



Declaration of the Creation of a Hub for Asian
Entrepreneurs
~ A Revolution through Innovation ~

April 14, 2014

1. Introduction

Following on from last year, the Japan Association of New Economy (JANE) held the New Economy Summit (NES) 2014 on April 9-10. The NES is an event in which entrepreneurs from around the world gather to discuss the new economy. Compared to last year's meeting, NES 2014 expanded to areas beyond IT and brought entrepreneurs from not only the United States, but also Asia and Europe together. At the summit, the latest global trends were shared and lively discussion was carried out on what should be done in Japan to encourage innovation and realize the creation of a new economy.

Based on the results of the discussions at this year's summit, JANE is recommending a number of policies that we believe are necessary to the Japanese government. We strongly hope that they are reflected concretely in the revision of the growth strategy that will be conducted in June.

2. Items Confirmed at NES 2014

(1) Current global trends

Due to the progress of the digitization of society and industry as a whole, as well as the growth of Internet use, we are being forced to redefine lifestyles and all aspects of society. Rather than innovations, these developments are a set of revolutions occurring simultaneously throughout the world.

(2) The importance of innovation and entrepreneurship

These changes have created a foundation for anyone to be able to change the world through the use of IT. Innovation happens when people are given the opportunity to take a risk and actually try something new, learn from their mistakes, and try again. It is actually more risky not to take new actions.

(3) The need to break away from Japan-limited systems

There are excellent human resources around the world and there is a need to bring together their wisdom. Japan cannot survive with systems and practices that are preconditioned on the domestic market.

(4) The role of government

In order to establish an environment that fosters an entrepreneurial culture and generates venture innovation, we need a clear commitment from the government.

For further details, please see the Reference section.

3. Specific Recommendations

【Objectives】

- Prompt realization of KPI set by the government: business opening and closing rates of 10%
- Make Japan a hub for Asian entrepreneurs

Recommendation 1: Establish an environment for competitive advantage in the world (adjust the ground rules for competition)

1. Reduce corporate tax rate at least to the low 20% range.
2. Regarding the handling of the acquisition premium (difference between acquisition cost and net assets) generated by M&A, encourage the application of international accounting standards, from the standpoint of equal footing with overseas corporations.

Recommendation 2: Establish an environment that will produce venture innovation

1. Thoroughgoing review of regulations that impede venture innovation
 - We should eliminate the principles of face-to-face and on-paper delivery, and further enrich the national economy with further use of the Internet and through higher productivity provided by the Internet.
 - We should assess new communication that uses the Internet with a positive attitude, and formulate guidelines for the thorough use of the Internet, under the strong leadership of the Prime Minister.
 - Identify the regulations that could impede the utilization of under-used assets such as empty rooms, and implement the necessary measures to address them.
 - Regarding review of the Personal Information Protection Law, which includes the handling of personal data, balance between the protection and the use of data is necessary. Sufficient and open discussion with people from the business world is required.
 - We should have an institutional design that enables the reform of the electric power system to change the inefficient use of electricity and spur innovation.

2. Advance the Internet Autobahn concept.¹ Part 1 of this concept will be a free Wi-Fi network in place by 2020. Through this, we aim to promote the new economy and expand employment by advancing the development of various service applications and M2M communications.
3. In the purchase process of an e-government system, establish and promote a healthy environment for competition among new and old companies. By doing this, we should break away from outdated systems and pursue efficient systems that reflect innovation.

Recommendation 3: Establish an environment that fosters an entrepreneurial culture

Confer medals or bestow awards presented by the Prime Minister on people who have started a business and brought about disruptive innovation irrespective of his or her age.

Recommendation 4: Establish Japan as a hub for Asian entrepreneurs

Amidst global competition for obtaining high-level human resources, promote initiatives for recruiting outstanding entrepreneurs/engineers and funds from around the world, and make Japan a hub for Asian entrepreneurs.

1. Offer income tax breaks and easing of visa restrictions to entrepreneurs and engineers invited from overseas.
2. Cut the tax on IPO capital gains in half.
3. Improve the appeal of entertainment in the big cities, for example, by relaxing the Entertainment Business Act.
4. Strengthen airport functions in the Tokyo Metropolitan area, and lower airport landing fees.

Recommendation 5: Establish an environment to cultivate and secure the entrepreneurs and engineers who can make innovation happen.

1. Increase engineers both qualitatively and quantitatively.
 - * Strengthen programming education for children through the public and private partnerships (by teaching materials made from private sector expertise, and actively utilizing integrated study periods, after school classes, Saturday classes, etc.) and consider making them compulsory subjects, as they are in the United

¹ A concept for establishing an environment that enables the use of communication networks and the Internet (which are social infrastructure) in an overwhelmingly faster and cheaper manner than any other countries that may have established.

Kingdom.²

2. Promote IT education

- Give each student one IT device, and make a shift toward problem-solving and debate-based education.

3. Promote entrepreneur education.

- Convey the significance of taking risks, creating new value, and changing the world. To encourage changing ways of thinking, dispatch entrepreneurs as instructors to education sites using remote education systems as widely as possible.
- Introduce finance, management, and marketing education into curricula.

4. Establish an environment in which women can actively participate.

- Carry out support by enhancing childcare facilities and promoting working at home.

Recommendation 6: Establish the environment to create a Venture Ecosystem

1. Strengthen the combinations that support an entrepreneur in the management aspects.

- Aim for effective use of outstanding people with large company management experience.
- Strengthen the support of promising companies by experienced venture management teams. For example, review the elimination of the system that allows for the combining of capital gain/loss from both listed and unlisted companies, and make support on the funding side easier.

2. Encourage the reexamination of risk-averse personal guarantees and repurchase provisions in VC investment contracts.

Recommendation 7: Establish an environment for strengthening executives' management skills

1. Mandate the appointment of outside directors to ensure that world-class corporate governance is implemented.

2. Promote the introduction of stock-based compensation

3. Abolish cross-shareholding in order to introduce the principles of competition into

² From the standpoint of improving thinking skills, the United Kingdom plans to make “Computing” a compulsory subject in elementary and middle schools (ages 5 to 16) from September of this year (marking a radical change to the traditional ICT compulsory subjects). The curriculum is being developed with advice from private enterprise.

corporate management and secure open capital markets.

4. Future activities of JANE

- (1) We will continue to make strenuous efforts to implement specific policy recommendations centering on innovation, entrepreneurship, and global-mindedness.
- (2) We will establish a system to recognize people who have brought about innovation. The award ceremony is scheduled for July.

Reference: Highlights from Statements Made by Panelists at NES 2014

1. Transition in industrial structure, cataclysmic changes currently underway

- The concept of fashionability has been introduced to IT devices, such as in the form of wearable devices
- Mobile devices are changing the world. Mobile users differ from traditional Internet users. Just about all of the current disruptive technologies today are mobile.
- Business process digitization and communications digitization are moving ahead. Going forward, the digitization of society and industry as a whole will also advance. The question of how much societal added value can be created will become important.
- Analyze and utilize big data to change “information” into “intelligence.”
- Today’s innovation is revolution.
- The past five years have been the age of software and social media. The next five years will be the age of “technology products,” including fully autonomous machines and virtual reality.

2. Entrepreneurship and Ecosystems

- A company is not something you join; it’s something you create.
- Japan is trying for a 1.000 batting average when .300 will do.
- In order to succeed, you need to do everything that other people are doing. An entrepreneur is someone who goes beyond that to find the errors in traditional ways, and then does the things no one else is doing.
- The existing players fear a decrease in profits and take no action, but in reality, profits will fall further when no new actions are taken. There is a problem with this mindset.
- In Silicon Valley there are many people who proceed with what they want to do, and who are exciting to meet. In Japan, you are forced to direct your energy toward doing things other than what you really want to do.
- *Shoganai* (“it can’t be helped”) is a Japanese expression that I hate. There must be something that can be done.
- Globally, freedom of management is being ensured. We have things like non-voting stock mechanisms.
- Legal regulations and resistance to their abolishment exist everywhere, but innovators

need to fight against them.

3. The fostering of entrepreneurial culture and ecosystems

- We need organizations and cultures that welcome “crazy people,” as well as the “clever people” to support and carry on after them.
- You can’t force innovation to happen, but you can create the culture and environment that allows it to happen.”
- Entrepreneurship is contagious.
- Don’t just accept failure. Evaluate it, share it and pass it on to those around you.
- Innovation happens when you get a chance to learn from failure and try once again. You get two or three chances in Silicon Valley.
- There are many venture companies in Israel because Israelis don’t like to work for other people, they like doing different things than other people, and they are not ashamed of failure because their education forgives failure.
- What is needed in an entrepreneurial culture is the absence of hierarchies, and the generation of discussions on equal footing.
- The most important thing is mindset.
- In Silicon Valley, there are many cases where one person creates the vision, another is in charge of funding, and so on. They work as a team after the scope of each person’s responsibilities is decided.
- In Japan, most venture capital is backed by banks, but what is needed is venture capital that comes with things like entrepreneurial experience or a technical background and can offer more than just monetary support.
- The fact is, the large corporations originally began as startups. Therefore, they must give support to startups.
- In China, the big corporations used to always copy the startups, but now they are starting to invest in startups rather than venture capital. The same thing has to happen in Japan.

4. Japan’s potential

- Japan recovered from the devastation of war in one generation to become a great economic power. The entrepreneurial spirit exists in Japan.
- “Authenticity-oriented”: The Japanese culture praised around the world includes more than just pop culture.

- Japan is a developed country in the area of mobile services. It can lead the world in the creation of innovation in the automobile sector.
- Just as it was during the industrial revolution, once Japan fixes its gaze on its goals, it is capable of producing superb goods and services. In the age of the digital revolution as well, Japan will make remarkable progress going forward.

5. Japan's challenges

- In order to cultivate the entrepreneurial spirit, the tasks for Japan as a nation will be regulatory and tax system reform, increased labor mobility, and the expansion of employment opportunities for women.
- The challenges for Japan will be the promotion of cooperation on entrepreneurship that transcends national, regional, and corporate boundaries, and the establishment of an environment for this purpose.
- In working toward becoming a tourist-oriented country, Japan will need to lower its high airfares, increase international flights to and from cities other than Tokyo and Osaka, and establish a “third airport” aside from Haneda and Narita, both of which have expensive airport usage fees. Japan also needs to relax regulations on visas and other travel-related regulations.
- Even in Japan, individualism should be promoted, for example, through the elimination of uniforms and rules.
- In the music industry, users should be able to access all music, but the suppliers are restricting it. This is true of all countries, but Japan is especially lagging behind.
- In the advertising industry, interregional barriers are in the process of disappearing, and the whole concept of advertising is changing. However, restrictions still remain, and there is a need to break these barriers.
- In Japan, the market is large, content producers are dispersed, and stakeholders are many. It's complicated.

6. Privacy issues

- Japan is a conservative country when it comes to the use of personal information. Rather than trying to convince 100% of the population, the people should be given choices and the market should be the driving force.
- People are obtaining various benefits from providing personal information. The provision of personal information should be promoted via opt-in mechanisms.

- Privacy is an important topic. With users making the choices, we will need to simplify and offer benefits. If there are benefits, the user will surely make a choice based on an understanding of the risks.
- It is crucial to analyze big data and personalize. If the same approach is adopted for the elderly as well (even with Internet content), all generations, including the elderly, should be able to enjoy it.

7. Active participation by women

- There is a lack of women in fields such as engineering. We need to correct this situation.
- We should make work environments more friendly to women.
- Japan should invest in women. Women are able to serve as executives and board members. The greatest challenge is creating a society in which it is enjoyable for women to work.

8. Innovation in education

- The Internet is a tool that can deliver high-quality education to a wide range of people.
- Education is one of the fields most in need of innovation, because nothing has changed in instructional modes for a very long time. We are now in an age where this is possible by utilizing the Internet.

9. Innovation in energy

- Electric power usage on the demand side is inefficient. Not only hardware but also software and information will be important for changing power usage.
- By conveying predicted peak hours in advance through personalized information to each household, we were able to dramatically keep down electric power consumption during peak hours.
- We need to develop new power sources. Being able to generate large amounts of power as cheaply as possible will lead to the creation of a new culture and new lifestyles.