

January 1, 2003

Promoting Structural Reform through Public Empathy and Support
2003 New Year Statement

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1. Introduction

The Japanese economy remains bogged down while the government's fiscal balances continue to deteriorate. Though structural reform is advancing gradually, its impact is yet to become clearly visible. Against this backdrop, during 2002, the government announced its "Comprehensive Measures to Accelerate Reform" and the "Program for Financial Revival" containing various measures for the acceleration of the disposal of non-performing loans and the establishment of the Institution for Industrial Revival. Thus, it is only now that the government is finally embarking on initiatives for the strengthening of industries and businesses in a manner that is clearly visible to the public.

As for the world economy, we find that the world is caught in the midst of some highly dynamic changes. As symbolized by the emergence of China and the further expansion of the European Union scheduled for later this year, the world economy is undergoing a deepening and expansion of international ties of mutual cooperation and interdependence. While the developed countries and regions of the world are generally experiencing deflationary pressures, the risks of tumbling into a serious recession are low for all developed countries, with the exception of Japan. Over the past several years, the world has turned its attention to this country with high expectations for Japan's economic revival and revitalization. Notwithstanding these hopes and expectations, economic revival has thus far eluded Japan. Therefore, as we enter into the New Year of 2003, we find that the world is scrutinizing the outlook for the Japanese economy and the management of its economic policies with unprecedented concern and interest.

2. Prime Minister Koizumi Must Appeal to Public Empathy and Support

Since taking office, Prime Minister Junichiro Koizumi has sought to manage the economy based on the principles of "no gain without reform" and "structural reform with no sacred cows," and has committed himself to the implementation of a thorough reform program. The greater part of the public has supported the prime minister in the hope that Mr. Koizumi, through his courage and decisiveness, will be able to bring an end to Japan's prolonged period of stagnation and lack of direction, and that structural reform will succeed in opening up new possibilities and vistas for a brighter future.

Over the past year, discussions concerning reform finally arrived at the stage of making real choices between concrete policy alternatives. However, the debate has frequently become confused by Prime Minister Koizumi's failure to clearly state his position and intentions. A large part of the public remains supportive of reform and is prepared to bear its unavoidable pain. However, the public's support for reform and resolve are gradually but inexorably waning as economic recovery fails to materialize and the outlook for the future becomes increasingly clouded. If this situation is left unattended, the possibility cannot be ignored that society may sink deeper into a sense of impotence, eventually giving way to apathy and lethargy.

Thus, as we greet the New Year, we earnestly urge Prime Minister Koizumi to face the nation and to once again explain in his own words the type of nation he is aiming to create, and to present us with his frank evaluation of the present status of the economy in the context of the economic policies currently being implemented. Foreign countries have referred to the Japanese condition as the "elegant depression." Others have then asked why Japan has sunk to its present state of extreme loss of confidence. In response, we must call to mind that there are in fact many companies which have continued to enjoy strong growth notwithstanding depressed economic conditions. It is important to recognize and to reaffirm this strength as the bedrock on which renewed courage and confidence can be built. We strongly urge Prime Minister Koizumi to determine the nation's policy directions through his own will, and to stand before the nation to continuously reaffirm and to explain in detail his unwavering commitment to his own program. We ask that, for the sake of those people who are feeling the

real pain of economic stagnation, he explain how today's pain can be transformed into tomorrow's hope while improving safety nets. We ask that, for all people to understand, he outline the principal policies of the Koizumi Cabinet; to explain why these policies have been adopted; and to present us with his vision of the procedures through which these policies are to be implemented and the timeframe for the achievement of their objectives. More than anything else, what is needed now is a channel of communication and a meeting of hearts between the leader and the public.

3. Steady Implementation of Structural Reform

For Japan to escape this prolonged cycle of economic stagnation there is no other option but to promote and to accelerate the process of structural reform and to thereby rebuild the foundations for sustained economic recovery. In view of the deflationary conditions which prevail in the Japanese economy today, various proposals have been made for lowering the value of the yen and requesting the Bank of Japan to adopt inflation targeting. However, Japan's current deflation is not merely a monetary phenomenon. Rather, it is rooted in the structural adjustments that have been instigated by the monumental tectonic shifts that are occurring in the world economy. The policy framework which Japan must rigorously adhere to can be outlined as follows: the key pillars of structural reform are the fundamental reform of government expenditure, tax reform, and regulatory reform, and Japan must pursue structural reforms which will contribute to the generation of new demand by transferring, in a major way, the function of resource allocation from the government to the private sector.

The time remaining for the attainment of these objectives is limited. To repeat, more than anything else, it is vitally important that the following tasks be undertaken and completed during the current year: based on the vision for the new economy that Japan aims to establish, the concrete contents of reforms in specific policy areas must be clearly identified and formulated; and the procedures and specific schedule for the implementation of these reforms must be firmly established. No policy can be successfully realized without the empathy and support of the public. In addition to the measures for industrial and corporate revitalization which began to emerge towards the end of last year, the various reform plans before us must be steadily implemented with due resolve

and commitment. For this purpose, we believe that it is absolutely essential for Prime Minister Koizumi to speak directly to the people, to generate a new wave of empathy for his policies, and to exercise strong and decisive leadership.

4. Reestablishing Confidence in the Corporate Sector

Last year, we were made to witness a long string of corporate scandals not only in Japan but also in the United States. These events have sadly served to undermine public confidence in the corporate sector on a global scale. Corporate initiative and the reestablishment of confidence in the corporate sector without which such initiative cannot be effectively exercised constitute essential prerequisites in promoting structural reform and for building a private-sector-led economic system. What this requires is the establishment of corporate governance and the adoption of standards of strict compliance. Moreover, the corporate sector must remain mindful of the "responsibilities of businesses to society" and actively abide by its principles. Companies have a highly public role to play in their relation to society, as well as in all other aspects of their activities. It goes without saying that the function of companies is to pay primary attention to economic issues and to relentlessly pursue the creation of new and yet unknown value. But corporate efforts must not stop there. In order to regain public confidence in the corporate sector and to achieve sustained development, it is essential for companies to extend the scope of their activities and responsibility to include the broader spectrum of human activities encompassed by society. This constitutes the most important function and responsibility of corporate executives. CEOs who stand to represent management must impress upon themselves the awareness that they are not so much Chief Executive Officers as they are Chief Responsible Officers. Moreover, they must seek to exercise leadership in corporate reform as the Chief Ethical Officers of their companies.

5. Political System for Regaining Public Confidence

The current program of structural reform and the building of a new Japan cannot be completed overnight. To promote these initiatives, it is vitally important to reestablish public confidence in the political system. In order to effectively utilize

the process of political decision-making to the arena of policy-making, it will be necessary for the bureaucracy to transcend jurisdictional lines and to promote and implement measures which take into consideration the policy system which the nation aims to achieve. In this context, politicians have a particularly heavy responsibility. It is our earnest hope that politicians will fix their eyes on the future of Japan, that they will discard "personal positions" and "vested interests" in order to deliver a better Japan to future generations, and that, at least for the immediate future, they will endeavor to effectively advance the Koizumi reforms. We are especially concerned that the contents of policy decisions and the process by which such decisions are arrived at must be clearly indicated to the public. For this purpose, we eagerly look forward to the improvement and upgrading of the functions of the Diet and that policy debates be carried out in a form that is more understandable to the public. Finally, for the purpose of reestablishing the public confidence in the political process, we very strongly urge that transparent policy discussions be carried out in the Diet and not in process of political negotiations.