

Japan Inc. firmly behind the Trans-Pacific Partnership

With the landmark Trans-Pacific Partnership (TPP) all but final, Japan's multinational corporations are revving up for a new era in trade and commerce

The TPP pact aims to liberalize trade among 12 Pacific Rim nations, representing 40% of the world's economic output and nearly one-third of its trade. And after five years of tough talks, an agreement between negotiators was finally reached on October 5, which has been described as the first important step in its eventual implementation. The next step will be the ratification of the treaty in each member state.

When ratified it will cut red tape, strip away barriers and tariffs, and raise the labor and environmental standards among the participating countries, while maintaining the protection of intellectual property rights. Proponents argue that the pact will create jobs, drive sustainable

growth and promote inclusive development and innovation across the Asia-Pacific region.

"The TPP will impact a wide range of industries rather than a few specific ones. In addition to eliminating tariffs, we also need to eliminate the full trade barriers and set up common rules for commerce, all while protecting intellectual property," says Akira Amari, Minister for Economic Revitalization and the man in charge of ratification of the TPP in Japan, which officially joined negotiations in 2013.

"In other words: goods, people, capital, and information need to flow freely in the Asia-Pacific region. However, throughout the 12 member countries of the TPP, we need a stable climate for in-

vestment with a clear framework to carry out these investments with common rules," he adds.

The Japanese government recently agreed to lift 95% of tariffs on industrial, farm and other products imported from TPP nations once the trade agreement comes into effect, while TPP member states will remove 87% of duties on such products exported from Japan.

This will mean increased competition in the domestic market for Japanese companies – a particular worry for farmers. But on the other hand, the TPP will open a much broader base of potential customers for the country's exporters, especially in the U.S.

"All companies will be expanding their business transactions

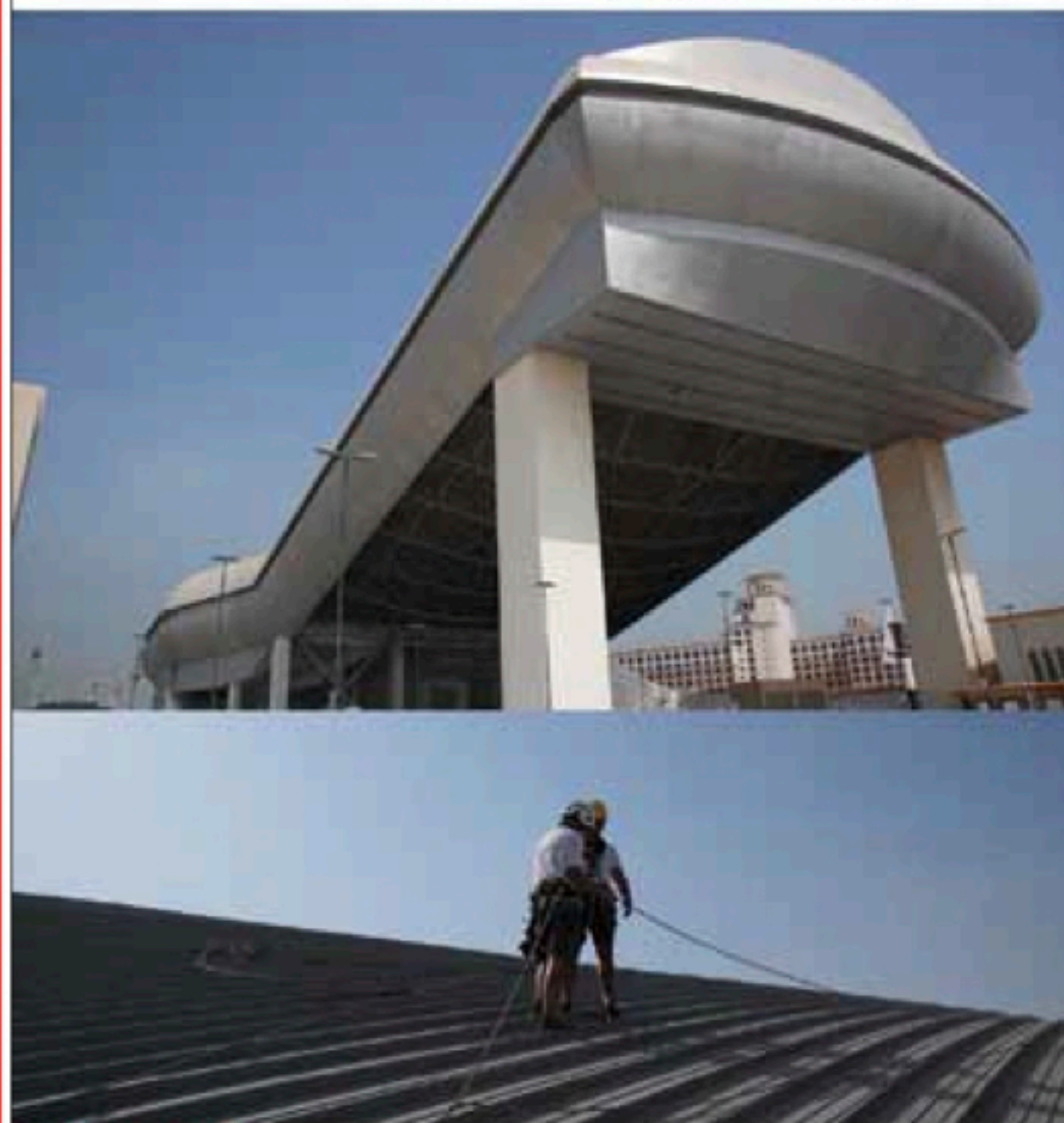
and that's very positive," says Masahiro Okafuji, President and CEO of ITOCHU. "If we can create a global competitive environment, that will mean a big boost for the Asia-Pacific region, and indeed the world, not just Japan."

The combining of two of the largest economies in the world – the U.S. ranked first, Japan third – could result in unparalleled economic gains and will enhance relationships in all areas, from education and innovation to trade and on to tourism.

And indeed being two of the globe's most powerful countries, the U.S. and Japan have played a vital role in shaping the negotiations between the 12 TPP members.

"There is a parallel consultation and negotiation going on be-

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Technology and sustainability define construction industry

In a successful bid to meet higher green standards and boost a dormant sector, Japan's housing industry is leading the way in sustainable construction practices

After almost two decades of continuing deflation, which has negatively impacted land value, the construction sector is picking up again under the auspices of Abenomics.

The stimulus policies implemented by Prime Minister Shinzo Abe, which included the reconstruction of the tsunami-hit Tohoku region, have in fact created new jobs and bolstered the economy. Stock prices have gone up 50% since Mr. Abe took office in 2012. "Japan has a large stock market and the volume of the real

estate market is the second largest in the world," says Seiichiro Yamaguchi, President and CEO of the Tosei Corporation.

Focusing on after-sales services and sustainability, companies like Sekisui House, Japan's leading homebuilder, are innovating in a crucial sector of the Japanese economy while efficiently dealing with pressing issues.

"We believe that the residential sector can provide solutions to issues like global warming and a large aging society" says Chairman and CEO Isami Wada. "We provide homes for the elderly, and services along with these homes. We also have made the Environmental Future Plan."

Industry leaders in housing have had to reconsider the core of their business which has in fact shifted significantly over the last years, moving from construction to renovation. Demolishing

Innovative industrial giants find their place in a changing world

Japan's pioneering manufacturers look to take center stage as they adapt to a globalized world, and are optimistic about the future thanks to Prime Shinzo Abe's reform measures

Turning around an ailing national economy has been compared to turning around an ocean liner at sea in that great patience and skillful maneuvering are required for both. It's been two years since Prime Minister Shinzo Abe obtained a mandate for his bold but risky Abenomics policy for helping Japan recover from the toxic effects of global recession and devastating deflation. Is it too early to draw conclusions about the effectiveness of the package of measures known as Abenomics? Possibly, but some of the country's senior business executives have been weighing in on the subject.

It is easy enough to look at the results and see that some of Mr. Abe's arrows fell short of their target, no matter if their aim was true. But the world changed while the world's third largest economy reshuffled, and boardrooms and bourses in foreign countries are watching to see how Tokyo-listed industrial giants will regain a place of prominence in the marketplaces of a more globalized world.

In 2014 Japan's export volume rate grew for the first time in four years to 0.6%, driven by a strong demand for general machinery, up 2.9% from the previous year. As Japanese companies expand abroad, so to have their profits from overseas operations, which reached around \$117 billion in 2014, representing around 16.4% of total exports.

One major change was in China, where demand for Japanese exports plunged 23% in the first half of 2015, significantly impacting export growth, which subsequently slowed to a crawl in September. That blow from Japan's largest trade partner encouraged the country's high-profile conglomerates to look beyond traditional Asian markets. As a result of their efforts to diversify, and helped along by a 30% depreciation of the yen, year-on-year revenues from the export sector were

up by 47% over the first six months of 2015.

US-bound exports posted a 15% increase for the first quarter of the current year but Japan Inc. was already running a \$50 billion trade surplus with its Pacific Rim partner. Meanwhile, the Asian giant's big three carmakers, Toyota, Honda and Nissan, are all building new assembly plants in the US, where they claim to have saved a million jobs by weathering out the global recession.

Growth has long been the Achilles heel for Japan Inc. Second quarter GDP was up by a year-on-year 0.8%. Japanese companies had racked up profits and accumulated cash until the global economic crisis ran its course, and with it, their wait-and-see attitude towards making strategic decisions. Outward mergers and acquisitions were at a nine-year high early in 2015, with Japanese interests acquiring \$37 billion worth of overseas equity between January and May.

Century Tokyo Leasing Corp. is a major player in the leasing and installment finance sector that has grown its revenue by a remarkable 25% over the past three years, roughly the time frame in which Abenomic reforms began to take effect. Accordingly, it is not to be wondered that Century Tokyo's president and CEO, Mr. Shunichi Asada, has good things to say about the government's plan for reorienting the economy.

"I think there are three different ways in which Abenomics' impact is felt. One is through its positive effects on the economy, which are finally becoming apparent at street level. Another is that political stability has been achieved under the current administration. Also, Japan under Abe has a good relationship with the US, and there are factors like jobs and oil prices that have positive impact on Japan's businesses. What is good for the overall economy is also good for our company."

As CTL expands its international operations with the aim of becoming a comprehensive financial services provider, local partners are the key to success, Mr. Asada states. "We feel that working with partners has advantages for both sides. And when it comes to overseas in particular, we are not terribly knowledgeable about local credits, so having an overseas partner gives us a chance to get the information that we need. So they

work on the credit aspect with us and help us expand the business overseas. We feel it is crucial to have a partner.

"We are professionals in the field of finance. So it works both ways, we gain and we give. As for overseas markets, other companies overseas need Japan's business expertise. We have expert knowledge about Japanese business so we can share this. It is a classic win-win situation."

Innovation begins at home

With characteristic clairvoyance, Japan Inc. is in the midst of a reorientation that will allow it to continue to be a trendsetter in global economic trade in various sectors, through innovation in areas such as environmentally friendly and state-of-the-art technologies.

For a case study in innovation, there is NCK, which has come up with a paint known as Adgreencoat with enhanced heat dissipating properties. Its proprietary mixture proved to be revolutionary in covering the roofs of buildings to reduce the need for energy-consuming air conditioning. "We are confident no one can imitate the technology, not just in its superb functionality, but also its environmental impact, aesthetic appearance and cost benefits," says the NCK president, Yasuhiro Manaka.

After the paint was certified as appropriate for Islamic communities, NCK licensees started producing it in Malaysia with a view of taking it to other countries where excessive solar heat is an issue. Adgreencoat is also certified by Japanese authorities as free of the VOC (volatile organic compound) solvents being phased out of the market.

The LIXIL Group is another company innovating to go global. Last year it announced that it will start operations as four core businesses: Water Technology, Housing Technology, Building Technology and Kitchen Technology.

"This is an exciting move for me personally and for our 80,000 employees," said President and CEO, Yoshiaki Fujimori. "In 2011, LIXIL embarked on an ambitious journey to transform itself from a deeply domestic Japanese company to a truly global corporation. Under this new structure, we accelerate our globalization by organizing related businesses under their respective management structures to better focus on customer needs

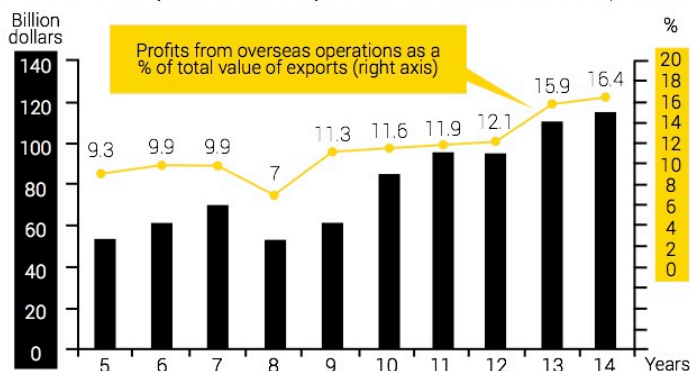
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Profits of Japanese companies from overseas operation



and to make more targeted investments in technology and innovation."

Toyobo emerged as one of Japan's leading textile manufacturers after its founding in 1882, and has since branched out into specialized technology-intensive products that now include films, polymers, and synthetic fibers. But by the 1970s, the squeeze was being felt on all sides, says the company's president, Seiji Narahara.

"Our sales were affected when other Asian countries upgraded their technology and quality controls. We were also hurt by the strong yen. We started to lose competitive edge and then after that for thirty years we've been facing a very difficult situation in terms of technology and human resources," he explains. "However, we had these new businesses with these new technologies and branched out to adapt." The solution came in the form of a diversified range of products, with a high added-value component such as protective films for LCD TV polarizers.

Unlike some other firms, opportunities for game-changing innovation are not too frequent at TOTO, which since 1917 has produced flush toilets, sinks, plumbing fixtures and other bathroom elements one does not usually associate with high-tech forward leaps. Yet one such breakthrough did occur in the 1980s when TOTO introduced the "Washlets" shower toilet, now to be found in 65% of Japanese households. Few people outside the industry know of the firm's pioneering work in the manufacture of air bearings, electrostatic chucks, bonding capillaries and other high-precision ceramics for the semiconductor industry.

TOTO's president, Madoka Kitamura, tells it like he sees it. "Private industry supports Abenomics. We now have an administration that is actually going to remain in office and decide on its mid-term and long-term objectives. We have a chance for stability with this administration."

The success of the third arrow of Abenomics greatly depends on private industry. Kiyoshi Otsubo, President & CEO of Rengo, one of Japan's leading packaging companies, explains how his company is supporting Mr. Abe's growth strategy.

"In Rengo, as a private company, what we did was: firstly, we invested to support the growth of the Japanese economy. Secondly, we provided incentives to stimulate employees' spending so as to promote consumption. So investment and consumption encouragement is how we supported the new growth strategy of Abenomics."

ITOCHU is one of Japan's long-established sogo shosha, usually rendered in English as "trading house," but president and CEO Masahiro Okafuji is perhaps more enlightening when he notes, "Sogo shosha have a vital role: to bring what's new from the world to Japan, or what's good in Japan to the world. We are always in the background, helping businesses from behind the scenes."

The company is extremely positive in its assessment of Abenomics. "The fact is that things are getting better and it is starting to be felt by citizens," observes Mr. Okafuji. "After 20 years in the dark ages, it will require time and energy. But now that the yen has fallen dramatically, the Japanese economy will improve."

"We are confident no one can imitate (our) technology, not just in its superb functionality, but also its environmental impact, aesthetic appearance and cost benefits"

Yasuhiro Manaka,
President, NCK

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Seiji Narahara,
President, Toyobo

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"Japan believes the government's economic stimulus program is definitely our biggest opportunity to move on. Private industry supports Abenomics. Similarly, Abenomics is relying on private industry to raise incomes and take other measures to break out of this stagnation"

Madoka Kitamura,
President, TOTO

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President and CEO, ITOCHU

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