ECONOMY, CULTURE & HISTORY

# Japan SPOTLIGHT

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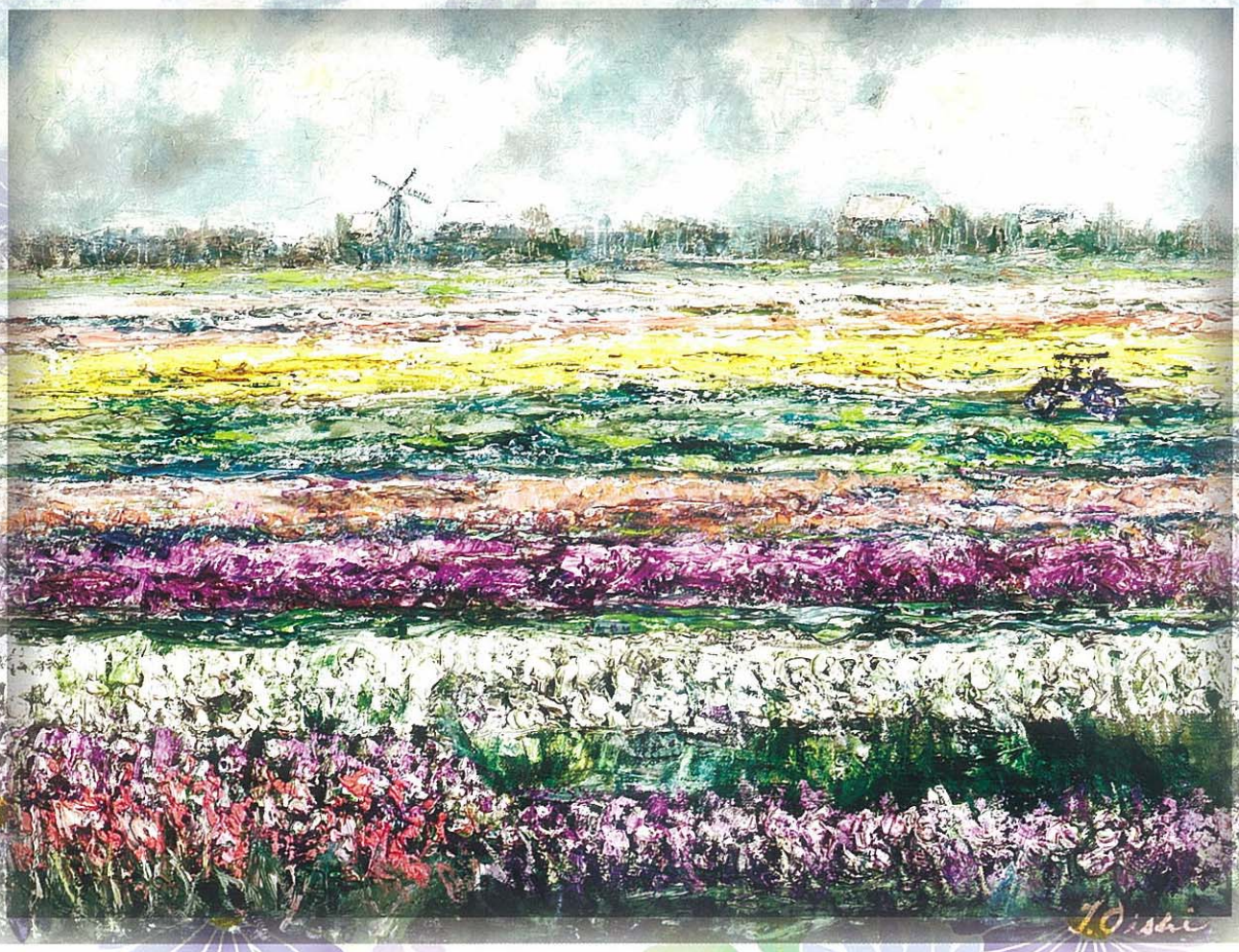
# The Abe Administration's Economic Policies – Where Are They Heading?

**Eight** economic experts
–from academia, bureaucracy, business and journalism –
analyze Prime Minister Abe Shinzo's policy issues focusing on growth, income gaps, reform and FTAs.



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# Seeking to Boost Asia's Presence
## – In the Global Construction Machinery Industry –

*Interviewer: Okabe Hiroshi*

Kobelco Construction Machinery Co. is an affiliate of major Japanese steelmaker Kobe Steel, Ltd. Its slogan is "That's Kobelco!" This means Kobelco is aiming to be commended for its technology and product reliability in the booming global construction machinery industry. Kobelco President Shimada Hiroo, who is also chairman of the Japan Construction Equipment Manufacturers Association, wants to strengthen Asian makers' presence in the world. He speaks in an interview about the construction machinery industry's current challenges and future prospects.

KOBELCO

## Shipments Double in 5 Years

**The Japan Construction Equipment Manufacturers Association says Japan's construction machinery shipments topped the ¥2 trillion mark for the first time in 2006. Shipments in 2007 are expected to reach ¥2.3 trillion. What do you see behind such a rapid expansion in the construction machinery market? And what is your expectation for future demand?**

**Shimada:** Shipments of construction machines more than doubled in the past five years. Shipments were also large in the early 1990s during Japan's asset-inflated bubble economy. But at that time, shipments for the domestic market accounted for 75%, and those for exports were only 25%. In 2006, the share of exports reached nearly 65%. This represented a major change in the structure of our construction machinery industry. Demand for construction machinery grew under such a structural change. There are two reasons for the expansion in global demand for construction machinery. One is aggressive development worldwide of natural resources. Active investments in resource development projects continue in South America, Africa, China and Russia amid rising crude oil prices. So, there is strong demand for construction machinery to be used at mines. The other one is an infrastructure building boom. Economically booming China is actively engaged in infrastructure building. An office building construction boom is going on in oil-producing, petrodollar-rich Mideast countries. In North America, demand for road construction remains strong. The size of the global construction machinery market is estimated at around ¥13 trillion. I really feel there is an explosive global demand for construction machinery. Now it is at the structurally expansionary phase of demand for natural resources and infrastructure development. I think such a trend will continue for some time.

Photo: Kobelco

*Shimada Hiroo, President of Kobelco Construction Machinery Co.*

**You see no concern about the future of the construction machinery industry. Are there no worrisome factors? For example, the US economy is said showing signs of a slowdown. What kind of effect do you expect from such factors?**

**Shimada:** Housing investments began to decline in the United States. I feel somewhat uneasy about an adverse effect from that. But the US construction machinery market is supported by four major pillars. One is housing construction. The three other pillars are construction of office buildings, road construction and disaster rehabilitation works. These three remain firm.

## Japan's Technology Leading the World

**What position do Kobelco and other Japanese makers have in the world's construction machinery industry?**

**Shimada:** The real duration of use of construction machinery was around seven years in Japan some time ago. But it shortened to about four years in recent years. This is because used construction machines are actively exported, particularly to China, to meet strong demand for them. Such demand supports domestic shipments of construction machinery in Japan where

public works projects are shrinking. Shovels account for some 60% of all construction machinery in the world. Japan dominates technologically in shovel hydraulics. Indeed, Japan leads the world in this connection, accounting for 70-80% of technologies used globally for construction machinery and placing literally in the top spot. The other day, leaders of Japanese industrial machinery makers met with Economy, Trade and Industry Minister Amari Akira. At that time I told Mr. Amari, "We would like to see that the Japanese government increase business opportunities for our construction machinery boasting world-leading technology if it is to aim at making the country develop into a technology-oriented nation. The government's policy of reducing public works spending will not sharpen our technology."

## Development of Western China "Real"

**China's high economic growth continues. But some analysts say China's economy may hit a turning point after such national projects as the 2008 Beijing Olympics and the 2010 Shanghai Exposition are over. How do you see the future course of China's construction machinery market from the frontline business point of view?**

**Shimada:** Kobelco exports around 3,000 construction machines to China annually. Each machine is equipped with a global positioning system (GPS). The GPS shows us at the headquarters how and where these machines are in operation in China. We can monitor them as if we were there. Activities in Beijing and Shanghai stood out four years ago, according to GPS coverage data. But recent movements show something that can be clearly identified as the major development of western China. In Beijing, as the Olympic Games approach, the focus may shift to face-lift and environmental works, and

Photo: Kobelco

the volume of construction work may decline. On the other hand, an analysis of GPS data shows that China is promoting infrastructure-building projects at a tremendously high speed in its inland parts. All major Japanese construction machinery makers possess such GPS data as their corporate secrets and are in competition to take the initiative in procuring machinery parts. A defeat in parts procurement would lead to a loss in our China business. So speedy decision-making is required.

As chairman of the Japan Construction Equipment Manufacturers Association, I have recently met with leaders of its Chinese counterpart. At that time, I asked them which kind of statistics would help us grasp the real picture of China's economy. The Chinese replied that "China's statistic figures are not very reliable." It might be something akin to a joke. But statistical figures alone provide makers with key information for their strategic decision-making in their business in such a rapidly growing giant state. Some really say that China's economy may slow after the Beijing Olympics and Shanghai Expo. But from the frontline business point of view, China's massive development of its western region is authentic. The Chinese government is cashing in on the Olympics and Expo to raise the morale of the people. What is more important for China in managing the state is how to settle the issue of "disparities." Such major projects as the development of the west will be much more important in the future for China to resolve the disparities and stabilize its state system.

## Taking Risks to Achieve Growth

**Kobelco is active in locating its business bases in China, becoming the first Japanese construction machinery maker to establish a subsidiary there.**

**Shimada:** The Chinese market will be a major business battlefield for the world's construction machinery makers. I think Kobelco is required to strengthen servicing and parts supply as well as financing designed to make it easier for customers to purchase construction machinery.

**Kobelco's overseas expansion is highly visible. Not only in China, Kobelco also established a sales and service subsidiary in India as part of its efforts to branch out into the Indian market.**

**Shimada:** As our business field is expanding, we have been advised to be selective about areas of emphasis or to limit the scale of our overseas expansion. But the global construction market is now entering a golden cycle. We cannot achieve growth if we limit our scale of business to a certain level given such a situation. A construction machinery dealer would only consider doing business with a manufacturer who he thinks is reliable to share in the future. Growth strategy may involve risks. However, no business can be done without taking risks. You may only have to diversify risks. No business would go well without taking risks.

## Stronger Japan-China-Korea Partnership Eyed

**As chairman of the Japan Construction Equipment Manufacturers Association, you are making efforts to establish a framework of cooperation in Asia involving Japan, China and South**

Photos: Kobelco

Kobelco Construction Machinery President Shimada Hiroo stands in front of the world's first fuel-efficient hybrid hydraulic shovel.

*An excavator with the world's longest high reach of 65 meters, developed by Kobelco Construction Machinery Co. The reach record is certified by Guinness World Records.*

**Korea. Would you discuss the background and ideas behind your decision to strengthen cooperation in Asia?**

**Shimada:** One of the reasons for the idea to strengthen cooperation among Japan, China and South Korea is that the presence of Asia, including Japan and South Korea, is felt only a little in the world of construction machinery despite such rapid growth of the Chinese market. A next-generation standard of curbs on exhaust emissions for construction machinery is scheduled to be put into place in 2011. The United States and Europe have taken an overwhelming lead in discussions on such environmental standards. Asia's voice is little reflected in the global discussions. The United States and Europe also take the leadership in discussions on standardizing construction machinery. When I was in charge of the welding business at Kobe Steel, Japan was always represented in discussions on international technological standards and put forth opinions. But Asia has only a weak voice in the construction machinery world despite the fact that Asia includes China, which is expected to become the world's largest market in the future. I believe we must promote efforts to make Asia's ideas and the Asian style of quality control prevail in the world. To gain a greater say in the world, we need to ask China to release economic statistics, including those on construction machinery, in a more proper and official manner. There still remain other unresolved issues in China such as fake products.

**I hear some Japanese construction machinery makers have hit a snag in entering the Chinese market because of local institutional problems and commercial customs. Do you think such issues can be settled through exchanges between the Japan Construction Equipment Manufacturers Association and China?**

**Shimada:** A number of used construction machines are exported to China from Japan. But exporters face China's import regulations and need to clear a number of requirements such as certificates of usage records for used machines and legal matters. These

problems cannot be resolved by a single business firm. In some cases, intergovernmental talks may be necessary. Cooperation between the government and the private sector is important in overseas business.

## Kobelco's Essence: Environmental Measures

**Kobelco is the front-runner in environmental technology, registering and obtaining a government license for a new hydraulic shovel clearing emission regulations earlier than rival companies. Kobelco also developed a fuel-efficient hybrid hydraulic shovel that reduced fuel consumption by 40%. What targets do you have in environmental protection measures?**

**Shimada:** Environmental measures represent the very way in which Kobelco exists. The company has a 75-year history as the construction machinery arm of Kobe Steel. In the course of the corporate history, anti-noise, energy-saving and environment protection technologies were nurtured at Kobelco. I am confident that Kobelco's technologies rank at the top level in the world. Research and development work at Kobe Steel's laboratories is reflected in technologies for Kobelco's less-noisy construction machinery. Our basic position is to appeal to customers with the spirit of technological innovation, wherein lies the idea of Kobelco's environmental measures.

**Workers of the postwar baby-boom generation are soon retiring en masse in Japan. In the workplace, there are worries if technologies could be handed down to the younger generation smoothly. What is your opinion about this issue from the manufacturer's frontline point of view?**

**Shimada:** The other day, I happened to talk with an executive of a major shipbuilding company. This guy says there are many Japanese shipbuilding engineers giving technological training at South Korean and Chinese shipyards after their retirement. In one aspect, these retirees' techniques support the quick growth of South Korean shipbuilders. I believe manufacturing technology probably is the only one among various Japanese business systems that could prevail in the world. American or European systems may possibly be superior to Japanese ones in the management of financial affairs, personnel, and research and development. But Japan's capability on the frontline of production is some of the best in the world. Workers of the baby-boomer generation have established such Japanese production technology. It becomes important to create an environment enabling these people to continue applying their expertise at home after their retirement.

**Japan's business world has been swept by a wave of realignment through mergers and acquisitions. How do you foresee moves toward realignment in the construction machinery industry?**

**Shimada:** Kobelco has formed an alliance with CNH Global N.V. and has performed its role in the partnership's international strategy. Other major Japanese construction machinery makers have turned global players through linkups with US and European firms. In a sense, I can say realignment has taken a pause. There will be no further realignment moves in the days of such busy global demand as now. I think there will be another round of realignment when demand for construction machinery slows down in the United States and Europe. Manufacturers are right now too busy meeting immediate demand to look for realignment. JS

*Okabe Hiroshi is a business news editor at Kyodo News.*

Column 1

### Shimada's pet dog: a token of friendship with Fiat CEO

A big gift was delivered to the home of Kobelco Construction Machinery President Shimada Hiroo from Italy's Fiat Group chief executive officer, Sergio Marchionne, in the fall of 2006. Shortly before that, Shimada lost his family dog kept for some 10 years. The Fiat group's agricultural and construction machinery maker, CNH Global N.V., has maintained a global alliance with Kobelco. The gift was a puppy airlifted from Canada by the Fiat CEO who has maintained close ties with Shimada through business relations. The Fiat leader intended to encourage him with the gift.

The dog was a Nova Scotia Duck Tolling Retriever, a very rare species in Japan. It was the third one of the kind to be registered in Japan. It was named "Maro." Shimada says he explained to Marchionne that "Maro is the name well used for aristocrats in ancient Japan." This episode tells of deep mutual trust between the two business partners.

"Mr. Marchionne is nicknamed a 'micromanager.' He is no such business manager who decides only the direction to follow and leaves other matters to the lower level. He cannot be satisfied unless he maintains a full grasp of each business aspect. I make it a rule to discuss actual business conditions in detail in talking with him. Whenever he comes to Japan, he drops in at my office. He makes a trip by his own business jet," says Shimada, looking at a photo of his pet dog hung on the wall of his office.

Column 2

### Shimada visits all member firms

Kobelco Construction Machinery President Shimada Hiroo has continued to visit all member companies since taking the chairmanship of the Japan Construction Equipment Manufacturers Association in May 2006. The number of association member firms is 74. He has already visited more than 90% of them. The construction machinery industry faces a number of challenges, including the expanding Chinese market and response to environmental protection needs. "I'd like to learn directly from member companies what they are seeking," Shimada says.

"There are only two points for me to learn when visiting member companies. One is their plants. The other is the spirit of their business inauguration. Many Japanese construction machinery makers are managed by heirs of their founders. They still maintain remnants left by the founders. I ask member firms what they make much of and what they have kept unchanged. Almost all can be known with their replies."