

April 28, 2016

**Envisioning a SAITEKI (Optimal) Society for Japan 2.0
Chairman's Remarks at the Fiscal 2016 Annual Meeting**

Yoshimitsu Kobayashi
Chairman, Doyukai

Introduction

First, let me thank you all for taking the time today to attend our annual meeting for fiscal 2016. It is my pleasure to speak to you as chairman.

Keizai Doyukai (Japan Association of Corporate Executives; hereafter, Doyukai) got its start when a group of 83 young and energetic business leaders came together. April 30, the day after tomorrow, marks the seventieth anniversary of that first meeting. At the time of its foundation, this association set two main aims: the reconstruction of Japan's ruined economy and the economy's subsequent democratization. Over the course of the past seventy years, Doyukai has played a major role in Japan's economic and social development and has made important contributions to reforming corporate management.

Today, however, we face an era of change every bit as dramatic as the immediate postwar period when our association began. Three waves of change are sweeping the world in the form of globalization, the IT revolution, and socialization*. The increasing speed of technological innovation has turned these waves into a surging tide. Together, these three elements will bring about dramatic changes in social infrastructure, social structure, and social norms.

* *In this context, the word "socialization" is used to describe a contemporary society where 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.*

Can we seize this opportunity and ride these waves into the future? Or will we be caught up in the swell and swept aside? We are now at a critical crossroad.

In my inaugural speech a year ago, I shared with you my sense of urgency that no future can be born unless we break with convention. I also described the seventy years since the end of World War II as “Japan 1.0,” and said that the year 2020 would mark the shift to “Japan 2.0.”

The first thing we need as we approach Japan 2.0 is to draw up a long-term perspective for a new model of sustainable society. This means thinking of a far-sighted national vision—setting economic, social, national, and global targets to be achieved by 2045, 30 years from now, and working back from there to find a way to make those targets a reality. If we think of the future in these terms, we will realize that the time we have left to prepare is precious and limited. We have a little under five years left to bring about reforms in ourselves, our companies, and our country.

Our success in riding out the waves of change and emerging strongly from this period will depend, I believe, on our ability to accurately grasp the changes under way in three important types of relationship—between the real and the virtual, between added value and utility, and between the individual and the group—and chart a course toward the kind of society we are aiming to achieve.

There can be no doubt that it is young people who will play the chief role in developing the Japan 2.0 that will get under way in 2021. In my remarks today, I want to speak about the kind of society I have in mind, in which a young generation capable of undertaking challenges with boldness and agility plays the leading role, supported by an older generation that helps by contributing its accumulated knowledge and experience.

1. Real and Virtual: Changes in Economic Activities

Let me talk a little more about the three relationships I have just mentioned—real and virtual, added value and utility, and individual and the group. I think it is when we consider the past and the future in terms of these three relationships that we truly feel the significance of the inflection point we

currently face.

First, the relationship between the economy with weight—that is, the traditional, or “real” economy represented by physical things—and the virtual, or “weightless” economy represented by the internet. Let me give a brief explanation of the concept behind these terms, which I often use.

The development of the Japanese economy from the Meiji era (1868–1912) to where it is today has been driven by manufacturing. But in the years to come we will see the weight of added value shift from physical objects to cyber. This will be true not only in Japan but throughout the global economy. We have already seen a similar change in the era of physical production, as added value has shifted toward the ever smaller: from tons to kilograms, to grams, milligrams, and micrograms. In the era of cyberspace, it is now “weightless” information that produces added value. I’m sure this is something you have all experienced on a day-to-day basis in your businesses.

I like to describe this by using the formula $z=a+bi$. In this formula, “a” stands for “atoms,” “b” stands for “bits,” or “bytes,” and “i” stands both for the “i” of internet and the “i” of “imaginary numbers.” This formula, I think, neatly expresses the world that awaits us from 2021 on. If you cast your minds back to what you learned about complex numbers in your student days, you will recall that the value of z can be expressed by the formula $|z| = \sqrt{a^2 + b^2}$. This means that in counting the size of the economy, we can count not only through physical objects with weight but also count the size of virtual aspects including information and other weightless things.

Let’s consider the past and future with reference to computers, for example. In the beginning, computers were literally “computing” machines—machines for counting electronically. From there, they developed to become memorizing machines and then thinking machines. And now we are at the stage where it is possible that they will mutate and evolve into machines with a will of their own.

I think information and data have been the source of added value as it has changed over the years, from calculation of the mean value in mass production and mass consumption to understanding of the “long tail” that represents the

diversification of values. We are now at a point where we will soon have the technological capability to obtain and analyze data in its entirety in real time. This will make possible unknown events stemming from people's deepest psyches and instincts, and will enable us to discover new regularities in the natural sciences and new uses for them, opening up new frontiers, particularly in the field of biotechnology.

We are at an inflection point in the relationship between real and virtual worlds, and economic activities are undergoing dramatic change.

In the field of the virtual economy, American venture businesses have taken the lead and have built an extremely strong foundation based on platforms and social infrastructure.

If Japanese companies are to fight back and retake the lead, the key will surely be to skillfully use the fusion between the real economy and the virtual economy and the interactions between them. With the arrival of the fourth industrial revolution in sight, there is no reason why Japan should not lead the world in the sharing economy that has just begun as well as in the "circular," or "green" recycling economy that has long been one of our strengths.

2. Added Value and Utility: A Relationship That Cannot Be Grasped by GDP

Second is the relationship between added value and utility. In mature economies this forms the essence of predominant economic activities. Generally speaking, added value refers to the value that companies and other entities create during the production process, while utility refers to the degree of satisfaction, or use value, experienced when people consume products or services.

Let's consider past and future in this context. The chief economic statistic is GDP. This represents the sum of all added value. In a situation where people experience happiness by satisfying material needs, this can be an appropriate yardstick. But in a situation where people are already materially satisfied, and where accelerating innovation is continually making better and cheaper

products and services available, it has become impossible to grasp the true state of the economy using GDP alone. We also need to have another yardstick; that is, the metric of utility.

GDP statistics are used by the government in the formulation and implementation of extremely important policies. We are all familiar with the use of GDP in setting economic growth targets, for example. It has had considerable influence on the decision to raise the rate of the consumption tax and has even affected the decision to dissolve the House of Representatives. But the malign effects brought about by the inadequacy of economic statistics—namely, the discrepancy between value and price—have reached a stage where they can no longer be ignored.

Also, zero marginal cost and free services are replacing existing paid-for services in many aspects of our daily lives. GDP gets smaller as paid-for services shrink or disappear, but this is because the new free services are not counted in GDP statistics. Despite this, there is no doubt that people's satisfaction levels and convenience have greatly improved.

And we cannot overlook the changes taking place among the young generation around the world. The Doyukai's mission to the United States in December last year was a very interesting tour that afforded a glimpse of the future. The mission met numerous young people from the Millennial generation—people born during the 1980s and 1990s. It appears that these young people use digital technology to allow them to manipulate huge amounts of data, which they use to make decisions and take actions in accordance with their values. In choosing a place to work, for example, they might look at a company's social contributions and consider how they can contribute and take part. As investors, they believe in the impact that investment can have on society and the environment, and tend to prioritize sustainable and long-term values.

Without exception, they all seemed to see value in focusing on actions rather than objects, and to think of objects not as status markers but as tools. The Mission Report suggests that the change in values we are seeing among Millennials represents a reaction against the contradictions that have become evident in our society and economy, centering on wide income gaps, and

argues that this means the new values have an influence that goes beyond generations and regions.

For an increasing number of young people today, born into an era of plenty, finding a job with a big company and earning lots of money is no longer the main motivation. They want to change society and the world.

This is truly an inflection point in the relationship between added value and utility, and people's sense of satisfaction is undergoing dramatic change.

3. Individuals and Groups: Changes in Frameworks

Third is the relationship between individuals and groups. There are a number of variations on this relationship: nations and the world, citizens and government, executives and the company, regions and the nation. I want to focus particularly on the human relationships between the individual and the individual within a group.

First, let's consider the international, multilateral framework. Last year, landmark agreements were finally reached for the COP21 Paris Agreement and the Trans-Pacific Partnership (TPP) Agreement, after lengthy negotiations that went on past the original scheduled time. This was an epoch-defining achievement and I was greatly encouraged by the strong determination of negotiators who assembled from Japan and the various countries taking part.

Unfortunately a decision has been made to delay approval for the TPP, which will not take place within the current ordinary session of the Diet. But we must be careful not to allow any reversal in the momentum of change.

In politics, we were concerned a few years ago about the "divided parliament" that was incapable of passing any legislation, but the political situation has changed since the Abe administration took office three years and four months ago. A number of developments have been taking place in the lead-up to this summer's elections for the House of Councillors, including the birth of the Democratic Party and moves toward greater cooperation among the opposition parties including the Japanese Communist Party. I hope all the parties will

approach the election campaign with a strong focus on policy-based politics. I also look forward to seeing the effect of the young vote on politics following the recent revisions to the Public Offices Election Act, as 18-, 19-, and 20-year-olds join other young people in their twenties and thirties in changing politics.

In the contest for the nominations for the US Presidential Election, Hilary Clinton leads the race for the Democratic nomination, with Donald Trump leading the Republican race. Mr. Trump has received a lot of attention for his idiosyncrasies and his ability to communicate, but it will be the debate over policy that will ultimately decide the issue. US presidential elections have a major impact on Japan as a country allied to the United States, and indeed on the entire world. I will be watching developments with keen interest.

In the field of corporate management, Japanese companies are still not doing enough to carry out selection and concentration through mergers and acquisitions, acquiring core businesses and selling off non-core businesses. We each need to work to break down the barriers in our minds as corporate executives.

In other countries, by contrast, cases of ambitious M&A are too numerous to mention. Last year, the American firm Pfizer and Ireland's Allergan announced that they had reached an agreement to merge, aiming to become the world's largest pharmaceutical company. But this year the United States introduced new regulations to restrict M&A designed for tax shelter purposes. As a result, the two companies abandoned plans for a merger. At a press conference, President Obama said, "Here in the United States, there are loopholes that only wealthy individuals and powerful corporations have access to," words that conveyed his strong determination. While most Japanese corporate executives think that their companies should pay taxes in Japan, I think this M&A case must have stirred a new awareness among executives of global businesses regarding the social responsibility of corporations.

The relationship between the regions and the nation is another example of how the relationship between individual and group is changing, as we are seeing in regional revitalization and autonomy efforts. We are truly at an inflection point, and many of our social frameworks are changing dramatically.

In medical and nursing care there are moves toward creating an integrated community care system by bringing regional healthcare corporations together under a non-profit holding company system. The recent liberalization of the electricity market will lead to more local production and consumption of energy, and will help to decentralize energy systems. These are just a few examples of how individual entities are starting to become dynamically integrated and decentralized as we move toward optimization.

4. Maximizing the Value of Our Nation in a *SAITEKI* (Optimal) Society

Once again, we are facing a variety of serious problems, including deteriorating public finances, a falling birthrate and aging society, a declining population, and the challenges of the global agenda. The task of building a sustainable economy, society, nation, and world could not be more urgent. If we can overcome the challenges of the period of dramatic change until 2020, I hope we can look forward to greeting a *SAITEKI* society in the new Japan 2.0 that will start from 2021.

As a company president, I carried out bold reforms to make sustainable corporate management a reality, and took a lead in *KAITEKI* management, which is made up of three dimensions: economics, technology, and sustainability.

Since taking up my position as chairman of the Doyukai a year ago, I have continued to think about how to build a sustainable society founded on an economic society driven by the private sector. I am more convinced than ever that the cornerstone to these efforts must be economics, technology, and sustainability.

From today, I am resolved that I will use these three dimensions to evaluate all policies, doing what I can to take the lead in bringing about a *SAITEKI* society that will maximize the value of our nation.

Let me briefly explain the ideas behind the concept of *SAITEKI*.

The challenges we face arise from a complex interaction of various elements. But from the perspective of both the natural and social sciences, there must be an optimal answer to these problems. At the same time, the optimal answer will naturally change depending on factors including limiting conditions, environmental change, and the passage of time.

We will not arrive at the optimal answer by simply adding and dividing by two. The process will require all our logic and thought, together with unbending arguments and fine-balanced collaborations.

Specifically, I want to discuss the main axes representing the three dimensions I have already referred to. For us as people, winning requires the sum of mind, technique, and body, or a balance of those three elements. The three dimensions I am talking about can be compared to that.

First of all, the x axis is economics. This is the “body” in our analogy. The important thing here is the state of economic statistics, the relationship between added value and utility. Examples of issues on this axis include the debate about an exit strategy from monetary easing, optimization of capital efficiency, reform of working styles, and efforts to achieve economic growth and fiscal health at the same time.

The y axis is technology—the “technique” element of our analogy. Relevant issues here include building an innovation ecosystem, and developing practical applications for new capabilities like big data, the Internet of Things, artificial intelligence, and robotics in preparation for the coming fourth industrial revolution. We can expect severe conflicts of interest as jobs are lost to artificial intelligence; the social impact of these innovations is another issue that relates to the y axis.

The z axis is sustainability; this corresponds to the “mind” in our analogy. It is on this axis that we find many of the problems particular to Japan, including the need for an integrated reform of our tax and social security systems and the challenge of a declining population. If we can engage proactively with the global agenda and make a positive contribution to the world, the national value of Japan itself will also increase dramatically. This global agenda includes national

and regional security, poverty and income disparities, and global climate change.

Of course, these three axes interact and affect one another. The value of a nation can be expressed as a vector in these three dimensions. Our aim is to maximize this absolute value. National value as we think of it is founded on an economic society led by the private sector. Improving return on equity is the aim that all executives must work hardest to achieve. But a major precondition for this is that we should always practice sincere and transparent management and adhere rigidly to the requirements of compliance and corporate governance. A company that has lost the trust of society cannot contribute to national value. Not only that, it has lost the very meaning of its existence. We should always remember that there can be no sustainable national development without the public, or ultimately, personal morality of executives and employees.

Conclusion

Doyukai will concentrate all its policy proposal activities on bringing about a *SAITEKI* society for Japan 2.0 from 2021. Each of our policy committees will identify the main points on the various issues and compile a plan for an optimal answer by the beginning of autumn this year. Then we will unveil our vision for the *SAITEKI* society for Japan 2.0 at the ceremony to mark the 70th anniversary of the founding of Doyukai on November 21.

Starting from tomorrow, April 29, I will lead a chairman's mission to Israel, which is now globally known as the start-up nation and has achieved remarkable results in the fields of IT, cyber, and biotechnology, as well as genetic engineering. We will engage in exchanges of opinion with people from industry, government, and academia, and will discuss approaches to innovation, one of the chief pillars of the *SAITEKI* society. The activities of our policy committees get under way in earnest in May. We have numerous activities planned for fiscal 2016 that will require the full application of the efforts and strengths of Doyukai. We kick-off the new fiscal year with core members' meetings in June and July. Following this, another chairman's mission will visit China, and there will be a visit to the United States in September.

In closing, it only remains for me to ask you all for your continued participation, support, and cooperation in these efforts in the years to come. That ends my remarks for today. Thank you very much.

###