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## **Achieving Optimization and Providing a Venue for Dialogue**

### **Chairman's Remarks at the Fiscal 2017 Annual Meeting**

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#### **Introduction**

First, let me thank you all for taking the time today to attend our annual meeting. It is my pleasure to speak to you as chairman. Today marks the end of my initial two-year term as chairman. I am humbled and honored that the membership has decided to extend my appointment. I look forward to continuing in my position for another two years.

Last year, Keizai Doyukai (Japan Association of Corporate Executives; hereafter, Doyukai) marked a major milestone when we celebrated 70 years since our foundation. On November 21, we published the policy proposal *Japan 2.0: Toward an Optimized Society*, which contains our vision for a sustainable, bold new Japan that will not be bound by convention. Recognizing that our association must adjust to the changing times as well, we also compiled a vision for the future of Doyukai itself, which we published the same day as *Doyukai 2.0: A Group of Distinctive Individuals with a Sense of Ownership and Initiative*. In this vision, we set out our determination to establish a kind of public space, or “terrace<sup>1</sup>,” where we can engage in debates, dialogues, and collaborations with all of our various stakeholders throughout society, young people in particular. As chairman, I am determined to make these visions a reality this year.

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<sup>1</sup> “Terrace” in this case is a metaphor; it likens Doyukai’s membership (comprising business executives) to a building with a public space or “terrace” that is located outside the main building, but freely accessible, where members can mix with non-members.

## **I. A Dynamic World and a Static Japan: The Risks Faced by Both**

A remarkable number of events have taken place in Japan and around the world over the course of the past twelve months.

First, the people of the United Kingdom voted to leave the European Union (EU) in a referendum last June. The UK government formally submitted its intention to begin Brexit negotiations to the EU last month. Since the founding of the European Economic Community in 1958, the trend in Europe has been toward ever greater integration and expansion. The entire continent now faces a major challenge. The French presidential elections in May will be followed by general elections in the United Kingdom in June and Germany in September. Will the shift toward fragmentation gather speed or will the brakes successfully be applied? This year is likely to prove decisive.

Of course, the biggest event of all last year was the election of Donald Trump as the president of the United States. After many years of policy founded on its traditions as a liberal and open country, the United States is undergoing a major shift toward a more protectionist position under the banner “America First.” The policies of President Trump’s administration present a number of concerns, not least the decision to withdraw from the Trans-Pacific Partnership (TPP) and from efforts to deal with global warming. On April 26, Treasury Secretary Steven Mnuchin announced a major reduction in the level of federal corporate taxes from 35% to 15%. This is another concrete example of a change in policy that is likely to have a major impact on global competitiveness. At the same time, we must recognize that so far at least the system of checks and balances seems to be working well. We have seen substantial opposition from Congress to a number of presidential orders and administration decisions, and several important court decisions have gone against the administration. In the context of an unstable and swiftly changing global situation, the good relations between Japan and the United States, as demonstrated by the meeting between Prime Minister Abe and President Trump in February and the US-Japan Economic Dialogue between Deputy Prime Minister Aso and Vice President Pence recently, are perhaps more important than ever.

The situation has also been extremely tense with regard to security issues, particularly since the start of this month. The aggressive stance and actions taken by President Trump have led to an American missile attack on Syrian government

forces and the dropping of a Massive Ordnance Air Blast bomb in Afghanistan, along with the decision to send the USS *Carl Vinson* aircraft carrier unit into seas close to the Korean peninsula and the entry of the USS *Michigan* nuclear submarine into the port at Busan. We face the possibility of a shift in the world order in East Asia and other areas. It is no exaggeration to say that we in Japan face an extremely serious risk, however calm and peaceful the situation within the country may appear at first glance. The risk is particularly acute with regard to North Korea, where things were poised on a knife edge for a time. All of us need to remain calm, while retaining a clear sense of the very real dangers we face.

For most of the recent past, the general trend around the world has been toward greater integration and economic globalization. But now problems relating to economic inequality and immigration have come to the fore, particularly in Europe and North America, and we are seeing increasingly protectionist tendencies as countries look to put their own interests first. Nevertheless, given that the tides of globalization, digitization, and socialization<sup>2</sup> are irreversible, the recent increase in nationalism and populism should probably be seen as temporary eddies in the long flowing river of human history. We must resist any attempts to stop the progress toward integration and turn the world back to the division and disintegration of past ages. Recently we have seen efforts to press ahead with the TPP 11 without the United States. I will be watching the progress of these efforts with interest.

In Japan, the Abe administration has proved to be a resilient and stable government of a kind that has been rare in recent years. Abenomics is now entering its fifth year, and the so-called sextuple whammy, which is commonly said to hold Japanese companies back (i.e., the strong yen, high corporate tax rates, delays in forming free trade agreements, stringent labor regulations, harsh environmental regulations, and a power shortage combined with higher electricity costs), has been alleviated to some extent. Nevertheless, there is a risk that the currency exchange rate could swing dramatically owing to the international situation. This would have a major impact on companies' revenue and profits. Companies are like reeds swaying in the wind. Even the government cannot control the exchange rate in the medium to long term. The economy has still not

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<sup>2</sup> In this context, the word "socialization" is used to describe a contemporary society where a broad spectrum of entities are in constant contact with one another.

entirely broken out of its deflationary spiral, and consumer spending is still weak. If the Japanese economy is to enjoy sustainable growth in these challenging circumstances, it is essential that we as corporate executives break down the barriers in our minds and accept the challenge of business consolidation and reorganization, as well as new business creation. At the same time, I hope that the government will do everything it can to push ahead with restructuring and will work harder than ever to develop a national growth strategy.

Japan has made an international pledge to achieve a surplus in its primary balance by fiscal 2020. At present, however, attaining this target is being made more difficult than ever by repeated postponements of a further increase in the consumption tax rate. We must also ensure the sustainability of our social security systems by 2025, when the postwar baby boom generation will enter advanced old age (75 years or above), but so far there is no prospect of this in sight. This month, the future population statistics published for the first time in five years showed a slight improvement. Nevertheless, at current rates we still face a “piggyback society” in around fifty years’ time from now in 2065, when each elderly person will be supported by just 1.34 people of working age. Without a fundamental long-term revision of the balance between the benefits and burdens of our welfare system, the national finances will inevitably collapse.

## **II. Finding Optimal Solutions in the Midst of Conflicting Interests**

While a dynamically changing world faces unpredictable risks, change-averse Japan also implicitly faces risks of its own, which tend to be overlooked. It is likely that the Japanese economy will continue to be stable until around 2020, when the Olympics and Paralympics will be held in Tokyo. From 2021 onward, however, there is a serious risk of a very difficult economic situation indeed. We need to start careful consideration and serious preparation to meet this situation now.

For too long in Japan, our political, administrative, and corporate systems have avoided confronting inconvenient facts. Preferring to place our faith in present prosperity, we have indulged in “I’m all right, Jack” thinking, and have put off any serious attempts to deal with problems into the future. As a result, Japanese society has become stifled and inward-looking. This has led to stagnation, and the delays in carrying out vital reforms have brought us closer and closer to a critical point.

In my remarks this time last year, I spoke about my idea of maximizing the value of our nation by optimizing conditions on three axes, X, Y, and Z. The X axis referred to achieving economic prosperity, the Y axis to using innovation to forge our future, and the Z axis to ensuring the sustainability of society. We can picture these axes in three dimensions and add the factor of time into our model. All three axes are constantly interacting with one another, leading to an intersection and entanglement of various contradictory interests. Finding the optimal solutions to maximize national value in this context will not be easy.

In what follows, I want to provide concrete examples of six areas of policy along the Z axis that are described in *Japan 2.0: Toward an Optimized Society*, and look at some of the trade-offs and conflicting interests that affect them. I want to suggest my ideas for how we might face the facts and analyze these conflicts calmly and coolly, allowing us to find optimal solutions, with reference to our activity plan for this fiscal year.

## **1. Demographics and the workforce**

First, population and labor. Population is the cornerstone of a nation's power, and we must do everything we can to deal with the dwindling birthrate. But in the long term, a decrease in total population is unavoidable. The latest data continues to show a monotonous decrease in the working population and an equally monotonous increase in the number of the elderly. At the same time, the population continues to decline in the regions, while urban population continues to rise. As a result, in rural areas we find a growing number of so-called marginal villages, where a lack of manpower now makes it almost impossible for normal life to continue in the community. By contrast, in the big cities where the population is heavily concentrated, we are increasingly seeing problems with insufficient places in childcare facilities and special nursing homes for the elderly. In the Tokyo area in particular, the number of elderly people living on their own is expected to increase. We must not fail to make preparations to deal with this coming problem now.

The key to finding an optimal solution to the problem of population and labor lies in reforming the way we work and finding ways to regenerate our rural communities. The first step must be to resolve the problem of long working hours. Surely no one would argue with this. Based on this, we then need to consider the overall structure of industry in Japan and our employment and hiring system, and

get rid of the assumption that lies at the bottom of these systems, which takes it for granted that added value and pay automatically increase in proportion to the number of hours workers put in. Making the labor market more fluid will be a necessary part of diversifying working patterns. We should encourage more people to move to regional cities and boost the density of supply and demand there, as well as making better use of the existing network of high-speed railways and roads to encourage more dynamic movement of people and goods between regional cities. Done properly, these steps should be effective at opening up new possibilities. We should not forget that changing the way we work and reenergizing our regions belong on the X axis, where increasing productivity is the chief objective.

## **2. Education**

Second is education. As globalization, digitization, and socialization continue, the education that is vital to training the next generation tends to become longer, more advanced, more diverse, and more expensive. But education in Japan today faces serious problems, including disparity in educational opportunities due to poverty, and a dramatic decline in the number of students studying abroad or going on to pursue doctoral-level degrees.

This makes it essential to find an optimal solution from the perspectives of the burden of school fees and of people working as active members of society. In March, the ruling Liberal Democratic Party's subcommittee on visions for economic and fiscal frameworks after 2020 proposed introducing children's insurance. This would be a first step toward making education and childcare effectively free of charge. There are various arguments regarding how this would be financed and who should shoulder the costs for it. But as far as making education free is concerned, I am in favor. Also in March, Doyukai submitted a policy proposal titled *Toward a Fundamental Solution to Child Poverty and the Opportunity Gap*, in which we called for preschool education to be made compulsory and free-of-charge, for schooling to be free-of-charge throughout the entire period of compulsory schooling, and for education to be made compulsory through the end of high school. We believe that the costs for this should be borne by the national government, and believe that the funds required should be regarded not as costs but rather as an investment in the future.

It is often said that digital natives and millennials are able to collect and use information freely even without any IT education. But we urgently need to review

our education system in order to raise the level of IT literacy and provide training for data scientists and other advanced specialists.

It is also important to encourage young people to develop the habit of active learning from the education stage so that they move from merely being taught to actively learning. Additionally, companies should cooperate by offering internships to first- and second-year university students, allowing them to experience a real working environment for a month or so at a time, and thus providing them with an important opportunity to gain a realistic view of the industry. This will not only help to prevent mismatches at the hiring stage, but will also help young people to respond actively to challenges and problems after they join the workforce.

### **3. Social security**

Third, social security. Everyone recognizes that our social security system is facing a crisis of sustainability. This year debates will be held about simultaneously revising medical treatment and nursing care fees in fiscal 2018. To some extent, an increase in social security payments is an inevitable consequence of our increasingly elderly population. In terms of the Y axis of innovation, some increase in costs will be unavoidable as more advanced treatments are covered by insurance, but at the same time new technology should also help to cut costs substantially thanks to improved efficiency and labor-saving. At the moment, the reality is that more could be done to reduce costs, and we have yet to see significant results in this area. Although some progress has been made in terms of digitizing patient records and statements of medical expenses and making these available online, numerous problems remain in the field of data-based healthcare, including the use of big data in medical and nursing care and of the My Number personal identification system in the social security field.

In the past, the idea of improving efficiency has made little impact in health and nursing care, since both of these are covered by public insurance. The supply side has seen medical care payments as essentially based on a fee-for-service system, leading to a tendency for doctors to prescribe more treatments and medicines than were strictly necessary. In the case of nursing care, improving the level of care can actually result in a loss of income for the business. At the same time, from the perspective of those insured, the cost of health insurance is the same whether or not they receive benefits for medical or nursing care. In this kind of system, moral hazards are inevitable. The system should be redesigned from

the perspective of both incentives and disincentives. In addition, steps must be taken to improve the way insurance works through greater use of data.

#### **4. Fiscal consolidation**

Fourth is fiscal consolidation. Probably no one would object to the idea that Japan must work to break out of its current fiscal condition, the worst among all the developed economies. But in addition to the financial and fiscal policies and growth strategy that form the “three arrows” of Abenomics, increasing the consumption tax rate to 10% is also a vital part of these efforts. This goal has still not been achieved. Because of a complex entanglement of politics and popular opinion, the fiscal situation just continues to get worse.

The economist Tomáš Sedláček says in his writings that GDP should actually stand for Gross Debt Product rather than Gross Domestic Product. He points out that in mature economies, short-term economic stimulus policies are likely to result not in GDP growth but in an accumulation of debts. This is a serious problem that truly requires us to search for an optimal solution.

Of course, GDP growth based on earning power is essential. This involves our X axis, and the issue of boosting productivity is at its core. As part of its growth strategy, the government has announced a target of achieving a top-three position among the developed economies in the World Bank’s ease of doing business ranking by 2020. Unfortunately, Japan’s position in this ranking has been slipping year by year since 2013, and we are ranked 26th out of the OECD countries in 2017. To change this trend, fundamental deregulation will be necessary, along with steps to make administrative procedures more digitized, integrated, and efficient.

In terms of fiscal consolidation, how we can ensure carefully managed spending is an issue of top priority. We need to carry out an objective analysis of all spending on private, communal, and public assistance, and reexamine the balance between benefits and burdens.

What is required of us is to find optimal solutions that simultaneously address all three issues of increasing earning power, expanding domestic demand, and carefully managing spending.



## **5. The environment and energy**

The fifth challenge facing us involves the environment and energy. Following the Paris Agreement reached at the COP21 meeting in December 2015, Japan has pledged to reduce its greenhouse gas emissions by 26% compared to 2013 levels by 2030. This target is based on an energy mix of 20–22% of power generation from nuclear power and 22–24% renewable energy by 2030. But at the moment it is impossible to restart suspended nuclear power stations even when they have satisfied the new standards laid down by the Nuclear Regulation Authority. In this situation, we have no alternative but to continue painstaking efforts to gain the understanding of local communities.

Of course reducing CO<sub>2</sub> emissions at the production stage is vital. But we must also work to build a rational policy with a focus on reducing total CO<sub>2</sub> emissions throughout the product lifecycle by means of making and using energy-saving products that impose a small burden on the environment. In terms of CO<sub>2</sub> emissions from fossil fuels, rather than calling shortsightedly for a low-carbon or decarbonized economy, we should aim to build a “carbon circulation society” where we manage the carbon cycle at the whole-Earth level.

It took long-term research and development over a period of 30 to 40 years for the field of carbon fibers to finally show results. In a similar way Japan, as a country poor in energy resources, should put its long-term faith in R&D in the fields of energy saving and alternative energy.

## **6. Diplomacy and security**

Finally, diplomacy and security. Throughout its recent history, Japan has maintained good relations with the United States, with whom we share the values of freedom, democracy, and the rule of law. When President Trump won the presidential election, there were concerns and uncertainty about his diplomatic and security policies, but so far the new administration has succeeded in showing a clear direction. Nevertheless, when we look around the world, at President Trump’s responses to Syria and North Korea, at developments in Russia and China, which are eager to expand their military power and influence, and at frequent terrorist attacks in Europe and the Middle East, it is impossible not to be keenly aware of the changes taking place in the global balance of power and the mounting uncertainty and instability that result.

As corporate executives, we must follow the international situation closely on a global level in the midst of these increasingly complex international relations, and work unceasingly to develop national and regional human networks of trust that embrace the political, administrative, and corporate spheres.

## **Conclusion**

As an action-oriented policy group spearheading reform, Doyukai has launched two project teams in fiscal 2017 to put into action the commitments described in our Japan 2.0 and Doyukai 2.0 visions. We have also started the following initiatives alongside the various preexisting committee and team activities.

First, we have established the Democracy and Capitalism Committee. This carries out surveys and research on globalization and social disparities and fragmentation, as well as the changing relationships among individuals, companies, markets, and states. To study the various risks that have become evident as a consequence of the globalization of corporate activities, we have set up the Business Risk Management Committee. This committee is responsible for discussions to strengthen executives' ability to deal with legal, financial, and technical risks.

Under the theme of Globalization and Robust Overseas Network, the International Relations Committee carries out surveys and research on foreign policy and global issues and the international situation on a trans-regional basis. Additionally, in October this year we will send a chairman's mission to Europe, following the elections in France, Britain, and Germany.

The Constitutional Affairs Committee has been set up for the first time since 2009. The committee works on surveys and research regarding the chief points of debate in relation to the government's moves to amend the constitution.

In addition, we have established the Earthquake Reconstruction Project Team. This follows up the efforts of the IPPO IPPO NIPPON project to help reconstruction following the earthquakes in Tohoku and Kumamoto, as well as providing a forum for discussions on measures to mitigate damage caused by earthquakes in the future, including possible quakes in the Nankai Trough and directly under Tokyo.

We have also set the theme of Regional Revitalization and Robust Local Network, which will be the foundation for regeneration of the Japanese economy.

Doyukai will continue to offer a public space, or “terrace,” for dialogue with our various non-member stakeholders. We will continue to engage in discussions and debates, aware at all times of the need to optimize our companies, our society, and our planet.

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.

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