

The Challenge of a New Dynamism 2014 New Year Message

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Last year marked a turning point for the Japanese economy, which gained a footing to make a full revival as the effects of Abenomics produced a solid turnaround, accompanied by Japan's entry to the Trans-Pacific Partnership (TPP) talks and the selection of Tokyo to host the 2020 Summer Olympics and Paralympics. In 2014, we embark on a year that will see all sectors, led by business and government, rise to the challenge ahead: to shed the encumbrances and negative legacy of the past and carry out the radical reforms that are essential if we are truly to exit deflation and achieve sustainable growth.

1. Creating a New Japan: The 2020 Tokyo Olympic and Paralympic Games as a Milestone of Reform

This year is the 50th anniversary of the 1964 Tokyo Olympics, which showcased to the world Japan's postwar recovery and rapid economic growth. During the 1960s, the nation forged ahead with high growth guided by a vision of the future that included the "income-doubling plan."

Fifty years later, Japan faces a greatly changed environment: a shrinking population, a declining birthrate, accelerated aging of its society, and ongoing globalization, to name just the most striking differences. But neither the government nor business leaders have entirely freed themselves from time-tested yet outdated approaches and vested interests, a situation that continues to hold back the reforms needed to adapt to the new environment.

Now that the economy has reached a turning point, it is high time—indeed, it might well be called our last chance—to press forward with the needed reforms. This year will see the start of full-scale preparations for the 2020 Tokyo Olympics and Paralympics. It is hoped that all actors will seize the opportunity to set in motion a series of bold reforms, guided by a vision for creating the Japan of the future that reaches beyond the milestone of 2020.

2. The Three Basic Ideals Underlying Our Vision of the Future

If the needed reforms are to win broad support, it is vital to present a vision of the future that they will usher in. As an ideal for the nation, that vision should set forth where Japan aspires to be 30 years from now.

In recent policy proposals,¹ Keizai Doyukai has presented the following vision of Japan's future: (1) a nation that is respected for its proactive contribution to global peace and prosperity; (2) a nation that actively solves issues instead of passing on burdens to future generations; (3) a nation that, albeit mature, has the dynamism to grow; and (4) a nation that, remaining highly adaptable while having at its core the unique identity that it wishes to pass on, embraces diversity as an aggregation of individuals who complement and enhance one another's potential.

In realizing the future we envision, three basic ideals are important.

The first is self-reliance. Self-reliant individuals create new value by developing the skills and qualities sought in the global arena, while also being active and engaged in the community. Such individuals, in the aggregate, bring greater competitiveness to the corporations, the regions, and the nation that they form.

The second is diversity. As the nation and the corporate sector transform themselves in ways that enable diverse human resources to thrive irrespective of gender, age, and nationality, the confluence of outstanding individual qualities and different value systems gives rise to new value.

The third is sustainability. This ideal includes a grand design for making public finances and social security sustainable in the face of population decline, a falling birthrate, and the aging of society, and extends to the restructuring of the balance between benefits and burdens. This ideal also features the pursuit of environmental and energy sustainability, where a low-carbon society is achieved, ocean resources are harnessed, and responsible energy policies that include nuclear power are developed.

3. Top-Priority Policy Issues in 2014

It is hoped that the current administration, which shows promise of a long tenure, will speedily implement the Japan Revitalization Strategy drawn up last year and accelerate recovery from the Great East Japan Earthquake, while also presenting a clear vision for the future, as discussed above, and carrying out the substantive reforms needed to realize that vision.

The highest priority should be assigned to serious efforts to make Japan the most business-friendly country in the world, and to structural adjustment of industry for higher productivity.

To truly revitalize the economy and expand employment, Japan must enhance its ability to attract corporations, human capital, and investment from around the globe and compete as a country open to the world. We must make existing industries more

¹ *Vision of Japan 2020: Nation of Vibrant Young People, Looked upon by the World with High Expectations* (January 2011); and *Future Vision of Japan 2045: Mitochondria and Curried Udon Noodles* (July 2013; Japanese only).

productive, create new industries, encourage start-ups, and realize strong local economies with distinctive features.

To those ends, we urge the government: (1) to strategically deploy high-level economic partnerships, such as the TPP; (2) to take bolder steps in such areas as lowering the effective corporate tax rate and attracting more highly-skilled foreign professionals; (3) to reform bedrock-like regulatory regimes in all fields, especially in healthcare and agriculture; (4) to facilitate the movement of workers from mature to growth industries; (5) to review the division of roles and to transfer tax revenue sources between the central and local governments; and (6) to accelerate safety checks with a view to restarting nuclear power stations, present a detailed roadmap for the promotion of energy creation, energy saving, energy storage, and thermal energy, and deploy measures that contribute to greenhouse gas reduction on a global scale.

The second priority is unified reform of spending and revenue in order to build a sustainable, vibrant economy and society. The Medium-Term Fiscal Plan announced last year not only failed to specify how the fiscal balance will be improved after FY 2015, but it also projected a deficit of some 12.4 trillion yen (2.0 percent of nominal GDP) in FY 2020. To fulfill its international pledge of achieving a primary balance surplus by FY 2020, the government must first specify concrete measures for cutting spending, with no areas off-limits.

At the same time, the government must aim to reconcile fiscal sustainability with stable growth by reforming the taxation and social security systems in a unified way, taking into account the need to adapt to globalization and the declining birthrate, aging society, and shrinking population, and examining what constitutes the ideal central-local relationship and a reasonable burden on the public.

The third priority is the development of a proactive foreign policy, whereby Japan takes its own initiatives in pursuit of global peace and prosperity. Under the principle of making a “proactive contribution to peace,” Japan should engage on its own initiative in efforts toward international peace cooperation, development aid, the creation of international frameworks, and solutions to global issues. In particular, it is important to strengthen our strategic relationships with other nations and regions by extending active support to emerging and developing countries.

In the process, Japan must act to ensure that its circumstances and its views gain a hearing on the world stage by improving its ability to communicate and increasing its points of contact and exchange, thus ensuring that its perspective is conveyed accurately and in depth. As part of these efforts, we should welcome more foreign students from developing countries, assist those African and other nations that do not have embassies in Japan in establishing them, and increase our own overseas representation at embassy level.

Further, decisive political reforms, especially of the electoral system, are desirable to ensure that the implementation of these important policies and other substantive reforms is founded on true democracy.

4. The Challenges Facing Business Leaders and Keizai Doyukai in 2014

We business leaders, and our organization, Keizai Doyukai, are resolved to do our part to consolidate the path to growth. We will face the challenges and take the necessary risks without wavering, in areas that include raising wages and boosting employment and new capital outlays in order to create a virtuous circle, together with realigning companies and making them more competitive through mergers and acquisitions, both domestically and overseas, so that we ourselves help to drive the economic growth that will lift Japan out of stagnation toward a new dynamism.

(1) The Challenges Facing Business Leaders

The first challenge we face is to strengthen our competitiveness in all areas of operations. To compete equally with US- and Europe-based global corporations, Japanese companies must become more competitive in every way—in scale, but also in decision-making speed, return on equity, R&D and marketing attuned to local needs, utilization of cutting-edge information technology, and securing global talent. In particular, in the emerging markets, where Japanese companies have been late entrants, we must utilize every available means to catch up, including putting the ample funds that many of us have to work in mergers and acquisitions. Further, it is vital to raise the quality of corporate governance and corporate citizenship to globally respected levels.

The second challenge is to innovate constantly. To stay ahead in global competition, we must ensure that Japanese goods and services remain firmly differentiated in terms of performance and quality, based on the originality and superiority of our technology and know-how, and we must deliver high added value so as to maintain pricing policies that do not descend into price wars. Constant innovation is the wellspring of corporate competitiveness, and the steady rise in total factor productivity that it permits will be key to future economic growth.

Innovations tend to arise out of the intellectual friction and fusion that occurs when highly individual, talented people with different cultural backgrounds and ways of thinking come together, and in today's world we need to deliberately create environments that foster such encounters and new conjunctions.

The third challenge is to promote diversity and inclusion² in management. The key to strengthening competitiveness and to innovation is to have outstanding human resources, together with leadership and management systems that can make the

² In addition to diversity, which refers to the hiring and active use of diverse human resources by organizations, inclusion has come to be used in corporate settings to express the sense of mutual respect for, and maximum utilization of, a wide range of skills, personal qualities, and value systems.

most of their potential. Achieving this globally means diversifying in every area of management and evolving the organizational flexibility to respect diversity and bring each individual's strengths fully into play.

The fact that in Japan women do not play as active a role in the workforce as they do in many other countries is emblematic of this challenge, and we business leaders will cooperate fully to achieve the Abe administration's targets for the female employment rate and related measures.

(2) Keizai Doyukai's Commitments

Keizai Doyukai, as an organization, will identify the important policy issues that must be tackled in order to build a new Japan, and will keep the government's deliberations and implementation of measures in these areas under review. At the same time, drawing on two initiatives that we introduced last year, the Platform to Promote National Reform and the Center for Policy Study and Analysis, and with all of our committees acting in close cooperation, we will redouble our efforts to highlight essential problems within the policy issues, propose concrete solutions, and work to have them adopted.

We business leaders are also committed to take the lead in management reforms, spurring one another on to seek the ideal form of management for the new era.

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