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## Using the Power of the People to Build a Sustainable and Vigorous Economy and Society

### 2010 New Year Message

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**[Summary]** *As we greet the New Year, Keizai Doyukai commits itself to making 2010 a “New starting point for both corporations and individuals in redoubling their efforts for the realization of a sustainable and vigorous economy and society, while working in the spirit of independence, self-reliance, and self-responsibility.” To overcome the recession that followed the financial crisis and to achieve autonomous and sustainable economic growth, this shall be a year in which corporations further develop their growth areas and take on the challenge of creating new demand. As for the individual members of society, this shall be a year for reasserting the spirit of self-reliance and coming forward to accept the responsibilities and burdens of creating a better society. Finally, one of the most important functions expected of the government will be for it to trust in the power of the people and to create an environment in which the potentialities of the people can find maximum expression.*

### 1. Understanding the Present Age and the Challenges Facing Japan

More than fifty years have passed since the various political, economic, and social systems were built that provided the foundations for Japan’s postwar “vision of Japan.” In the ensuing years, much has changed to challenge this “vision of Japan” and render it less effective. The environment has been dramatically transformed by such developments as the rapid aging of society, declining birthrates, and globalization. In combination, these changes have created a pressing need for fundamental reform in the nation’s institutions and systems. Yet, progress toward necessary reform has been slow. In 2009, the Japanese economy bore the assault of the financial crisis which brought a

precipitous decline in both GDP and corporate earnings and an accelerated deterioration in the employment environment. These developments triggered a substantial decline in tax revenues combined with a similarly substantial increase in government spending. Whereas Japan's fiscal balance was already at crisis levels, these events have served to seriously worsen the situation. In light of these developments, the most urgent challenges that face Japan today include returning the Japanese economy to a path of autonomous recovery and growth as soon as possible, implementing necessary structural reforms, and building a sustainable and vigorous economy and society.

Nearly two decades have elapsed since the end of the Cold War. Here again, the events that followed this historic watershed have dramatically altered the international environment surrounding Japan. With the accelerated pace of globalization and the emergence of China, India, and other newly industrializing economies, Japan faces a new set of challenges. It must now respond to newly emerging global forces by building a framework for mutual existence and development, particularly with other Asian countries, and opening itself up to incorporate their fresh energies. In the current international environment, there are many global-scale problems to cope with. These include global warming, ever-tightening energy and resource constraints, widespread poverty, as well as terrorism and other new threats to national security. As a nation founded on the principles of world peace and free market economics, Japan is being pressed to reconsider its role and responsibilities in the international community.

For the resolution of these challenges, we firmly believe that now is the time for corporations and individuals (the "people") to come forward with a sense of ownership to make maximum use of their capabilities and to act with purpose and commitment. As we greet the new year, Keizai Doyukai commits itself to making 2010 a "New starting point for both corporations and individuals in redoubling their efforts for the realization of a sustainable and vigorous economy and society, while working in the spirit of independence, self-reliance, and self-responsibility."

## **2. Corporations Must Be Lead Actors in Achieving Autonomous and Sustainable Economic Growth**

For Japan to overcome the post-financial crisis recession and to achieve autonomous and sustainable economic growth, corporations must provide the locomotive power of economic growth. For this purpose, corporations must

devise their own concrete growth strategies, take on the challenges of creating demand and implementing management reform, and develop new fields of growth through the process of sound market competition. As corporate executives, we are committed to meeting the following specific challenges.

The first challenge is to build trust in the activities of the people. The driving forces of economic growth are to be found in the full utilization of the market mechanism and the engagement of corporations in sound market competition. Unfortunately, what we see today is a growing sense of public mistrust in corporate activities. This can be attributed to various forms of abuse of the market and the unethical behavior of some corporations. To eradicate this mistrust, corporations must make the greatest possible effort to strengthen the foundations of socially responsible management. Specifically, these efforts must entail the pursuit of responsible corporate behavior aimed at regaining public trust including a thorough commitment to codes of conduct and education in corporate ethics, the strengthening of internal auditing mechanisms and governance.

The second challenge involves the creation of demand in alignment with new social needs. Current and future initiatives for the resolution of the contemporary problems of globalization, declining birthrates, the aging of society, the prevention of global warming, and ever-tightening energy and resource constraints will continue to create many concrete needs that are common to Japan and the rest of the international community. These needs are steadily emerging as new and solid fields of growth. The role of corporations must be to identify these latent social needs as soon as possible and to create new demand by developing and supplying new products and services and launching new businesses.

For Japan to revitalize its economy, it will not be enough for corporations to act merely in response to the government's economic growth strategies. Rather, they must take on the challenge of developing their own fields of growth and guiding the direction of government strategies. Growth strategies will obviously differ from one corporation to another based on differences in business domain, core competences, and corporate culture. Regardless of these differences, the fact remains that corporations are the best informed of market needs.

For instance, the prevention of global warming has become a major issue for the international community. This awareness has generated numerous well-

defined medium- to long-term needs that are crying to be met. Regardless of what shape the post-Kyoto framework may take and what growth strategies individual countries may opt for, vast and intense competition has already emerged in international markets for new energy sources, energy conservation technologies, as well as environmentally friendly products, services, and systems. This is an excellent example of opportunities for innovation driven by corporate growth strategies.

The third challenge is to pursue higher value-added products through innovation and to promote the process of industrial transformation and regeneration. The current downward trend in prices is in part due to excessive price-cutting competition. In the absence of productivity growth, price cutting-competition will have a negative macroeconomic impact by sapping corporate strength and lowering wages. Corporations must free themselves of the clutches of simple price-cutting competition by exploiting their specific strengths to pursue technology and process innovations and develop and provide high value-added products and services that can help establish a virtuous cycle of sound profit levels leading to appropriate compensation of employees and the preservation and creation of jobs.

Moreover, corporations must act boldly to exit sunset industries and sectors subject to excessive competition. They must aim to shift to existing or new business domains yielding higher returns on investment. Through this process, conscious efforts must be made to accelerate the pace of industrial transformation and regeneration. Given Japan's declining population and resource constraints, this represents a form of management innovation corporations should undertake with an eye to revitalizing the Japanese economy.

The fourth challenge relates to corporate efforts aimed at drawing on the vitality and energy of other countries, especially that of newly industrializing countries. In order to cope with increasingly intense global competition, corporations must endeavor to further improve their competitive positions by actively utilizing the human resources, financial resources, and know-how of foreign countries. Of particular importance is how Japanese corporations interact with fast-growing Asian countries and other newly industrializing economies. In such emerging economies, Japanese corporations must make the best use of their outstanding technological capabilities to create markets that no other corporations can create. This will entail the conversion of latent demand for both low-priced and higher value-added products and services into real and buoyant demand. An

essential ingredient in the successful execution of this process will be the achievement of mutual market liberalization through active government engagement in EPA/FTA and WTO negotiations.

The fifth challenge involves the assignment of special consideration to employment problems. As conditions in job markets become harsher, undesirable forms of employment and growing rigidity in income disparity have emerged as serious social problems. Certainly, the government must work toward creating jobs and strengthening social safety nets. However, in addition to these government efforts, corporations must earnestly examine what they can do to alleviate employment problems from a medium- to long-term perspective. Specifically, corporations must review policies and practices pertaining to the employment of new graduates and year-round recruiting and improve the treatment of part-time and other non-regular workers.

### **3. People Must Be Self-Reliant and Take Responsibility for Creating a Better Society**

Throughout the postwar period, the Japanese political system has been characterized by leadership by the bureaucracy, the centralization of various systems and institutions, and pork-barrel politics. This has created an environment of dependence that encourages a sense of entitlement and over-reliance on the government among the people. However, as individual members of society, we all have the responsibility to leave behind a better society for the generations of our children and grandchildren. In considering the heavy weight of this responsibility, we must realize the importance of the spirit of self-reliance and of coming forward to accept the responsibilities and burdens for creating a better society, notwithstanding the harsh conditions that prevail in this period of recession.

First among these is the responsibility of establishing sustainable social security systems. To ensure the sustainability of Japan's fiscal structure and social security systems, we must develop social security systems based on the principle of self-help. In reviewing the benefits and burdens of our social security systems, there are many difficult issues that we must not lull ourselves into avoiding. These include the lowering of benefit levels in accordance with certain macroeconomic indicators, discussion of the introduction of higher consumption tax rates, and the acceptance of larger contributions and premiums.

The second responsibility is the responsibility of the people to scrutinize the use of taxpayer money. Voters and taxpayers must develop a higher awareness and must evaluate government policies and budgets with a keen eye. As voters in the Lower House elections of 2009, the people got a real taste of what it means to elect a government based on policy issues. Similarly, the “budget screening” process provided taxpayers with an opportunity to learn and to think about how their valuable taxpayer money is being spent. For Japan to develop into a more mature democracy, the people must accept greater responsibility in the future. Moreover, as voters and taxpayers, the individual members of society must be prepared to rigorously monitor government policies and budgets.

The third responsibility pertains to the willingness to participate in and to accept responsibility for the outcome of policy-making in a decentralized society. One of the principal policy commitments of the new government of the Democratic Party of Japan is the establishment of a decentralized society. A key feature of such a society is that citizens are called on to participate not only as recipients of services but also as active agents in the formulation of local policies. In this framework, the prioritization of policies is left to the choice of citizens. As such, citizens must be prepared to bear the burden and to accept responsibility for the outcome of their choices.

#### **4. Government Responsible for Creating an Environment Allowing Full Expression of People’s Potential**

The change in government that took place in 2009 reflected the people’s strong desire to bring about change. However, even after the passage of 100 days from its installment, the new government has provided no clear indication of the vision or the directions it espouses.

To build a sustainable and vigorous economy and society, the government should focus on encouraging and extracting the vital energies of corporations and individuals. The government must trust in the self-reliance and power of the people, and must act to allow the full expression of the people’s potential. To that end, the most essential role the government is expected to play is to formulate its own growth strategies and to take responsibility in creating the necessary systems and environment for promoting these strategies. Finally, from the perspective of “Using the Power of the People to Build a Sustainable

and Vigorous Economy and Society,” there are six specific requests that we have of the government.

The first is the promotion of regulatory reform. Areas with newly emerging social needs—such as medicine, long-term care, childcare, education, and agriculture—have most often been areas subject to strict government regulation and intervention in the past. Regulatory reform in these areas will encourage corporate innovation leading to the conversion of latent demand into real demand. Such programs of regulatory reform can be particularly effective as policy measures requiring no additional fiscal spending.

The second is the fundamental review of special tax measures and the lowering of effective corporate tax rates. The government is considering revamping special tax measures through the enactment of a “Special Tax Measures Transparency Act.” Special tax measures pertaining to corporations should be scrutinized from the perspective of eliminating vested interests and clarifying the purpose and effect of policies. Moreover, a fundamental review should be launched as soon as possible principally with the intent of consolidating and abolishing such measures. The fiscal resources made available by this initiative should be used in lowering effective corporate tax rates to international levels as a necessary step in improving employment conditions and promoting the entry of foreign corporations.

The third is the promotion of EPA/FTA and WTO negotiations for the protection of free market economies. In order to effectively take in the energies of Asian and other newly industrializing economies, domestic markets must be liberated to promote the process of industrial structural reform. Similarly, an environment must be created that is conducive to outward-looking strategic internationalization.

The fourth point relates to the review of labor laws and the strengthening of social safety nets. Excessive labor regulations should be revamped to promote the process of corporate and industrial regeneration and to provide individuals with more opportunities for a “second challenge.” At the same time, social safety nets must be further strengthened. Specifically, in addition to the improvements that have been made in the unemployment insurance system, measures should be taken to provide forms of job training that meet the needs of the times and to reinforce out-placement and re-employment assistance schemes.

The fifth point relates to the presentation of a clear and concrete roadmap for the achievement of fiscal health. This entails two separate requests that must be made in the strongest possible terms. First, government revenues must be redistributed efficiently and effectively. Second, the government must formulate growth strategies that will bolster revenues. Specifically, the following line of action should be adopted. Based on the fiscal 2010 budget that has been proposed, the government should adopt medium- to long-term goals and a timetable for an economic and fiscal management program that incorporates concrete economic growth strategies.

The sixth and final request is a call for the government to work for ensuring international peace and the preservation of a free market economy in Japan and throughout the world. Japan has arrived at a juncture where, in addition to enjoying their benefits, it must actively contribute to bearing the costs of maintaining peace and free markets. Japan's diplomatic and national security strategies must be clearly defined based on this principle. The Japan-U.S. alliance should be understood to be contributing not only to the peace and security of Japan but also to peace and security throughout the Asia region. With regard to the relocation of the Futenma air base and other problems that may exist between Japan and the United States, from this perspective, it is highly desirable to adopt measures that are conducive to maintaining and reinforcing trust between the two countries. This year, Japan will be serving as chair of APEC. This further heightens our expectations for Japan to play a leadership role in achieving political stability and economic prosperity in the Asia-Pacific region.

##### **5. Keizai Doyukai Will Play a Lead Role in Building a “Sustainable and Vigorous Economy and Society”**

We, the members of Keizai Doyukai, shall, as corporate executives, take the initiative in playing a leadership role in realizing “autonomous and sustainable economic growth” as outlined in this statement. Furthermore, through the activities of Keizai Doyukai, we shall contribute to building a “sustainable and vigorous economy and society” by actively presenting and publishing our statements and proposals. Specifically, Keizai Doyukai shall formulate its annual program of activities to reflect and incorporate the positions set forth in this statement. Additionally, we shall review the existing structure of our committees and consider the creation of new committees. We shall also examine how the means by which our statements and proposals are published



and disseminated can be improved and how our follow-up framework can be strengthened. This year again, Keizai Doyukai shall implement the PDCA cycle to ensure that its activities are fully relevant and effective. Finally, we return to the original founding purpose of Keizai Doyukai in reaffirming our commitment to contributing to the “building of a new country.”