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Decisive Action for Growth

Chairman's Message at the Fiscal 2012 Annual Meeting

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Introduction: From Recovery and Reconstruction to a Renaissance (New Growth) of Japan

Japan has come to a moment of truth. A confluence of disasters and challenging developments over the past year has sent the Japanese economy to the brink of crisis. Prominent among these were the fracturing of supply chains caused by the Great East Japan Earthquake and the floods in Thailand, the inexorable expansion of the European debt crisis, the sharp increase in the value of the yen, and the rapid rise in resource prices. During this same period, a number of other complex and interrelated problems that had been left unattended over many years took on an increasingly serious tone, including Japan's declining birthrate, the aging of society, and the unmitigated ballooning of government debt. Seen from these angles, the past year was a year of many trials and tribulations. On the other hand, the spirit of cooperation and strong sense of unity that characterized the Japanese people as they arose to overcome the unprecedented crisis of the earthquake was widely praised throughout the world. Furthermore, faced with the outpouring of support and sympathy from friendly nations and international organizations, this was also a year in which the Japanese people once again realized the value of solidarity with the peoples of the world. However, the delay in government decisions and actions to resolve the critical challenges besetting Japan, together with its lackluster approach to recovery and reconstruction efforts, made 2011 a year in which the people of Japan shared a universal sense of impatience and frustration.

In my inaugural address to the 2011 Annual Meeting entitled “Commitment to Growth,” I stated that the most important policy for the four-year period of my two terms will be to put the Japanese economy on a path of mild inflation and growth—a challenge that will prove to be vital in overcoming the current crisis and rebuilding Japan as a nation brimming with energy and hope. Unfortunately, there are no visible signs of progress toward this goal. A full year after the Great East Japan Earthquake, every possible effort must be made to speed the process of recovery and reconstruction in the disaster-afflicted areas and to reinforce the path to a renaissance of Japan by linking this process to the achievement of stable economic growth in all corners of Japan.

A renaissance of Japan must certainly be driven by steady economic growth and requires the implementation of administrative, political, and social security reforms to reduce government expenditures. No less importantly, reforms must be carried out on the revenue side as well in order to realize a unified program for revenue and expenditure reform. A central pillar in revenue reform must be an increase in the consumption tax rate, which requires the timely enactment of related laws during the current session of the Diet. There is also a pressing need in the area of social security reform to build a consensus on the allocation of benefits and burdens aimed at rectifying inter- and intra-generational disparities. This is an essential requirement in engendering a greater sense of future security among the younger generations, who have a feeling of unfairness, and realizing a fully energized Japanese society.

The business community is expected to take leadership in achieving stable economic growth—an imperative for a renaissance of Japan—and within that community Keizai Doyukai has assumed a considerable role. As I begin my second year as chairman of Keizai Doyukai, I am taking this opportunity to share my thoughts on the challenges and responsibilities before us.

1. Reconstruction That Leads to Economic Growth

Currently, Japan's top priority is to continue to recover from the Great East Japan Earthquake. To create a bright and hopeful future in the disaster-stricken areas, the first order of business must be to rebuild the livelihoods of the many thousands of victims of this disaster. At the same time, efforts must be made so that reconstruction demand does not end as a one-time stimulus and instead leads to economic revitalization that generates new businesses and jobs into the future.

With the establishment of the Reconstruction Agency in February 2012, the government support system for recovery and reconstruction was put into place on a full-fledged scale. However, true reconstruction and sustained economic vitality cannot be achieved unless the Reconstruction Agency takes the lead in implementing reconstruction efforts that are directed by local initiatives by developing an environment conducive to collaboration and innovation among three key players: private businesses that stand at the core of regional and local economies, local governments that provide guidance through industrial policies, and universities and research institutions.

Certain specific measures must be adopted to guarantee that the disaster-stricken areas play a leadership role throughout the reconstruction process. For instance, special economic zones and grants to promote reconstruction should be managed with due flexibility, and constant efforts must be made to ensure that these systems remain easy to use. Furthermore, the Reconstruction Agency is required to adopt the perspective of the various local actors in the affected areas. It must remove the barriers of compartmentalized government and the walls created by entrenched rules and systems, and lend its full support to local initiatives and aspirations. It is also important to link the results of these efforts to regulatory and institutional reforms throughout Japan.

To foster entrepreneurship and develop human resources supporting industries in affected areas, Keizai Doyukai will continue to promote the Ippo Ippo Nippon Project and other support initiatives during fiscal 2012.

2. Full-Fledged Start of Rebirth (New Growth) of Japan: Resuming Structural Reform

Regulatory and structural reforms were implemented in many areas beginning in the 1990s in response to changes in the domestic and international environment, such as the expansion and advance of globalization and the parallel trends of declining birthrates, shrinking population, and the aging of society. However, this movement lost its momentum in the course of the economic crisis that followed the Lehman crisis in 2008. Moreover, it appears that regulatory and structural reforms have been completely forgotten since the Great East Japan Earthquake.

To ensure a renaissance of Japan, it is absolutely essential to achieve fiscal rehabilitation through the three-in-one reforms of economic growth, reduced government spending, and increased government revenue. Regarding economic growth, the government is scheduled to announce the Strategy for the Rebirth of Japan in June. In addition to presenting a master plan, this document should outline specific strategies and concrete timetables. The government should steadily implement the strategy and achieve strong results in regulatory and structural reform. We also strongly urge the government to reformulate a concrete roadmap for fiscal rehabilitation—which has effectively been shelved—and to immediately engage in designing systems to realize sustainable social security.

(1) New Growth in the Private Sector–Led Economy

A renaissance of Japan cannot be achieved without sustained economic growth. In the past, as the world's second largest economy, Japan contributed to the development and stability of the world economy, while raising the standards of living for its own people. These accomplishments were supported by the advanced technologies and dedicated talent that combined to form Japan's manufacturing (*monozukuri*) base. I believe this formula for Japan's success will remain unchanged in the future. Even while the external environment continues to change, it is necessary to implement national policies for maintaining Japan's status as a technology-oriented economy and a human resources–based country. I firmly believe that these

policies will serve as a cornerstone not only for manufacturing industries but also for service industries and ultimately for numerous new industries and businesses that will be created in the future.

Advancing toward the Strategy for the Rebirth of Japan

As we await the announcement of the government's Strategy for the Rebirth of Japan in June, it is earnestly hoped that this new initiative will add much-needed speed and momentum to the implementation of new plans for economic growth.

Economic growth strategies and policies must be considered in the context of short-term goals and medium- and long-term objectives. Beginning with the short term, the following goals should be pursued as part of a comprehensive national strategy: (1) transferring fiscal resources and political power to local governments for post-earthquake reconstruction, and subsequently building new models for urban development featuring such concepts as the compact city and eco city through an effective use of special economic and administrative zones, (2) promoting infrastructure exports through collaboration among government, bureaucracy, and business, (3) fostering early participation in negotiations for economic partnership agreements (TPP, FTA/EPA), and (4) cooperating between the public and private sectors in demonstrating international leadership in the critical process of creating global standards and common specifications. Among these goals, it is particularly important for Japan not to miss the timing for announcing its participation in Trans-Pacific Partnership Agreement (TPP) negotiations.

Turning next to medium- and long-term objectives, the following three factors will be of critical importance for a renaissance of Japan: (1) enhancing Japan's labor force in terms of quality and quantity, (2) enhancing the attractiveness of Japan as a market, and (3) improving productivity through innovation. Regarding the first factor, there are a number of specific actions that must be taken. These include implementing effective and powerful countermeasures to the declining birthrate, promoting labor-market reforms to promote the active participation of women and the elderly, and

fostering measures to encourage the strategic relocation of highly skilled overseas workers. Regarding the second factor, it is essential to create a market environment that supports open and free competition. This will require Japan to simultaneously pursue a series of economic partnership agreements and to improve its business infrastructure through regulatory reform and tax reform, including the lowering of the corporate income tax rate. Regarding the third factor, timely action must be taken to implement regulatory and institutional reforms in industries that can provide the driving force for future growth and where Japan enjoys technological prowess. These include medical and long-term care services, agriculture, the environment and energy, and water resources.

I believe that a renaissance of Japan through the achievement of economic growth is an absolutely indispensable factor in becoming a country worthy of the trust and confidence of global society. What Japan must do is make a peaceful contribution to world prosperity and stability and to become actively engaged in the resolution of such global-scale challenges as the environment, energy, and food. We must also not forget that the international community has high expectations for Japan to contribute to social infrastructure development overseas and the cultivation of new markets in emerging economies through its advanced technologies and outstanding human resources, and to become a more attractive country that ensures the free flow of people, goods, capital, and information by building a sound domestic market that is open to the world.

Sound and stable energy resources provide an essential foundation for the economic growth that Japan must pursue. In view of current supply and demand conditions and the cost of energy, it is essential for Japan to restart its nuclear power plants after confirming their safety and gaining the understanding of local governments and communities. At the same time, Japan must steadily implement measures promoting energy conservation and energy storage. As a medium- to long-term objective, Japan should work toward gradually reducing the scale of its nuclear power generation to a certain level. Parallel to this, Japan should endeavor to deploy new and extremely safe nuclear technologies, to improve the efficiency of thermal power generation, and to increase use of renewable energy.

(2) Integrated Expenditure and Revenue Reform for Achieving Fiscal Soundness

To fulfill its responsibilities to future generations and to the international community, the government must now reformulate the concrete roadmap for achieving fiscal soundness that has been effectively shelved as a result of the economic crisis and reconstruction efforts. Total expenditures under the fiscal 2012 budget come to approximately 96 trillion yen, the largest sum on record. This has led to heightened concerns for fiscal bloating. We urge the government to prioritize its policies and make a firm commitment to “wise spending” in an environment characterized by thorough disclosure and accountability. The budget currently relies on the issue of national bonds for a larger portion of its revenues than tax income. The government must escape this extreme situation as soon as possible and steadily implement fiscal rehabilitation under clearly defined goals for achieving a surplus in the primary balance.

The government needs to make a firm commitment to fiscal discipline. This means that the government must establish in its Fiscal Management Strategy measures with specific goals and timetables for unified reform of expenditures and revenues and enact a Fiscal Soundness Responsibility Act as soon as possible. With regard to expenditure reform, the government must pursue political reform to reduce the number of Diet seats, in addition to the salaries and allowances of Diet members, together with administrative and civil service reforms. The government must also be prepared to implement bold changes in the structure of the budget to promote growth. We urge far-reaching cuts in expenditure based on the concepts of “from the government to the private sector” and “from the central government to local governments.” With regard to revenue reform, a fundamental overhaul of the tax system is needed, including a review of the ratio of direct to indirect taxes and the balance between the three core taxes of corporate, income, and consumption taxes. Regardless of any spending reforms that are made, Japan cannot avoid implementing measures to increase government revenue. It is appropriate to apply revenues from the consumption tax to social security programs and local administration. For this purpose, the bill to

increase the consumption tax being deliberated upon in the current session of the Diet should be enacted as soon as possible. Parallel to social security reform, taxation reform must carefully consider the allocation of benefits and burdens and clearly indicate the national burden ratio needed to support the social security system.

Unified reform of social security and taxation has been the subject of intense debate since last year. However, it is highly regrettable that throughout the course of this debate, no overall vision or concrete series of policies for Japan's social security system have been presented from a medium- to long-term perspective. Needless to say, a sustainable social security system is indispensable to a lively and secure living environment for the people, and social security policies are an extremely important factor that has a significant correlation not only to the achievement of fiscal soundness but also to economic growth strategies. Discussions of social security reform have already been exhausted and it is now time to rise above partisan differences to share the responsibility for implementing reform. While making positive use of the results gained from past deliberations by the National Council for Social Security and the Conference on the Realization of a Secure Society, the government should identify a path for building national consensus and engage in concrete initiatives for achieving these goals as soon as possible.

3. Politics of Decisive Action

The stalemate in national politics must be identified as a primary cause of Japan's prevailing economic and social impasse and for the regress and stagnation in the process of structural reform in various areas. The obstruction of smooth parliamentary management resulting from the so-called divided Diet and the ruling party's internal turmoil in formulating policy decisions have combined to delay decisions and actions over a broad range of critical national policies affecting the unified reform of social security and taxation, recovery and reconstruction from the earthquake, the implementation of growth strategies, and negotiations for economic partnership agreements. It must be realized that this postponement and

delay will have a very serious impact on the national economy and the livelihoods of the people over many future generations. With this in mind, now is the time to make a full transition to the politics of decisive action. It is possible that regime changes will be repeated in the future and that the divided Diet will become a permanent fixture in Japanese political life. This gives rise to the risk of further delays in decision-making and the adoption of unprincipled compromise, which in turn could create a situation in which vital national interests are undermined. To avoid such an outcome, we earnestly hope that the ruling party and leading opposition party will come together to find a wise solution to these problems.

It is also essential to create systems that are conducive to the exercise of strong leadership by the prime minister. For this purpose, it will be necessary to unify the government and ruling party, establish organizations with legislative backing to serve as “centralized command posts,” and rebuild relations between the government and the bureaucracy in a way that permits bureaucrats to make the best use of their experience and abilities. For the immediate future, thought should be given to bolstering the authority of the National Policy Unit by giving Cabinet approval to its decisions and to effectively utilizing the Council on Economic and Fiscal Policy, which already has a basis in law.

As global conditions undergo dramatic changes, the risk of doing nothing is increasing. Uncertainty, unpredictability, and instability are growing throughout the global economy and society. In order to respond with agility, accuracy, and flexibility to these rapid and far-reaching changes, national leaders must be prepared to make speedy decisions and to act boldly to accept the challenges of various risks.

4. Corporate Transformation and Growth through Management Decisions

As a driving force for economic growth, businesses must be prepared to take the role of the ultimate risk-takers. Today’s Japanese business environment is characterized by accelerated globalization, the rapid decline

in birthrates and aging of society, increased market volatility, and six key difficulties that are challenging the very foundations of corporate management—the strong yen, high corporate taxes, delays in free-trade talks, restrictions on temporary workers, tougher environmental regulations, and energy shortages. In this severe environment, businesses must commit to pursuing new sources of growth. This calls for even greater risk-taking and a bold stance in implementing management reform, creating new businesses, seeking out promising innovations, and developing business in emerging markets. In other words, there has never before been an age in which autonomous innovation, creativity, and the spirit of adventure have been as important as they are now for the success of businesses.

New technologies, new products and services, and new business models, as well as entry into new markets together represent the spectrum of innovations that plays such a vital role in supporting the sustained development of corporate management. We should be acutely aware that the systems of personnel management and corporate governance that support these essential factors are today exposed to the pressures of global competition. This is particularly true in the field of personnel management where intense competition is seen in the race to attract and retain leading talent, a race that has taken on an international dimension with the full involvement of national governments. To succeed in this competition, companies must be prepared to offer attractive working conditions. However, no less important in this race is the development of a safe and secure social infrastructure. Turning to corporate governance, it is important to realize that globalization and the diversification of corporate stakeholders add immense urgency to the requirements of corporate disclosure and accountability. Thus, to win the trust and confidence of global society, businesses must enhance corporate governance and act responsibly as global corporate citizens. Finally and most importantly, corporate executives must cultivate an acute personal awareness that we live in an age in which markets are constantly rendering judgment on members of management.

It is the new values created through corporate innovation that will serve as the new driving force behind the growth of the Japanese economy as a whole. As we turn our eyes to the harsh environment and conditions that will

continue to surround our country in the future, we are led to the realization that the only viable path for Japan is to constantly create new value through innovation. It is no exaggeration to say that herein lies the key to a renaissance of Japan.

5. Keizai Doyukai in Fiscal 2012

Looking to the activities of Keizai Doyukai for fiscal 2012, I would like to make this a year for concrete action toward the realization of our policy proposals. Firstly, the various committees of Keizai Doyukai were requested last year to include specific policy recommendations in formulating their proposals. Taking this one step further, I have decided that concrete actions must be taken during the current year for the fulfillment of these proposals. For this purpose, a number of committees will be reorganized as project teams with a mission to pursue the implementation of their proposals. This is the first time that we are reorganizing our committees from the previous year to task them with activities focused on the realization of our proposals. This new initiative will be carefully monitored to ensure its effectiveness. Secondly, while I myself have been appointed as a private-sector member of the National Policy Unit, vice chairs, committee chairs, and many individual members of Keizai Doyukai are also participating in planning and formulating government policies as members of various deliberative councils. We look forward to using these opportunities to explain our proposals and to urge action toward their realization.

Even while earnestly endeavoring to translate our proposals into reality during fiscal 2012, we will create a project team for considering the future of Japan 30 years from now and use the “Vision of Japan 2020” as a milestone in formulating a vision for the Japanese nation and society 30 years hence. We intend to involve in these discussions members of upcoming generations who will form the backbone of Japanese society in the future, and to encourage the participation of many individuals with diverse backgrounds and attributes to draw up a dynamic vision for a new Japanese economy and society.

Conclusion: Rallying the Aspirations of Members for Action

The Japanese economy and society stand face-to-face with the challenges of the economic crisis, the requirements of reconstruction from the devastation of the Great East Japan Earthquake, and the numerous problems that have remained unresolved as a result of many years of delay and postponement. Thus, Japan finds itself today at a moment of truth and an extremely critical point in time when it must undertake reforms aimed at achieving a renaissance of Japan.

The basic principle underlying the activities of Keizai Doyukai guides us to cherish the aspirations of both our founding and current members in turning our eyes to the future and acting to formulate and implement policy proposals that meet the requirements and demands of the present age.

The commitment to the construction of a new Japan so eloquently and powerfully expressed in the prospectus drafted by the founders of Keizai Doyukai is alive and well to this day. We, the members of Keizai Doyukai, share a keen awareness that 2012 marks the start of the process of reconstruction from the natural disaster and progress toward a renaissance of Japan. Ever mindful that companies and members of the business community must provide the driving force for economic growth, we pledge ourselves to bringing together our highest aspirations and knowledge to make this a year of continuing efforts to realize goal-oriented decisions and taking effective action for achieving the economic growth required for a renaissance of Japan.

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