

# Japan's New Economy

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It is very important to understand what the Net really is. It is not a more efficient printing system. It is not a more efficient broadcasting system. It is not a lot of things that people use to make metaphors about the Net. The fact is you cannot really understand the Net until you start using it. The Net connects millions of people together real time, at low cost, 24 hours a day, and it is essentially about context rather than content.

### Context versus content

We hear a lot about Internet broadcasting and publishing, but if you think back to the beginning of television—it was a radio announcer with a mike, and they had video around it, sort of video-radio. Eventually, it evolved into a new media form. In the same way, the Net really has not even taken the first step.

What makes the Net so different from other media is that it is much more about context, as opposed to content. Content is a static thing, like a CD or a dictionary. Context, on the other hand, refers to things like transactions and community. My computer desktop, for example, shows a satellite view of the earth at real time. If you printed that image or put it in a CD-ROM, it loses much of its value. It is the context in which information is being delivered that adds value. For the same reason, stock quotes are free 15 minutes after real time, while at real time they cost money.

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Live, real-time events and information are much easier to manage on the Net. The Grateful Dead, for example, used to have a Web page where fans traded tapes with each other. The music that the fans recorded was offered for free over the Net. But they still managed to sell more concert tickets than any other band in history. The Net is not about copyright, but about creating value on an ongoing basis in real time.

### A new valuation

What is value anyway? Although people hate to talk about it, value, as a concept, needs to be redefined. The Internet is about the scaling of communication just as the industrial revolution was about the scaling of production, and the meaning of value creation is changing. Generally, when people look for value, they look for price. But when you look at the last 20 years of technological progress merely through economic and financial terms, it becomes confusing. Analyzing the Internet from an economic value-creation model is like trying to talk about music using mathematics; you can describe all music with mathematics, but judging whether it is good or not is another question entirely.

Today, value is not about price, but about creating and maintaining interest. Professor Michael Goldhaber at Berkeley coined the

term "attention economy" some years ago, and this is directly related to the issue of value. An economist would define the attention economy in terms of marketing and customer acquisition costs, but the basic theory holds that the most limited resource on the Net is attention, and not money or information. If you can get noticed on the Web, you will never need a business model as long as you can take the attention and divert it to other sites, which will pay for the private.

But this attention economy is shifting as well. The Net is becoming a conversation, and ad campaigns are slowly being replaced with human voices. Instead of spending money on advertisements on the Net, it is much more prudent to use the money to put together better products, talk to the community, and be real. I am not suggesting that all mass media or mass marketing or advertising will disappear. But over time, we will see advertising and marketing money shift steadily into a more open approach to communicating to the markets directly through conversation.

### Buyer-enabled space

One area where such a shift is already taking place is in buyer-enabled spaces. Essentially, it is a commercialization of the conversation metaphor. There are sites, for example, where people write opinions about products and viewers can then rate each opinion on its usefulness, giving people an incentive to write better opinions. Such a tool enables people to figure out what to buy, which gets consumers' attention, and buyer attention can be converted to money any day.

These sites are revealing a completely different kind of consumer activism. As an example, Hewlett-Packard discontinued its HP-UX palm-top computers which enjoyed a big user community in Japan. This community got together, reverse-engineered the HP-UX, put the schematics on the Internet, and announced they would buy the machines if somebody agreed to build them—and somebody has. This is an example of what I call NPO buyouts. Non-profit organization communities, because of the low cost of collaboration, are able to develop assets in a structural strength to outsource or buy things from commercial companies.

This can also work from the opposite end, by creating companies geared toward forming relationships with these NPO groups and providing services they would normally have to pay for anyway. Either way, it is a process which disintermediates marketing, product development, and advertising.

### Identity and anonymity

Another important market, and one that is headed in the wrong direction in the States, is the market for managing identity. Identity management, as it is done in the U.S., is not completely risk-free, and is skewed even more because of police and surveillance requirements. What needs to change, most importantly, is that people need to begin thinking about which risks need to be mitigated and how to do it. In the Internet, there are many different kinds of identity, and nobody needs all of a person's identity. If I want to sell yen and buy dollars in an instant transaction, for example, all I care about is that the other person has the cash. That is the only identity management I need. Not every transaction

you have on the Net requires that your body be identified or your financial identity be known. What needs to be better understood is that there are different kinds of identity, and different kinds of risk in every transaction.

Until now, we have been looking for entirely the wrong thing, which is, technically, a general solution for identity instead of looking at the needs of the people doing transactions. In the future, people will buy identity certificates that insure against any financial risk or legal risk that doing online transactions could have. Such certificates would effectively do away with the problem of ID verification on the Net.

Anonymity is another important issue. Whether anonymity is a good thing or not is a never-ending debate. The American surveillance folks hate the stuff. On the other hand, a lot of the news that came out of Yugoslavia through chat rooms and message boards during the Balkan conflict would have been stomped out if we didn't have anonymous mailers. Clearly, many things that can be done with anonymity have value—even commercial value. It is not enough, therefore, to simply declare anonymity a bad thing.

### Other issues

There will always be ways to create new identities on the Net, but one way to determine the risk involved in making transactions on the Net is by collateralizing people's reputations. If someone has been using a mail account to chat with a thousand people all the time and that person has created a reputation or some kind of goodwill in that name, they will try very hard to protect that name.

The business of global reputation management is still in its infancy, but you can already have a reputation created for you that can then be used in different places. For instance, if you bought a thousand books at Amazon.com, and you go to Barnes and Noble, you want to be treated like a customer who has bought a thousand books. An online reputation will do that for you.

Everybody gives lip service to privacy and security these days, but this is very underrated. Companies should not be going public without privacy and security audits by outside companies. It is amazing that companies are required to have financial audits, but don't have to have security audits. NTT promises that they will treat privacy information well, for instance, but if they do not make it technically impossible for an employee to steal it, it is going to happen.

Another hot topic is taxation. My cypherpunk friends say you cannot tax what you cannot point a gun at. At the click of a button, for example, I can move the server and change the DNS (domain name system) so the server is actually functioning anywhere around the globe. In Anguilla, board members and shareholders can remain anonymous, making it a tax haven. The people who work at such companies could log in from any other country, provide translation or consulting services pseudonymously on the server, get paid offshore, and the whole company could exist completely out of national boundaries. There is a lot of pressure to develop these kinds of technologies.

Police on the Internet is an important issue because the Japanese and American systems of surveillance are quite different. The U.S. has a huge budget for the National Security

Agency and the FBI to do surveillance. Ever since the end of the Cold War, they've been trying to protect that budget by creating countless reasons why they need to do surveillance. This fact has held back progress on the electronic commerce side. At one point, when the U.S. was at the peak of its internal cryptography debates, they sent ambassadors all over the world to push on governments to shape domestic policy to inhibit the development of cryptography. Today, in the U.S., the crypto debate is essentially over, and they have given up in order to drive electronic commerce. Meanwhile, Japan continues to think the U.S. wants them to regulate cryptography. This is, perhaps, the biggest issue facing policy surveillance—nations take what the U.S. is saying at face value without considering the commercial consequences.

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### The future

Most of the people I work with in the computer industry are here because we are witnessing a revolution. It is a communication-scalability mass-production revolution. Japan, for the first time, is going to have to face the fact that communication is going scale. It is a process that has nothing to do with short-term market corrections or market valuations. It is about building companies that create value, and it is going to change Japan.

A whole community of independent, well-governed companies are going to appear in all sectors of the economy. Just like there are hundreds of companies in the *kyudansha* (the Federation of Economic Organizations), there are going to be hundreds of companies focused on this new information-age Japan. It has to happen in order for Japan to be successful. And do not expect two or three companies to dominate the marketplace and do everything. Look instead for hundreds of companies focused on many different areas, and a market absent of today's hyped valuations.

Much of what is happening on the Net involves different kinds of value creation, different kinds of governance; there is going to be a whole community of venture businesses making their decisions based on trust. And this is going to be very difficult. This is why the market is so volatile. In the past, shareholders expected the CEOs to follow a specific, predictable pattern based on being very commercial. The kinds of companies that are going to be creating lots of value, will be following a different kind of ethics. They are ethics, but not the kind to which traditional commercial investing is accustomed.

For the next two years there is going to be a lot of volatility, but I hope that afterward—possibly four or five years out—we will have a huge change in the market. There is so much value to be created and so much inefficiency in the market that opportunities are everywhere.