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Creating a New "Market"
Our Initiative for the 21st Century
Chairman's Address for the 1996 Annual Meeting

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1. Introduction

Japan currently faces a critical crossroads similar to the one it faced after World War II. As we celebrate Keizai Doyukai's 50th anniversary, today can be considered our "second founding," and we should take this opportunity to reflect on our responsibilities as business executives and renew our initiatives.

2. Our Responsibilities as Business Executives

The world has undergone major changes since the end of the Cold War, and with only five more years until the 21st century, change is accelerating. In the midst of this change, the conditions that made Japan's postwar economic system operate efficiently and effectively have become completely obsolete. But Japan remains caught up in the past 50 years of its success and has not yet begun genuine reform for the 21st century.

The world has entered an era of mega-competition, and across the globe there is fierce competition to reform. Especially in Asia, which has grown increasingly prominent, trade and investment are crossing national borders in pursuit of better conditions for competition. Furthermore, Japanese consumers have started to act from a global perspective and are clearly distancing themselves from the government and companies that continue to hesitate before the prospect of self-reform. These are definitely signs of the dynamism of a market-oriented economy. The only way to restructure the Japanese economy

for the 21st century is to further utilize the market's own capacity for dynamic reform through competition.

Bringing about such change hinges on the stance that we business executives take. We cannot be content to wait for reform; we must take the reins and make it happen. Now is the time to break away from the limitations of the protected and managed market. We must resolve to use a liberalized market, where our responsibility is subject to scrutiny, as the springboard for change.

3. Creating a New "Market"

The market is the stage for our business activities, and also a place for business opportunities. The market controls not only the distribution of success, but also the harsher distribution of loss and responsibility. The problem involving failed housing loan firms which surfaced last year demonstrates how complicated and difficult to accept it is when this function is carried out arbitrarily.

We believe that the Japanese economy should be open to the world, market-centered and led by the private sector. In order to create this type of new "market," we would like to make the following proposals.

(1) Rise to the challenge of competition rather than avoid it

The dynamism of the market comes from competition. Competition endorses creativity, and leads to a reduction of costs by encouraging efficiency. What must be done first is to eliminate regulations that prevent companies from making challenges and obstruct competition. And we must not avoid competition, either. We need to conduct a critical self-evaluation that includes a review of the activities of industrial associations to determine whether we have practices or private regulations in industry that prevent market entry and hinder free competition.

(2) Create market conditions that meet global standards

In a world of mega-competition that crosses national borders and traditional divisions of industry, Japan must, first of all, open its markets to the world. Japan must also create market conditions that can accommodate international competition. APEC, which is taking definite steps forward, is trying to sustain the region's prosperity by liberalizing and opening markets. Japan must create an optimal distribution of industries and a more advanced industrial structure that

takes the world, and especially APEC, into consideration. In order to do so, we must promptly remove unfavorable market conditions that are aggravating the outflow of our industrial bases. We must also establish market conditions, such as a tax system and legislation that support business activities, which meet global standards.

(3) Establish clear rules and strictly observe them

To make the market a place for freer competition, rules must be established to support and promote fair competition. Because the market functions based on clearly defined rules and their strict observance, a violation of the rules must be severely punished. Until now, we accepted the government's discretion and decisions as right and placed priority on cooperation within industry and traditional business practices. As a result, we had a tendency to neglect the harsh yet wise judgment of the market. From now on, we must always seek the judgment of the market and be prepared to accept it. We must start building a market economy that is both trusted and based on the rule of law, not by the decisions of individuals, by establishing rules that outline the market's framework, creating a neutral monitoring mechanism to oversee the market, disclosing information that enables the market to pass fair judgment and improving legal infrastructure.

(4) Make all organizations--political, bureaucratic and industrial--more open

In order to bring about free and fair competition, a system that does not create "insiders" is needed. Political, bureaucratic and industrial systems and organizations must be made more open, and the relationships among them must be made transparent and have an element of tension. The coordinated yet closed system that exists now not only has failed to gain the support of the Japanese people due to its lack of transparency, but also interfered with the efficient functioning of the economy. The closed and non-transparent nature of government and companies, as well as the resulting protective management and leadership, need to be reformed. Those systems and organizations should not keep human resources and information hemmed in internally, but should instead create more open management and networks. By undertaking such reform, they will be able to respond to changes in the globalized and diversified market.

(5) Create small government

In creating a new "market," a thorough review of the government's roles and functions, leaving nothing sacred, is essential. Some of the services which are traditionally provided by the government can be efficiently and creatively replaced by private activities utilizing the market mechanism. In order to achieve this, we must change our attitude of relying on the government to take care of everything. And our actions must be based on the notion that public service should be supported by the independent activity of citizens as individuals. With this as a foundation, by redefining the role of government, the market can function the way it was meant to, and it will be possible to have both small government and high-quality public service. Fiscal reform, an issue that can no longer be put off, should be based on the notion of maximizing the market's functions. It should begin by thoroughly reviewing the division of roles between the government and the private sector in both business activities and the lives of the Japanese people and reducing the role of government.

4. Conclusion

By pursuing the five reforms outlined above, we are confident that we can build a new foundation for Japan for the 21st century. Keizai Doyukai has worked toward the goal of changing the existing "government-first, market-second" economic system into a private sector-centered system based on competition. In that process, the limitations of leaving the strong points of the Japanese-style system in place and only reforming its shortcomings has gradually become clear. We must formulate our Grand Design with a willingness to create a completely new system. This year, I call for the completion of our Action Program for the 21st Century, which will outline how to achieve our Grand Design, through discussion by each of our committees.

I call on all members for their active participation.