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**Toward a Sustainable Society**  
**— Japan 2.0 —**  
**<Inaugural Speech>**

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## **Introduction**

It is with strong conviction and sense of obligation that I accept the office of chairman of Keizai Doyukai. Next year, this organization will mark the 70th anniversary of its founding. With a keen awareness of its role as a driving force for economic growth and a sense of solidarity, Keizai Doyukai has played a leadership role in the transformation of society. It is truly my honor to succeed to the chairmanship of Keizai Doyukai, an organization marked with this glorious tradition.

Having tackled the challenges of recovery from the Great East Japan Earthquake with and a new growth path, former chairman Yasuchika Hasegawa is leaving behind a tremendous legacy of achievement. As the baton is passed, I pledge to devote my time and effort to meet the high demands of this office. I look forward to the support and cooperation of the members of Keizai Doyukai.

As I take on the duties of chairman, I would like to share my personal perspective on the challenges that lie before us, how I came to develop this perspective in the historical setting and identify the specific hurdles that we must confront together to bring about a major transformation in Japan.

## **1. No Future without Breaking with Convention**

### **(1) Looking Squarely at Facts and Problems**

We must acknowledge the urgency of this truth: No future can be born unless we break with convention. In the face of broad-ranging issues, we cannot afford the luxury of ignoring inconvenient truths and avoiding problems. Allow me to expound on three important points.

First, let us remember that Japan has accumulated more than 1,000 trillion yen in public debt and now faces the risk of fiscal collapse. Japan has made an international pledge to achieve a primary surplus by fiscal 2020. But this is merely a milestone to fiscal reconstruction. The path to debt reduction must be firmly established.

Second, Japan is experiencing declining birthrates and an aging society, two fundamental problems common to mature societies throughout the world. The total fertility rate in many developed countries has dipped far below two children per woman, and social security is placing a heavy burden on fiscal balance and economic growth. Falling birthrates and shrinking populations are fundamental problems that can lead to the decline of national power and must be resolved.

My third point encompasses a global agenda of issues shared by all mankind: growing economic disparity and poverty, ethnic and religious conflicts, shortages of food and water, exploitation of energy and natural-resources, and climate change. All of these are serious problems that must be addressed with great urgency.

## **(2) Capturing the Rising Tide of Globalization, Informationization, and Socialization**

When addressing these problems, we are immediately struck by a number of cutting-edge developments and ideas throughout the world. Most prominent are remarkable advances in information technologies throughout the world, such as artificial intelligence, the Internet of Things, and big data. In Germany, we see progress toward Industry 4.0, which is being labeled the “fourth industrial revolution.” Astonishing advances in technology promise to be future game-changers - one being the evolution of 3D printers. At the same time, we are witnessing the replacement of human beings by computers and robots, ranging from simple, repetitive tasks to complex memory-based intellectual work. This subject is the thesis proposed by two MIT professors in their book entitled *The Second Machine Age*.

In the United States, President Obama is a strong advocate for STEM education, an acronym for **s**cience, **t**echnology, **e**ngineering, and **m**athematics. In 2012, Estonia, a Baltic nation with a population of only 1.3 million, introduced programming education for seven-year-olds at the primary school level.

Given these developments, we must envision future societies from the perspective of three global tides of change: globalization, informationization, and socialization. The tide of globalization is no longer reversible; its force will only accelerate, making diversity commonplace in all areas of life. Having crossed national borders and transcended time barriers, the tide of informationization is now breaking down language barriers. In this new age of socialization, a broad spectrum of entities are in constant contact with each

other. Today, it is easier to bypass boundaries that separate businesses from individuals and cities from outlying areas to create new communities and societies. This environment allows social entrepreneurs, nonprofit organizations, and others to contribute more effective solutions to our global problems.

As the world becomes “borderless” in almost every respect, Japan must change its fundamental outlook to keep pace. If it succeeds, Japan will take a global leadership role in setting-the future course for market economies.

## **2. Building a Sustainable Society**

### **(1) Setting the Stage by 2020 for Major Transformations Leading to “Japan 2.0”**

We cannot allow ourselves to fall behind these global tides and cutting-edge developments. More importantly, we must act immediately to build a sustainable society—that is, to achieve sustainability in businesses, the economy, and the nation. Considering the worsening fiscal crisis and shrinking population, it is vital that we realize Japan is not at a mere turning point, it is standing on the edge of a cliff.

To build a sustainable society, Japan must prepare for major social transformations by 2020.

We should note that 2020 marks an extremely critical juncture for Japan. We must ensure the success of the Olympic and Paralympic Games scheduled to be held in Tokyo that year. Moreover, Japan has pledged to the international community that it will achieve a primary surplus by fiscal 2020. Our nation faces challenges that require long-term solutions, including population decline, sustainability of social security systems, regional revitalization, and energy-related problems. We must clearly map out a path and by 2020, achieve visible and tangible results as the first step toward resolution.

Referring to the 70 years between 1945 and 2015 as “Japan 1.0,” we are fast approaching the launch of “Japan 2.0” in 2020. But we must act now to set the stage for Japan’s major transformation. I call on all the members of Keizai Doyukai to join hands in implementing activities that will prepare the groundwork for the launch of Japan 2.0.

### **(2) Changing Society to Create Better Lives for People in the 22nd Century**

Let us look at the importance of sustainability from another angle. Fourteen years into the 21st century, Japan is inching toward a sustainability crisis while environmental risks threaten to destroy the earth. Can humanity hope to reach the 22nd century safely?

Among the world's developed nations, Japan ranks the highest in life expectancy with men averaging 80 years and women, 86 years. No doubt, many of you have recently welcomed a new child or grandchild into the world. A very simple calculation tells us that roughly one-half of the girls born this year will live to see the 22nd century - that is only 86 years away. Building a sustainable society suddenly becomes more urgent if we think of it in terms of our children.

As president of a corporation, I implemented bold reforms aimed at realizing sustainable management. The program called *KAITEKI* featured three-dimensional management based on the three axes: economics, technology, and sustainability. As chairman of Keizai Doyukai, building a sustainable society will be my primary platform, standing at its core - innovation and the Japanese spirit.

I would like to share a story regarding the Japanese spirit. Mr. Lee Kuan Yew, the former prime minister of Singapore who passed away last month, gave me these words. "Great ideas for a better world and a good life for peoples will need many innovative and persistent minds." The word that left the deepest impression on me is "persistent." As history so eloquently shows, innovative and persistent minds are the greatest factor in differentiating Japan from others – I believe it is one of our country's comparative advantages. Moreover, it is vital that we pass on to future generations the spirit of *bushido*, the Japanese identity, and the Japanese sense of ethics and morality that are so highly valued throughout the world.

### **3. Identifying Problems We Must Work Together to Resolve**

#### **(1) Economic Growth and Fiscal Consolidation Go Hand-in-Hand**

Now let me focus on policy issues in greater detail. Our most urgent challenge is the simultaneous achievement of economic growth and fiscal consolidation.

Following a period of confusion referred to as the "lost two decades," the Abe Cabinet was born at the end of 2012 with a very proactive policy package that has come to be known as Abenomics. I take this opportunity to acknowledge the significant improvements that have been achieved, particularly in overcoming the struggles that followed the Great East Japan Earthquake. Going forward, however, the growth strategies of Prime Minister Abe's "third arrow" must produce major victories. As principal players in the private economy, corporate executives have a very important role and responsibility in this process.

The triple fall in the yen, interest rates, and crude oil prices present an optimum opportunity for revitalizing the Japanese economy. Such a confluence of positive factors has not been witnessed in many years. Responsibility for capturing the global tides of globalization, informationization, and socialization and generating revolutionary changes in corporate competitiveness lies squarely on our shoulders as corporate executives.

Quantitative economic growth realized through corporate initiative will contribute to fiscal consolidation by generating natural increases in tax revenue. However, achieving a primary surplus by fiscal 2020, will not be an easy task. On the flow side, it is absolutely essential to cut fiscal expenditures by controlling and curtailing social security costs and improving administrative efficiency. As for increasing revenues, it is crucial to undertake a zero-base review of special taxation measures and to implement a further increase in the consumption tax rate. On the stock side, the government must push reforms that leave no sanctuary untouched, including further privatization of the public sector and the sale of government-owned shares.

## **(2) Essential Features of Economic Activities in Mature Societies**

Let's examine specific issues that we can work toward resolving through the activities of Keizai Doyukai. The first of these is the essential features of economic activities that prevail in mature societies.

In the past, the Japanese economy enjoyed uninterrupted growth, and, as a result, emerged as the world's second largest economy. But in developed economies, such as Japan and Europe, GDP growth rates have gradually declined as societies matured. Combined with the rapid growth of emerging economies, their share in global GDP is receding.

Since GDP is calculated on monetary factors, it provides an appropriate measure of society's happiness based on materialistic needs. But I question the effectiveness of GDP as a useful indicator under conditions when material needs are fully satisfied, or when better products and services are accelerated to the market at cheaper prices via the internet. Perhaps there are certain forms of utility that are not reflected in GDP. If so, what are those utilities? I would like to discuss these questions with you in further detail.

In 1930, John Maynard Keynes published a short essay entitled "Economic Possibilities for our Grandchildren." This essay contains Keynes' prediction for the year 2030: "I would predict that the standard of life in progressive countries one hundred years hence will be between four and eight times as high as it is today." He then goes on to argue that, "a point may soon be reached, much sooner perhaps than we are all of us aware of, when

[our] needs are satisfied.... Thus for the first time since his creation man will be faced with his real, his permanent problem—how to use his freedom from pressing economic cares, how to occupy the leisure, which science and compound interest will have won for him, to live wisely and agreeably and well.” Today, 85 years after these words were written, we have more or less reached the standard of living predicted by Keynes. What has not changed, however, is that we remain imprisoned by work.

In his criticism of society’s insatiable material greed, Robert Skidelsky, a world-renowned expert on Keynes, has identified seven basic goods that money cannot buy in a modern society. These are “health, security, respect, personality, harmony with nature, friendship, and leisure.” This thought-provoking analysis rings true to me. In fact, I want to add “creative destruction, challenge, and dreams” to Skidelsky’s basic seven to create what I would call the “ten commandments.”

Another subject that merits our concerted examination is corporate management.

Keizai Doyukai promotes innovative management aimed at creating corporate profitability both in Japan and throughout the world, and encourages companies to achieve double-digit return on equity (ROE). There is no question that ROE is a critical indicator in corporate management, but other factors must also be considered, such as industry-specific characteristics, management policies, and ability to communicate with stakeholders. For instance, Amazon.com, Inc. is operating in the red and its ROE is negative. However, the company is highly valued in the stock market. No doubt, many bookstore workers have lost jobs due to Amazon. Nevertheless, Amazon has succeeded in growing its consumer base, providing a distribution infrastructure that is indispensable to society. Innovative products introduced by Apple Inc., such as iPhone and iPad, have transformed society on a scale that would have been impossible to predict ten years ago.

To survive in this environment, companies must contribute to social development and gain the support of stakeholders. This can be linked to traditional Japanese management values represented by the concept of *sanpo yoshi* or the principle of three-way satisfaction - pursuing business that is beneficial not only to buyers and sellers but also to society at large. It is time to engage in fundamental discussions regarding corporate management.

### **(3) Removal Bedrock in the Heart of Executives**

Another important issue is the dismantling of bedrock rooted in the hearts of corporate executives.

Prime Minister Abe stated, “I myself intend to serve as the drill bit that will break through the bedrock of regulations.” Ironically, a portion of private industry is considered at times to be one corner of the “Triangle of the Vested Interests”, together with politicians and bureaucrats, which have opposed deregulation and economic reform. However, the most important feature of Keizai Doyukai is to engage in discussions from a farsighted perspective which transcends the interests of individual corporations and industries. The true value of Keizai Doyukai as an action-oriented policy group that spearheads social and institutional reforms is now being put to the test.

The process of breaking through bedrock regulations and accelerating innovation could work against individual corporations and industries, even to the extent of eliminating certain businesses. It is possible that some corporate executives might stand at the side of the resistance against this reform. However, top management must make tough decisions, act swiftly on cutting-edge developments, and confront the tides of global change. Facing an uncertain future, corporate executives frequently find themselves in turmoil, struggling with conflicting forces. But we must not allow ourselves to become captives. Instead, of the obstructive bedrock, exists in our own hearts let us call up find the courage to attack our difficulties head-on and to boldly charge ahead.

## **Conclusion**

On assuming the office of chairman of Keizai Doyukai, I have set the goal to establish the groundwork in preparation for launching Japan 2.0 by 2020. I have also presented two key themes for us to examine that is, the essential features of economic activities in mature societies and the dismantling of bedrock in the hearts of corporate executives.

I believe that the true value of Keizai Doyukai is found in our commitment to assess the situation objectively, delve into the essential aspects of the problems, formulate hypotheses for their resolution, and finally, implement audacious measures for success.

Energized by these ideas and a can-do spirit, I look forward to working with you as chairman of Keizai Doyukai. We are going to write new pages of history. We come together as individuals with the same aspiration - to promote the national economy. I am confident that we are prepared to rack our brains, engage in heated and enthusiastic debate, and propose solutions that will contribute to building a sustainable society and further the mission of Keizai Doyukai. I earnestly call for your support and cooperation in pursuing this undertaking.

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