

January 4, 2002

Our Unwavering Commitment to Continued Reform 2002 New Year Statement

Yotaro Kobayashi
Chairman, Keizai Doyukai

1. Our Firm Support for Continued Reform

The world, it is said, has been transformed by the events of September 11. The United States seems to be moving away from its policies of unilateralism, and we are observing the emergence of a new form of political globalism. On its part, Japan has taken its first step towards making a firm and clear international commitment. Japan must now calmly observe these ongoing global developments, real or just in form, and determine for itself the best position for it to assume.

As the global economy moves further into recession, expectations for the recovery of the Japanese economy continue to rise, both domestically and abroad. This only adds to the urgency of proceeding with structural reform and re-building the foundations for sustained economic recovery. However, the recent lowering of Japanese government bond ratings indicate that the markets are increasingly dissatisfied and irritated by the outlook and speed at which Japan's reform process is advancing.

The year 2002 has started on such a note. First and foremost, Japan must re-affirm its unwavering commitment to continued structural reform of the public sector, as well as the private sector, so that the nation will be able to regain, as quickly as possible, the necessary dynamism to respond effectively to the domestic and international exigencies of the 21st century. For this purpose, we stand in full support of the firm and unwavering attitude of Prime Minister Junichiro Koizumi toward structural reform. We place our trust in the Prime Minister's high aspirations of adhering to basic principle while remaining mindful of the reality of the situation, and we stand ready to provide our full and continued cooperation to the process of reform.

To perfect the process of structural reform, it is vitally important to establish a just and proper framework for the exercise of parliamentary democracy. For this purpose, we eagerly look to Prime Minister Koizumi's leadership in rectifying the disparity in the value of electoral votes.

2. Need for Full Preemptive Measures

As Japan prepares to accelerate its pace of structural reform, the economy faces the prospect of registering its third consecutive year of negative nominal GDP growth in fiscal 2002. Thus, the economic outlook for the new year is of unprecedented harshness for both individuals and for corporations. Moreover, it is highly unlikely that further unemployment and corporate elimination can be avoided, given the ongoing process of corporate selection in which companies not truly equipped to compete will be forced out.

However, any indication of hesitation or retrogression in corporate behavior or policy management at this point will most certainly trigger a decisive and total loss of confidence of the markets in the Japanese economy. Such an eventuality must be avoided at all cost.

Special note must be made of the fact that Japan is going forward with structural reform under conditions of extreme uncertainty. Consequently, a full set of preemptive measures must be ready and in place to counter any unforeseen developments. The improvement of employment-related safety net mechanisms is a case in point. In addition to this, Japan must be fully prepared to counteract any systemic risks that may emerge in the financial system as we approach the implementation of the pay-off system for failed financial institutions. Specifically, a series of emergency measures, including a new round of public-fund injections, should be ready on hand for immediate and unhesitating implementation when needed.

3. Corporate Responsibilities and Keizai Doyukai

Whether in times of boom or bust, and whether in the East or West, one truth remains unchanged: the locomotive force of economic vitalization is to be found in the "aspirations," the spirit of "challenge" and an "unrelenting commitment to innovation and effort" on the part of both individuals and corporations. What is

called for is the development of new products and services, the opening of new markets, and the untiring pursuit of improved productivity. Furthermore, there is an urgent need to develop new business models which can ensure the compatibility of these objectives with social and environmental requirements. Of particular importance is the creation of knowledge and the development of advanced technologies to serve as the source of competitive strength and added value. Appropriate standards of corporate governance must be achieved in order to support these efforts. We now turn with high expectations to the corporate sector with hopes that companies will exhibit the necessary mettle and determination to taking the initiative in opening up new paths to growth. Under these circumstances, the role and responsibility of corporate executives are greater and heavier than ever before, for theirs is the duty to stand at the forefront of their companies to point out the strategic course ahead, to motivate and to encourage the employees, and to set the example and take the initiative in leading their organizations. How can routine and daily corporate activities generate higher corporate performance, improved market evaluation, and confidence of society in the company? There is no other way but to create a framework of mutual trust encompassing the executives, managers, and employees of the company, to use this as a foundation for generating new ideas and initiatives, and then achieve a regimen of constant management innovation. The truth of this is very evident when we examine companies which have continued to register excellent results under challenging economic conditions. Keizai Doyukai remains keenly conscious of its commitment to participating in the building of a new nation as expressed in its 21st Century Declaration released in December 2000. We also wish to play a key role in promoting the "evolution of the market" while generating a virtuous cycle in which corporations and corporate personnel deepen their respect for the function of the market and, in turn, are able to win the trust and confidence of the market. Keizai Doyukai shall endeavor to develop policy proposals along these lines and to take action for the realization of such proposals as well as to foster the self-enlightenment and self-improvement among our members through study and research. To raise the quality of our activities and to work effectively toward the attainment of our purposes, we believe that we must redouble our efforts while committing ourselves to creating a more open, younger, and more vital organization.

4. Conclusion

Japan is grappling with an extremely difficult challenge -- the challenge of implementing structural reforms in an economy shrinking at a pace never before experienced in recent memory. For the nation, for our companies and for individuals, there are no easy paths to take, nor are there any side paths to be taken to avoid the difficulties ahead.

In the case of the nation, our companies, as well as in the case of individuals, we know instinctively and from our past experiences what road must be taken and what actions must be implemented. The real question is whether we can finally part ways with the wishful thinking and the wholly unfounded expectation that perhaps we can wait for the crisis to pass without proceeding down the necessary but difficult road. Japan's success hinges on this very point.