

CATALYSING DISRUPTIVE SHIFTS FOR INNOVATION AND SUSTAINABILITY IN URBAN ENVIRONMENTS: THE CASE OF JAPAN

June 2024

CONTRIBUTOR

Supriya Sen

Director,
We Mean Business Coalition

 ELEVANDI

© 2024 Elevandi, All Rights Reserved. Reproduction Prohibited.

Content

Introduction	3
Japan's Challenges and Opportunities	3
Tokyo's Commitment to Sustainability	4
Financial Industry and Technology-driven Shifts for Revitalisation	5
Blueprint for a Thriving Financial Ecosystem	6
Climate Change as a Catalyst for Innovation	8
Strategies for Japan's FinTech Ecosystem	8
About the Author	11

My recent participation at SusHiTech 2024, an annual fintech and Sustainability-focused urban innovation conference, unveiled a remarkable Japan steering what many believe will be its decade. The conference, hosted by the Tokyo Metropolitan Government, served as a platform to gather perspectives from global leaders interested in Japan. It offered a new lens to tackle global challenges set in an urban context by harnessing revolutionary new technologies—an approach that has the potential to shape the future of urban innovation worldwide.

Japan's 'lost decades' and periods of economic stagnation, particularly from 1991 to 2001, have had a lasting impact on its growth. The country is on a precipice with a rapidly aging population and a steep birth rate decline. In response, the public sector has launched a slew of new initiatives to stimulate foreign investment, enhance global connectivity, and empower local entrepreneurs, with the aim of forging a more prosperous and sustainable urban future.

This article delves into our discussions at the conference and explores how Japan is harnessing the potential of financial innovation and entrepreneurship to foster a sustainable urban environment. This approach holds promise for Japan's future, instilling a sense of optimism about the country's ability to overcome its challenges.



Japan's challenges and opportunities

Japan's current phase is marked by a number of urgent issues. It grapples with a drastically aging population, where 1 in 4 Japanese are over 70 years old. Despite a highly developed and diversified economy with a GDP of \$6.1T and \$33K per capita, the country has seen exceptionally low foreign direct investment. As the prosperous but aging society grapples

with a drastic decline in its productive population, the social security system will be under greater stress and unable to provide an adequate safety net.

Currently, over 70% of wealth in Japan is held by individuals over 60 years old. Diminishing government support and the shift away from lifetime employment are significant and growing concerns. As baby boomers start to pass away, there is an urgent need for more pervasive post-retirement financial solutions.

Private investment in talent and increased support for risk-taking founders and investors in private capital are crucial to ensuring the success of talent development efforts and the access of youth to employment opportunities. Continued regulatory focus and oversight are vital to stimulating innovation and sustainability beyond risk cover.

Tokyo's commitment to sustainability

The Tokyo Metropolitan Government's efforts to establish it as a thriving international financial centre are noteworthy. In her opening address at the conference, Tokyo's Governor Yuriko Koike reiterated her government's key initiatives, starting with Tokyo's ambitious goal of 10X the number of startups, unicorns, and public-private partnerships between the metropolitan city government and business, technology, and startups. This ambitious but purposeful goal underscores their commitment to creating sustainable cities. In fact, we were told that a critical mass of diverse innovation hubs is already operational in public spaces throughout Japan.

Other initiatives, such as implementing regulatory reforms to enhance the city's competitiveness as an international financial centre, investing in state-of-the-art financial districts and advanced telecom networks, positioning itself as a regional financial hub given the existence of strong financial institutions and a skilled workforce, and initiatives to attract international talent and host a diverse, multicultural workforce, have not gone unnoticed.

The latest effort to collaborate with international financial centres and host global forums and events—like the SusHi Tech Tokyo conference—has contributed to Japan's visibility and connectivity within the global community. Even the language barrier, which remains deeply woven into the Japanese way of working, seemed easier to navigate for foreigners this time, as there were many English signboards and English-speaking guides around the conference.

Financial industry and technology-driven shifts for revitalisation

I was invited to speak at the SusHi Tech Tokyo conference on a panel about disruptive shifts in Tokyo's financial industry and startup ecosystem. The discussion and the conference were examples of how innovation and exchange with global participants can stimulate a thriving urban society in Japan.

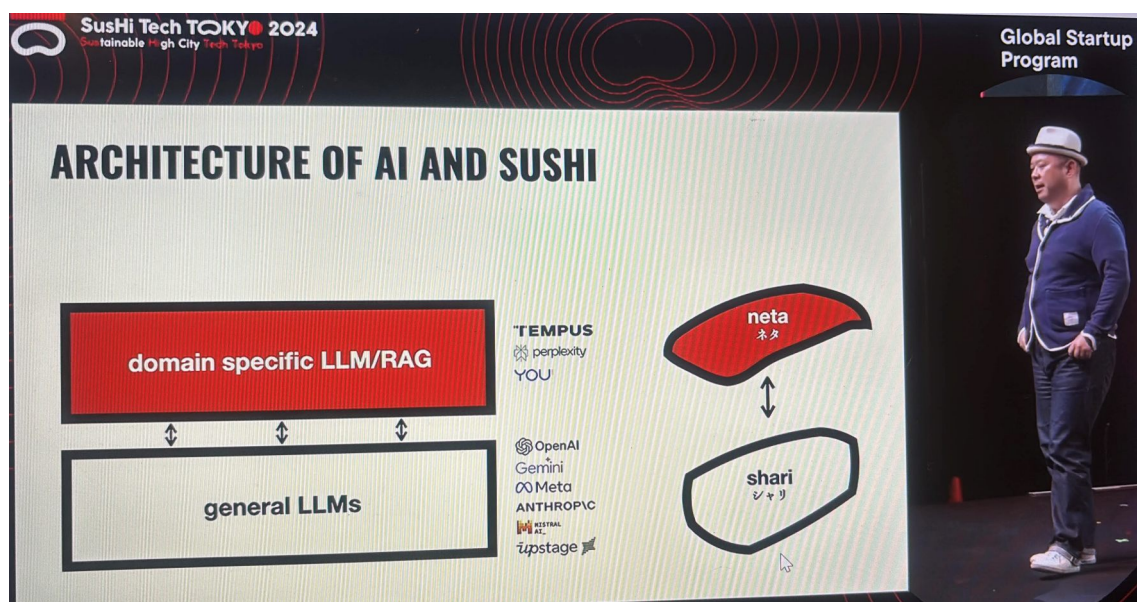


The exhibition at SusHiTech featured inspiring examples of Japanese, regional, and global innovative companies active in healthcare, fintech, and urban property development. For example:

- A Digital Dentistry platform offers to provide 3D-printed temporary and permanent dental crowns, where oral scanning is followed by customised prosthesis production within a couple of hours, achieving consistent, high-quality outcomes and requiring no laboratory space or staff.
- Another impressive display was from a 3D organ regeneration bioprinting platform that promises to shift the healthcare paradigm in age-related diseases such as diabetic foot ulcers. It has already been validated for safety and efficacy through global clinical studies.

These companies are scalable worldwide, demonstrating how stimulating capabilities across the ecosystem can spur development and revitalise the economy beyond the financial sector.

- Japanese entrepreneur Taizo Son used a sushi metaphor to describe the development of Generative AI and vertical domain-specific AI development atop scalable horizontal generic platforms. Local entrepreneurs can fine-tune their business models based on their specific strengths and markets. He disclosed that his new venture, Alpha, which aims to provide such a networked AI development infrastructure platform to cities and startups in East and South Asia, thereby enabling them to make their own "Sushi"—domain-specific AI software—in fruitful and productive ways.



Software Development in the age of Gen AI (Source: Taizo Son, image of presentation slides at the SusHi 2024 conference)

The obvious synergy between Tokyo's role as an international financial centre for sustainable and green finance and the development of a thriving startup hub can offer opportunities for testing the applicability of new business models that are both sustainable and fast growing. Digital capabilities can enable Tokyo to achieve this goal faster, spur Japan's growth revitalisation across the economy, and give rise to new business opportunities.

Blueprint for a thriving financial ecosystem

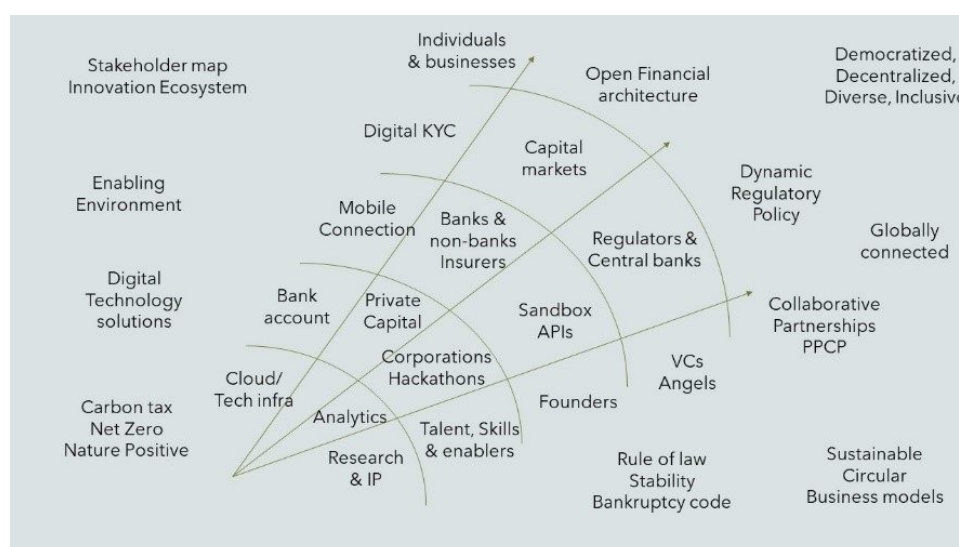
A thriving financial ecosystem is considered efficient when it succeeds in allocating resources to the most effective growth participants. With this, the economy can become resilient, create new value, and realise the promise of technology.

A blueprint for a global financial ecosystem that allows inclusive participation and effective innovation would require that:

- individuals and businesses are stable participants in the financial system;
- the full range of financial participants finance their activities by correctly sizing the investment gap and mobilising capital at scale, including through innovative financing models;
- there is active trading and adequate liquidity without the need for explicit market-making;
- regulation is effective in terms of risk-proportionate licensing while managing compliance and stability of the financial system;
- regulation is effective in forcing open, opaque networks so that newer and innovative participants can have a chance to serve the system in an inclusive, collaborative, and effective way.

Such a system includes digital enablement and regulatory sandboxes, APIs, and hackathons, where corporations can meet startups to solve legacy problems. These events are often hosted on platforms run by participants who can provide the operating environment.

The diagram below provides a snapshot of the digital transition journey and the collaboration required across public and private sectors to create a thriving financial ecosystem.

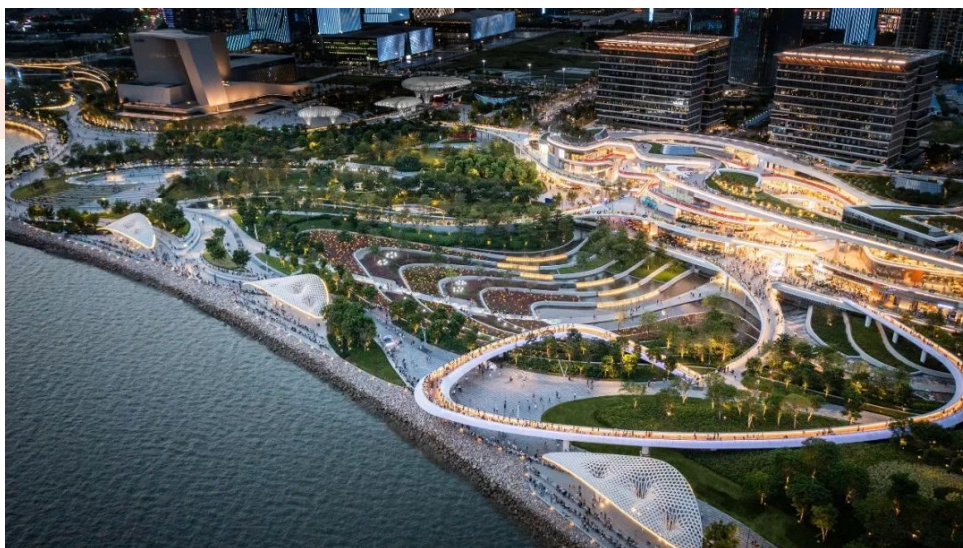


The digital transition journey requires collaboration across the ecosystem (Source: Supriya Sen)

Climate change as a catalyst for innovation

Another great external stimulator for disruptive change is the need for global collaboration towards low-carbon energy, necessitated by the climate crisis. Japan has unique strengths, such as a solid manufacturing base, scientific and tech talent, a deep hinterland, and a stable and solid society, making this a fantastic place to visit, live, and work. Japan also continues to be a global innovator, especially in the automotive, chemical, computer, electronics, and machinery sectors.

This makes it the ideal place to redesign business models to be globally relevant today. As one of the other conference participants from an architectural firm remarked, locating innovation centres in easily accessible areas near public spaces can also help to stimulate greater, easier, and deeper society-wide engagement.



Strategies for Japan's FinTech ecosystem

One of the conference's key themes was sustainability. My fellow panellists and I discussed how fintech platforms powered by digital innovation could help further the green agenda. This includes platforms connecting sustainability-minded investors with the most effective and verified investment opportunities. These applications can leverage alternate data and analytics to assess ESG factors, measure sustainability performance, and offer climate risk insurance products.

We also drew parallels with Singapore, where I come from, and which has established itself as one of Asia's leading international financial centres. Aiming to position itself as a leading green finance hub, Singapore is looking to further strengthen its position by successfully

developing sustainable finance through a broad range of initiatives spearheaded by the public sector.

Based on my experience in Singapore, I propose several recommendations for Japan to bridge the sustainability and finance industries further to catalyse disruptive innovation:

Resilience & Risk Management

Strengthen the financial sector's resilience to environmental risks through guidelines on environmental risk management, green finance regulations, mandating companies' ESG disclosure, adhering to global reporting standards, and introducing impact measurement tools and incentives to promote the development of sustainable finance products.

Impact: Strengthens the financial sector's preparedness for a greener future.

Market Development

Devise grants & incentives for green projects and fintech innovation to create markets and solutions for a sustainable economy, to reduce borrowing costs for green projects. This can be supported by incentives like tax benefits and funding support for green innovation in fintech to mobilise capital for environmentally and socially responsible initiatives.

Impact: Creates markets and solutions for a sustainable economy.

Technology & Innovation

Launch initiatives like an ESG Registry to facilitate green finance flows, and platforms to facilitate collaboration between fintechs, financial institutions, corporates, academia, NGOs, and government agencies. Fintech accelerators, incubators, and R&D initiatives for green financing and sustainable investment can drive industry-wide adoption of sustainable practices.

Impact: Drives industry-wide adoption of sustainable practices.

Capability Building

Encourage the development of educational programs on green finance for consumers, investors, and businesses to promote financial literacy, ESG awareness, and sustainable investing education.

Impact: Grows the market for sustainable finance solutions.

Taxonomy & Standards

Finalise a classification system for green activities aligned with international standards. This ensures that economic activities and technical screening criteria are prioritised for climate change mitigation, adaptation, and other environmental objectives. The purpose is to encourage green bond issuance, impact investing funds, and sustainable development projects through fintech platforms to enhance the green agenda.

Impact: Encourages green bond issuance and sustainable development projects.

These actions can inspire Japan to bridge its sustainability and finance sectors and thereby create a resilient, inclusive, and environmentally conscious fintech ecosystem.

Embracing financial innovation and entrepreneurship alongside sustainability is key to fostering a resilient, inclusive, and environmentally conscious fintech ecosystem in Japan.

I hope that the leadership of these formidable actors can inspire action in and beyond Japan, as these principles are relevant globally to address pressing societal concerns and promote sustainable development across borders.

To access more reports, scan the QR code below:



ABOUT THE AUTHOR



Supriya Prakash Sen
Director,
We Mean Business Coalition

Supriya serves as an advisor for Digital & Infrastructure Finance. She writes about innovation in infrastructure policy and finance.

The views expressed here are her own and do not necessarily reflect the views of the company or its staff.