



Real Determination to Face Our Future and Win Through 2018 New Year Message

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We have embarked on a new year amid positive reports that corporate earnings in Japan are at their highest levels ever, although the future outlook is uncertain.

On numerous occasions last year we were made keenly aware of threats to our national security, particularly with regard to the situation on the Korean Peninsula. Meanwhile, uncertainty within the international community is rising ever further with the Trump administration's actions including recognition of Jerusalem as the Israeli capital taking place against a backdrop of spreading anti-globalism and nationalist sentiment across Europe, the United States, and elsewhere.

The world economy outside Japan is recovering gradually, led by the United States and China, but unpredictable policymaking and other factors warrant caution regarding future prospects, and there is a risk that higher interest rates could lead to an economic downturn.

As globalization and digitization advance, we are witnessing spectacular innovation, prime examples of which are artificial intelligence, robots, and the Internet of Things. The increased influence of massive digital corporations in the United States and China is just one example of how digital innovation and the sharing economy are evolving, and this process is transforming the very nature of the world economy and the paradigms on which business is premised. Such innovation—which holds bright promise, but also has its dark side—is affecting humankind on a colossal scale.

Turning back to Japan, a path to future growth is gradually becoming apparent from a macroeconomic point of view, supported by the world economy's modest

recovery trend. Although Japan has missed its targets for increased consumption and price rises, the real GDP growth rate has now exceeded the potential growth rate, while the GDP deflator has started to rise.

From the microeconomic perspective, on the other hand, Japan's efforts to boost innovation in response to advancing globalization and digitization have been a case of too little too late compared with other countries. We need to put structures in place to support start-ups and otherwise provide an environment in which entrepreneurs and young corporate executives can take on new ventures, and try again whenever they fail.

Last year, a number of incidents, mainly in the manufacturing industry, threatened the trustworthiness of Japan's manufacturing expertise, renewing the need for corporate management to stay on guard and beware of impending risk. In such circumstances, corporate executives must have a strong sense of ethics, attune themselves more closely to compliance, and ensure that their resolve is known and put into practice throughout their organizations.

From a long-term perspective, numerous structural changes are finally making their presence felt in Japan, including changes in demographics and the workforce; education; social security; fiscal consolidation; the environment and energy; and diplomacy and national security. A particularly pressing issue is population decline in rural areas. If we persist in thinking conventionally, the sustainability of our economy, our society, and our public finances will be put at risk.

The various measures implemented by the government in recent years, including regional revitalization, the plan to realize the dynamic engagement of all citizens, and measures to boost workforce participation by women, have not yet produced satisfactory results, and an array of structural issues still lies ahead of us.

Japan's strategies for sustainable growth have reached a crucial point. In addition to urging the government to be rigorous in implementing its growth strategies—including revolutions in productivity and human resources development—we corporate executives must also pursue structural reform and ensure that our implementation of productivity improvements is as thorough as it can be.

Politically, stable government administration is now possible in Japan following the ruling coalition party's landslide victory in last year's general election. I think we are in a good situation as political continuity has been maintained, and I call on the government to engage in thorough policy debate and ensure that its explanations to the Japanese people are easy to understand and convincing. Now that the economic situation has also stabilized, I expect the government to look ahead to Japanese society after the 2020 Tokyo Olympics and Paralympics, moving beyond immediate issues to devise and implement policies with a medium-to-long-term perspective that will enable it to fulfill its responsibilities to the next generation.

Hereafter I describe three approaches to improve the sustainability of Japan's economy, society, and public finances, and to face the future and win through. In essence, these approaches are: (1) that companies should continue making high profits through ingenuity and market competition, thereby maintaining and enhancing the prosperity of the national economy; (2) that companies should focus their investment on the human resources and innovation that are the driving forces in solving social issues and forging the future; and (3) that we must face up to issues such as fiscal consolidation to ensure our society's sustainability. We should identify optimal solutions to these issues and aim to maximize the value of our nation.

(1) Expedite structural reform and bolster companies' earning power to achieve economic prosperity

We need to reinforce our efforts to ready ourselves for the era of the fourth industrial revolution centering on technologies such as artificial intelligence and robots. That requires prioritizing measures to advance innovation. Industry, academia, and government must join forces—by setting up a large incubation campus that can play a symbolic role like France's Station F, for instance—to build a Japan-wide network as the basis for an innovation ecosystem that attracts entrepreneurs from inside and outside Japan.

At the same time, Japan needs to undertake structural reforms, including reform of corporate governance and the tax system, ensuring such reforms are rigorously enforced. It is admirable that the government's fiscal 2018 tax reform outline demonstrated awareness of the need to work toward the dynamic engagement of all citizens touted by the Abe administration by addressing work style reform in earnest and making progress with policies relating to the proposed revolutions in productivity and human resources development. However, the outline lacked a vision for the tax structure as a whole and was

limited to piecemeal amendments, leaving the need for further deliberation aimed at more substantive structural reforms.

Furthermore, as a society with a declining population, Japan needs to make more effective use of its human resources. Given that the labor shortage is making itself more strongly felt already, the public and private sectors should join forces to prioritize investment in people and create a system that will assure the continuity of such investment. Matters such as the Advanced Professionals System and enhancement of human resource mobility and diversity, for example, are essential topics for discussion in considering Japan's human resource strategies going forward. They require us to plan detailed systems and take action in actual hiring situations.

If we are to confront the tendency of nations to prioritize their own interests, it will also be necessary to pursue greater economic collaboration. I welcome last year's finalization of negotiations on the economic partnership agreement with the European Union (the EU-Japan EPA) and achievement of agreement in principle on the 11-country Trans-Pacific Partnership (TPP11) Agreement, both of which followed protracted talks. It is time for Japan to spearhead the establishment of a free trade bloc based on rules and systems of a high standard, and consolidate its position as a leader of free trade and investment in the global market. Another key requirement is strategic financial support for domestic industry that avoids indiscriminate handouts, prioritizing "offensive" and "defensive" investment.

(2) Invest in human resources and innovation, allowing the private sector to take the lead in solving social issues

Japan needs to give thought to devising an energy policy that reflects worldwide trends, and pursue an environmental policy synchronized with its growth strategies. To prepare for this year's amendment of the Strategic Energy Plan, Japan should take energy policy trends in other countries into account and deliberate carefully on its power source mix and related issues. In doing so, the effects in terms of industrial competitiveness should also be considered. Furthermore, Japan should take steps toward reducing greenhouse gases, starting first by disclosing emissions data in easy-to-understand formats, and globally rolling out products and services focused on Japanese technologies to combat global warming.

In reforming areas such as medical and nursing care systems, we need to switch to an approach that considers medical and nursing care services on the

basis of outcomes in terms of quality of life or support for independent living. Having first prepared the data and evidence that will form the basis of the debate, greater use of data-oriented initiatives and leading-edge technologies such as robotics will be required in the medical and nursing care field. Moreover, we must debate further on balancing self-help, mutual help, and public help throughout our social security system. It is time that Japan had the sense of self-worth to lead the world in establishing a conceptual approach and model for overcoming the challenges of an aging society.

In terms of physical amenities too, Japan needs to improve sustainability by choosing and prioritizing options when developing and updating infrastructure and other amenities, taking into account its declining population, dwindling birthrate and aging demographics, and the way digitization and related developments have transformed the structure of industries. In doing so, it will be crucial to make active use of private-sector funding and know-how through concessions or similar arrangements.

Last year, sustainable development goals (SDGs) attracted renewed attention as a key concept in relation to social sustainability. Like other countries, we in Japan need to set SDG-focused objectives across the public and private sectors and consider the mechanisms necessary to achieve those objectives, including mechanisms for monitoring.

(3) Pursue discussions on fiscal consolidation and a strategy for exiting from monetary easing to set out a route to achieving a sustainable society

The economic and social sustainability referred to above is highly dependent on the sustainability of our public finances. There is an urgent need for rigorous enforcement of fiscal discipline and reduction in the issuance of debt-covering government bonds, which are a burden on future generations. Partly due to the need to finance the proposed human resources development revolution, it is now certain that the target of achieving a primary surplus in fiscal 2020 will be revised. I call on the government to stand firm on raising the consumption tax rate to 10 percent in October 2019, to set a realistic, specific target for achieving a primary surplus soon, and to clearly indicate a long-term road map for restoration of sound government finances.

With regard to the Bank of Japan's monetary easing measures, meanwhile, it is now becoming necessary to consider the options regarding an exit strategy and its timing; I look forward to robust discussions on this issue.

In addition, I ask the government to ensure it is committed to evidence-based policy making. Last year, doubts over the government's decision-making arose in a number of different situations. More robust checks and balances (i.e., evaluation and monitoring) by a third party are required, and I hope that further discussion will take place with a view to radically reforming Japan's governing institutions.

It is now, when stable government administration is possible, that the government should take the opportunity to overcome concerns about our future by tackling the intrinsic, fundamental issues affecting Japan's governing institutions and its administrative and financial systems. Keizai Doyukai (Japan Association of Corporate Executives; hereafter, Doyukai) will be proactive in offering proposals for such reforms.

The year before last, Doyukai marked its 70th anniversary by announcing a policy proposal entitled *Japan 2.0: Toward an Optimized Society*. Then, during last year, we proposed and implemented specific measures in different fields based on that policy proposal. Doyukai regards this coming year as key in terms of making a successful start on Japan 2.0, the new era that will start from 2021, and we will be further extending and stepping up the pace of our analysis and preparation.

The various social issues I have mentioned are the leading challenges faced by developed nations, and Japan has been given the opportunity to overcome them ahead of other countries. Now is the time when we corporate executives should break down barriers in our minds based on our past successes and prevail over these social issues.

What is required is real determination to face our future and win through. As corporate executives, we will rise to the challenge with tenacity and commitment.

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