

Moving Forward: Japan in the World Economy

October 21, 2011



From left to right: Kazuhiko Toyama, Gerald L. Curtis, David E. Weinstein, Amb. John V. Roos, Hugh Patrick, Alicia Ogawa

Hugh Patrick, director of the Center on Japanese Economy and Business (CJEB) and R.D. Calkins Professor of International Business Emeritus at Columbia Business School, opened this conference at the Hotel Okura Tokyo by providing some context: it aimed to be less a commemoration of the past and more a commitment to the future, addressing the many challenging issues facing the United States and Japan today. The event was both a part of the Center's program on "The New Financial Architecture: Japan and the United States," and a celebration of CJEB's 25th anniversary.

Professor Patrick recalled that CJEB was established in 1986 amidst tense U.S.-Japan relations, as rapidly increasing Japanese foreign investment and exports were seen as a threat to U.S. interests. With a focus on bilateral relations in a global context, the Center sought to educate the public on the realities of Japan's economy, its business and managerial systems, and to promote a platform by which both nations might calmly and strategically work to address the many challenges facing both countries. Today, the dilemma is not that Japan is seen as a threat, but rather that Japan is hardly seen at all. The primary reason for this declining interest, or

“Japan Passing,” is China’s dramatic and sustained rise. Indeed, China’s ascent poses many of the same challenges and opportunities for America that Japan did in the latter half of the 20th century, and thus increased attention on the reemerging power is quite natural and to be expected. That said, 20 years from now, Japan will continue to be one of the five largest economies in the world, with a population greater than that of any European country, with strong institutions and economic fundamentals. Continued study on the U.S.-Japan relationship will remain an important enterprise.



Prof. Hugh Patrick

While Professor Patrick believes Japan’s long-term outlook is optimistic, its near and intermediate-term futures face the many difficult challenges presented by the March 11, 2011 disaster, European debt woes, and lingering instability in global markets after the recent financial crisis. This conference was convened in order to consider these daunting dynamics facing the United States, Japan, and world economies.

KEYNOTE ADDRESS

John V. Roos, Ambassador Extraordinary and Plenipotentiary of the United States to Japan, recounted his personal experience and perspective on the March 11 earthquake, tsunami, and nuclear disasters.

Japan’s structural engineering, technical expertise, and in-country resources allowed it to weather this multidimensional catastrophe better than perhaps any other nation could have. However, it was nonetheless a devastating human tragedy, and as its extent became apparent, particularly with the threat of a meltdown at the Fukushima Daiichi Nuclear Power Plant, the United States pledged its full and unwavering support to Japan’s response efforts. Operation Tomodachi, one of the largest humanitarian campaigns undertaken in U.S. history, employed 24 ships, 189 aircraft, and a total of 24,000 personnel in assisting Japanese search and rescue missions and delivering essential supplies to critically affected regions. In order to adequately respond to the nuclear accident, the United States flew in experts from the U.S. Department of Energy, U.S. Nuclear Regulatory Commission, and U.S. State Department and tasked them with assisting their Japanese counterparts, while fire trucks, industrial pumping systems, robots and radiation monitoring technologies were made available at Japan’s request.



Amb. John V. Roos

Ambassador Roos explained the two basic reasons for the quick and massive U.S. mobilization. First and foremost, the long-standing friendship, mutual trust and strength of the U.S.-Japan bilateral security alliance made it the natural and right course of action. Additionally, as a like-minded democratic partner in a

region comprising over 50% of the global economy, Japan plays a pivotal role in both the economic and physical security of Asia. In what Secretary Clinton has dubbed America's Pacific Century, one of the most important tasks of U.S. statecraft over the next decade will be to pursue substantial increased investment – diplomatic, economic, strategic, and otherwise – in the Asia-Pacific region. Considering Japan's leadership on global climate policy, environmental stability and alternative energies, the United States and the world not only needs Japan, but a Japan that is stronger than before.

Ambassador Roos outlined a debate underway throughout Japan on how best to rebuild the nation. This includes not only appropriate funding policies geared at physical reconstruction efforts in the Tohoku region, but broader cultural and strategic issues as well, including the promotion of entrepreneurship and the Trans-Pacific Partnership (TPP) Agreement. Although the challenges are numerous and difficult, Ambassador Roos observed that Japan has been in this situation before. From the Meiji Restoration to the 1923 Kanto Earthquake to post-World War II, Japan has proven its ability to persevere in the face of seemingly insurmountable hardship and rise from the ashes stronger than before. There is little doubt that it will do so again.

Ambassador Roos believes that much of this broader rebuilding effort will depend on the youth of Japan. Much has been written and said on Japan's youth turning inward and shying away from the world that their parent's generation embraced. But to Ambassador Roos, who has traveled throughout the country and visited dozens of universities and institutions of higher education, this generalization does not seem true. Students are energetic, motivated, and determined to rebuild Japan.

Finally, Ambassador Roos reiterated that what makes a country resilient in the face of hardship are its people, and the Japanese public has proven its strength both throughout history and most recently in the wake of March 11. The challenges remaining are monumental, but the will of the Japanese people, and the dedication of its friends to stand by her side, leave no doubt as to Japan's long-term future.

Moderator Comments & Questions

Gerald Curtis, Burgess Professor of Political Science, Columbia University, reflected on Ambassador Roos's comments and offered comments, personal observations, and questions for further discussion.

In part due to the central government's inexcusably slow response to the disaster, Professor Curtis noted that dynamics at the local level have shown noteworthy promise, particularly in three areas. First, local politicians have emerged as the true leaders of the crisis, and their courage and fortitude may well percolate up to Tokyo. Second, there has been extraordinary financial support from the private sector; the business community has shown an unprecedented willingness, both at the company and individual



Prof. Gerald L. Curtis

employee level, to provide assistance directly to local governments and nonprofits. Furthermore, the Japanese public has also shown its consummate civility and commitment to community rebuilding initiatives through large-scale and wide-ranging participation in volunteer efforts.

Professor Curtis observed that the repercussions of the disaster have highlighted the strength of the U.S.-Japan relationship. While the prodigious efforts of the U.S. military and diplomatic corps in assisting Japan have captured much media attention, the American public, too, has demonstrated a real and sustained solidarity with the Japanese people. What was happening in Tohoku was felt in homes and communities throughout the United States, and the outpouring of support at the individual level is a testament to the harmony of U.S.-Japan people-to-people camaraderie. However, Professor Curtis warned that, while this profound human connection should be celebrated, it must not be taken for granted. Funding for, and participation in, bilateral cultural and academic exchange have been on the decline, and the danger that future generations of Americans and Japanese will not know each other as well as previous generations is a serious one.

Q: What can be done to expand opportunities for people-to-people exchange?

A: Ambassador Roos said that he sees this as the most formidable long-term challenge facing the U.S.-Japan relationship. While bilateral security and economic partnerships will remain strong, reversing the troubling trend of diminishing opportunities for cross-cultural learning is of critical importance. To help address this challenge, the Tomodachi Initiative, a public-private partnership currently in the process of formation, will seek to invest in youth resources for multicultural exchange in education, sports, and the arts.

Q: How important is it to the U.S. that Japan join the TPP? If Japan decides not to participate, how problematic will this be for the bilateral relationship?

A: While the U.S. would welcome Japan's presence in the TPP, its absence would not negatively affect the bilateral relationship. However, by creating opportunities to work together in shaping trade cohesiveness and integration in the Asia-Pacific region, the TPP does offer a means by which to deepen the already robust alliance.



From left to right: Prof. Gerald L. Curtis, Amb. John V. Roos

Q: Drawing from your experience in Silicon Valley, what are your observations on Japan's entrepreneurial culture, and why do we not see more activity in this arena?

A: Ambassador Roos said that from his many travels throughout Japan and conversations with students and both young and established business practitioners, he

senses a vibrant entrepreneurial spirit just below the surface. One ingredient to the recipe for success in nurturing an entrepreneurial environment is recognition of one's intangible assets and skills. Japan would do well to celebrate its innovators, and in so doing, create a culture whereby its youth grow to respect and admire the values that they represent.

SESSION I: RESPONSES TO THE EARTHQUAKE



From left to right: Prof. Alicia Ogawa, Prof. Heizo Takenaka, Mr. Kazuhiko Toyama, Prof. David E. Weinstein

Kazuhiko Toyama, CEO of Industrial Growth Platform, Inc., David E. Weinstein, Carl S. Shoup Professor of the Japanese Economy, director of Columbia's Program for Economy Research, and CJEB's associate director for research, and Heizo Takenaka, professor and director at the Global Security Research Institute, Keio University, reflected on the government response to the earthquake, as well as its economic and cultural ramifications. Alicia Ogawa, CJEB's Senior Advisor and adjunct associate professor at the School of International and Public Affairs, Columbia University, moderated the session.

Mr. Toyama first talked about the current global recession, observing that it resembles the response to the collapse of the Japanese bubble. Countries suffering in Europe now can be likened to banks suffering during the crisis in Japan.

Regarding the Tohoku Earthquake, Mr. Toyama explained how Japan faced many challenges before the disaster, including an aging population and shrinking labor force, tax reform and social security issues, and high debt and deficit levels; these issues largely remain the same post-disaster. What has changed is the urgency in addressing these challenges.



Mr. Kazuhiko Toyama

Mr. Toyama noted the disparity between local and central government responses to the crisis. While leadership at the town and district level was very strong, a slow and disjointed central government response left much to be desired. Perhaps the single most important ingredient to a successful recovery will be for Japan to find a bold, intelligent, and imaginative leader.

Mr. Toyama echoed Ambassador Roos's observation on Japan's youth, saying that he too sees an energetic and intelligent generation not spoiled, as many that came before them, by the experience of inflated success. Still, much can be learned from their predecessors, notably the forward-looking, self-help spirit that propelled Japan to the forefront of the international system.

Reawakening this essence of optimism will play an important role in Japan's long-term future.

Professor Weinstein began by noting that studies of past catastrophes demonstrate the vitality of adversely affected regions; economic indicators tend to readily return to their long-run growth paths. Examining the Tohoku Earthquake, one can see both parallels to past disasters as well as important differences.

When comparing this crisis with that of the Great Hanshin Earthquake of 1995, the disparity in the death toll and property damage is readily apparent, with Tohoku accounting for much greater losses in both. Similarly, while the two events produced negative stock market reaction, the scale was quite different, with 2011 suffering an approximately 50% greater adverse impact. In both cases economic growth experienced a cyclical downturn, but the rebound rate was much more rapid in 1995, as was a return to industrial production; in contrast, six months after the Tohoku disaster, 2011 output has yet to return to pre-quake levels.

To understand why recovery has been slower in 2011, Professor Weinstein looked at both demand and supply-side explanations. Government spending in 1995 was noticeably more active, with stimulus measures going into effect much more rapidly. But while this relatively slow policy response in 2011 may partially explain the latter's slower recovery, supply factors appear to be the salient difference. Prices for corporate goods continued a downward trend after the Hanshin earthquake, but spiked post-Tohoku, suggesting an oppressive supply constraint in 2011. Looking at supply indicators, one sees notable shortages in energy production. As Japanese energy policy forced nuclear reactors offline post-tsunami, a nation-wide energy supply shock reduced firm efficiency and production output, impeding a return to growth.

Ostensibly, this energy policy is designed to protect lives. However, Professor Weinstein cautioned the audience to bear in mind that oil, gas, and coal are considerably more costly in terms of public health; data from *The Lancet*, a leading general medical journal, indicates that deaths due to nuclear power are typically 1/10th to 1/100th as high as mortality rates due to fossil fuel pollution. If the



Prof. David E. Weinstein

30-terawatt (TW) share of Japan's 100 TW energy portfolio is replaced with oil and coal, an increase of around 500 deaths and 300,000 cases of respiratory disease can be expected. On the other hand, a reasonable estimate of the number of cancer deaths resulting from the Fukushima nuclear meltdown is around five or ten.

Thus, Professor Weinstein observed that this government-directed shift towards thermal power will likely increase the civilian death rate per TW hour. This reality, along with the resulting significant reduction in industrial production, points to a policy in need of careful consideration.



Prof. Heizo Takenaka

Professor Takenaka began by clarifying both the basic nature of the recent disaster – a compound and interlinked crisis – and inadequacies in government response measures.

The multifaceted disaster combined to test the very character and principles of Japanese society. Fiscal reconstruction demands, energy and water supply shortages, failing confidence in once-lauded technology and infrastructure, wavering trust in media transparency, and a host of negative, systemic repercussions resulted in a profound crisis of values.

At the same time, government action was slow and insufficient. Compared to the 1995 Hanshin earthquake, whose supplementary budget was approved in only four months, the DPJ has yet to ratify an equivalent stimulus budget seven months after the Tohoku earthquake. Time will tell whether the newly-appointed Noda administration can rectify this failure in government leadership, but regardless of if or when, the Japanese people are saddled with the pernicious effects of a negligent government response.

While the disaster presents many challenges, and has already caused postponement of important reform decisions regarding TPP and tax policy, Mr. Tanaka believes it also offers an opportunity to rebuild Japan more capable and better equipped than before. What is needed is visionary leadership, with ambitious, forward-looking aspirations.

Moderator Comments and Questions

Q: As these challenges to traditional Japanese values spread to industry management and a strong Japanese yen continues to force businesses to recalibrate their operations and production strategies, how do you see the future of manufacturing in Japan?

A: Professor Takenaka said that there are signs of a shift in the mentality of Japanese manufacturers, with over 20% of the top 400 companies moving large portions of their production facilities overseas. A recent Nikkei survey of 100 top CEOs in Japan points to the same trend: 40% plan to move manufacturing systems abroad within the next three years. Energy shortages, yen appreciation, and a high corporate tax rate are primary catalysts



Prof. Alicia Ogawa

for this internationalization of Japan's manufacturing sector. While this relocation may be a solution at the company level, it is not a solution for Japan, as labor movement is much more "sticky" and bound by state borders. However, it is not overtly difficult to stop this hollowing-out phenomenon – policy reform and strong leadership is required.

Mr. Toyama added that Japan must look at its comparative strengths as a location for industrial activity, and nurture these faculties to its advantage. A highly educated workforce, political stability, and a lifetime employment system, for example, make Japan an ideal location for international R&D. These comparative advantages should be promoted in order to both retain core company functions within Japan as well as attract inward FDI.

Professor Weinstein made the distinction between manufacturing (the production of goods) and assembly (a process of production) and warned that confusing the two often leads to disjointed discussion. While the 19th century was defined by agriculture, and the 20th by manufacturing, the 21st century will be one of services. If Japan tries to hold on to its assembly industry now, this would be very similar to attempting to hold onto its agriculture industry in the 20th century: it is possible, but it will retard economic growth. The future of manufacturing in Japan will be defined by supply chain management, where vehicles designed to guide the production process, such as logistics and financing, become increasingly more important for efficient output. Attempting to retain the assembly functions within Japan may not be the most prudent course of action.

Q: How can Japan strengthen its services industry?

A: Whereas Professor Takenaka believes that competition will serve as the bedrock of a robust services industry, Mr. Toyama sees a strong services sector as a natural progression of competent business decisions; if companies can adapt to market dynamics, becoming more efficient and open, the next Google or Apple may be headquartered in Tokyo.

Q: Is nuclear power necessary for Japan? If it is, how can confidence in large utility companies and regulatory bodies be restored? Will we see a deregulation of the power grid moving forward? Will Japanese society once again accept nuclear energy?



From left to right: Prof. Alicia Ogawa, Prof. Heizo Takenaka, Mr. Kazuhiko Toyama, Prof. David E. Weinstein

A: Professor Weinstein noted that the human brain is not necessarily well wired to think about risk, and is predisposed to fear large, spectacular threats more than mundane risks of injury or death. At this point, Japanese society harbors a fear of nuclear power that far exceeds the probability of death or disease, and building or opening a new nuclear reactor may be impossible. Japan will trade fears of nuclear catastrophe for threats posed by global warming, energy competition, and fossil fuel pollution. While perhaps not logical, this is the reality of the nature of risk perception.

Commenting on this negative perception of nuclear energy, Professor Takenaka said that the challenge facing Japan's energy policy is, on one hand, nuclear energy's essential role in long-run economic vitality, and on the other, society's unwillingness to accept its use. When looking at government expenditures in the energy sector, approximately 40% of the one trillion-yen budget is pegged for nuclear power, while only 6% is utilized for renewable energy. This may not be an ideal allocation of resources.

Mr. Toyama does not believe that the construction of a new nuclear power plant in Japan is compatible with the emotional and political reality of today. Negative Japanese sentiment and low confidence in regulatory bodies must be addressed if trust in nuclear energy is to be restored.

Question and Answer Session

Q: Ten years after the Enron scandal, we see continued corporate malfeasance, most recently highlighted by troubles at Olympus. TEPCO continues to be wildly unpopular. You've spoken on restoring trust in the regulator and nuclear industry – how do we do that?

A: Professor Takenaka said that, although an unpopular view, TEPCO should be nationalized. This is similar to the strategy implemented in the 1990's for restoring confidence in the banking sector, and would help to improve public trust in transparency and power plant administration.

Mr. Toyama agreed that drastic measures are needed, and that contrary to popular belief, government has proven adept at management of nationalized industries, whether it be in the airline, healthcare, or banking sectors. The challenge is less how to restore trust but whether government will have the courage to make the radical decisions necessary to rebuild confidence.



Q: How best can Japan fund rebuilding and reconstruction efforts?

A: Professor Weinstein observed that the total cost of reconstruction is less of an issue than Japan's chronic deficits and unsustainable debt levels. Funding strategies must then be debated with these larger fiscal constraints in mind. As Japan's society ages, relying on future generations to shoulder the burdens of today's inflated debt levels becomes increasingly untenable. Whether benefits are cut or taxation is raised, Japan must decide how best to rehabilitate its ailing fiscal house.

Professor Takenaka does not see this crisis as particularly unique in terms of ideal reconstruction and funding strategies to be implemented. The logic of the "one shot crisis, one shot payoff" argument that has arisen of late is not sound. It is unrealistic to expect to pay for the reconstruction of Tohoku prefecture within this generation; no such measures had been taken after the Great Kanto Earthquake of 1923 or the Great Hanshin Earthquake of 1995. Rather, as in the past, costs should be smoothed over time.

Mr. Toyama, however, believed that comparing the reconstruction efforts to the current crisis and the Great Hashin Earthquake was a mistake; where Kobe was a wealthy city that would continue to grow, Tohoku is far less wealthy, with government aid equaling the GDP of that region. This situation is creating a new bubble in Tohoku, with great inequality emerging between the prefectural cities and the countryside. Mr. Toyama also noted that this might be a very good opportunity to seriously discuss substantially cutting government expenditures.

SESSION II: THE U.S., JAPAN, AND CHINA IN THE WORLD ECONOMY



From left to right: Prof. David E. Weinstein, Prof. Kazuo Ueda, Prof. Yiping Huang, Dr. Paul Sheard

Kazuo Ueda, Professor of Economics, The University of Tokyo, Yiping Huang, Professor of Economics at Peking University, and Dr. Paul Sheard, Global Chief Economist and Head of Economic Research, Nomura Securities Co., reflected on the respective economic outlooks for Japan, China, and the United States following the 2008 crisis. Professor Weinstein moderated the session.

Professor Ueda began by briefly reviewing Japan's economic experience in the last few decades, followed by comments on some of the challenges it faces in stimulating aggregate demand and supply-side drivers moving forward.

Japan's financial sector failed to globalize in recent decades, and while this may have helped it weather the sub-prime mortgage crisis, Japan was by no means spared the adverse fallout from the Lehman shock. Manufacturing production, which has lagged well behind the United States and Germany since 1990, experienced a particularly severe downturn in 2008 due in large part to its concentration in industries where demand fell most, including transportation equipment and general machinery. Its decline in property prices has been the longest and most severe in recent history, far exceeding the 2006-08 drop in U.S. home prices and housing investment. Japan has endured a prolonged stagnation since the early 1990's, and while the yen has strengthened considerably since 2008, this is unlikely the primary cause of poor economic performance as many suggest: the current real effective exchange rate is not exceedingly high in historic terms. Similarly, stagnation can only partially be explained by a declining population.



Prof. Kazuo Ueda

Professor Ueda observed that, both at the macro and micro level, Japan faces self-enforcing economic realities. For instance, in an environment of zero to negative inflation, people tend to favor government bonds, which are generally seen as growth negative, as opposed to riskier, but ultimately more pro-growth, asset classes. Some people have high hopes for non-conventional policy responses, but if one looks at, for example, the 10-year treasury yield relative to 3-month LIBOR, one can see a decline in the spread as monetary policy eases. This use of non-conventional policies to reduce risk premiums is exactly what the Bank of Japan has done for 18 years. In theory this is a defensible policy course if it leads to more investment and borrowing on the part of non-financials; however, this is not what has happened, and has in fact resulted in negative incentives for private financial institutions. Clearly, there is a limit to macro response instruments available. Furthermore, effective micro policy aimed at stimulating the supply-side of the economy often requires strong leadership, which has been absent in Japan for quite some time.

However, there are reasons to be optimistic. The United States has room for short-term fiscal expansion, the EU sovereign debt crisis may be exaggerated, and Japan's private sector is healthy in terms of its balance sheet.

Professor Huang began by noting the recent market pessimism towards China. This negative sentiment is likely due to troubling developments in primarily three domestic sectors. First,

reports have emerged pointing to a spike in SME bankruptcies, which raises concerns of unemployment and decreased growth, as well as issues of financial risk. At the same time, housing prices are on the decline, which often indicates trouble ahead. Further, local government borrowing has reached 27% of GDP, which translates to non-performing loans for many investors. While combining these three factors does paint a rather downbeat story, and all of these developments need to be monitored closely, a near-term hard landing is unlikely. It is important to remember that SMEs are by definition a volatile sector, and balance sheet conditions for housing, banks, government, and the external sector are still quite strong.



Prof. Yiping Huang

Professor Huang believes that China's primary challenge is fiscal sustainability: does the government possess the means to support the banks and SMEs through difficult times? Today, yes, there exists adequate political will, resources, and capabilities to meet these challenges. After all, the public debt-to-GDP ratio is only 18%. What worries many economists, policy advisers, and investors most is not a near-term downturn, but rather a transition of the growth model. Rebalancing the economy – addressing concerns of income inequality, high commodity consumption, issues of capital efficiency, etc. – within the next five years will be of utmost importance if China is to avoid a hard landing in the future.

Professor Huang pointed out that, while thinking about the China of today and of tomorrow, it is important to understand how the Chinese government has liberalized the economy. While many praise the successes of market-oriented reforms, it is useful to remember that in the factor market, including land, energy, capital, labor, and even water, costs have been substantially distorted. These discounts were offered to investors, producers, and exporters as something akin to a subsidy, and were successful for many years in stimulating economic activity. Naturally, this caused an imbalance problem over time and served as a tax on households. To date, rebalancing efforts have focused mainly on administrative reform, with little attention paid to incentive issues. But this is the key: to understand why on the one hand the economy has been so successful, sometimes even described as a miracle, but at the same time has created an inefficient, uncoordinated, and unsustainable growth model. Removing these distortions in the factor market, particularly via capital market liberalization, is the basic and most important component to a successful rebalancing initiative.

Looking to the future, growth will likely decline moderately, from 10% to around 8%, and we will see price inflation in a broad range of factor markets as rebalancing efforts continue. Structural changes, or industrial upgrades, will accelerate, while economic cycles may be more volatile, impacting both domestic as well as international markets.

Dr. Sheard recounted some of the similarities and differences between the U.S. and Japanese assets bubbles, and why the United States will not mimic the Japanese experience.

When comparing asset prices in 1990 Japan and 2006 United States, one sees similarities in bond yield trends, namely that in both cases yields have dipped very low. In Japan, this

remained the case for 15 years, but Dr. Sheard does not believe the United States will imitate this prolonged retreat in the Treasuries market. While both economies suffered the bursting of large asset price bubbles, and the weak economic growth that necessarily follows such crises as debt levels forced large-scale deleveraging, a noteworthy difference between the two cases is deflationary trends. From its peak in 1994, the GDP deflator in Japan is down 17%, while it is up 42% over that period in the United States.¹ One of the consequences of secular deflation is nominal stagnation – nominal GDP levels in Japan since peaking in 1997 are down 11% (and up 81% in the United States in the same period).² An economy with positive real potential growth but falling nominal GDP is very unusual. To a large extent, the deflation plaguing Japan has been a product of three major policy errors: the 1990 banking policy, and the operation of both monetary and fiscal policy. The United States appears to have performed well in two of these – banking and monetary policy – but appears to be making the same mistakes as Japan in the fiscal domain, perhaps even on a larger scale.

Japan was slow to address the asset impairment problem in the banking system, and when it did, the policy response was inadequate: guaranteeing deposits without injecting a large amount of capital ignored write-down pressures facing financial institutions. The U.S. response, in contrast, was swift with a rapid diffusion of capital.

In terms of monetary policy, Dr. Sheard pointed out that quantitative easing (QE) was much more rapid in the United States. The Federal Reserve Bank (“The Fed”), about 2.5 years into asset price inflation, began buying financial assets in order to inject a pre-determined *quantity* of money into the economy, while it took the Bank of Japan (BOJ) nearly 10 years to do the same. While partially an unfair criticism, as Japan itself pioneered QE in 2001, the United States certainly benefited from being able to observe the Japanese experience.

Dr. Sheard believes the United States has largely ignored the fiscal policy lessons from Japan, and has not invested heavily enough in stimulus measures. There remains room for fiscal expansion, but politically it has become very difficult to do so. On a narrow GDP basis, Obama’s stimulus package was relatively small, and what stimulus there was has now been taken away. In this regard, the United States is very much in danger of making the same error that Japan did.



Dr. Paul Sheard

¹ Dr. Sheard reported that, as of 12/14/11, the GDP deflator was down 18%, while up 43% in the U.S.

² Dr. Sheard reported that, as of 12/14/11, nominal GDP levels were down 10% in Japan and up 78% in the U.S. The main reason the U.S. number was less is that, with revised history of GDP data in Japan, the peak of nominal GDP was Q4 1997, not Q2 1997 as before.

Moderator Comments and Questions

Professor Weinstein summarized the panel's common themes and posed a question to the speakers. He noted that Japan has moved from a model economy to a cautionary tale, and that we see the continued recurrence, and negative repercussions of, asset bubbles in the United States, Japan, and Europe. China may now be developing its own inflated and unsustainable asset classes. Looking at world history, one remarkable period of no financial or banking crises was the Bretton Woods era. As this system came to an end, a sharp increase in asset bubbles followed. This suggests that what has been mishandled is the globalization of capitalism.

Q: What is the source of asset bubbles? What role does the globalization of capital markets play in looking at this phenomenon?

A: Professor Ueda said that Japan's asset bubbles of the late 1980s were not a product of globalized markets, but rather the manifestation of failed micro and macro regulatory policies.

Dr. Sheard agreed that he would not necessarily point to globalization per se as the root cause of the recent financial crisis in the United States. Rather, it was the culmination of complicated innovations in the financial sector combined with deregulation of banking law, a path dependent monetary policy, and trade asymmetries with China that pushed U.S. spending and debt to untenable levels.



From left to right: Prof. David E. Weinstein, Prof. Kazuo Ueda

General Question and Answer Session

Q: Professor Huang, how do you see U.S.-China relations moving forward in light of recent trends in cultural integration?

A: Professor Huang responded that Chinese student enrollment in the United States is at an all-time high, and that American interest in studying in China is also on a clear upward trend. These kinds of human factors will play an important role in the economic, political, and cultural relations of the two countries. That said, national interests will continue to define strategic relations.

Q: Chinese expatriates throughout the world form part of the new entrepreneurial class. What role do these Chinese play now, and in the future, in terms of U.S. and Japanese economic vitality?

A: Dr. Sheard said that Japan will increasingly rely on foreign labor moving forward, and that China, with its common language script and skilled workforce, is a natural resource in this regard. While Japan may have the fiscal means to manage its rebuilding efforts, it does not have the human resources to do so. To address this, immigration policy should be deregulated.

Q: What does the future of U.S.-Japan-China trade relations look like, and will Japan join the TPP?

A: Professor Ueda responded that Japan should certainly move forward with further trade liberalization, and that the agriculture sector remains the most difficult hurdle facing the Noda administration in regards to TPP.

Professor Huang said that China's trade relations with the rest of the world in large part depend on how the United States responds to its debt and deficit levels. As the two countries' trade policies are intricately linked, how Washington chooses to approach a rebalancing of its fundamentals will affect how we understand China's future trade portfolio.

Q: Will China's exchange rate policy change?

A: Professor Huang said that the question is not whether China's exchange rate policy will change, but rather how and when. Global conditions, including the euro debt market or recurrence of another recession, will affect the strategies and timeline of this change. There is a chance that we will see a change in strategy (first announced six years ago but largely unadopted), moving from a U.S. dollar peg to a fixed basket exchange rate.

Q: What is the risk and/or likelihood of Euro default and the spawning of another debt crisis?

A: Dr. Sheard replied that, at the moment, the European sovereign debt crisis is the biggest threat facing the global economy. Ironically, and perhaps tragically, the debt crisis in Europe is not a typical one; it is self-manufactured and due to a flawed economic architecture. That is, 17 countries have pooled their monetary sovereignty into a union lacking an appropriate fiscal framework. Greece does not have access to many policy options, notably cutting its interest rate or engaging in quantitative easing or depreciating its currency, which are available to nations like the United States, China, or Japan. While a wholesale meltdown of the EU is very unlikely, much of the debt erroneously amassed by member states unable to meet their obligations will need to be forgiven.



From left to right: Prof. David E. Weinstein, Prof. Kazuo Ueda, Prof. Yiping Huang, Dr. Paul Sheard

Professor Huang noted that the risk of euro default for the Chinese economy lies not necessarily in exposure to financial channels, but rather the threat of another pullback in global demand: if exports were to collapse again, as they did briefly after the Lehman shock, China would face acute stability challenges.

According to Professor Ueda, Japan is vulnerable to risks posed by European debt primarily via two channels: direct and indirect effects in the goods market, and the asset market. If we look more broadly at the euro situation, we can expect a recapitalization of banks, one way or another, but this may not be enough to avoid a recession.

SESSION III: DISCUSSION WITH HIROSHI MIKITANI



From left to right: Mr. Hiroshi Mikitani, Prof. Bernd Schmitt

(The dialogue in this session has been paraphrased for the purposes of this report and is not to be quoted directly)

Professor Patrick introduced the speakers – Mr. Hiroshi Mikitani, Chairman and CEO of Rakuten, Inc., and Bernd Schmitt, R.D. Calkins Professor of International Business at Columbia Business School – for a “fireside chat” consisting of free flowing dialogue and Q&A.

Professor Schmitt began by noting that, far from the norm in Japan, he overheard Mr. Mikitani’s assistant call him Hiroshi.

Mr. Mikitani responded by describing that Rakuten’s push to globalize its services and organization has included many areas of business culture, including concepts of hierarchy and language. He said that he was impressed by Indian employees who, after studying Japanese for only six months, had learned to communicate in Japanese at a very high level. Compared with

the thousands of hours the average Japanese person spends studying English, the disparity in language ability was surprising. To address this issue, he decided to make Rakuten's official corporate language English. And while this has been quite challenging, he will not give up; positive gains can already be seen in staff-level communication.

Professor Schmitt: In a recent CNN interview you referred to Rakuten as "a global company that started in Japan." What else, beside language, is necessary for becoming a global company, a global brand?

Mr. Mikitani: Vision and people are at the heart of creating a successful global brand. Creating a culture of teamwork that then carries out company objectives with a shared awareness and common understanding of business ethics and practices is an important mission at Rakuten.

Professor Schmitt: You have internationalized much at Rakuten; why not the company name?

Mr. Mikitani: The name, Rakuten, is synonymous with the history of company, and we wanted to preserve this. Naturally, we had many discussions on the pros and cons of the name, but in the end we decided to remain true to our origins. This has worked out well, as we now have one of the strongest brands in Japan.

Professor Schmitt: Rakuten now sells an enormous variety of products and services online - how has this single platform performed thus far?



Mr. Hiroshi Mikitani

Mr. Mikitani: The name of the game is how to create an interconnected ecosystem best able to provide an individual customer with what they need and want. Instead of providing a single service, Rakuten aims to create synergy between many different services.

Professor Schmitt: Although Rakuten is internationalizing, how focused is it on attracting foreign consumers?

Mr. Mikitani: We have intentionally not aggressively promoted our brand overseas, so our core clients are Japanese. However, we are now past the point of no return, so to speak. A push in branding abroad is coming.

Professor Schmitt: Which market is the most promising for Rakuten?

Mr. Mikitani: If the market has internet connectivity, we see it as a promising market.

Professor Schmitt: You remind me a bit of Steve Jobs. One of your credos is "speed, speed, speed." Your personality and outlook strike me as different from the traditional Japanese businessman – is this a fair assessment?

Mr. Mikitani: Everything is changing rapidly these days, and many Japanese executives do not seem to realize this. Take the mobile phone industry, for example. We used to be the clear global leader, but now, iPhone and Android technologies are what people want. At Rakuten, we try to think innovatively and encourage risk-taking: sometimes this leads to success, and at other times to mistakes. We do our best to learn from these mistakes.

Professor Schmitt: One of the core principles we study in business schools is strategy. Does Rakuten have a global strategy, an international branding strategy?

Mr. Mikitani: Sometimes we run without thinking, and sometimes we think so much we forget to do anything. Instinct and reaction are just as important as grand strategies. At Rakuten, we seek to prepare for both traditional and non-traditional strategy recourse.

Professor Schmitt: Countries have global brands, similar to businesses. Do you think that Japan's brand has been strengthened or hurt since March?

Mr. Mikitani: On one hand, the handling of the nuclear crisis has hurt the reputation of the Japanese government and its regulatory system. On the other, the strength of the Japanese people, and the human qualities of society, clearly strengthened the image of Japan abroad. There are various aspects to a brand.



Left to right: Mr. Hiroshi Mikitani, Prof. Bernd Schmitt

General Question and Answer Session

Q: Given that both Rakuten's vision and industry are global, and given the many difficulties of doing business in Japan, whether it be high corporate tax rates, high energy costs, language barriers, etc., what are the advantages of keeping your headquarters here? Would you consider moving Rakuten's headquarters outside of Japan?

A: The issue is one of culture and personnel. Japanese are the hardest working people in the world, and to move our headquarters abroad would mean losing too much of this precious human resource. Similarly, Rakuten is built on a model of teamwork. There is no stronger sense of community than that inherent in Japanese culture.

Q: Uniqlo is spearheading the Japan's "going global" branding effort. Will Rakuten follow suit?

A: Of course, apparel and e-commerce are entirely different industries. We are now preparing a well-thought out strategy for how best to launch our international branding strategy. It will necessarily be quite different from Uniqlo's approach.

Q: Can the strong community activism and NGO activity post-earthquake serve as a wellspring of change in Japan? Can this serve as a motivational force to help shape society for the better?

A: Japanese strength is Japanese weakness. What we need is strong leadership, similar to what we had in the Koizumi era.

Q: How does Rakuten approach international hiring? Do you offer lifetime employment? Many Japanese companies frown on studying abroad, and do not provide alternative application channels for students who may be out of the country during prime recruiting season. What are your views on Japanese students who study abroad?

A: We hire many foreign students, and prefer Japanese applicants who are not overly domestic in orientation. Study abroad and international travel are important for gaining perspective. While we do not offer lifetime employment, our retention rate is much higher than our competitors.

CLOSING REMARKS

Professor Weinstein thanked the speakers, audience, CJEB staff and corporate sponsors, and noted the turnout was a testament to the success of the Center over the past 25 years. CJEB stands as a principal forum for the interchange of ideas between academic, business, and policy circles in Japan and the United States, providing a means by which ideas generated in one circle are transferred to other circles. He believed that this conference was a good example of this kind of opinion and knowledge flow.



Prof. David E. Weinstein

日本の将来と世界経済

2011年10月21日

10月21日にホテルオークラ東京にて開催されたコロンビア大学ビジネス・スクール日本経済経営研究所(CJEB-Center on Japanese Economy and Business) 創立25周年記念カンファレンスは、ヒュー・パトリック所長による開会の辞により開幕された。その中でパトリック所長は、日米両国が今日直面する多くの課題を挙げ、本カンファレンスの目的を、過去を振り返るよりも、将来に目を向けることとした。今後の日本の見通しについては、長期的には楽観視しているが、中短期的には、2011年3月11日に発生した3重災害、欧州債務危機、また最近の金融危機後に不安定な状況が続く世界経済など、今後もさまざまな問題に直面するであろうとの考えを示した。本カンファレンスは、日米両国と世界経済が直面するこれらの困難な問題を検討するために開催されたもので、CJEBの「新たな国際金融規制の枠組みに関する研究プログラム(The New Global Financial Architecture)」の一環である。

ジョン・V・ルース駐日米国特命全権大使が基調講演を行い、3月11日の地震、津波、原発事故に対する個人的な見解を述べた。日本はその構造工学、専門技術、国内資源を駆使することで、この多面的な大災害を乗り切った。他の国ではおそらくこうはいかなかったであろう。しかし、この災害が壊滅的な人類の悲劇であったことに変わりはなく、その災害規模が明らかになり、そしてことに福島第一原発のメルトダウン危機に際して、米国は日本に揺ぎない全面的な支援を約束した。トモダチ作戦は米国史上最大級規模の人道支援作戦であり、それを行った理由は基本的に2つあった。まず最も重要な理由として、強力な日米安全保障同盟と長期間にわたる両国間の相互の信頼や友好関係故に、人道支援を行うことが当然かつ正しい行動であったこと、そして第二に、米国と同じような民主的な考えを持ったパートナーである日本は、経済的にも物理的にも、世界経済の5割以上を担うアジア経済圏の安全保障にとって重要な役割を果たしているということである。世界の気候変動に関する政策や環境的安全、代替エネルギーにおける日本のリーダーシップを考えれば、米国をはじめ、世界は日本を必要としているだけでなく、今まで以上により強い日本を必要としている。復興における多くの課題について言及したルース大使は、日本が以前にもこのような状況に置かれたことがあると述べ、明治維新、1923年の関東大震災、そして第二次世界大戦後など、甚大な困難にも耐え抜き、灰の中から以前にも増して力強く再生した日本が、今回も苦境を乗り越えられることは間違いないと述べた。

コロンビア大学政治学部バージェス政治学教授であるジェラルド・L・カーティス氏はルース大使のコメントに言及し、地方レベルで特に3つの分野の動きに有望な兆しが見えると指摘した。第一に、地方の政治家が危機状況において真のリーダーシップを発揮し始めており、その勇気と不屈の精神が中央政府にも伝播する可能性が高いこと、第二に、企業レベルでも個々の従業員レベルでも地方自治体や非営利団体への直接支援提供において、民間セクターのビジネスコミュニティから前例をみないほどの多大な財務支援姿勢が見られること、そして第三に、大規模かつ広範にわたるボランティア活動への参加を通して、日本国民がコミュニティ復興に向けたすばらしい礼節とコミットメントを示していることである。

セッションIの「東日本大震災後の日本」では、株式会社経営共創基盤の富山和彦代表取締役CEOと、CJEBの研究副所長兼コロンビア大学経済学部カール・S・シャープ日本経済学教授のデイビッド・ワインスタイン氏、慶應義塾大学教授兼グローバルセキュリティ研究所所長の竹中平蔵氏が、東日本大震災時における政府の対応や、経済的および文化的影響について討論した。富山氏は、危機に対する地方自治体と中央政府との対応の違いについて言及した。市町村や地域レベルでの行政トップの活躍は目覚ましかったが、中央政府の対応は鈍いうえにまとまりに欠け、とても十分とはいえなかった。日本が復興を成し遂げるために最も必要とされるのはおそらく、大胆で知的、かつ想像力にあふれるリーダーである。ワインスタイン教授は、過去の大災害に関する調査結果によると、被災地の長期的な持続力が証明されていると説明した。過去の災害に比べ、2011年の日本ではなぜ復興に時間がかかっているのかを理解するため、ワインスタイン教授は需要と供給の両サイドに注目し、今回は後者が際立った違いであるとの結論に達した。特に注目されるのがエネルギーで、日本では津波後、政策によって原子炉の停止を余儀なくされ、その結果全国的にエネルギー不足となり、企業の効率と生産性が低下して成長への復帰が阻害されている。しかしワインスタイン教授は、原子力発電に背を向けて化石燃料に戻ることは、1テラワット時当たりの市民の死亡数と呼吸器系疾患数が増えることになると警告した。竹中教授はまず、今回の災害の基本的な性質として、複雑で相互に絡み合った危機であることを挙げ、また政府対応策の不備について説明した。多面的な災害が絡み合って、日本社会の根本と基本原則が試されている。財政再建の必要性、エネルギーや水の供給不足、一時は絶大な信頼を得ていた技術やインフラの信頼性の失墜、マスコミの透明性に関する不信、そしてこうした、さまざまなシステミックな悪影響が深刻な価値観の危機をもたらしている。

セッションIIの「世界経済における日本、米国、中国」では、東京大学大学院経済学研究科の植田和男教授、北京大学のイーピン・ホァン経済学教授、野村證券株式会社グローバルチーフエコノミスト兼経済調査部部長のポール・シェアード氏が、2008年金融危機後の日本、中国、米国の経済見通しについて検討した。植田教授は、日本と世界経済は今後も厳しい課題に直面するであろうが、その一方で、米国では短期的に財政拡大の余地があること、ユーロ圏ソブリン債危機が過大視されている可能性があること、そして日本の民間セクターのバランスシートが健全であることなど、楽観的な見方をする根拠はあると述べた。日本では、

ミクロ的にもマクロ的にも政策的な選択肢がないことに加え、強いリーダーシップも不在であることで、復興が遅れ、困難となる可能性がある。ホアン教授は、中国の主な課題は財政の持続性であり、中国が今後ハードランディングを回避するには、5年以内に所得不均衡や資源の大量消費、資本効率の問題などに対応して経済のバランスを取り戻すことが最も重要であると述べた。シェアード氏は、日米間における資産バブルの共通点や相違点を振り返って、なぜ米国は日本と同じ道をたどらないと思われるかを説明した。ただし、米国は財政政策に関する日本の教訓をほとんど無視しており、景気刺激策に十分な投資を行っていないとの意見を表明した。

セッションIIIの対談「三木谷浩史 X バード・シュミット」では、コロンビア大学ビジネス・スクールR・D・カルキンス国際ビジネス教授のバード・シュミット氏と、楽天株式会社代表取締役会長兼社長の三木谷浩史氏が対談した。楽天では英語を社内の公用語とすると発表したことが有名だが、三木谷社長はサービスや組織のグローバル化には、組織内の序列階層や言語などの概念を含む多くの企業文化が含まれると述べ、昨今、様々な事柄が速いスピードで変化を遂げているにもかかわらず、多くの日本企業幹部はそれを認識していないようだと言明した。楽天のビジネスモデルにとって、革新的な思考とリスクテイキングは極めて重要であり、直感と反応も大局的な戦略と同様に重要である。それが成功につながることも、時には失敗につながることもある。楽天ブランドはこれまで、海外向けにはあえて積極的に宣伝活動を行って来ないが、間もなく海外でも楽天ブランドを推進する予定である。三木谷氏とシュミット教授は、いかにブランドイメージが国家にとっても大切であるかについても討議した。政府による原発事故対処の不手際はジャパン・ブランドのイメージダウンになったが、一方で、日本国民の不屈の精神と社会全体の結束によってジャパン・ブランドが強化されたことも明らかである。

閉会の辞として、ワインスタイン教授が各講演者や聴衆、CJEB関係者とスポンサー企業に感謝の意を表し、本カンファレンスでの多数の参加者がCJEBの25年にわたる成功の証であると述べ、カンファレンスを締めくくった。

