

Renewing Our Resolve to Create an Optimized Society

2017 New Year Message

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1. Push Ahead with Restructuring to Contribute to Further Global Development

We have started a new year faced with unprecedented emerging challenges as the powerful rising tides of globalization and digitization impact on democracy and capitalism in complex ways.

Last year the United Kingdom voted to withdraw from the European Union (EU) in a referendum and Donald Trump was elected as the next president of the United States, launching major shock waves that coursed around the world. This was followed by a referendum in Italy, whose people voted against constitutional reform, leading prime minister Matteo Renzi to resign. All these events resulted from choices by these nations' citizens, and they make me wonder whether, in a situation where they faced a whole range of challenges, people were demanding change in order to create a new, better society, or whether they were simply making a reactionary attempt to return to the past.

It is an alarming state of affairs when even Europe and the United States are witnessing the spread of populist political tendencies and thinking informed primarily by national self-interest. Of particular concern are the elections to be held this year, including a general election in the Netherlands, the French presidential election, and Germany's general election. Europe is entering a critical phase that will demonstrate whether its worrying drift to the right is a transient phenomenon, or whether it will continue to spread more widely. Meanwhile, we cannot help also being keenly aware of changes in the global power balance, heightened uncertainties in the Asia-Pacific region, and new security-related threats such as cyber-attacks.

Amid an increasingly unpredictable global outlook, it can hardly be claimed that the current Japanese economy is on the sustainable growth track targeted by the government of at least 3 percent nominal growth and at least 2 percent real growth in GDP. Faced with such circumstances, what we need to do now is push ahead with

restructuring and transform productivity. We must seize on regulatory changes and business opportunities to create new businesses and cultivate start-ups. And at the same time, we must collaborate with other countries to contribute to further global development.

In order to build up-to-date economic and social systems appropriate for this new era, we need to take responsibility and use our own brains to think about the causal relationships and complicated interests that contribute to the various problems. Then we need to show real determination in working to achieve overall optimization.

2. Eliminate Opportunity Gaps and Change the Way We Work to Transform Productivity

Recent developments such as the immigration problem that has shaken Europe and the Trump/Sanders phenomenon in the United States reflect the spread and entrenchment of unemployment and income disparities that could place entire societies at risk of fragmentation.

In Japan over the past few years, labor supply and demand has witnessed a reversal, and we now face a worsening labor shortage. Although immigration and unemployment among young people are not major issues for us, we cannot overlook the fact that Japan's relative poverty rate now exceeds the Organization for Economic Co-operation and Development (OECD) average and more than 15 percent of our elementary and junior high school students receive financial help with school costs. If we fail to address this situation, we cannot ensure that we will have well-educated people to take on responsible roles in the Japan of the future. That is why we urgently need to implement measures such as eliminating opportunity gaps by enhancing grant-type scholarships and other financial aid; developing systems and workplace environments that encourage people to take up employment; and creating new jobs focused on regional revitalization.

Another extremely important and pressing issue to be addressed if Japan is to be successful in restructuring its industries and transforming productivity, is to promote the movement of labor from mature industries to growth industries without loss of employment, as articulated by the government in the Japan Revitalization Strategy. A particular challenge is changing the way we work, and the first thing the government must do in this regard is revise the Labor Standards Act at the earliest opportunity. In doing so it must of course eliminate excessive overtime and long working hours, but in addition to setting limits in terms of time input, it is also essential to create a system for properly evaluating results in the form of output. In addition, the government needs to work toward a consensus for creating transparent, impartial systems such as the

system for resolving labor disputes, and making them highly predictable to gain public understanding.

3. Extend the Free Trade Framework Steadily and Without Delay

A large number of Japanese companies have used the United Kingdom as a base for rolling out their operations in Europe, but the prospect of the United Kingdom's withdrawal from the EU has forced them to reconsider their strategies. Meanwhile, Japan's Diet approved the Trans-Pacific Partnership (TPP) Agreement in December 2016, but US president-elect Donald Trump has declared that he is not willing to ratify that agreement. Not only do such developments represent a crisis for the economy of Japan, which has used the expansion of free trade as a means to achieve growth, they could also trigger an extremely dangerous situation in which the whole world fragments economically, separating into blocs.

Japan needs to liaise with the other countries that have declared their intent to participate in the TPP and do everything in its power to ensure that the agreement is put into effect promptly by the 12 countries including the United States. At the same time, Japan should aim to reach agreement on the Japan-EU Economic Partnership Agreement in spring 2017, while working to further extend the free trade framework including the Regional Comprehensive Economic Partnership (RCEP) for East Asia and the Free Trade Area of the Asia-Pacific (FTAAP).

4. Push Ahead with Measures for the Best Energy Mix

Since Trump's election as the next president of the United States in November 2016, the expectations of financial market participants and other factors have strengthened the dollar, as a result of which the yen has progressively weakened. In addition, the Organization of the Petroleum Exporting Countries (OPEC) reached agreement on reducing crude oil production, and in December the United States again raised interest rates, as it had in December 2015. If, as a result of these developments, the yen continues to steadily weaken, the effect on the Japanese economy will be fundamentally positive. However, given that Japan currently relies on thermal power generation for most of its electricity needs, the higher costs for importing fossil fuels as a result of yen depreciation will lead directly to a reduction in our locational competitiveness.

In light of this situation, it is more crucial than ever that Japan restarts its nuclear power plants in order to reduce electricity costs and greenhouse gas emissions. We need to expedite measures to achieve the best energy mix for 2030 as set out in the Plan for Global Warming Countermeasures approved by Japan's Cabinet following the Paris

Agreement of the 21st Conference of the Parties to the United Nations Framework Convention on Climate Change (COP21).

In concrete terms, this means that our first priority must be to restart our nuclear power plants without delay once they have met the Nuclear Regulation Authority's new regulatory requirements and obtained the understanding of local communities. Then we must take action to make the use of renewable energy more widespread. Boosting the cost competitiveness of such energy will be key, and in order to lead the world in this regard, Japan must challenge itself to achieve R&D breakthroughs by mobilizing both the public and private sectors and to innovate by means of deregulation.

5. Doyukai Takes Action Based on a Wealth of Knowledge

Last year, Keizai Doyukai (Japan Association of Corporate Executives; hereafter, Doyukai) marked its 70th anniversary by announcing a policy proposal entitled *Japan 2.0: Toward an Optimized Society*. In addition to compiling another policy proposal, *Doyukai 2.0: A Group of Distinctive Individuals with a Sense of Ownership and Initiative*, it also launched the *Forging Our Future Together* project.

As a country, we should work toward creating Japan 2.0, the new Japan that will start from 2021, by focusing around 30 years ahead on the year 2045 and taking a backcasting approach. However, that must be preceded by thorough preparation and analysis, and throughout the process we must also stay on track to achieve economic growth and fiscal consolidation simultaneously.

As Japan confronts these challenges, Doyukai's aims for this year are to renew our resolve to create an optimized society and to go beyond the confines of our own membership to converse with a wider variety of stakeholders in society at large in order to shape public opinion. In addition, we will dispatch a chairman's mission to Europe in the fall, following on from last year's missions to Israel, China, and the United States.

Japan and the world as a whole are facing a crisis of fragmentation and unsustainability; now is the time for Doyukai to gather knowledge and take action to contribute to creating a new Japan and a new world.

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