

## **Innovative Initiatives for Growth**

### **Chairman's Message at the Fiscal 2013 Annual Meeting**

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#### **Introduction**

On being appointed chairman two years ago, I made the realization of economic growth my top priority, setting the objective of returning the long-stagnant Japanese economy to a growth track, or obtaining clear signs that recovery is assured, by the end of my term. I also made the commitment that Keizai Doyukai would contribute to the realization of economic growth not only by making proposals but by taking action to translate those proposals into reality.

The Japanese economy is now at a turning point in its battle to emerge from the deflation that has beset it for years. The Abe government, formed in December, has announced a basic policy package for economic revitalization consisting of “three arrows”: bold monetary policies, flexible fiscal policies, and growth strategies aimed at promoting private-sector investment. After the government swiftly compiled a large supplementary budget and the Bank of Japan, under new leadership, quickly launched “an entirely new dimension of monetary easing,” a great deal of progress has been made in correcting the high yen and reviving the stock market, and thus far these measures are succeeding in shifting people’s expectations.

If the favorable environment produced by such macro policy changes is to yield sustained growth, however, the business community—the driving force of economic activity—must now take the initiative. The time has come for business leaders to leave behind the cautious mindset that has tended to prevail under protracted deflation and dare to reach for a new dimension of management that can win in a global economy. For only when Japanese companies innovate, grow new businesses, generate added value, and create jobs will we see a true economic revival.

At the same time, we call on the government to support this change in the corporate mindset by speedily putting into effect an entirely new dimension of unprecedented policies, including bold regulatory and institutional reforms, in order to achieve economic growth through the “third arrow” of growth strategies aimed at promoting private-sector investment. We strongly urge the government to put in place, without delay, an environment that fulfills its stated goal of making Japan “the most business friendly country in the world,” thereby creating a market that will attract companies,

people, and funds from within and beyond Japan and that will offer both corporations and individuals ample scope to realize their full potential.

As I embark on my second term as chairman of Keizai Doyukai, I would like to address you with these issues in mind.

## **1. A New Dimension of Management to Drive Economic Growth**

As the government enters a “new dimension” with its bold policy package designed to achieve a strong economy, the members of the corporate community, for their part, must enter a new dimension of management, unhampered by the old conventional wisdom, and must evolve into strong companies ready to win globally and provide the momentum to put economic growth back on track.

To be specific, first, we need to take stock of global cutting-edge practices and implement decisive management, organizational, and personnel reforms. Global competition is taking on a new dimension in which the conventional wisdom no longer applies, as fast-paced globalization combines with technological advances, especially in IT. Global companies, for example, are integrating their worldwide procurement, supply chains, shared services, data centers, and so on in search of greater efficiency, practicing the optimal allocation of the best human resources on a global scale without regard to nationality, age, or gender, and moving their centers of operations to the most attractive locations. Amid these worldwide trends, many inward-looking Japanese companies have fallen a lap behind and are in urgent need of reforms.

Second, we need to create demand and stimulate consumption through active corporate investment in plant and equipment and human capital. At this critical juncture, when we are seeing the first signs that the economy is escaping from deflation, companies should put their accumulated internal reserves to work in capital investment, wage increases, and related spending, thereby creating a virtuous circle.

For example, at a time when steeply rising energy costs are a concern, companies should improve the energy-saving performance of their factories and offices across the board by investing in equipment, an effort which will be rewarded in the medium to long term with containment and reduction of costs. In IT, an area where Japan is said to be lagging behind the United States and other countries, such investment should also prove highly effective when combined with management, organizational, and personnel reforms.

Corporations must also take positive steps to encourage women and highly skilled overseas workers to play active roles, for example, by providing better daycare facilities and reforming their personnel systems, so as to ensure a workplace

environment that gives full scope to the abilities of human resources who will become new corporate assets. Through a judicious combination of these corporate efforts and governmental policy support, we can look forward to increased levels of investment that will also help solve the nation's problems.

With regard to wages, as I noted in my New Year's Message for this year, 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, and I welcome the fact that some companies are moving in that direction. In that connection, we must also ask ourselves seriously why, within the same industries, companies overseas are able to realize far higher operating profit margins than their Japanese counterparts, despite higher wage costs.

Many other initiatives will be needed. In particular, we must respond to globalization, take on the challenge of innovation, promote diversity, and reform personnel systems to accommodate the new ways of working that will be required to achieve these goals. We will also call on the government to enable these initiatives by reforming outdated systems, but first and foremost it is companies and their executives who must boldly take risks, and I urge our members to be prepared to do so.

## **2. Seizing Opportunities for Breakthroughs in Reform**

Let us turn now to the political and administrative sphere. Despite continual calls for the reform of systems suffering from structural fatigue in a changing environment, the necessary radical reforms have long been postponed. At last, however, a number of opportunities for breakthroughs in reform are beginning to appear. If we seize and enlarge upon these, the route thus opened up will lead to substantive reforms favoring economic growth. Accordingly, while following these developments closely, we intend to make proposals and take action in a timely way to back reforms in these areas.

The first opportunity for a breakthrough in reform is participation in the Trans-Pacific Partnership (TPP) negotiations. If we are to sustain continuing economic growth and a high national standard of living in an aging society with a falling birthrate and shrinking population, it is obviously essential that Japan open itself to the world and its dynamism. Prime Minister Abe's announcement that Japan will join the TPP talks has also given a new impetus to economic partnership talks with other countries and regions. I trust that the Japanese government will seize this opportunity and more than make up for its slow start by displaying leadership in these talks.

In the process, we should aim, on the one hand, to obtain outcomes beneficial to Japan, such as enhancing the efficiency of supply chains through international

harmonization of rules, strengthening business location competitiveness through regulatory and institutional reforms, and securing stable food and energy supplies, while on the other hand, as behooves a member of the industrial democracies, we should take the lead in drawing up international rules that are fair and highly transparent.

The second opportunity for a breakthrough in reform is the positive stance being shown toward creating a Japanese equivalent of America's National Institutes of Health (NIH). In many fields, the adverse effects of compartmentalization among ministries and agencies are apparent, as the fragmentation and dispersal of jurisdictions and fiscal and human resources hinder the solving of policy problems at a national, supraministerial level. Keizai Doyukai has often recommended overcoming these vertical divisions and creating organizations that will serve as "control towers" rising above the framework of ministries and agencies, but this has been to no avail.

Now, however, in response to a proposal by the Industrial Competitiveness Council, the creation of a Japanese equivalent of NIH is under study. This organization would centralize the research and development budget in medical fields and mediate between basic and translational research. If it fulfills the kind of role played by NIH in the United States, it will represent a significant first step toward overcoming compartmentalization. The creation of similar control towers in other fields besides medicine, such as the environment, energy, disaster prevention and mitigation, and ocean development, promises to open up the long-sought pathway toward solving policy problems at a national, supraministerial level.

The third opportunity for a breakthrough in reform is the consideration being given to creating special zones for national strategy, as also proposed by the Industrial Competitiveness Council. Special zones have been utilized in the past, but they were under many constraints and failed to yield the anticipated results. The system for the newly proposed zones must be designed in a way that makes possible a whole new dimension of bold initiatives, with jurisdiction, funds, and personnel transferred to the localities themselves, paving the way for regulatory reform, decentralization reform, and introduction of a *doshu* (superprefecture) system.

Where measures taken under these special zone initiatives involve a fiscal burden, as in the case of urban regeneration and improvement of public services, it is important to reduce the cost to the national and local governments to a minimum by methods including concession systems, and to ensure that the measures lead to economic growth by taking steps to encourage the expansion of private-sector projects.

To help bring about these reforms, in fiscal 2013 Keizai Doyukai has launched a Platform to Promote National Reform and a Center for Policy Study and Analysis,

which have the dual purpose of supporting the work of our members who serve on the government's major advisory councils, such as the Council on Economic and Fiscal Policy, the Industrial Competitiveness Council, the Regulatory Reform Council, the Administrative Reform Promotion Council, and the Advisory Council on Decentralization Reform, and strengthening Keizai Doyukai's own ability to make policy proposals with a firm theoretical foundation. I would like to invite the cooperation of each one of our members so that we can work in unison to provide support for decisive action on reforms.

### **3. Toward an Economy and Society that Maximize Private-Sector Creation of Value and Distribute the Results Fairly**

At the same time, because decisive action on the various reforms will be painful, it will be necessary to allay the public's anxieties and gain their understanding and approval. To that end, we should provide a clear image of the economy and society that the reforms will usher in, together with a clear scenario of what will happen if the reforms are not made.

In 2011, Keizai Doyukai compiled its "Vision of Japan 2020." Last year, we established a Project Team for Vision of Japan 30 Years Ahead, whose ongoing studies of the desirable form of Japan's economy and society in 30 years' time will be published in due course. Here, though, by way of reconfirmation, I would like briefly to present my own personal understanding of what kind of economy and society Keizai Doyukai has envisioned as we have campaigned for reforms.

First, a sound market is central to the economy and society that we envision. It is the corporate community that generates added value through business activities, and without that activity there can be no economic growth. The Japanese people can be assured of a high standard of living only as long as corporations continue to create value while competing in sound markets, and only as long as the fruits of this activity are distributed fairly. Thus, reforms are called for wherever irrational practices and regulations form barriers to market entry and impede healthy competition and wherever existing systems distort fair distribution.

Second, we envision a society where the younger generation can face the future with hope: a society where everyone feels motivated in their work, where effort is rewarded, where there are opportunities to upgrade skills and to try again after an initial failure, and where people can raise children and grow old with peace of mind. Hope is important to the corporate world, too, for business activities are sustainable only when all the major stakeholders—the customers (consumers), employees, and their families—are thriving. Accordingly, we must carry out urgent reforms of the dysfunctional social security system, education system, and modes of work.

Third, we envision a state and a government whose functions allow the strengths of the private sector to come fully into play. What this means is a nation that has shifted its governance model from centralization of power to regional decentralization and a *doshu* system; a nation where government is slim and efficient at both the central and regional levels, and where it provides support from the client's perspective for dynamic individuals and businesses while taking on those roles that can only be carried out by government; and a nation where politicians exercise leadership and take decisive action where necessary. Political and administrative reforms should therefore be among our top priorities.

## **Conclusion**

This year, we await an important decision that could provide great momentum for building a dynamic Japan. At its September 2013 session, the International Olympic Committee (IOC) will award the 2020 Summer Olympics and Paralympics to a host city, for which Tokyo is one of the candidates. If the Olympics are awarded to Tokyo, the event will become a major inspiration to the young people of this country. When visitors from all over the world flock to our shores in 2020, let us ensure that they not only experience the essence of Japanese hospitality, but that they also see a dynamic Japan fully recovered from the Great East Japan Earthquake. I want the youngsters of today to taste the excitement our generation felt when Tokyo hosted the Olympics and Paralympics in 1964, and I will continue to do my utmost to make this a reality.

In addition, if Japan succeeds in attracting the International Linear Collider, several thousand scientists will gather here from around the globe and one of the world's few Science Cities will come into being, with ten thousand non-Japanese residents in all, when their families are included. I am hopeful that this, too, can be made a reality—the symbol of an open Japan and of our national commitment to science and technology.

In fiscal 2013, the missions that lie ahead of Keizai Doyukai, as an “action-oriented policy group that is itself willing to change,” are likely to grow increasingly important. As I embark on my second term as chairman, having received your endorsement again today, I would like to pledge my continuing resolve to strive, together with all of you, toward accelerated reforms and the realization of the dynamic economy and society that we envision Japan becoming.

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