

***IRCJ***

***Industrial Revitalization Corporation of Japan***

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APEC High Level Conference on Structural Reform

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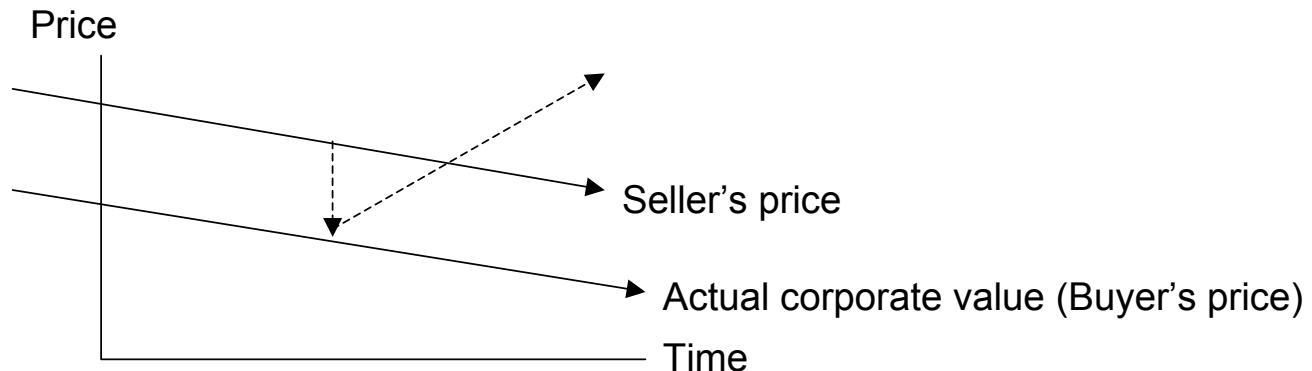
Executive Managing Director  
Kazuhiko Toyama

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<b>1. Misconceptions of Current NPL Problem—Market Failure</b>	<b>2</b>
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- NPL can be categorized into Asset distressed and Business distressed
  - Although inter-related, the cause and approach to dealing with each problem is different
  - Japan has seen dramatic increase in Business Distressed Companies
- **Existing NPL market functions for Asset-Distressed ONLY**

No Market Mechanism for Business Distressed  
(Structural Problem; “Market Failure”)



- **Japan's Unique Lending Practices— Over-Emphasis on Indirect Financing**
  - Reliance on “Main bank System”
  - Loans from multiple commercial banks (Kanebo's liabilities consisted of loans from more than 100 banks )
- **Wide Difference in Banks' Financial Health**
  - Enormous damage if private rehabilitation processes is applied to all financial institutions
- **Problem of Governmental Financial Institutions**
  - Very little leeway in discretionary negotiations
- **Problems associated with personal guarantees**
- **Taxation**
- **Information Asymmetry**
- **Inconvenience of legal process**
- **Others**

**After ten lost years, Japanese industries face:**

- **Financial problems**
  - Excessive debt
  - Hangover from the Bubble Economy
  - Business factors
- **Business and strategic problems**
  - Structural oversupply and under-investment
  - Lack of strategy amidst intensifying competition
  - Loss of workforce quality (at both operational and management levels)
  - Deeply-rooted “Just wait for the Spring to arrive” passive philosophy



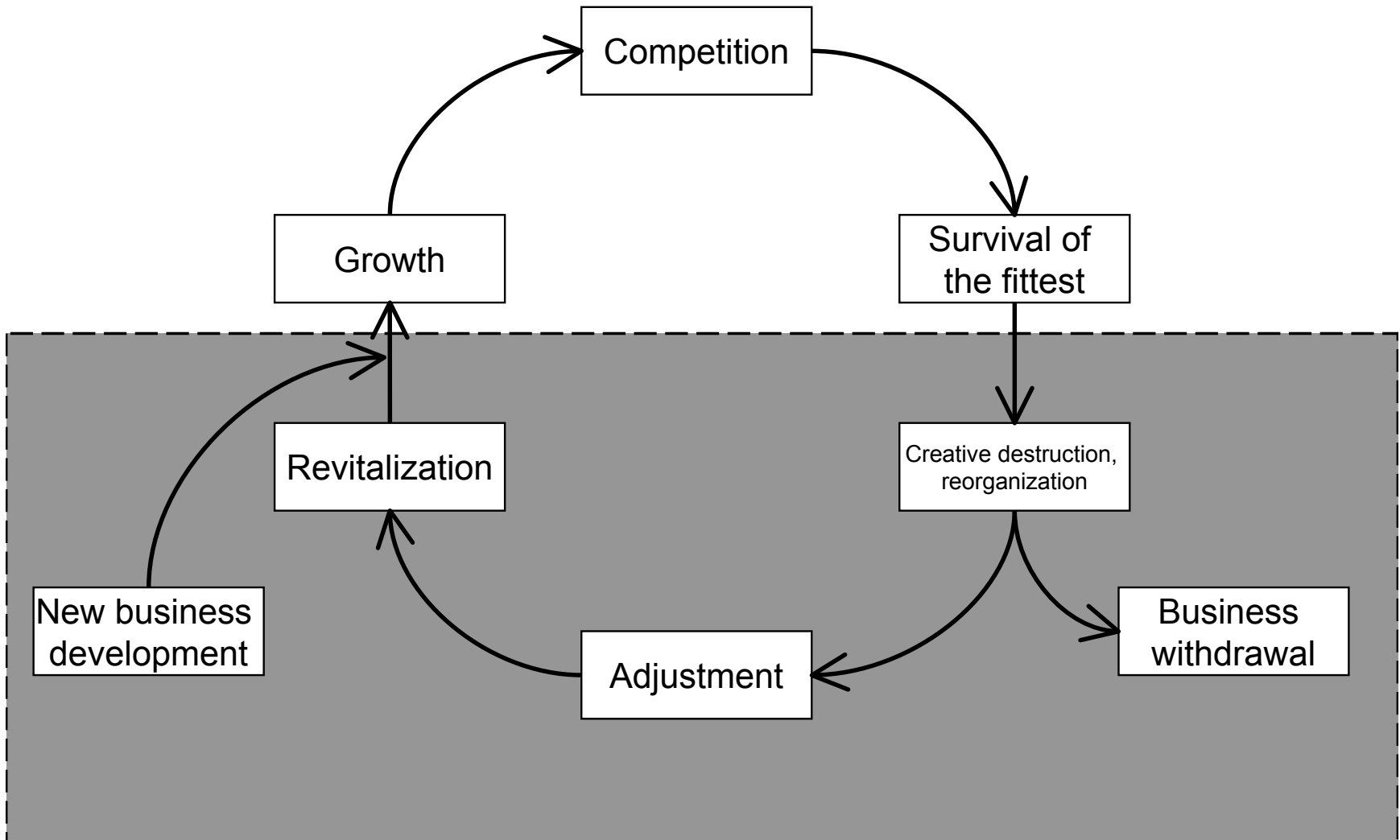
**In today's world of corporate distressed NPLs, balance sheet adjustments are no longer sufficient to achieve industrial revitalization**

## 4. IRCJ's Philosophy (1) Restore Competition Model to Revitalize Industry

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- **Create environment for dynamic Competition Model unique to Japan**
  - Competition leads to Innovation
  - Competition and Selection lead to re-allocation of human and capital resources
- **Design and implement effective Competition Model**
  - Create new business, corporate, and management models
  - Create and develop new industrial model to incorporate these models
- **Establish market discipline**
- **Establish a safety net mechanism to support Competitive Model**
- **Redefine roles of public and private sectors**
  - Legislation/rule design
  - Role of judiciary

## 5. Japan's Undeveloped Business Cycle



## 6. IRCJ's Philosophy (2) Enhance Human Resource Utilization to Revitalize Industry

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- **Reality: Japan lacks natural resources. Strength lies in human resources**
- **Consensus-based, Kaisha Society (i.e. emphasis on educational background and seniority system preserved by Corporate Japan)**
  - Invisible class society
  - Skewed Organization (increased number of seniors, stagnant promotion, etc)
  - Lack of capable executive management
  - Widespread desperation of employees and discontinued business know-how



- **Need for New Type of Management Pool with Individual Mindset**
  - Bring them to the forefront before they are destroyed by incompetent management
  - Nurture “professional management” pool that consists of high-caliber individuals
  - Formulate and promote new business model led by new management generation



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