

WHAT'S NEXT?

WITH A NEWLY ELECTED GOVERNMENT
IN PLACE, IT IS HOPED JAPAN WILL SET ITS SIGHTS ON
INNOVATION TO DRIVE ECONOMIC GROWTH.



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JAPAN'S TRAILBLAZERS

CORPORATE INNOVATORS AND ENTREPRENEURS WHO ARE PIONEERING
WORLD-CLASS TECHNOLOGIES HAVE A BRIGHT FUTURE.

James H. Nakagawa isn't your typical Japanese entrepreneur, but the success of his Tokyo-based Mobile Healthcare Inc. (MHI) illustrates just how hospitable Japan's climate for innovation can be. Twenty or so years ago this third-generation Japanese-Canadian felt the tug of his ancestral roots. He moved back to the country of his forefathers, where he took a job with a leading Japanese software company.

In 1993 Nakagawa launched a financial-services company that did well. Then, in 2003, he founded Mobile Healthcare Inc., whose groundbreaking Lifewatcher cell-phone health management service won an award for the best Asian innovation in 2007 from the American high-tech publication *Red Herring*. Nakagawa himself received a nomination from McKinsey & Co. as one of Asia's top new business leaders under the age of 45. This year Lifewatcher received recognition from Japan's health service for having won a technology-pioneer award at the 2009 Davos World Economic Forum.

Cell-phone subscribers to Lifewatcher communicate their vital signs to doctors and other health-care providers, who respond in real time to ad-

vice whether there's a need for more medication, exercise, or a change in diet. The service especially resonates with the Japanese public, which has increasingly been sensitized to the danger of such lifestyle diseases as diabetes, heart disease, and high blood pressure. "With this self-disease management, we can help prevent complications," Nakagawa explains.

Key to Nakagawa's success has been the high penetration of cell phones in Japan and extensive use of Japan's leading ultrafast broadband. That makes patient-doctor communication far easier and gives MHI the ability to create a new and innovative remote-monitoring cloud-computing platform.

THE CREATIVE CLASS

The Japanese, of course, have been world-class innovators for decades. Think Bullet Train, compact CD players, Blu-Ray, hybrid cars like Toyota's runaway hit Prius, and Nintendo's dominant Wii electronic game. And the Japanese continue to innovate. DCM, a multinational venture fund, is planning a multimillion-dollar investment in startup Tonchidot, whose Sekai Camera application can be downloaded to

Apple iPhones. By pointing the camera at a certain restaurant, one of Tonchidot's 200,000 current users can see so-called Airtags in the viewfinder. These tags represent comments by recent diners, which viewers can read by clicking on the tags. Tonchidot also sells games and offers the opportunity to buy online accessories so users can become more competitive in certain games.

The key to Tonchidot's launch and future is the gradual opening up of Japan's mobile-phone market, says David Chao, co-founder and general partner at DCM. Long limited to telecommunications standards peculiar to Japan and controlled by Japanese carriers, the market is loosening. There are already one million iPhone users in Japan, and open standards are on the way. Tonchidot's Sekai Camera software can now be sold anywhere in the world where the iPhone is available and soon will be available to Japanese carriers as well. "The whole mobile market is changing," says Chao. "This is very exciting. Japanese engineers can now design for any market in the world."

A Japanese citizen of Chinese extraction, the Stanford M.B.A. is now based in San Francisco; he also has key

offices in Tokyo and Shanghai, and \$1.6 billion in venture-capital investments overseas. Asked to compare Japanese innovation with that of its growing rival China, Chao hedges. "China is growing at 10%, so the excitement level there is high," he acknowledges. "Culturally, the Chinese are more entrepreneurial, and there's no lifetime employment, so sometimes they have to be."

On the other hand, Chao notes, Japan has produced more than 500 initial public offerings in recent years. "Yes, it lags the U.S., and China has momentum, but Japan has produced great startup stories, and they are increasing. It's the third-largest venture technology market after the U.S. and China."

CORPORATE QUANTUM THINKING

Innovation isn't just about entrepreneurialism and venture capital, of course. Many of Japan's greatest leaps forward since the 1960s have been performed by large companies. The Bullet Train, or Shinkansen, globally revealed Japan's innovative prowess with its debut in 1964 to coincide with the Tokyo Olympics. It was the fastest long-distance railroad in the world, linking Tokyo and Osaka at 210 kilometers per hour (kph).

Photos of the sleek Bullet Train streaking past Mt. Fuji became global icons, contrasting the new and old Japans. This feat of speed was accomplished by the then Japan National Railways by eliminating heavy locomotives in favor of spreading motors throughout the trains' cars, better control of the pantographs that link the trains to overhead power cables, stronger and wider rails, and streamlined tunnels, many of which the Bullet must traverse in mountainous Japan. Nowadays, thanks mainly

to extensive use of aluminum, the fastest Bullets reach 270 kph, not far behind the 320 kph recorded by France's TGV and Germany's ICE trains.

Why is the Bullet slower than its counterparts? Noise regulations, says Shuji Eguchi, director for international affairs at the Railways Bureau of Japan's Ministry of Land, Infrastructure, Transport and Tourism. France and Germany

a key issue in places like Taiwan and China. Its proprietary sensors and software detect tremors' preliminary waves before they actually hit, automatically slowing trains before quakes strike. "This is key to our competitiveness," Eguchi says, citing numerous cases in which the system has worked in Japan. What's more, the newest Shinkansen Series N700 train boasts more seats with wider pitches and lower weight than its European competitors.

For the future, the R&D centers that service Japan's seven major regional railroad companies are focusing on fuel efficiency through the use of hybrids, and achieving higher speeds with virtually no noise by making the exteriors of cars absolutely flat. They have already made progress in reducing noise by extending tunnels to allow for slits that reduce booms when trains exit at high speed.

"In the future, we want to develop technology for speed that meets environmental standards," Eguchi notes. Even more aggressively, Japanese railway companies are racing to develop magnetic-levitation train technology by 2025 that would link Tokyo and Nagoya at a speed of 500 kph, almost twice as fast as current Bullets.

Germany, which once led in the development of such technology, has dropped out.

THE NEXT GENERATION

Other Japanese industrial heavy hitters continue to innovate with excellence. At early October's annual CEATEC Japan exhibition of new electronics products, a jury of American high-tech journalists awarded their Grand Prix to Sharp Corp.'s Mirumo dual-screen, waterproof mobile phone equipped with Sharp's Memory LCD. CEATEC's Green IT Technology



LIFEWATCHER COMMUNICATES SUBSCRIBERS' VITAL SIGNS TO HEALTH-CARE PROVIDERS.

aren't as strict, he says. The faster the train, the noisier it is. But that hasn't dented the Shinkansen's international competitiveness. Taiwan and China both have adopted Shinkansen technology for trains traveling 300 to 350 kph. Not only are noise considerations less stringent in those countries than elsewhere, Eguchi explains, but the Bullet's lighter weight also means lower fuel consumption and less wear on rails.

Japan's train system is also far more responsive to earthquakes, which is

WHAT'S NEXT?

Special Prize went to industry giant Hitachi for energy-saving LCD displays.

"This year's awarded products significantly showed Japan's strengths in engineering implementation, industrial design, and energy efficiency," says chief juror Michael Kanellos, editor-in-chief of Greentech Media, a venture-backed San Francisco news and research firm that tracks green technology.

"Japan," he adds, "has tremendous potential to leverage three traditional strengths—industrial design, precision engineering, and energy efficiency."

Kanellos cites Toyota's Prius hybrid as a fascinating example of blending efficiency with a new consumer experience. Sharp's Mirumo, he adds, debuts an innovation that could spread across the industry. "It puts a live LCD on the outside of your phone," he explains. "You can get messages, news headlines, photos, and other information on something that looks like it's just out of the case."

Two years ago, accolades came from the likes of the Economist Intelligence Unit, when it declared Japan the world's most innovative nation. Defining innovation as "the applica-

TWO WORLD-CLASS INNOVATIONS FROM JAPAN



SHARP MIRUMO PHONE

TOYOTA PRIUS PLUG-IN HYBRID



tion of knowledge in a novel way, primarily for economic benefit," its study ranked Japan ahead of Switzerland, the U.S., and Sweden. The measure used was patents per capita—with Japan ranking three times higher than any other country. Meanwhile, the World Economic Forum ranks Japan top in corporate R&D spending.

That doesn't mean there's no more progress to be made. For years, none other than the influential Japan Association of Corporate Executives (Keizai Doyukai) has been urging educational reform to foster more creative thinkers and create an opening for the immigrants who helped fuel innovation in the U.S. The organization now hopes that the newly elected Democratic Party of Japan coalition will move further in these directions. "We have high expectations, but it's too early to tell," says Katsumasa Shinozuka, a Doyukai trustee and chairman of Oki Electric Industry Co.

Japan's biggest challenge in innovation is moving from hardware to higher-value-added software. The investments by Nakagawa and Chao foretell progress, as does the lobbying by a corporate force like Doyukai. So, importantly, does the election of a new government that seems much more interested in innovation spending than its concrete-bound predecessor. It promises to be a bright future, one that should make Japan a breeding ground for forward thinkers who want to change the world. ●

THE BULLET TRAIN DISPLAYED JAPAN'S INNOVATIVE PROWESS TO THE WORLD.





ORGANIZED CHAOS: SHIBUYA CROSSING IS ONE OF TOKYO'S BUSIEST SPOTS.

BEYOND THE GUIDEBOOKS

AS VISITOR NUMBERS RISE, NEW COMPANIES ARE HELPING TRAVELERS CONNECT WITH "THE REAL JAPAN."

The Japanese have always believed in motivating themselves with numerical targets. Back in the high-growth 1960s, for instance, Prime Minister Hayato Ikeda's National Income-Doubling Plan spurred the country to greater feats of productivity. In 2003, the Japan National Tourist Office (JNTO) decided to set a new goal suited to the modern, service-based economy: Its Visit Japan Campaign aims to double foreign tourist numbers by 2010.

That target appears within reach, thanks to JNTO's advertising blitz, the global popularity of Japanese culture, and steadily rising incomes in nearby Asia. The number of travelers to Japan climbed from 5.14 million in 2003 to 8.35 million in 2008, despite increased costs due to a surging yen. Just three Asian countries—South Korea, Taiwan, and China, including Hong Kong—accounted for 64% of all visitors. Meanwhile, North America and the major European coun-

tries (Britain, France, and Germany) accounted for less than 20%, a disparity due mainly to geographic distance.

Of course, not every traveler wants the same encounter with Japan. Surveys show that Asian visitors' primary interests are shopping (they spend three times as much as their Western counterparts), Japanese cuisine, and enjoying a good soak in a volcanic hot spring. Westerners share the same passion for food but list "visiting historical sites" and "experiencing Japanese traditional culture" as their other top priorities.

To address this hunger for authentic experiences, Japanese travel-market leader H.I.S. set up a subsidiary, H.I.S. Experience Japan, in November 2006. The firm immerses tourists in a range of Japanese culture. Purists can meditate in a 900-year-old mountain temple. Would-be martial artists can take samurai swordfighting lessons from the choreographer of Quentin Tarantino's

Kill Bill: Volume One. Pop culture nerds can explore Akihabara, Tokyo's mecca of *manga* and anime, with an American guide dressed up like a cartoon character. "He will show you aspects of the town definitely not explained in guidebooks!" proclaims the website.

Nicole Fall, co-founder of boutique travel consultancy Bespoke Tokyo, also believes in eschewing guidebooks in favor of doing what the locals do. Bespoke Tokyo concocts "urban safaris" for a well-heeled international clientele. Approaching Tokyo with a shopping list of sights is simply the wrong approach, she says, noting that Tokyo Tower, the symbol of the city, is really a garish reproduction of the Eiffel Tower, while the Imperial Palace is hidden from view. Tokyo's true charms, she argues, are more serendipitous. The city combines the "organized chaos" of dense urban life with the virtues of safety, cleanliness, and an efficient public transport system.

"Tokyo is about people and quirky experiences," Fall says. "It's about wandering off down a side street and finding something totally unexpected." She recommends exploring a limited number of neighborhoods, in order to savor the jumbled architectural styles and countless restaurants, cafes, bars, and shops.

One key group eager to boost its knowledge of Japan is the international business community. A well-crafted odyssey through the actual consumer landscape packs a punch that even the best PowerPoint presentation can never hope to match. "Global clients want to see what innovations are happening here, because Japan is a trendsetter," says Fall, who consults on such market immersions. "They come away inspired."

Whatever their reasons for visiting Japan, travelers tend to enjoy positive impressions. Repeat rates can be astonishing—as high as 79% in the case of visitors from Hong Kong, for example. With loyalty like that, the Visit Japan Campaign should have no trouble hitting its goal. ●

A FORMULA FOR SUCCESS

JAPAN'S VAST MARKET AND TECHNOLOGICAL PROWESS OFFER FOREIGN INVESTORS THE CHANCE TO GAIN A STRATEGIC ADVANTAGE IN ASIA.

When James Mori of Macquarie Asset Finance was establishing Reboot Technology Services, a large-scale IT equipment remarketer and service provider, in Tokyo in early 2008, he was taken aback by the configuration of the warehouses that Japanese realtors took him to see. Familiar with Australian and U.S. layouts, he was expecting single-story, shed-like structures with vast open floors. Instead he was confronted with small, multistory buildings with walls and pillars all over the place—the natural way to build, he eventually realized, in a country where land is scarce and earthquakes frequent. But for all Mori's initial misgivings, the maneuvering of Reboot's merchandise through this cramped environment ultimately proved no challenge at all. "Our local staff knew exactly how to deal with it," he says with a chuckle.

Perhaps Mori's experience can serve as a metaphor for the Japanese market. Despite its reputation as an impenetrable maze, provided you're prepared to be flexible and can find the right people, it's a great place for doing business. The numbers certainly suggest that plenty of foreign firms believe it to be so. Between 2001 and 2008 (the most recent numbers available), levels of foreign direct investment (FDI) soared, almost tripling from \$74.2 billion (6.6 trillion yen) to \$208 billion (18.5 trillion yen). That's largely because the government is knocking down the walls to help create a transparent and welcoming environment for foreign investors. Its current FDI Acceleration Program includes everything from measures to facilitate cross-border takeovers and reduce the tax burden for investments held through offshore funds to everyday reforms that make Japan a more multicultural and livable place for foreigners.

Doing business across national borders demands flexibility and a willingness to adapt to cultural differences. Mark Loomis, president of Estée Lauder Japan, can attest to that.

Since he took the helm four years ago, he has realized that there is a different style of business leadership in Japan. Managers in Japan are expected to follow a more consensus-driven and less top-down decision-making style than is the norm in the U.S. "I didn't find it hard to adapt," confirms Loomis. "In fact, it was quite satisfying. And what I appreciate about the Japanese is that once a decision has been taken to move on something, no one can execute better."

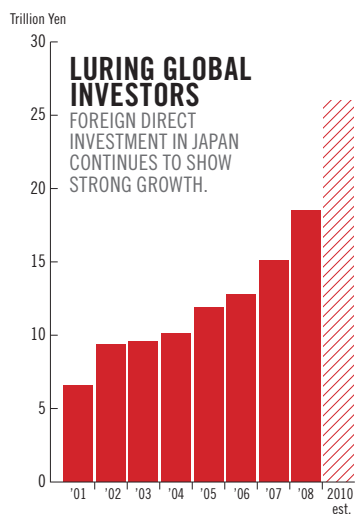
A NEW TALENT POOL

These days, the cohort of people like Loomis who are at ease with both the Western and Japanese ways of doing business is on the rise. Christine Edman, Japan country manager of fast-growing Swedish clothing retailer H&M, is a case in point. With an American father, a Japanese mother, and a Swedish

husband who works at a prestigious Japanese university, she's completely at home in two—if not three—cultures and languages. Finding people like her, Reboot's Mori believes, is one of the keys to success in the Japanese market. "In the past, there were not so many international-minded people here, whether foreign-educated Japanese or Japan-educated foreigners," he says. "But now there's a big pool of talent out there, which makes things easier."

Another member of this global-minded cohort would be Joe Chou, a Taiwanese with a postgraduate degree from a Japanese university who, after an interlude establishing the Starbucks franchise in Shanghai, returned to Japan in 2006. As head of the Tokyo project team of Uni-President Enterprise Corp., a major Taiwanese retailer, Chou

is charged with scouring Japan for potential products—everything from candy to miso soup—to introduce into the company's 4,800 7-Eleven convenience stores back in Taiwan. Japanese products are so popular there, he says, that just placing Japanese





GAINING A FOOTING IN ASIA: UNI-PRESIDENT IS HELPING WELL-ESTABLISHED JAPANESE BRANDS—FROM FASHION LABELS TO RESTAURANTS—EXPAND INTO TAIWAN AND MAINLAND CHINA.

ideograms on a product is enough to give it kudos and boost its appeal. Indeed, Chou even had to arrange for a Japanese confectionery company that discontinued a certain brand of cookies to keep making them exclusively for the Taiwanese market, because of local demand.

EXPORTING PRODUCTS AND IDEAS

Chou sees his business model as a win for both sides. On the one hand, Uni-President gets an edge over local rivals by being able to offer distinctive, quality Japanese products in its stores in Taiwan; on the other hand, Japanese companies, eager to find new outlets as Japan's population shrinks and ages, secure an easy entrée to foreign markets. "We provide them with language skills and operating experience in Taiwan and China, and they provide us with technology and powerful brands," says Chou. And indeed, this "virtuous circle" pattern, where inward investment ultimately serves to boost Japanese exports, is a phenomenon the Japanese government is keen to see more of.

But tangible products are not all that foreign companies can export from Japan; sometimes the takeaway can be business know-how acquired in one of the world's most sophisticated marketplaces. Such, at least, was the experience of Estée Lauder. Loomis relates how the company had to bolster its Japan-based education and training programs so that counselors could better respond to local consumers' preference for in-depth, one-on-one consultations—even going so far as to prioritize the process of delivering a quality customer experience over the end result of selling products. Paradoxically, this service-first approach ultimately contributed to the brand's reputation and to sales in

equal measure—and was thus seen to have global applications. "The selling skills of our Japanese staff are a model for the education of our company worldwide," declares Loomis.

On top of the tastes of its fastidious consumers, another lure for foreign companies is the technical savvy of Japan's researchers. Estée Lauder Japan is tapping into this asset: In 2007 it teamed up with Doshisha University to establish the Kobe Skin Research Institute, where in-house researchers work with some of the country's leading dermatologists to explore Japanese skin and aging needs. Since Japanese and other Asian women tend to have similar skin and hair types and follow similar product rituals, the Japanese market serves as a great testing ground. Moreover, success for a product in Japan, says Loomis, has "a halo effect for the rest of the region."

PARTNERSHIPS FOR INNOVATION

But a research center is only one way to drive innovation. In many cases developing a joint venture or alliance with a local firm is a good strategy. Just ask Yoshiaki Fujimori, president of GE Japan. Although the famously inventive U.S. firm has global research centers in China, India, and Germany, it chose not to take that approach in Japan. "Japan is a country where multiple technology-driven partnerships make more sense and thus are a better contribution to GE's business globally," explains Fujimori.

Fujimori believes that the traditional Japanese focus on making things smaller, lighter, more efficient, and more affordable—think Walkman or PlayStation Portable—is one of the country's unique strengths. GE, he points out, definitely benefited from this "national headset" when it established a joint



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—*Yoshiaki Fujimori,*
President, GE Japan

venture with Japanese automation-system supplier Yokogawa Electric back in 1982. At the time, GE produced only high-end diagnostic devices targeted at the U.S. market, but teaming up with Yokogawa resulted in the creation of less expensive and less heavy compact-size MRI and CT scanners that, though designed for the Japanese market, became global best-sellers.

“That’s a great example of how Japan contributes to GE,” comments Fujimori, adding that other GE partners include Hitachi, for nuclear technology, and Konica-Minolta, for OLED lighting; both areas dovetail with GE’s “Ecomagination” drive to focus on environment-friendly technologies.

Reboot’s Mori confirms the crucial role partnerships can play. “Coming into Japan head-on without a partner doesn’t strike me as a good strategy, at least for beginning a business,” he says. “In my experience, having the right, strong partner is as key as having the right staff.” He clearly walks the talk—after all, if, like Mori, you were in the business of remarketing PCs, you’d be hard-pressed to find a better ally than his joint-venture partner NEC Capital Solutions, the leasing affiliate of electronics giant NEC Corp., which has about 20% of Japan’s PC market.

But business partners in Japan don’t have to be big to deliver results. Uni-President’s Chou has scored major successes in Taiwan with food products made by midsize Japanese manufacturers whose representatives he met at regional trade fairs, and GE’s Fujimori is keen to team up with Japan’s small and medium-

size enterprises (SMEs) because of the unique technologies, particularly in components and materials, they often possess. Since their technologies tend to be “invisible,” deep inside finished products, GE reaches out to potential SME partners via an online technology forum and a dedicated Japan technology team. “We know there’s a significant amount of technology out there that will help us innovate and grow,” he says. “So we’ve created a process to get to know the right companies.”

HANDS-ON SUPPORT

The government of Japan, too, has created its own processes for reaching out to foreign investors. Under the auspices of the Ministry of Economy, Trade and Industry (METI), the Japan External Trade Organization (JETRO) is the government agency charged with promoting Japan’s attractions as a destination for foreign direct investment and providing a broad range of hands-on support to companies once they’ve moved into the country. When the first five employees of Reboot started operations in Japan in early 2008, for example, they worked out of a JETRO-provided central Tokyo office for three months, rent-free. “JETRO also helped us identify possible locations for our combined office and warehouse,” Mori adds. “They introduced us to the Chamber of Commerce in the Tokyo suburb where we finally leased our building.”

In Chou’s case, JETRO helped him with advice on law and taxation issues, gave him rent assistance, and also introduced him to trade associations where he could meet food producers eager to provide him with products for his store networks in Taiwan and China. “We’re a foreign company, so there was a lot we didn’t know,” Chou says. “JETRO definitely helped us do things faster and more efficiently.”

A HEALTHY MARKET

What’s behind Japan’s eagerness to woo foreign investors? As Yasuhito Nii, director of the Trade and Investment Facilitation Division at METI, explains, Japan needs foreign investment to retain its economic dynamism. “Through direct investment, Japan gains new skills, new human resources, and new management

know-how that stimulate internal competition and boost efficiency and productivity," he says. "These gains, in turn, provide a better standard of living for the Japanese people."

A clear example of a foreign company helping to invigorate Japanese markets and boost quality of life is provided by Indian generic pharmaceutical manufacturer Zydus Cadila, one of an increasing number of Asian companies to expand into Japan. While generic drugs account for more than 50% of the pharmaceutical market in the United States, the equivalent figure in Japan is only 19%. But with the world's oldest population and a health-care system that is becoming increasingly hard to finance, cutting the cost of care is now a matter of urgency. As part of this endeavor, the Japanese government is targeting a 30% market share for generics by 2012, and is offering financial incentives to encourage a switch from brand-name to cheaper, generic drugs.

Zydus Cadila decided that the best way into the Japanese market was via an acquisition, and it bought Nippon Universal Pharmaceutical Co. Ltd., a small, privately held company, in 2007. "Japan is not like the U.S. or Europe," explains Zydus Cadila Japan's president and representative director, Dr. Kailash D. Sharma, an Indian who earned his Ph.D. at a Japanese university. "There are regulatory hurdles, so you can't just set up and start the next day. We knew we needed to work with a Japanese partner, and Nippon Universal provided an entry ticket to the market, with a factory, a physician network, a distribution system, and good products." Zydus Cadila Japan now offers 35 products versus Nippon Universal's original six and has almost doubled the size of its physician network in two short years.

Japan's market is not just dynamic; it is huge. For pharmaceuticals, where Zydus Cadila stands poised to grab a significant share, it is the world's second-largest market. For GE Japan, each of its four major business units—energy, aviation, health care, and finance—generates around \$1 billion or more annually in Japan, with strategic customers like Japan Airlines and All Nippon Airways, for aircraft engines; Tokyo Electric Power Co., for energy systems and services; and major

national university hospitals, for health care. Meanwhile, for Estée Lauder, Japan is not just the world's No. 2 beauty market, it's also No. 1 for skin care, a market that actually stands to grow as the local population ages.

To any naysayers who believe that the current downturn makes this a risky time to commit to Japan, let the recent experience of trendy clothing brand H&M stand as a lesson. It opened its first Tokyo store in Ginza just before Lehman Brothers' collapse in September 2008, and its second in Harajuku just a month after. Despite the inauspicious timing—or perhaps because of it—Japanese consumers responded enthusiastically to H&M's message of "fashion and quality at the right price," forming waiting lines outside the stores days before they opened.

In fact, the Ginza and Harajuku stores had "the most successful openings in H&M's 60-year history," says H&M's Christine Edman, noting that she hired a Japanese quality manager to ensure that all local regulations were followed, and increased the number of cash registers and fitting rooms to satisfy Japan's famously demanding consumers. Indeed, Edman is so bullish on Japan that she just opened three new stores—including a vast flagship store in Tokyo's tony Shibuya district—in a single frantic week in September this year, and has another two in the pipeline, including one in Osaka. "People always want to enjoy fashion and get a good deal," confirms Edman. "I see huge potential in Japan." —Giles Murray

**"JAPAN IS AN
EPICENTER
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TRENDS, R&D,
AND PRODUCT
INNOVATION."**

—Mark Loomis, President,
Estée Lauder Japan



HUBS OF INNOVATION

JAPAN'S DIVERSE REGIONS ARE MAGNETS FOR OVERSEAS INVESTORS, WHO CAN LOOK FORWARD WITH CONFIDENCE TO BEING WELL CARED FOR.

As the global economy morphs into a borderless marketplace, multinationals are rushing to set up operations in centers of excellence in Asia. These are regions with advanced know-how in industry specialties that can help businesses boost productivity and leapfrog the competition. Japan offers a microcosm of this dramatic trend. Greater Nagoya is a hub for auto manufacturing, while Kansai, the region around Osaka, is a hotbed of biomedical innovation. Other key centers include Miyagi and Iwate, for semiconductors and electronics; Fukuoka and Saga, for environment technology; and Saitama and Shizuoka, for food products.

Taking a regional approach offers foreign investors added benefits. Besides access to brainpower, many of the centers offer significantly lower business costs and a better quality of life than the capital, thanks to lower population density and easier access to nature. These advantages, however, don't demand any tradeoff in convenience: Japan's sophisticated transport infrastructure means that domestic and international travel are easy.

Japan's local expertise is world-class. Greater Nagoya, for example, produces not just 45% of the country's automobiles and auto components but more than 50% of its roughly \$10 billion aerospace output, thanks to the presence of manufacturers like Mitsubishi Heavy Industries, a tier-1 supplier to Boeing. Home to numerous

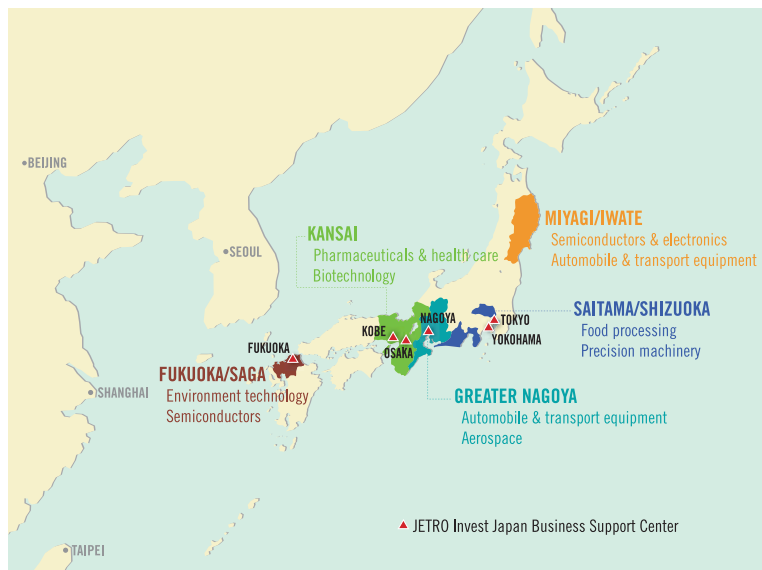
global R&D centers, including those of Toyota and car-parts giant Denso, the region positions itself as the world's center of *monozukuri*—a Japanese word meaning “the art of making things and the spirit of creativity”—a claim that can sound grandiose until you realize that Greater Nagoya actually produces 1% of total global GDP. Focused on staying in the vanguard, the region is now looking to build critical mass in mechatronics, the fusion of electronic and mechanical technology found in hybrid cars.

Meanwhile, a combination of factors makes Kansai Japan's leading center for biomedical R&D. Osaka, the regional capital, is home to no fewer than 300 drug companies, including Takeda, Japan's largest. Within a 25-mile radius of the city are four of Japan's top universities, with several of the country's leading research institutes.

Foreign companies that take the plunge and expand into Japan's centers of excellence can look forward with confidence to being well cared for. In tandem with JETRO, the

government agency in charge of promoting inward investment, each region offers a convenient “one-stop service,” with subsidized advice from specialist accountants and lawyers on legal, tax, and employment issues.

JAPAN'S CENTERS OF EXCELLENCE ARE HELPING BUSINESSES BOOST PRODUCTIVITY AND LEAPFROG THE COMPETITION.



TO GET AN INSIDER'S VIEW OF DOING BUSINESS IN JAPAN'S LOCAL ECONOMIES, WE TALKED TO CEOs WHO HAVE RECENTLY SET UP OPERATIONS IN VARIOUS INNOVATION HUBS. HERE ARE THEIR STORIES.



Three years ago, **COOPER STANDARD**, a U.S. auto-parts manufacturer with annual sales of \$2.5 billion and 19,000 employees, set up a subsidiary in Nagoya. Mike Maegawa, representative director of Cooper Standard Automotive Japan, discusses the various reasons the company made that decision.

WHY THE MOVE TO JAPAN?

When it comes to key components for Japanese cars, you've got to talk directly to engineers at the tech centers of the car companies and get involved in system development early. Our strength is to provide them with their needs and wants. You have to move to Japan to get the business. And you need to show commitment—that's why we set up a company, not a liaison office.

WHAT DREW YOU TO NAGOYA IN PARTICULAR?

JETRO provided me with startup and running cost projections that helped me persuade senior management. They also gave us four months of rent-free office space in Nagoya and introduced us to recruiters and realtors. Nagoya City provided us with a further three months' rent for the company office, which was a great help. Nagoya is the best place for us. The central location makes it easy to visit the tech centers of all the Japanese car companies.

WHAT'S THE BENEFIT OF HAVING A PRESENCE IN JAPAN?

We're close to the Japanese car companies, so we get firsthand information on technical trends, new product development, and any problems and challenges they face. This lets us come up with timely strategies for the products and systems we have to invest in.



At \$16.8 billion, Japan is the world's second largest beauty products market. That's why Chinese **JIANGSU LONGLIQI GROUP** established R&D-focused Beauty & Health Innovation Co. Ltd. in Kobe in June. Jianzhong Yang, representative director and president, discusses the decision.

WHY DID YOU EXPAND INTO JAPAN?

R&D is the driving force of our business. We need a presence in the most advanced countries in the field, of which Japan is one. The fact that the hair and skin of the Japanese are similar to those of the Chinese is another reason to be here. We also get access to the latest technology and research—plus able and experienced people.

WHAT DREW YOU TO KOBE?

Kobe is a center for medical R&D and one of Japan's fashion centers. It's easy to get anywhere in Japan, and Kobe's a port city, so it's a good place for trading, a business we're planning to get into. On a personal level, it's very livable and has great international schools.

HOW DID JETRO AND THE LOCAL GOVERNMENT HELP YOU?

Previously I'd been a research scientist at P&G. This was my first experience setting up a firm, so there was plenty I didn't know. JETRO arranged for me to meet all the lawyers and accountants I needed. I also used JETRO's rent-free offices for the first couple of months. Now Kobe City and Hyogo Prefecture are subsidizing our rent for our first three years of operation.

WHAT ARE YOUR FUTURE PLANS?

We started in April 2009, so we're still small, but we want to become one of the best cosmetics R&D centers in Asia.



Boston-based **BBK WORLDWIDE** helps pharmaceutical companies enroll patients in clinical research studies. In March, the company established a subsidiary in Osaka to help with patient recruitment. Andrew Sacher, general counsel, explains why.

WHAT ATTRACTED BBK TO JAPAN?

BBK has a long history supporting Japan-based pharmaceutical companies. With the government working to reduce the time it takes for drugs to get approval, Japan—the world's No. 2 market—is becoming more attractive. We wanted to continue and deepen our commitment to our Japanese customers.

WHY OSAKA IN PARTICULAR?

There's been a substantial investment in developing a bio-cluster in the Osaka-Kobe-Kyoto region, and the type of facilities, sites, and doctors we need are all here. It's only a 2.5-hour bullet-train ride to the pharmaceutical companies in Tokyo. I love Osaka. To me, it feels like Boston to Tokyo's New York.

DID YOU GET ASSISTANCE?

The level of cooperation from everyone was exceptional. The Osaka Business and Investment Center (O-BIC) and Japan External Trade Organization connected us to resources in legal, business, and accounting services. O-BIC subsidized some legal fees and provided interpreters. The Osaka prefectural government helped set up interviews with research physicians who advised us on Japan's health-care system.

WHAT ARE YOUR PLANS FOR JAPAN?

We would like to see our office grow to 20 people, with Osaka acting as our hub in the fast-growing Asia-Pacific region. ●



NOBUYUKI IDEI,
FOUNDER & CEO OF
QUANTUM LEAPS
CORPORATION.

AT A CROSSROADS

A FORMER SONY CHIEF URGES JAPAN TO DEVELOP A ROBUST LONG-TERM ECONOMIC STRATEGY IN ASIA.

The clock is ticking for Japan to define itself positively in the Asia of the 21st century. The alternative, warns Nobuyuki Idei, founder and CEO of Tokyo-based business consultancy Quantum Leaps Corp., is that Japan will languish as a technology parts supplier to rising giants such as India and China.

"My experience of looking at innovative collaborations between Japan and other Asian countries shows that, economically, Japan is simply at a different stage than the rest of the region," says Idei, who is a former chairman and CEO of Sony Corp. "Unless Japan changes its mindset, finding a role will be difficult. Japan has a time limit, maybe the coming five years, to find a position complementary to India and China. If we continue going head-to-head with these countries and keep protecting our 20th-century technologies, we will lose."

Idei believes infrastructure technologies for eco-cities are a key area in which Japan can contribute. "Given the rapid growth of developing countries, it would be a catastrophe to have the same energy-hungry cities that we have in Japan and the West now. But the technology necessary to do it differently could be exported from Japan."

Idei offered these thoughts at the Asia Innovation Forum, which was held in Tokyo on Sept. 14–15 and was co-organized by Quantum Leaps. Earlier forums focused on the semiconductor and manufacturing industries; this year the emphasis shifted to environmental issues and the competitiveness of Japan.

As he sees it, Idei believes Japan should tackle projects that consolidate its strong infrastructure technologies—first domestically, then in collaboration with cities overseas. "China has huge demand

in this area, given its rapid urbanization. But Japan currently has no strategy to take advantage of this opportunity."

Environmentally friendly city projects are springing up globally. An example is China's Tianjin Eco-City, about 150 kilometers from Beijing. A collaborative project between the governments of China and Singapore, Tianjin aims to create a socially harmonious, environmentally friendly, resource-conserving city. For heating, the city will draw on waste heat from a nearby power plant, and at least 90% of travel within the city will be via walking, cycling, or public transport. When completed in about 15 years, it will be home to around 350,000 people. Other eco-city projects include Masdar City in Abu Dhabi and Florida's Babcock Ranch.

"Unfortunately, Japan's role in such projects is usually limited to consulting," notes Idei. "This means we are just transferring technology without gaining any long-term economic benefit. I feel we need to be more active in this area."

Idei believes a major obstacle is Japan's bureaucracy, which he characterizes as inwardly focused, with each ministry protecting certain industries. For example, the city of Tokyo controls the recycling of water, an area that many other countries have liberalized. "Japan is very protective of keeping infrastructure public," notes Idei. "My message to government would be that system integration is a great business opportunity for Japan, and also of great potential benefit to the region. There are a lot of complaints that there is no clear direction and no dream for Japan, so projects like these would give great focus and invite investment from overseas."

"Perhaps if we look back 50 years from now, we will see that 2010 marked a paradigm shift toward a new kind of city," Idei says. "Japan should be a forerunner of this change. Otherwise the technology we accumulated in the 20th century will have been wasted." ●

INNOVATION THROUGH COOPERATION

THE ASIA INNOVATION FORUM LOOKS FOR SOLUTIONS THAT WILL ENSURE SUSTAINABLE GROWTH IN THE REGION.

Despite showing remarkable resilience to the global downturn, the Asian region still faces numerous environmental, resource, and social challenges if it is to ensure long-term economic growth. So said attendees at the Sept. 14-15 Asia Innovation Forum. Held in Tokyo, the meeting brought together key business, political, and academic personalities who discussed the innovations, initiatives, and new partnerships that will be needed to meet these challenges.

Don-sung Cho, a professor at Seoul National University and a speaker at the forum, believes the current economic downturn will continue for another three years, and that the rise of trade protectionism will become a key challenge for the region.

"It is important that we resist protectionism," noted Cho in an address at a panel discussion titled "Asia's Challenges And Needs." "I propose that Asian countries create an alliance of cooperation, centered on Japan, China, and Korea, much like those created in the U.S. and Europe." He dubbed the alliance the United Nations of Asia (UNA).

TECHNOLOGICAL STRENGTHS

The theme of cooperation was mirrored by Zhang Weiyang, dean and professor at Peking University's Guanghai School of Management. "The optimization of resource allocation is a matter of great urgency for the overall growth of the Asian region," said Zhang, pointing to the need for free-flowing trade. "Therefore it is necessary that we promote investment and prevent protectionism. In terms of cooperation, Japan has strengths in environmental technologies and can transfer its technology to countries throughout the region."

As Asia undergoes a massive shift toward urbanization, the need for such technology has never been greater. By 2030, says the Asian Development Bank, Asia's cities will be home to 2.7 billion people, or about

55% of the world's urban population. An example of what will be needed to meet this challenge is Tianjin Eco-City, a community near Beijing that the governments of China and Singapore are building to be socially harmonious, environmentally friendly, and resource-conserving.

"Given the scope and pace of change, it is critical that Asia keeps stoking the fires of innovation in order to fully capture the benefits of urbanization while at the same time mitigating its negative consequences," noted Haruhiko Kuroda, president of the Asian Development Bank.

Attendees at the forum were also convinced that Japan can more effectively approach developing markets.

"Japan boasts technologies necessary for a low-carbon society, and it has strengths in water supply and sewerage," said Reiko Akiike, a partner and managing director at Boston Consulting Group. "Japan can definitely contribute to Asia's development if it provides not only products in these areas but also comprehensive solutions. However, not all regions require the high-spec solutions employed in Japan," she added, referring to a trend in which Japanese products, such as mobile telephones, boast endless arrays of features but require lengthy application manuals that few if any people read. "I believe Japan should offer a wider menu of solutions."

"The problems that have faced Japan in the areas of energy, the environment, and an aging population will hit Asia in the future," warned Kazuhiko

Toyama, representative director and CEO of Industrial Growth Platform Inc. "We have to transform Japan's economic structure to help meet these challenges."●



LOOKING AHEAD:
LEADING THINKERS
DISCUSS THE CHALLENGES
FACING THE ASIAN
ECONOMY.

THE AIF BROUGHT TOGETHER KEY BUSINESS, POLITICAL, AND ACADEMIC PERSONALITIES.