

**Maximizing the Value of Our Nation
Chairman's Remarks at the Fiscal 2018 Annual Meeting**

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Introduction

First, let me thank you all for taking the time to attend our fiscal 2018 annual meeting today. It is my pleasure to speak to you as chairman.

The year before last, Keizai Doyukai (Japan Association of Corporate Executives; hereafter, Doyukai), compiled the policy proposal *Japan 2.0: Toward an Optimized Society*, and at the same time set out a new vision for Doyukai itself entitled *Doyukai 2.0: A Group of Distinctive Individuals with a Sense of Ownership and Initiative*. In line with these proposals, in the last fiscal year we have embarked on reforms of our organization, announcing a new initiative entitled *Organizational and Administrative Reforms to Realize Doyukai 2.0*. These reforms are aimed at attracting corporate executives who demonstrate the ambition and strong leadership necessary to effect social changes, and at bringing Doyukai closer to its ideal as a corps of distinctive individuals who share the same ambition.

During fiscal 2018 we are working to define the Japan 2.0 concept more concretely and in greater depth by illustrating an easily understandable vision for the “optimized society” of 2045. At the same time, we are examining and discussing what the country and companies should do henceforth to bring about such a society, with a view to drafting a corporate executives’ declaration on Japan 2.0 around six months from now.

I. The Virtual and the Real: Issues in Both Worlds

1. Responding to Digital Dictatorship

Some people are predicting that in 20 to 30 years or so the rapid progress and proliferation of technologies such as AI will lead to the advent of an era of digital dictatorship in which “Dataism,” or possession of data, will be a source of power, and an elite minority that possesses data will employ AI to rule society. This is only one point of view, of course, but it is nevertheless a fact that economic disparities between those who monopolize data and those who do not are growing.

Within this context, in June last year China enforced its cybersecurity law regulating

cross-border transfer of personal information and important data, and next month the EU will enforce its General Data Protection Regulation (GDPR), providing greater protection for personal information.

In Japan, guidelines are in the process of being drawn up to enable the protection of personal information to be recognized as fulfilling the requirements of the European GDPR. However, serious discussion is yet to be started about how Japan will deal with the widening economic disparities arising out of disparities in access to information, or how Japan will preserve a democratic society based on the social norms of cooperation, justice, and morality.

At G20 summit meetings, the appropriate taxation system under a digitalized economy has been actively discussed. Next year Japan will host the G20, and to enable it to play a leading role in such discussion, I would like the government to lose no time in examining the pros and cons of Dataism's influences on institutions and policies such as democracy, tax systems, competition policies, and intellectual property rights, as well as studying how to respond to those influences. At the same time, we as corporate executives must become more attuned to these cutting-edge developments and discussions, spearheading efforts to transform companies and create new businesses.

2. Confronting Nationalism

Nationalism and protectionism are emerging globally, particularly among advanced nations. In the EU member countries, political parties advocating an anti-immigration policy are gaining momentum. Competition over trade restrictions centering on the US and China has been triggered by the US actions of punitive import duties on Chinese products in response to Chinese intellectual property infringements and the imposition of tariffs on imported steel and aluminum. Taken together, these developments raise concerns that the currently buoyant global economic growth could stagnate.

As the globalization of value chains advances, multilateral liberalization of trade and investment has become increasingly important to underpin companies' earning capacity. As a country that has profited from free trade, Japan needs to continue working to ensure prompt implementation of TPP-11 (CPTPP) and the EU-Japan EPA, as well as early finalization of negotiations on the Regional Comprehensive Economic Partnership (RCEP). Furthermore, Japan should take advantage of new frameworks for negotiation on trade and investment agreed at the G20 and other forums for multilateral negotiation, as well as bilateral summits between Japan and the US, to call for a rational response from the countries concerned by

communicating a fact-based view of the negative effects of protectionism.

Meanwhile, Japan's national security environment is also unpredictable. Developments in North Korea give some cause for optimism, with today's summit between North and South Korea at Panmunjeom expected to produce a fairly positive exchange and a summit between the US and North Korea scheduled for May or June. However, Japan remains exposed to major geopolitical risk such as the situation in Syria and relations between the US and Russia, as well as potential negative effects on the Middle East region after the US recognized Jerusalem as the capital of Israel. We must therefore continue to keep a close watch on those developments.

II. Japan 2.0: Three Governance Reforms to Maximize the Value of Our Nation

As digital dictatorship threatens democracy and the nationalist behavior of major powers upsets the global order, Japan must not lapse into a mental block, but instead must come up with solutions. We must ensure that the progress and proliferation of AI do not turn Japan into an unequal society where there are a handful of elite citizens alongside a vast majority of citizens depending for their livelihoods on a state safety net. To avoid such a scenario, what should the government and companies do now to foster a new middle-class that can preserve the value of our nation? During the three years left until the start of Japan 2.0 in 2021, I want all of us to work together to find the optimal solution.

I described one approach to this challenge in my remarks at the fiscal 2016 annual meeting. This is the attempt to envision an optimized society referred to as Japan 2.0 by considering national value in terms of three axes: achieving economic prosperity, using innovation to forge our future, and ensuring sustainability of society.

If we are to make the most of Japan's strengths and maximize the value of our nation amid the rising tides of globalization, digitization, and socialization,¹ governance will be more important than ever. As competition among nations intensifies, discussion in the Japanese Diet has stalled and we are making no progress in finding solutions. This applies not only to issues for the future, such as how to respond to Dataism, but also to issues that have been apparent for more than 20 years, such as fiscal consolidation.

¹ 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.

This state of affairs causes me to experience a profound sense of danger regarding the governance of Japan as a nation.

I would now like to describe my understanding of the issues, focusing on the three axes, X, Y, and Z, and “governance” of the respective entities that are primarily responsible for each axis: companies, universities, and the nation.

1. Achieving Economic Prosperity (X Axis): Strengthening Corporate Governance

In order to maximize the value of our nation, we must first and foremost achieve economic prosperity, or sustained growth in GDP. I believe, therefore, that companies have a major role to play. Entities such as platform providers now offer a variety of services free-of-charge in return for users’ provision of their data, and substantial issues remain regarding methods used for measuring added value and utility. Companies must therefore remain closely attuned to changes in society’s needs and—to use an analogy—strive to maximize the sum total of the economy with weight and the “weightless” economy.

The governance of Japanese companies has improved dramatically following moves such as the introduction of the Corporate Governance Code and the Stewardship Code. Of companies listed on the First Section of the Tokyo Stock Exchange, the percentage that have appointed two or more independent outside directors has reached 88 percent, and average ROE is expected to exceed 10 percent based on results for fiscal 2017. We corporate executives need to continue responding rapidly to changes in society and the structure of industry in order to maintain and enhance capital efficiency.

At the same time, we must face up to the fact that a series of corporate scandals involving falsification of data and other infractions has taken place. Risk management and compliance rank alongside bold risk-taking as the most crucial of all business management responsibilities. I believe that senior management must show determination and construct internal control mechanisms that ensure bad news in particular—such as wrongdoing in workplaces or legal violations—is escalated quickly.

2. Using Innovation to Forge our Future (Y Axis): Strengthening University Governance

The second axis of national value is “using innovation to forge our future.” The digital economy drives economic growth, but the focus is shifting. The phase during which virtual data on the Web generates value is now giving way to a new phase. The accumulation and analysis of real data relating to such areas as medical and

nursing care, agriculture, and safety and security are utilized to bring about innovation, add value, and improve efficiency so that social issues can be solved. This phase, requiring the fusion of the real and the virtual, is a chance for Japanese companies to win an advantage, and it is therefore imperative to reform Japanese universities into places conducive to the fusion of knowledge. In October I plan to send a chairman's mission to the US West Coast, and to Silicon Valley in particular, to focus primarily on innovation ecosystems and study what the universities should look like as nuclei of such ecosystems. This mission will follow on from last year's missions to Paris and London.

In its growth strategy of 2013, the Japanese government set the goal of placing more than ten Japanese universities within the ranking of top 100 world universities in the next ten years. Now we are at the halfway point, however, the number of universities within the top 100 remains unchanged at two, and the three universities that were ranked between 101 and 150 have all dropped down to rank below 201.

Against a backdrop of intensifying competition among universities worldwide, research universities need to devise integrated, coordinated strategies and reform their governance. This should enable such universities to bolster their capacity for innovation, for human resource development, and for fundraising by collaborating with industry and government in the fields of AI, autonomous driving, materials development, and optical and quantum technologies. I hope the university governance code that the Japan Association of National Universities and other parties have now started deliberating will serve to boost the initiatives of motivated universities addressing strategic reform. In addition, I intend to be proactive in sharing with universities the experiences and insight of corporate executives regarding corporate governance and management.

I believe that, as the number of 18-year-olds within Japan's population declines, the government should draw up a "grand design" for higher education. It should identify the type of higher education institutions required in terms of their academic specialties and size, and their region, and include provision for recurrent education. The "free higher education" that is to be introduced for low-income households in fiscal 2020 is designed to ensure educational opportunity for motivated students, but it must not preserve universities of questionable sustainability in terms of their financial operations and educational quality, thereby bringing down the overall quality of higher education.

In conjunction with the above, the government needs to expedite investigations into the best measures for primary and secondary education covering subjects such as

statistics in order to develop the even younger generation of human resources required for the mid-21st century, when AI and quantum computing technology will be widely utilized.

3. Ensuring Sustainability of Society (Z Axis): Strengthening State Governance

The third axis of national value is “ensuring sustainability of society” and it shares the same approach as the United Nations’ sustainable development goals. The key issues with regard to the Z axis are, without question, public finances and social security.

Doyukai has been considering how to achieve fiscal consolidation since the late 1990s, offering numerous recommendations on such issues as the type of tax and social security reforms required based on long-term fiscal projections.

Since 2001, the government’s fiscal consolidation target has been achievement of a primary surplus, but factors including over-estimation of the assumed rate of growth have caused repeated postponement of the year in which a primary surplus is expected. In essence, the key to fiscal consolidation is careful management of spending, and fundamental reform of the social security system is therefore essential. But the reduction in expenditure achievable through social security reform would be limited to approximately 5 trillion yen by fiscal 2023, even if the measures currently under consideration met with unqualified success. Given that the primary deficit in fiscal 2018 is in the region of 16 trillion yen, the inescapable reality is that we must push ahead with approaches such as data-based healthcare to add more value and improve efficiency in medical and nursing care, as well as implementing reforms on the revenue front, in particular by raising the rate of consumption tax.

In order to set out clearly what Japan needs to do in preparation for the start of Japan 2.0 in 2021, Doyukai recently produced long-term fiscal projections up to fiscal 2045 based on the Economic and Fiscal Projections for Medium to Long Term Analysis released by the Japanese government’s Cabinet Office in January this year. Assuming that growth continues in line with the Baseline case, raising the consumption tax rate by one percentage point each year from 2021 onward would result in a primary surplus when the rate reached 14 percent in fiscal 2024. It would subsequently be necessary to raise the rate to at least 17 percent to prevent the primary balance from reverting to a deficit before fiscal 2045. In addition, we established that, if growth in productivity were to remain at around 0.3 percent, a rate increase to 22 percent would be necessary.

In its Basic Policy on Economic and Fiscal Management and Reform to be

announced in June this year, the Japanese government is expected to present new targets for fiscal consolidation and a timetable for their achievement. I urge the government to make the earliest possible start on considering increases in the consumption tax rate beyond 10 percent, and to set a clear course for advancing data-based healthcare and otherwise reforming the social security system by fiscal 2022, when the baby boomer generation will start reaching the age of 75.

Doing so will also require a radical overhaul of the social security funding structure, which currently comprises individuals' copayments, insurance premiums, and taxes. I believe that we should follow in the footsteps of a number of other countries and set up an independent body to objectively verify the nation's fiscal condition and monitor the government. This would ensure that the government cannot ignore the inconvenient truth and go on postponing fiscal consolidation measures that will have a huge effect on the sustainability of our society. Doyukai will also play a part in this verification by paying close attention to government initiatives and voicing opinions.

In a situation where social security costs have increased and the burden needs to be redistributed, Japanese citizens' trust in politics and government will be even more crucial than hitherto. In the process of more concretely defining the Japan 2.0 concept, therefore, I want Doyukai to review the positive and negative effects of the political and governmental reforms enacted in the 1990s and examine how to optimize national and local government. This should include considering the establishment of an independent body to monitor state governance.

The government's targets relating to its growth strategy have also been subject to major delays. Japan's weak points are low levels of digital literacy and slow progress with digitization, as epitomized by the stagnant situation regarding the My Number personal identification system introduced nationally in 2016. To maximize the value of our nation it will be vital to bolster the competitiveness of Japanese government. We need to use the Blockchain technology commonly employed primarily in fintech to overhaul the way organizations and human resources are set up throughout both national and local governmental agencies and to boost the efficiency of administrative procedures.

Ultimately, a government is the result of aggregating citizens' individual capacity to choose. Issues faced by the government are also issues faced by individual residents of the country. In a situation where democracy is exposed to threats such as digital dictatorship and fake news, we must also invest effort in citizenship education to foster citizens who will contribute to society.

As an action-oriented policy group spearheading reform, Doyukai intends to continue its efforts to cultivate understanding of fiscal consolidation, democracy, and digital literacy through its *Forging Our Future Together Project*.²

Conclusion

The Mission Statement at Founding of Doyukai announced in 1946 stated, “The Japanese people must discard their old robes, and they must weather the current storm of economic, moral and ideological ruin and confusion to erect a completely new order.” Since then, 72 years have passed, and we are facing a period of social transformation triggered by the advance of globalization, digitization, and socialization.³ Now more than ever, we as business leaders need to continually put forth sound arguments based on foresight and conscience and act as a group of corporate executives with a keen awareness of public opinion.

In terms of responding to the new era of a digital society, we will be starting over from scratch. Faced by modern-day challenges in striving to bring Japan 2.0 to its culmination, we should pause to think of our predecessors’ ambitions. As we seek to revive Japan, surely, “Now is the time for all of our members to join forces, for each to encourage and prod the other, to share the best fruits of our minds, and to concentrate all our forces on the reconstruction of the Japanese economy.”

Doyukai maintains a politically independent position, aiming to be timely and proactive in putting forth policy discussions for the political establishment and the government. We also aim to make use of forums such as our “terrace⁴” so that we can avoid confining ourselves only to discussion among corporate executives, and can instead stimulate discussion more widely.

In closing, I would like to ask all our members to actively participate in and support Doyukai’s activities.

Thank you for your attention.

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² The *Forging Our Future Together Project* is aimed at providing forums for Doyukai’s members to collaborate with a wide range of stakeholders in the society. By such means, we aim to shape public opinion from a wider perspective and take Japan forward to a new stage of development.

³ See footnote regarding “socialization” above.

⁴ “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.