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Joining Hands with the World to Forge a Bright Future

Chairman's Message at the Fiscal 2008 Annual Meeting

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Introduction

A sense of impasse pervades Japan today, and priority is being given to inward-looking, short-term discussions. The political world has become dysfunctional due to the divided Diet. Although efforts to find new forms of policy making continue, clues as to how to end the deadlock remain elusive. In addition, the Democratic Party of Japan is not participating in discussions on the issue of the tax revenues earmarked for road projects, and the provisional tax rate was abolished only because its period of application expired. Factors such as these compel me to conclude that there is a lack of substantive debate because forward in the mind of those in the political world is the next House of Representatives election. And as for the economy, although Japanese companies continue to possess fundamental strength, such factors as the instability in international financial and capital markets sparked by the U.S. subprime loan problem and the impact of that on the international economy as well as global increases in raw material prices are giving rise to mounting uncertainty about the future of Japan's economy. It is regrettable that, amid these circumstances, a conspicuous feature of discussions recently has been inward-looking debates on issues such as regulatory reform and regulations on foreign capital.

We are currently in the midst of an era of increasing globalization. This is characterized by the spread of economic interdependence to numerous countries and regions, and those relationships are being broadened and deepened by such means as the conclusion of economic partnership agreements of various kinds. Japan, too, must ensure that the globalization issues that confront it are addressed head-on and that sound and stable growth continues, and at the same time it must continue to contribute to global development.

It is opportune, therefore, that the G8 Hokkaido Toyako Summit will be held in July this year and that Japan will chair it. To make certain that the world achieves sustainable development

and that humankind flourishes, it will be an important meeting for demonstrating intent with regard to issues that the international community must work together to address, such as climate change, poverty, terrorism and the proliferation of weapons of mass destruction, and the stable growth of the world economy. I hope and expect that Prime Minister Fukuda and the Japanese government as a whole will display strong leadership and ensure the summit is fruitful.

Given these circumstances, in order to break the current sense of impasse and forge a bright future for Japan, I believe that Japan should pledge its readiness to live with the world and to share common values with the world, and should be determined to accelerate the process of redesigning certain of its own systems. Today, I wish to set out my personal views on tackling the problem of global warming, on promoting structural reforms and political issues, and on the creation of a new way of Japanese management.

1. Active Contribution to the Resolution of Global Warming

Sharing a Sense of Crisis

The problem of climate change, commonly known as global warming, is becoming increasingly serious. In November last year the Intergovernmental Panel on Climate Change (IPCC) adopted its Fourth Assessment Report, which confirms that "Most of the observed increase in global average temperatures since the mid-20th century is *very likely* due to the observed increase in anthropogenic GHG concentrations." It also reports that if rapid economic growth continues in the same manner as at present, primarily on the basis of fossil energy sources, the global average temperature at the end of the 21st century will be at least 4.0 degrees higher than at the end of the 20th century. One can infer from this that, if that occurs, human society and ecosystems will be immeasurably impacted by factors such as the rise in sea level; the effects of extreme weather such as droughts, floods, and typhoons and of disasters affecting agricultural produce and ecosystems; and the spread of infectious diseases.

The longer that measures to counter global warming are delayed, the greater the damage will be, and the more the countermeasures will cost. The Stern Review Report on the Economics of Climate Change, released by the government of the United Kingdom in October 2006, suggests that "if we don't act, the overall costs and risks of climate change ... could rise to 20% of [global] GDP or more," whereas "the costs of action – reducing greenhouse gas emissions ... – can be limited to around 1% of global GDP." It is important that we take seriously the alarm bells set off by the

results of these scientific analyses, and share a sense of crisis regarding the future of the earth with the rest of the world.

Expectations for the G8 Hokkaido Toyako Summit

Keizai Doyukai has already announced its opinion regarding the outcomes that should be achieved by the Hokkaido Toyako Summit. There are five in total: First, to agree to halve global greenhouse gas emissions by 2050 as a long-term goal, with the objective of both minimizing and balancing the impact of global warming on humankind and ecosystems, on one hand, and the impact on the world economy of activities to prevent warming, on the other. Second, to build a consensus on the timing of the downturn in emission volume (“peak-out”) as a medium-term goal, and to link the results to COP15. Third, as a means of accomplishing these long and medium-term goals, to affirm that the major emitter countries – the developed countries and the emerging economies – must assume “common but differentiated responsibilities,” and that it is necessary for the developed countries to lay down high medium- to long-term targets for the reduction of emissions, and for the emerging economies to lay down targets with some practical impact, for example, for restraining increases in emissions. Fourth, to agree to hold discussions toward achieving international consistency in the management of policy measures that are believed to enhance effectiveness. Fifth, to affirm the necessity of building an international system for objective scientific research into emission volumes, the formulation of data for target setting, and the management of historical emissions data.

Issues for Japan and Responses Required

We have also put forward our proposals as to the issues for Japan to address and how it should go about responding to them. These require Japan, as the country chairing the summit, to show leadership in order to achieve these outcomes. Our proposals are the following: First, to set high reduction targets for Japan itself and to announce this fact to the international community. Second, to undertake the development of innovative technologies, such as the development of alternative energy, as an investment activity from a long-term perspective. Third, to foster national understanding and promote a nationwide movement in which every citizen takes part. Fourth, to use Japan’s strength as a bridge between industrialized and developing nations. These are oriented in the same direction as the “Cool Earth Promotion Programme” announced by Prime Minister Fukuda at the World Economic Forum annual meeting in Davos in January.

Importance of Setting Targets

On the subject of greenhouse gas reduction targets, it is now imperative that the world address the

issue of making drastic reductions in greenhouse gases through the first half of this century. These would be well above the reduction quantities laid down in the Kyoto Protocol. However, this will not be achieved by target setting by means of compiling all possible means and methods. What is necessary is to set targets for the purpose of both balancing out and minimizing the impact of global warming on humankind and ecosystems and the impact on the world economy of activities to prevent warming, or in other words, the setting of “targets to be achieved.” In post-Kyoto activity that demands large-scale reductions, it is important that targets be stated explicitly. Otherwise, it will not be possible to achieve high targets.

In order to achieve these targets, it is essential that there be a structure in which, at the very least, all the major emitter countries take part and in which they assume responsibility for efforts to reduce emissions. To encourage the participation of emerging economies and developing countries, it is incumbent upon the developed countries to set out high aggregate reduction targets for themselves and to assume the obligation to achieve them. It is important that the developed countries reach agreement on global long-term and medium-term targets, and that each industrialized country lays down the long-term and medium-term targets that it is obliged to achieve. In addition, I hope and expect that the emerging economies will share long-term targets and visions and will engage in more in-depth discussions with regard to the setting of effective medium-term targets, including by restricting the base for increases in emission volumes.

Japan is advocating a sector-based approach. Under this, it is hoped that, through technology transfers and financial aid to developing countries, premised on their past energy-conservation efforts, it will be possible to set reduction targets that are internationally fair, efficient, and highly feasible in a number of industries and fields. Nevertheless, there remain a number of problems that need to be resolved with regard to the methods of setting the “targets to be achieved” for the prevention of global warming.

Need for Drastic Innovation

Companies will be required to take up the challenge of high reduction targets, but I am certain it is a challenge that will lead to new growth. Japan overcame the energy crises of the 1970s by technical and process innovations, and through that we created the most energy-efficient society in the world. To build a sustainable “low-carbon society” in which environmental conservation and economic growth coexist, the most important prerequisite, in my view, is constant effort by companies to make technical and management innovations. Corporate executives are expected to regard current global environmental problems as major opportunities to enhance corporate competitiveness and growth and to pursue these challenges for the future. It is of particular importance that top management show leadership based on a strong sense of mission to protect the earth.

However, high targets will not be accomplished by corporate technical and management innovations alone. Socioeconomic systems and political-administrative systems will have to change substantially, and it will be unavoidable for each and every citizen to accept major changes in their lifestyle and major economic burdens, as well as other changes, such as greater restrictions on their convenience. It is my hope that under Prime Minister Fukuda's leadership a national movement in which every citizen takes part will be developed; Keizai Doyukai will participate actively in that movement. When that occurs, local governments will also have an important role to play. A number of prefectural governments and basic local government units have already stipulated reduction targets and are providing incentives to environment-conscious behaviors and imposing regulations. These are still only the beginnings, but I hope to see activities of that kind become increasingly widespread.

Market Utilization

Multifaceted studies on effective policy measures are vital for measures to counter global warming.

The use of markets will be important for the creation of incentives to support long-term activities by companies and ordinary citizens to prevent warming; the building of an environment in which the potential to achieve reductions globally can be used comprehensively; and also the diversification of fundraising for the collection of the huge volume of funds that will be required. By placing a price on carbon, emissions trading and carbon tax will give incentives in favor of alternative energies and lifestyle changes and, from an economic perspective, will also spur effective use of the potential for reducing carbon. Although we must always be cognizant of the possibility of market failure, it is important to believe in the vital power of markets and to make full use of them.

2. Promotion of Structural Reform and the Role of Politics

Amid a climate of progressive globalization, Japan remains encumbered with problems, such as a massive public debt unparalleled anywhere in the world, a falling birthrate and an aging society, and a declining population. Looking back on history, we can see that Japan achieved recovery from the devastations of war and regained both its place as a member of the international community and the trust of other nations based on nothing other than the economic power that drove its high-level growth. If Japan, despite its paucity of natural resources, is to maintain its standing in the future amid global competition, the only route open to it is to utilize its biggest resource—the power of its people—to burnish its economic power.

Japan's immediate aim should be to enhance its economic strength by opening its economy to the world, revitalizing its economy, and making it dynamic and attractive. Regrettably, however, inward-looking discussions of the domestic political situation have been taking precedence in Japanese politics recently.

It is the duty and responsibility of politicians to ensure Japan continues to be a major economic power, moving forward with the development of systems and institutions and of an environment conducive to invigorating the economy and achieving growth. I request anew that decisive action be taken to implement structural reforms of the kind that transfer activities from the public to the private sector and from the central to the local government.

Regulatory Reform

The first structural reform needed to build a country that is open and has international appeal is regulatory reform. Regulatory reform, particularly the removal of regulations, will lead to the creation of new business opportunities, and that in turn will bring about the invigoration of the economy by unleashing the dynamism of the private sector. Of particular note is that regulatory reform in the fields of agriculture, medical care, education, and childcare are not only expected to expand employment and generate growth through the creation of new services, but will also lead to the formation of industrial clusters that will energize regional economies. What is more, regulatory reform will hasten the switch from old to new industries and, through efficient resource-utilization, will generate still more dynamism in the economy and society.

Reform of the Public Sector

The second structural reform is the reform of the public sector. It is essential to make further progress with the reform of the public sector, in which the reduction of government spending is of pivotal importance, so as to ensure that the primary balance moves into surplus by the 2011 fiscal year and that government debt continues to be reduced thereafter. At the same time, it is important to implement a radical reform of the tax system, in order to transform it into one that refreshes the dynamism of individuals and private corporations and that is open to the world and attractive internationally.

Establishment of Local Autonomy

The third structural reform is the establishment of regionally decentralized and autonomous government. The central government's Decentralization Reform Promotion Committee is currently

studying the establishment of independent local government through the transfer of authorities and tax revenue sources from the central government to local governments. Above all, having local governments, which are familiar with resident needs, carry out government administration work related to residents' daily lives will increase the level of independence local governments have in such areas as policy making and other aspects and lead to regional revitalization. I hope to see bold steps taken to decentralize power.

New Policy-Making Mechanisms

The state of politics today is a major factor behind the stagnation in structural reform. Political leadership is needed to restore dynamism to the Japanese economy and ensure that growth is achieved, but the political world has fallen into a dysfunctional state. With regard to policy making under the present divided Diet, it is my strong desire to see the Diet taking responsibility for conducting discussions and devise new mechanisms and rules for making policy.

To accomplish that, I believe that policy issues should be first classified, then debated, discussed, and decided in an appropriate manner according to the type and nature of the issues. That is, issues for which policy continuity is regarded as important—for example, administrative reform issues such as the social security problem and the civil servant system reform—and fields in which governing and opposition parties are in broad agreement on policy should be subjected to transparent deliberation, debate, and modification through the Diet, and passed quickly into law, while fields in which there are total policy differences should be disputed as election issues. In any event, I must say that the stagnation of policy making is highly likely to become a risk factor for economic growth. I would like to see new mechanisms and rules for shaping and making policy developed promptly.

3. Creation of a New Way of Japanese Management

A year ago, in my inauguration address, I advocated the creation of a “New Way of Japanese Management” grounded in market principles. Our Committee on Corporate Management is currently studying this closely, and the concept outline is gradually taking form. Its characteristics are “start from strengths,” springing from the strong points of Japanese society; “management fusion,” in which value creation and other strong points of European and U.S. companies are incorporated into management; and simultaneous realization of “value-creation-type CSR management,” which endeavors actively to resolve issues affecting society.

However, the succession of recent corporate scandals has been depressing public trust in companies. Starting from zero after the war, we, corporate executives, established companies inspired by an entrepreneurial spirit of providing throughout the country the goods and services that people needed. During the period of high economic growth, they managed their companies in the belief that by developing and supplying newer goods and services we were building a more affluent society, and I believe that we satisfied society's requirements and expectations. Today, amid development of economic and social globalization and beset by a host of global problems and issues, what corporate executives are called to do is to create companies that can coexist with the world and can compete with the world. We are to undertake a third era of establishing business enterprises leveraging the three characteristics of "start from strengths," "management fusion," and "value-creation-type CSR management." I also believe that the pursuit of short-term profits should never be the role of a company. My vision of a company that lives together with the world is one that wins the high regard and trust of the international community by taking advantage of its own strong points, eschewing all inward-looking intent, adopting strong points from overseas, and resolutely taking up the challenge of market competition.

We, corporate executives, must not think and act on the basis of what the political world, the administrative authorities, or the community can do for us, but on the basis of what we should do and what we can do. I am certain that, in addition to the obvious requirement of maintaining high ethical standards, contributing to society through sound market competition will enable companies to regain both corporate competitiveness and public trust.

Conclusion

Corporate executives participate in Keizei Doyukai as individuals and engage in discussions and issue opinions and proposals from broad and insightful standpoints that transcend the interests of specific companies or industries. Amid today's rising tide of globalization, I believe that Japan must avoid looking inward and that it is this generation's duty to future generations to harden its resolve to live with the world and accomplish a range of system reforms. For our part, we are committed to gaining the understanding of citizens, issuing policy proposals and ensuring that they are translated into reality.

I look forward to seeing the active participation of all members again this year.