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Building the Foundations for New Growth through “Innovation” Chairman’s Address at the Fiscal 2004 Annual Meeting

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Introduction: From the “Lost Decade” to the “Next Decade”

A year has now passed since I assumed the post of Chairman of Keizai Doyukai. Looking back, for the Japanese economy, those were the darkest hours that preceded the daybreak. These days, the economy is looking brighter and the rays of the morning sun are filtering into all corners. This positive development must be spread to all regions and all industries, and it must be linked to our future project of “creating a brilliant Japan.” What must we do to achieve this purpose? On beginning my second year as Chairman of Keizai Doyukai, I would like to take this opportunity to share with you my thoughts on this question.

Throughout the “lost decade,” we were mired in a period of prolonged stagnation. During this time, our attention was focused on the question of how to emerge from this situation as soon as possible. We advocated the need for reform, regardless of the significant, but temporary, pain that such changes would entail. We argued that obsolete systems had to be changed and the limited resources of the country boldly re-allocated in a thoroughgoing program of structural reform. For this reason, we supported the structural reform policies of Prime Minister Koizumi, and at times we made clear our own rigorous comments and demands concerning the content and pace of progress of such reforms. However, we must remind ourselves that structural reform is the means to the achievement of our goals and does not in itself constitute the ultimate objective.

Our ultimate objective is to build a fully energized economy and society that is led by the private sector. Our goal is to realize a society that empowers the

individual to challenge the limits of his or her own potentialities and to enjoy a life that is rich in quality. Unfortunately, thus far, Japan has expended much of its energies for structural reform on disposing of the negative legacy of the past and on countering the forces of vested interests. Therefore, we have not been able to give due thought and attention to creating new businesses and revitalizing the regions of the country in a manner that can deliver new dynamism to the future.

But it is now that the economy is in recovery that we must re-orient ourselves from “settling the past” to “opening new vistas to the future.” While accelerating the pace of structural reform, we must now focus our sight on what lies ahead. That is, I believe we have arrived at the stage where it is imperative to lay a firm groundwork for the “next decade.”

1. Pursuit of Innovation:

Reform and Creation for the Achievement of New Growth

In my inaugural address delivered last year, I expressed my determination to realize the goals of moving “Toward a Nation of New Businesses.” For fiscal 2004, it is my intention to further advance along these lines, while adopting “innovation” as our new keyword in directing the development of our activities.

“Innovation” is a word used in many different meanings. But for our purposes, I would like to define “innovation” in the following terms. Our definition will combine the two aspects of “reforming” various restrictions and systems that have arrived at the limits of their usefulness, and “creating” new systems and arrangements that transcend past restrictions and limitations. Furthermore, we will use “innovation” to point to the generation of new value that arises from the processes of “reforming” and “creating.”

In corporate management, innovation is one of the most important keys to support sustained growth, whether it is the development of new technologies, new products and new services, or the development of new businesses and new markets. Moreover, innovation must be applied to internal organizational issues, such as personnel management and corporate governance, so that the

company can respond effectively to ongoing changes. All these forms of innovation are indispensable requirements in strengthening the competitive strength of companies.

It is this added value generated through private-sector innovation that will become the driving force for the achievement of “new growth” in all areas of the Japanese economy. Turning our eyes to the environment and the conditions affecting the Japanese economy in the 21st century, we can see that the value system of the consumer has matured in an environment of unprecedented material wealth, that international competition is being driven by the forces of globalization, that Japan will soon begin to experience a decline in its population, and that there are clear limits to the burden that we can place on the global environment. Taking these matters into consideration, it is no exaggeration to say that the key to Japan’s future rests with the success that we can achieve in innovation as the means to developing the capacity for the continuous creation of value.

The chain reaction of innovation has the power to fundamentally change society. An example that is close on hand is the mobile phone, an area in which innovations have given rise to many new generations of innovation. A series of the latest technologies and the addition of Internet access, camera and video capabilities, GPS, settlement services and electronic money have allowed the mobile phone to transcend the conventional notion of the “telephone.” Today, the mobile phone continues to evolve as a device with unlimited potentialities. In the process, the mobile phone has created significant changes in lifestyle and patterns of behavior, and is very rapidly transforming the face of society as well.

Cutting-edge technologies are not the only area in which innovations hold out great promise. There is also great hope that innovation will create new frontiers of growth in services that are closely linked to our daily lives. In the past, there was little incentive for innovation in such fields as medical services, care for the elderly, child-care and education that were subject to strong government intervention and control. But if innovations occur in these fields through private initiative and creativity, we can hope to see significant growth in related markets and the generation of many new employment opportunities. But the path is

blocked by regulations and subsidies, and this is where we must strive to implement bold reforms.

Who will provide the driving force for new growth, and who will be the stars of this process? The answer is simple. The driving force will come from existing companies that are re-inventing themselves a second and a third time, from start-up companies taking on the challenge of establishing new businesses, and from a wide range of non-profit organizations. What must be done to ensure the birth of an uninterrupted series of new stars? No doubt, there are many things that we must do. My intention is to take on many forms of challenges for the realization of a “nation of new businesses,” so as to lay a firm groundwork for the “next decade.”

2. Achieving “Small Government”: Innovation in the Public Sector

I would like to propose “small government” as another important keyword for fiscal 2004. Keizai Doyukai has long been committed to the realization of “small government.” Our rationale is as follows. For the realization of a fully energized and sustainable economy and society, that which the private sector is capable of doing should be left to the private sector, and full reign must be given to the sound operations of the market.

We have a strong sense of crisis regarding the massive fiscal deficits of the central and local governments. We believe these deficits contain a very significant risk for future economic collapse and cannot be left unattended any longer. The government has stated that it is committed to achieving a surplus in the primary balance by early 2010. However, by itself, such a commitment is unsatisfactory and cannot win the confidence of the people. Annual plans leading up to 2010 must be announced, based on consistent calculations, and immediate action must be taken for the implementation of these plans for the sake of the “next decade.”

When we speak about “small government,” there are two questions that we must keep in mind. The first question is: What should be the scale of the public sector

and what should be the scope of the powers and authorities assigned to it? The second question is: From the perspective of the burden and benefits of the people, how high should the tax and social security burden be allowed to go?

To develop a clear vision for the future of the country and to steadily implement the necessary policies and measures for the realization of that vision requires strong leadership and the presence of highly capable supporting staff. In this respect, Japan's bureaucracy-led centralized system is woefully anachronistic. Not only does this system breed inefficiency by preserving unnecessary powers and personnel within the bureaucracy, but it also very seriously obstructs the activities of the private sector. Such reforms as the "Trinity Reform" and civil service reforms must be unflaggingly carried out. The government must be thoroughly examined to determine what functions and roles of government are truly needed for the people. Finally, the process of innovation must go beyond the private sector to include the public sector as well.

We must reconsider the current level of benefits and burdens of the public. Taxes and social security premiums for pensions, health care and long-term care are continuing to increase in a manner that lacks overall consistency. At the same time, benefits are being cut back. This is creating greater dissatisfaction and insecurity among the people. Rising above our individual positions and interests, the people must once again engage in a thorough discussion of what constitutes a national minimum that will ensure security to the public, and what level of tax and social security burden must be accepted to achieve that national minimum. Such vital issues as pension reform, which will have a major impact on future generations, cannot be put off repeatedly or resolved through a facile and shortsighted coordination of interests. Such approaches can only multiply the difficulties for the future.

3. Awareness of Social Responsibility:

Everything Starts from the Building of Trust

As we pursue the realization of a private-sector led economy and society, I would

like to reiterate the importance of “corporate social responsibility” (CSR), which Keizai Doyukai has been advocating. I take this opportunity to call on all our members to heighten their awareness of this issue and to translate this awareness into action.

It is extremely unfortunate that we continue to see a number of corporate scandals. We must develop a very strong awareness that “trust” is the foundation for everything, and corporations must act in such a manner that society will look upon them as positive and desirable entities. Failing this, a sense of trust for the “private sector” will not be born, and it will be impossible to arrive at the economy and society that we envision.

The creation of trust is not the sole purpose of CSR. The essence of CSR lies in actively incorporating new social values and linking these to the generation of corporate competitiveness. We must be able to take various types of social needs, such as awareness of global environment and the human values of those who seek to balance their commitments to work and family, and develop business models that will create new value out of these social needs. This is all part of the process of innovation, and will serve as an engine for new growth in the “next decade.”

Conclusion: “Empathy of the People” as a Force for Social Transformation

Keizai Doyukai is an association of corporate executives who have come together in a personal capacity. It has been our tradition to stand above the interests of specific companies and industries and to discuss and examine various domestic and international economic and social issues from a broad and progressive perspective. In the course of our discussions, we have published a large number of recommendations and proposals. While continuing to publish our thinking and proposals on various questions, one of our priority goals for fiscal 2004 will be to present these in an easy-to-understand language that will gain the “empathy of the people.”

Our proposals are not designed to pursue the interests of only the business

community, nor are it our purpose to formulate short-lived apologia. All our proposals have the following in common. They represent the result of earnest and repeated discussions, which have profited from the experiences of corporate executives. And they present a vision or illuminate the direction that should be taken for the realization of the best interests of the people as seen from a long-term perspective. I firmly believe that a powerful force for social transformation will be born when our proposals generate a wave of empathy in the individual members of society.

What must we do to achieve this objective? First of all, we must endeavor to convey our message and information concerning our activities to a far broader segment of society. For this purpose, we must devise a diverse range of new channels of communication by pursuing strategic public relations initiatives and by promoting collaborative activities with other organizations. Secondly, it is very important for our committees to pursue innovative paths and to rise above their conventional framework. I call on the cooperation of all our members and ask you to step forward to play an active role in this process. These are the thoughts that are foremost in my mind as we launch into our activities for fiscal 2004.

Thank you.