to combine work and family commitments. Hence, young Japanese postpone marriage, delay parenthood and often have fewer children than intended. The long working hours also makes it difficult for Japanese women to leave the labour force to care for children. They often end up in non-regular employment, which is often lowly paid and temporary. They need to have better opportunities to re-enter regular employment, otherwise, they will have to choose between their careers and giving birth. They also need to be given the support to juggle both their career and family simultaneously. Most importantly, they will also need supportive policies to remove any glass ceilings, which will be elaborated in the next policy. This will result in more babies and higher female employment levels, which is what Japan needs to replace her aging working age population. Japan was among the “lowest-low” fertility countries in OECD and promoting and

enforcing a work-life balance is one of the best ways to reduce barriers to both parenting and employment. Hence, a good work-life balance needs to be promoted and enforced which will contribute to a strong and viable economy for the future.

4.3 Bureaucratic Reforms and a Business-Friendly Environment.

The conservative system of the corporate and bureaucratic structures must be replaced with a meritocratic system, regardless of nationality, seniority and gender.

Firstly, allowing foreigners to work and set up businesses would bring in new ideas and talents that will make the economy more competitive. Although there might be much lobbying and opposition, it is a necessary step to make Japan's economy more competitive.

While lifetime employment and seniority-based wages have their own merits, companies could incorporate greater flexibility to empower the youths and recognize merits regardless of seniority. The youths, who are generally less experienced, are also more driven and energetic, which are qualities needed to revitalize the economy. Only then, can there be a propagation of better business processes and management methods.

Moreover, it has been reported that many Japanese women did not drop out of the workforce for family obligations or because their babies have arrived. Surprisingly, the main reason why they find their careers unsatisfying is due to gender inequality and 74% of Japanese women with degrees voluntarily quit their jobs. Japan has to remove the glass ceiling for female and treat them equally so that they can fully maximise their talents and strengths at the workplace. This is critical as the drag of the economy due to the aging population can be ameliorated by the greater presence of the female workforce.

4.4 Productivity-Driven Growth

The economy is hit with a double whammy of aging population and a shrinking workforce. Meanwhile, amongst all the possible strategies to overcome the labour shortage, raising the productivity of workers seems to be the most appropriate.

Firstly, the service sector is where Japan can make the most substantial productivity gains, and the key tertiary and quaternary industries, such as finance, have been identified in the previous section. The benefits from catching up to international levels of service productivity would be significant because research suggests that GDP growth is more responsive to improvements in services productivity compared to productivity gains in manufacturing or agriculture.

Moreover, the stagnation in productivity can be traced to the general resistance of businesses to invest during the current period of uncertain demand. This may also delay important training or IT and factory upgrades. Hence it is important to boost workers' productivity through skills training, necessary technological upgrades and a greater amount of capital invested to aid their work. On the management level, capital invested in training will

also lead to more efficient business practices. Even though some barriers to entry are high in Japan's service sector which may reduce incentives to invest, the government can still step in and provide monetary incentives for companies to increase their workers' productivity.

Thirdly, Japan's service sector, unlike her world-class manufacturers, is fragmented and protected from foreign competition. The lack of competition causes inefficiency and perhaps complacency, which requires improvement. Hence, Japan could start on microeconomic deregulation of the industry, such as the reforming of tax and pension systems. Bank of France and the OECD published a recent study which indicated that the reduction of regulation on "upstream" services would not only improve productivity in those services, but also affect the rest of the economy positively. The IMF has also calculated that if Japan could reduce regulation to the average of the least restrictive three OECD countries, annual productivity growth would rise by 0.6 percentage points. Thus, for Japan to be a hub, she has to change her regulatory framework so that firms, regardless local or overseas, can easily enter the industry. Consequently, the productivity gains that will be achieved can offset the gloom of the aging population. Japan's future growth potential is tied to her people's commitment to competition and internationalization.

4.5 Evaluation of Proposed Policies

The world is becoming flatter and nations have to cooperate more closely with one another in the future. Bureaucratic reforms and increasing foreign competition are only two possible strategies to overcome the impending labor shortage. Rural repopulation and development, and work-life balance will also strengthen the foundation of Japan's economy. Even though these policies are all not easy, Japan has to take pains to reform her economy so that she will become more robust and competitive.

5. Capacity Building Ideas

It is important that Japan builds on her capacity so that her economy can be further sustained and thrive in the longer term.

5.1 Entrepreneurship & Innovation

Although innovation may not be taught or imparted directly, Japan can nurture more start-ups by creating a favourable culture and environment for innovation. A greater emphasis could be placed on the start-up landscape and entrepreneurship courses can be integrated into schools. Moreover, innovation is generally the result of competitive pressures and the government can help by reducing bureaucratic policies and providing more funding for startups.

But Japan can do more, as these traditional ways of encouraging innovation may be less relevant now that research has become more global and more concentrated on software than on hardware. Developing new products and services increasingly involves collaboration across borders and companies. Japan can be the hub for such collaborations on research and innovation and welcome great foreign ideas. Japan should reduce the current obstacles to collaboration, such as limitations on high-skilled immigration.

Eventually, being an entrepreneur will become a credible career option for graduates. Before long, Japan will be creating the next 'Silicon Valley' of Asia and these new start-ups and ideas will be the seeds for the future of the economy.

5.2 Neo-Capital

Some major countries have separate financial capitals and political capitals: USA has New York and Washington D.C, Russia has St. Petersburg and Moscow, and China has Shanghai and Beijing. One of the biggest concerns of having only a major capital is that ruling legislators may interfere too much with other status hierarchies and cause delays and conflicts. Moreover, establishing an economic capital that is separate from the political capital will create another huge population activity centre that will drive the economy towards being stronger and more efficient. This essay proposes that Osaka could be developed as either a new financial or political capital to create and cater to the growing economy of Japan. This is a long term strategy that must be implemented with much caution and planning as there may be strong opposition.

6. Conclusion

I was recently very heartened to hear that Tokyo won the bid for Olympic 2020, and it was inspiring to watch Prime Minister Abe address the rest of the world. Japan needs that determination and concerted efforts to reassure the rest of the world that she can rise again. And I have full faith that Japan can lead the world again. In conclusion, for Japan to be a Hub, she has to embrace the dynamic and novel ideas and continue on her path of innovation and excellence. She must not fear change, because she will thrive on these changes. By working on the industries, policies and capacity building ideas, Japan will be poised for a brighter road ahead; and a revitalised Japan will be a role model for the world. She will, truly, be the land of the rising sun.

7. Bibliography

- Forbes, 2010. Asia's Up-And-Coming Financial Centers. Available at: www.forbes.com/2010/07/13/asia-financial-centers-markets-economy-ranking.html
- METI, 2013. An Interim Report Compiled by the Creative Industries Internationalization Committee. Available at: http://www.meti.go.jp/english/press/2013/0621_01.html
- World Tourism Organisation, 2013. China - the new number one tourism source market in the world. World Tourism Organization. Available at: http://www3.weforum.org/docs/WEF_TT_Competitiveness_Report_2013.pdf
- Japan Investor, 2007. Japan's Financial Center Hopes: Just Another Small Asian Country. Available at: <http://www.japaninvestor.net/2007/11/japans-financial-center-hopes-just.html>

- Shirai Sayuri, 2007. Promoting Tokyo as an international finance center. Available at: http://www.ecipe.org/media/publication_pdfs/Shirai_tokyo_financial_center112007.pdf
- Green Tech, 2013. Japan: The World's Hottest Solar Market in 2013. Available at: <http://www.greentechmedia.com/articles/read/Japan-The-Worlds-Hottest-Solar-Market-in-2013>
- The Diplomat, 2012. Japan Goes Green? Available at: <http://thediplomat.com/the-editor/2012/09/14/japan-goes-green/>
- Japan Today, 2009. Work-life balance more important than ever. Available at: <http://www.japantoday.com/category/executive-impact/view/work-life-balance-more-important-than-ever>
- OECD, 2013. Work-Life Balance. Available at: <http://www.oecdbetterlifeindex.org/topics/work-life-balance/>
- The Economist, 2010. Smart Work. Available at: <http://www.economist.com/node/17173903>
- East Asia Forum, 2012. Growth: getting Japan back on track. Available at: <http://www.eastasiaforum.org/2012/11/28/growth-getting-japan-back-on-track/>