



## **Economic Growth: A Prerequisite for Japan's Revitalization 2013 New Year Message**

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### **Introduction**

Few would disagree that the response to globalization, as it continues to accelerate and diversify in both the domestic and the international spheres, is taking on ever-increasing importance for the nation and for almost all its member organizations and communities as they weigh how best to ensure their viability and future development.

Faced with a host of issues that require us to compete or to take coordinated action with the nations of the world, Japan's policy makers have lacked a sense of crisis and have failed to provide strong, stable leadership. Although the era of income redistribution long since gave way to one of cost redistribution, they have consistently avoided facing facts and appealing sincerely to the public about the need for painful reforms; thus, they have repeatedly put off dealing with the problems that confront the nation.

However, we ourselves in the business community, along with many other organizations, especially in academia and education, have little to be proud of when it comes to changing with the times. The leaders of these sectors must face up to the realities, personally take the initiative, and display the unwavering resolve needed to implement change without delay, painful though it may be.

### **1. Business Leaders Must Lead the Way to Economic Recovery at This Critical Juncture**

We business leaders are the driving force of the business community, which is the pillar of Japan's economic growth, and the ultimate responsibility for corporate activities is ours. In any era, business leaders must display leadership by mapping out growth strategies and constantly striving to reform management. Together with creating markets and jobs, we must aim to continually improve results, and high-performing companies will be the first to share their financial success with their employees. Accordingly, Japan looks to its business leaders not only to fulfill their tasks on the supply side, but also to help boost demand and thus lead the way to economic resurgence with firm resolve.

The country's business leaders are largely aware that the many changes in the business environment wrought by globalization call for novel strategies. During the prolonged stagnation that has been called Japan's two "lost" decades, companies

have tended to wage a war of attrition among themselves, vying fiercely for market share or on price. If we are to compete with our true rivals in overseas growth markets, however, the issue of restructuring of many industries can no longer be avoided. The moves toward genuine restructuring that have at last begun to emerge in a number of industries are a hopeful sign.

At the same time, the Bank of Japan, acting in concert with the government, is to inject the unprecedented sum of over 120 trillion yen into the market, even though Japanese corporations reportedly hold in excess of 200 trillion yen in cash and cash equivalents. No matter how much is available in funds, the situation will not resolve itself as long as we go on complaining that there are few attractive investment opportunities at home and demanding that the government and the Bank of Japan correct the excessive appreciation of the yen.

Firstly, business leaders must themselves be prepared to take risks. The situation calls for adopting and implementing strategies bold enough to transform adverse circumstances into growth opportunities through the exercise of leadership, for example, by leveraging the strong yen to expand into emerging markets with relatively good growth prospects, and by actively pursuing mergers and acquisitions in industrialized nations where protracted recession has brought asset prices down. At a time like this, executive leadership can make a bigger difference in ensuring the survival of the fittest among corporations.

Secondly, as part of our response to globalization, in emerging markets such as the ASEAN countries, especially in the manufacturing sector, we should not only pursue mergers and acquisitions but should also contribute to accelerating economic growth and raising living standards, while returning a piece of this enlarged growth pie to Japan, where it can help stimulate sluggish demand. Companies should make sure that such measures will ultimately boost internal demand in Japan by encouraging the development of service industries and increasing their efficiency. Japanese companies have a number of strong points that favor their expansion into overseas markets, including advanced technologies that can be exported to emerging nations and that are needed to improve their social infrastructure, as well as solid trust in their ability to faithfully deliver on their commitments.

Thirdly, as the wellspring of their competitiveness, Japanese companies must tirelessly pursue technological innovation. To win in a global economy, they need to provide solutions to social issues, offer new lifestyle choices, and differentiate their products to gain a competitive edge by applying cutting-edge technologies and forming partnerships between manufacturing and service industries. The skills of “producers” who have the vision necessary to create new markets and bring about social innovation must be sought out and nurtured. Creative inspiration that leads to innovation tends to arise from a clash of ideas and approaches, a single-minded pursuit of perfection, and a cultural climate that does not fear failure. It is thus a matter of concern that the kind of environment that fosters creativity seems to be on the wane in many Japanese companies. It is essential to promote diversity and open innovation, which will also help improve value added per employee. Providing

solutions to issues that affect the Earth’s sustainability—such as the environment, energy, population, food, and access to health care—by means of future innovations is another important role of Japan as a technology leader. In particular, end-user energy generation and storage technologies, together with energy saving, are fields in which Japan has long excelled, and their potential contribution to alleviating the acute power shortage holds great promise.

Fourthly, we must create flexible organizations and robust enterprises by wholeheartedly pursuing workplace diversity. It is essential to draw on human resources of every kind if we are to address diverse market needs and social issues. Companies must provide environments and opportunities that embody the concept of “inclusiveness,” so that young people, women, seniors, people with disabilities, and non-Japanese can all realize their latent abilities to the full as part of the corporate workforce. In the process, we need to put in place hiring, training, assessment, and compensation systems that allow each individual to maximize their abilities. In an aging society with a falling birthrate and shrinking population, diversity is a significant growth enhancer that will help us invest more labor and will also help make the social security system more sustainable in terms of both benefits and contributions.

Another area in which business leaders must act is support for the earliest possible recovery from the disaster of March 11, 2011. At our Summer Seminar in Iwate last July, Keizai Doyukai warned against waning interest in the reconstruction and recovery effort as the challenges come to be regarded as the problem of the afflicted region alone. Yet, six months later, we are no closer to genuine recovery. To escape this impasse, the public and private sectors should take unprecedented steps to deal with an unprecedented situation. In particular, we must act promptly to overcome the obstacles of bureaucratic compartmentalization and develop a government-wide integrated policy, while doing all we can to hasten a recovery attuned to the hopes and concerns of the residents of the affected areas. We in the business community will continue to do our utmost toward the full recovery that is essential to Japan’s revitalization, drawing on the wisdom of the private sector through resourceful, creative ideas; in particular, we will make corporate social contributions in our companies’ lines of business, launch new ventures through joint initiatives among industry, academia, and government, and promote initiatives to develop human resources.

## **2. A Call to Resume Private-Sector-Led Structural Reform**

Keizai Doyukai has already urged the new government to achieve four policy goals: “a decisive, action-oriented political system,” “economic growth and a roadmap for fiscal health,” “rebuilding national management: resuming political and administrative reforms,” and “proactive diplomatic and security policies.” Here, we focus in particular on the governmental and private-sector approaches that will be most conducive to economic revitalization and development.

\* “Our Hopes for the New Administration: Achieve Economic Growth and Rebuild National Management”

[www.doyukai.or.jp/en/policyproposals/2012/pdf/121218a.pdf](http://www.doyukai.or.jp/en/policyproposals/2012/pdf/121218a.pdf)

First, the insights of the private sector should be fully utilized in the three bodies that serve as control towers of the economy: the newly established Headquarters for Japan’s Economic Revitalization and its subsidiary body the Industrial Competitiveness Council, and the Council on Economic and Fiscal Policy, which is to be revived.

We must also speedily overcome the pressing issues known as the “six ills”: the surging yen, high effective corporate tax rates, delays in forming EPAs/FTAs, stringent labor regulations, harsh environmental regulations, and the power shortage caused by the nuclear plant accident. To that end, it should be the government’s role to put the terms of competition with other countries on an equal footing, and it should act swiftly. In addition, we call on the government to pursue deregulation and enforce institutional reforms, especially of the public service and the administrative and fiscal systems at both the national and local levels, in order to generate new business and revitalize the economy without straining public finances.

There is nothing to be gained from undue bashing of the administration and the bureaucracy. Rather, public employees have expertise which, if properly utilized, will serve to accelerate Japan’s revitalization, and they should be treated according to merit- and performance-based criteria. Their level of compensation should be judged in an overall context that takes into account such factors as the impact on local economies and anti-deflationary measures, because a considerable number of organizations and companies conform to the pay scales for public employees.

### **3. Toward a Sustainable Society in Which Young People Can Realize Their Dreams**

It is our responsibility to pass on to the young people of the next generation a society that is sustainable in its impact on the global environment, its public finances, and its social security, among other areas. The corporate community must contribute to this society not only through sustainable business practices, but also by creating new jobs. Further, business leaders must provide ample opportunity for forward-looking young people to take on challenges and play an active part in the global arena.

First, in the area of education, which is the starting point of human resource development, we business leaders must seek more opportunities to play a hands-on role in educational programs. We must form still closer partnerships with the universities by, for example, actively setting up internships, conveying the importance of proficiency in English and cross-cultural understanding as essential skills for the global era, and portraying an image of the ideal employee sought by our companies.

In the area of hiring, to allow students to concentrate on their studies without anxiety, we will continue our efforts to ensure fair recruiting of new graduates, and will encourage hiring of Japanese studying abroad by holding job fairs in the countries where they are studying and by establishing separate hiring quotas. In particular, the initiatives that have already been taken to eliminate the mismatch between students and smaller businesses should be developed further. We are also well aware of the need to give recent graduates in their first three years after graduation the same chance as new graduates, but a substantive solution of this problem will be difficult to achieve without a radical reform of university education, which is fundamental to education reform. This will necessitate a thorough review not only of the Standards for Establishment of Universities, but also of the system of university governance, including entrance examinations, and its operation.

In the area of employment and wages, the requirement to provide continuing employment to employees who wish to work until the age of 65, which takes effect this April, must not be allowed to create an employment generation gap between young and old. To that end, we will review wage curves on the basis of merit and performance and overhaul the employment and personnel systems to ensure compatibility with the social security system. In addition to endeavoring to maintain and expand employment, it is to be hoped that those companies that can will increase their payrolls, according to merit- and performance-based systems, in order to stimulate consumption and create a virtuous circle favoring economic growth.

Through efforts such as these, we will continue sending a message of encouragement to young people and the next generation who will uphold Japanese society. We hope they will boldly take up the challenge, making the most of various opportunities, and open the way to the future in order to realize their own dreams.

#### **4. Keizai Doyukai's Commitments for 2013**

At this critical juncture for Japan's revitalization, Keizai Doyukai, whose members are business leaders participating as individuals, will lead the way to economic revival by taking the following actions:

- We will strengthen Keizai Doyukai's role as an "action-oriented policy group that is itself willing to change," and will provide more strategic and effective recommendations and actions in order to realize policies.
- We will implement our "Management Action Declaration for the Appointment of Female Managers and Executives."<sup>1</sup> (In particular, businesses will take the lead in striving to achieve the target ratio of at least 30 percent of management positions filled by women by 2020, while also aiming to appoint women to boards of directors.)

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<sup>1</sup> See <http://www.doyukai.or.jp/en/policyproposals/2012/pdf/120528a.pdf> for details.

- We will hold our 28th Summer Seminar in Fukushima, which, like the venues in 2011 (Miyagi) and 2012 (Iwate), is located in the earthquake disaster area, and we will issue the Tohoku Appeal 2013.
- We will campaign to bring the 2020 Olympics and Paralympics to Tokyo, and will plan and hold events to heighten public interest.
- We business leaders will take a still more active and planned approach to participating in international conferences and forums where world opinion leaders gather, in order to give Japan a stronger presence.

## **Conclusion**

Although Japan has already suffered two “lost” decades, it seems that difficult times may continue due to the adverse environment marked by the six ills brought by the earthquake and the delay in structural reforms. The Japanese economy remains sluggish; nominal GDP has shrunk by about 10 percent from its fiscal 1997 peak. Meanwhile, the world economy has continued to grow, and the emerging economies have come to account for nearly 60 percent of global economic growth.

This year marks a critical juncture for Japan on its path toward a renaissance in the global economy, and we hope that the second Abe administration will move forward with bold reforms, unhampered by the past. For our part, the business leaders of Keizai Doyukai are committed to overcome long-standing problems with resolution and action.

We hope to make 2013 a turning point toward the revitalization of Japan through the unwavering resolve of the political world and the public and private sectors.

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