

April 27, 2010

Working Toward a “Vision of Japan”

Chairman’s Message at the Fiscal 2010 Annual Meeting

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Introduction

Three years have passed since I assumed the chairmanship of Keizai Doyukai. Looking back on this period, we are faced with the spectacle of ever-deepening confusion in Japan’s political and economic arenas. How many prime ministers came and went in quick succession in a parliament where the upper and lower houses were controlled by opposing political parties? What of the devastating impact of the financial crisis and simultaneous global economic recession that followed in its aftermath? And what became of Japan’s first genuine regime change that was quickly overshadowed by the unmooring of the Hatoyama Administration and its directionless drift? Unfortunately, in this difficult environment, there was little that we could do in the activities of Keizai Doyukai other than to react to these changes.

Even under these conditions, however, we pursued our mission maintaining a medium- to long-term perspective. In the area of politics, we continued to emphasize the need to raise up a new Japan that can successfully meet the challenges that have been brought to bear by the changes in the environment. In the area of economics and business, we have remained mindful of our personal roles in stoking the engine of economic growth as we deepened our discussions of what is expected of corporate management. However, political and public interest inevitably gravitates toward current developments in the political scene and the economy. Consequently, our advocacy activities did not succeed in moving society. More recently, we have observed evidence of growing concern for the future of the country and a heightened sense of urgency and crisis. One such sign can be seen in the increasingly positive public response to raising the consumption tax rate. However, politicians have

not fully and appropriately responded to the voice of the people's conscience, and no progress has been made toward starting a national debate on the building of a new nation from a medium- to long-term perspective.

Guided by a new vision for the future of the nation and such mottos as "from the government to the private sector" and "from the central government to local governments," Japan launched structural reforms in various areas with the aim of building a vibrant nation during the years of the Koizumi Administration. However, the administrations that followed unnecessarily emphasized the negative aspects of reform. Finally, with the global economic recession and the subsequent worsening of unemployment, Japan underwent a significant policy change without any clear explanation being given. This void has not only clouded the vision and reduced the transparency of the measures needed to run this country but it has also allowed Japan's yet-to-be-completed reforms to be rolled back.

As these conditions persist, we have come to the realization that the reform of Japan cannot be simply delegated to politicians and government administrators. Rather, all entities must rise to the challenge and accept responsibility for engaging in reform within their own individual spheres. It was with this thought in mind that I announced the resolution in our 2010 New Year Message to make this 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."

For this reason, in its annual program of activities for fiscal 2010, Keizai Doyukai chose to focus on the ambitious challenge of engaging in the building of a new Japan from our position as corporate executives. Today, I would like to share my thoughts on this challenge that stands before us.

1. Japan in the Year 2020

Keizai Doyukai's annual program of activities for fiscal 2010 is constructed around one central pillar, which is to formulate our own vision of "Japan Ten Years from Now" and to use this in initiating a national debate.

Let us recall for a moment the general election of the House of Representatives held last year. At that time, it was our earnest hope that each political party would specify in its political platform (manifesto) the policies it intended to pursue for the realization of its own vision for Japan. We expected that this would engender concrete policy debate and that this would give rise to a genuine “regime-choice election” fought on the merits of each party’s vision for the future Japan. However, policy debate from a medium- to long-term perspective went strangely missing as the election became narrowly focused on the question of “regime change” itself. This indeed was a very unfortunate turn of events.

Approximately six months have passed since the birth of the Hatoyama Administration, but we have yet to be presented with a clear idea of what Prime Minister Hatoyama envisions to be the future of Japan. At this point, I believe there are several specific things that the Hatoyama Administration must do. First, it must take an earnest look at the essential problems that beset Japan and develop a clear vision of Japan. Second, it must formulate basic guidelines and basic strategies for coping with the medium-to long-term issues of national management, including the achievement of fiscal soundness and the development of growth strategies. This formulation must be completed as soon as possible. Finally, based on these guidelines and strategies, Prime Minister Hatoyama must initiate broadly based public discussion and debate.

To get this discussion started, I have decided to put together the wisdom of all the participants in Keizai Doyukai to formulate our own medium- to long-term vision of Japan (*kuni no katachi*) and to present it to the public. Detailed discussions toward its formulation will soon begin. But for today, I would like to share some personal thoughts that I have at this time concerning the basic direction that our vision will take.

(1) Basic Concepts Underlying “Vision of Japan”

I have two basic concepts in mind for our “vision of Japan.” The first is to create a “country where young people can find motivation and hope.” The second is to ensure that Japan develops as a “country trusted by global society.”

The first concept of a “country where young people can find motivation and hope” describes a Japan in which young people who will be shouldering the

future of this country are able to develop and express their full potential both within Japan and in the global setting. For the accomplishment of this goal, we must remember that the problems and burdens of today must not be shunted off to future generations. We dare not forget that we ourselves have the responsibility to solve today's problems and, at the same time, nurture and train our young people.

The second concept of a "country trusted by global society" implies a transition for Japan from a country that merely reaps the benefits of world peace and prosperity to a nation that willingly and actively accepts costs and burdens and contributes to world peace and prosperity. In this context, I envision a very attractive Japan to which the world will look with high expectations. Specifically, I envision a proactive Japan that is fully engaged in such world-scale undertakings as realizing a nuclear-free world and protecting the global environment. In economic terms, I envision a Japan that has successfully developed sound markets that are open to the world and an economy that serves as a crossroad for the free international movement of people, goods, money, and information.

(2) Main Pillars of "Vision of Japan" and Crossbeams of Common Objectives

Next, let us consider what the main pillars of our "vision of Japan" will be. The two priority issues in the revitalization of Japan are achieving fiscal soundness and developing strategies for economic growth. So, these must be the two sides of our vehicle. And building on this foundation, I am proposing that we clearly define and systematize the various major policies that Japan must pursue.

The first step must be to clearly establish a concrete roadmap for the achievement of fiscal soundness. This will involve establishing goals for the overall size of government (ceiling level on tax and social security burden ratio) and undertaking a comprehensive and integrated review of the income and expenditure sides of the national budget. Such a review will have to address such issues as social security reform, tax reform, and local government fiscal and administrative reform. We must realize that in this framework, there is absolutely no way to avoid a review of consumption taxes, which will be called on to provide a stable source of funds for social security systems and local government finance. There is another issue that has never been adequately

explained or disclosed to the public, and that is the question of the balance between receiving and paying for benefits. We must work toward presenting to the public what we believe to be a desirable balance.

Economic growth strategies have an essential part to play in increasing government revenues, and this is an area where businesses must provide the driving force. As such, we must formulate concrete strategies from the perspective of maximizing private-sector initiative and realizing a more affluent life for the people in terms of both quality and quantity. I can immediately see that these strategies will have to address several unavoidable issues, such as the review of corporate taxation for bolstering the international competitiveness of Japanese companies and the promotion of regulatory reform. Then there is the question of promising industries and business sectors where vibrant future growth is expected, including environmental businesses, agriculture, medical services, long-term care, childcare, finance, and tourism. For each of these promising sectors, we must formulate and publish growth strategies featuring the replacement of old industries and businesses with the new through a process of innovation. We must also examine how to transform our industrial structure, while also considering such infrastructure elements as employment and labor policies, education and human resources development, and economic diplomacy. Our ultimate objective must be to establish strategies for sustainable and autonomous growth.

Needless to say, there are many other issues that must be scrutinized as we search for other pillars to support the structure of our “vision of Japan.” I would group these issues under two general categories. “Restructuring the national administrative system” would encompass such issues as political reform, administrative reform, local autonomy based on a *doshu* regional administrative system, and political and fiscal decentralization. The second category of “foreign affairs and national security” would include matters related to maintaining and strengthening world peace and market economic systems. To become, in the true sense, a “country trusted by global society,” it is essential for Japan to develop comprehensive diplomatic and national security strategies aimed at realizing the best interests of the world and the region while safeguarding and achieving its own national interests. There are numerous specific steps that can be taken for this purpose, such as maintaining and strengthening the Japan-U.S. alliance, actively participating in Asia’s security

dialogue, establishing a Japanese model for international cooperation, providing markets, and promoting economic partnership and integration.

In considering what should constitute the main pillars of our “vision of Japan,” we should forewarn ourselves of the general tendency to merely list a number of attractively framed policies that are focused on myopic popular views and positions that place too much emphasis on “national interests” as opposed to “global interests.” Let us be reminded that the “vision of Japan” that we wish to formulate must accurately reflect the difficult conditions that face Japan. Ours must be a vision based on a medium- to long-term perspective, and one in which the promise of benefits is balanced by an awareness of the costs and burdens that such benefits entail. To ultimately maintain an appropriate level of consistency in our vision, we will have to formulate a number of common objectives that will serve as crossbeams in our framework and a core around which policies can be bundled. These common objectives would include “effective responses to globalization,” “effective responses to declining birth rates and the aging of society,” “utilization of market mechanisms,” “achievement of sustainable fiscal structures,” and “acceptable balance between benefits and burdens.” Only by going through these procedures can we hope to formulate a “vision of Japan” that is truly attainable in the context of the nation’s limited resources.

2. Corporate Reform and the Driving Force of Economic Growth

As we move forward in building a new nation, let us be reminded that the driving force for economic growth comes from the corporate sector of which we are a part. In this connection, I would like to point out that we ourselves are experiencing dramatic changes in our business environment, and that we also must bolster our own growth strategies and engage in reform and transformation.

Last year, Keizai Doyukai published its 16th Corporate White Paper in which we advocated “creating a new style of Japanese corporate management.” This publication provided us with an opportunity to share our thoughts on the future of Japanese corporations as they grapple with a broad range of challenges, including globalization, emerging global issues, and declining birth rates and the aging and shrinking of the population. The White Paper paid particular attention

to identifying the challenges confronting Japanese corporations in pursuing the globalization of corporate management and appealed for the need to develop more effective responses.

The first challenge that we addressed is the challenge of maximizing and effectively utilizing the strengths and the considerateness of Japanese companies. This refers to such characteristics as management based on corporate philosophies and a medium- to long-term outlook, accepting the challenge of difficult and lofty goals, giving full expression to the potential of the frontlines of business, human resources development from a medium- to long-term perspective, and the Japanese style of corporate social responsibility that finds its roots in the traditions of *sanpo yoshi*, meaning good for society as well as the buyer and seller. The second challenge is the development of new and higher value goods, services, and businesses through innovation and the promotion of the regenerative process of replacing the old with the new. The third is the development of global human resources and the promotion of greater diversity in personnel. Finally, the fourth challenge concerns the establishment of robust corporate governance that will win the trust of global society, and unwavering commitment to corporate social responsibility as good global corporate citizens.

Of these four points, two are of particular significance to the corporate sector. That is, “developing new goods, services, and businesses through innovation” and “promoting the regenerative process of replacing the old with the new” are extremely important challenges that cannot be neglected if corporations are to be the main driving force in building a “country where young people can find motivation and hope.”

The reason is quite simple to see in a world where China, India, and other emerging countries are rapidly moving to the forefront. The growing intensity of global competition implies that Japanese companies will no longer be able to maintain or improve their international competitiveness solely on the basis of cost competition. However, Japan has had great difficulty in adding momentum to this critical regenerative process of replacing the old with the new. Everywhere we look, we see signs of excess competition and price warfare that is not backed by improvement in productivity. As a result, Japanese corporations are exhausting their stamina and their resources. This negative spiral is evident in many places.

To promote the regenerative process, Japanese corporations must earnestly engage in “balance sheet-focused management.” This implies a transformation in corporate and management culture from one that focuses on changes in profit indicators to one that emphasizes the efficient management of equity and assets and changes in cash flow.

Secondly, Japanese corporations must engage in “what-oriented management.” Japanese corporations have not been able to escape the successes of their catch-up type management. Our conventional “how-oriented management” that draws its power from its pursuit of higher productivity certainly must continue to be reinforced, as it represents one of Japan’s strengths. However, over-dependence on “how-oriented management” will make it very difficult for Japanese corporations to emerge as victors from today’s global mega-competition. We live in an age when new markets are conquered by those who are the first to uncover potential medium- to long-term needs that remain hidden in society. We must make the transition to “what-oriented management,” which places greater emphasis on uncovering and creating new value.

In the area of global environmental businesses and other fields where growth is expected, companies throughout the world are already engaged in very intense competition for the development of innovative services and businesses. Japanese corporations must lead the world in these endeavors by promoting “balance sheet-focused management” and “what-oriented management.”

3. Reforming Keizai Doyukai in Its Pursuit of Building a New Japan

Next, I would like to make some comments about reforming Keizai Doyukai. As I have mentioned, we are observing how the people’s confidence in the Hatoyama Administration is being eroded as the government becomes bogged down in its immediate problems. In this environment, I feel that the public’s expectations for Keizai Doyukai are mounting day by day as an organization that has risen above the interests of any single company or industry to issue repeated statements and proposals concerning the future of Japan.

I believe that we must respond to these expectations of society with due humility. And, as I have previously noted, now is the time for us to formulate our “vision of Japan” and to use this to initiate national debate. Now is the time for us to take the lead in pointing the country in the desirable direction.

In this context, there are a number of specific steps that we must take. First of all, we must return to the founding spirit of Keizai Doyukai and make a concerted effort to put this spirit to optimal use in this age of confusion and turmoil. We must not flinch in face of today’s very difficult economic conditions. Rather, we must act with commitment and determination to apply the following words of our original mission statement: “Now is the time for all to join forces, for each to encourage and prod the other, to share the best fruits of our minds, and to concentrate all our forces on the reconstruction of the Japanese economy.”

Secondly, our advocacy activities must be characterized by more concrete and essential proposals. We have in the past issued a large number of proposals and recommendations, some of which have truly resonated with the public and provided the impetus for changing government policies. Among these, I believe the following merit special mention: “Manifesto for a Market-Oriented Economy,” “Market Evolution,” “Fundamental Reform of Fiscal and Tax Systems,” “Fundamental Reform of Social Security Systems,” “Policy-Oriented Politics,” and “Privatization of Postal Businesses.” What all these statements have in common was that they identify the essence of the problem and point to the path of fundamental reform. In other words, what is important is that we address the essence of the problem. Moreover, given the onward march of globalization, our proposals and recommendations must at all times be able to stand up to international scrutiny and debate.

Thirdly, we must bolster our follow-up activities to enhance the effectiveness and viability of our recommendations. For this purpose, we must endeavor to communicate the content of our proposals in easy-to-understand language to a wider spectrum of society. Specifically, this means further improving and expanding our symposiums and forums and issuing publications. The main theme of our annual program of activities for fiscal 2010 is the formulation of a “vision of Japan.” Once our vision has been finalized, we will be turning our attention to initiating national debate and discussion. In pursuit of this objective, we intend to organize a series of timely exchanges and discussions with

politicians, policy makers, and opinion leaders who have an important influence on the design, adoption, and application of government policies. Needless to say, as we pursue this goal of formulating our vision for the future of Japan and initiating national debate, it will become more important than in the past for each and every member of Keizai Doyukai to engage positively in our activities.

Conclusion

In closing, I would like to comment on the new beginning that Keizai Doyukai has marked as of April 1, 2010, with its registration as a “public interest incorporated association.” As is implied in the term “public interest,” our activities must now, more than ever before, be directed toward the whole of society. With this in mind, let us reaffirm and work diligently toward the realization of our mission to create a “country where young people can find motivation and hope” and a “country trusted by global society.” I eagerly look forward to the active discussions that our various committees will certainly undertake in the coming year as all orient themselves toward this objective. Once again, I call on all our members to support and participate in our activities with redoubled zeal and enthusiasm and to unstintingly contribute their knowledge and energies to this important undertaking.