

Aiming for a Year in Which We Break with Convention

2019 New Year Message

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We have entered the final year of the Heisei imperial era amid continuing expansion of the Japanese economy beyond the 57-month record set by the Izanagi Boom between 1965 and 1970. If the current economic expansion, which started in December 2012, continues throughout January 2019, it will break the existing 73-month record for Japan's longest period of postwar expansion.

Nonetheless, Japan's economic prospects allow little cause for optimism from a broader perspective, given the Nikkei stock average's plunge below 20,000 at the end of 2018 to its lowest level for the year, and the current worldwide situation.

1. Risk of Dysfunction in the International Framework

The three rising tides of transformation currently sweeping the world in the form of globalization, digitalization (pervasion of artificial intelligence [AI]), and socialization¹ are bringing real change not only economically, but also in three relationships that affect every conceivable aspect of society: the relationships between the real and the virtual, added value and utility, and the individual and the group.

We need only look back at last year to see that, at the 24th Conference of the Parties to the United Nations Framework Convention on Climate Change (COP24) the interests of the advanced industrial nations and developing countries were sharply opposed, and it was only after extending the conference that the rulebook for the Paris Agreement's full implementation from 2020 onward was finally approved. Also in 2018, the Economic Leaders' Meeting of Asia-Pacific Economic Cooperation (APEC)

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.

closed without reaching agreement on a joint statement for the first time ever.

As digitalization (pervasion of AI) advances, conflict among nations over data supremacy has intensified. Increasing vigilance with regard to monopolization of data by global platform providers based in the United States has been accompanied by tightening of regulations protecting personal data as part of competition policy. China, for example, strengthened state control over data, and the EU enforced its General Data Protection Regulation. Meanwhile, APEC established Cross-Border Privacy Rules governing data transfer within the APEC area.

In addition to the above, standoffs arose between the United States and China over retaliatory tariffs, intellectual property rights, and 5G communications infrastructure technology. With the emergence and intensification of nationalism, the international order and frameworks developed to date could break down and lapse into dysfunction. Indeed, the global situation is currently such that even the risk of moving toward a new Cold War must be taken seriously.

2. The Need for a Sound Sense of Urgency among the Japanese Public

Japan, meanwhile, is distinctly lacking in a sense of urgency, despite the world's present situation. According to the Cabinet Office's Public Opinion Survey on the Life of the People conducted in June 2018, 74.7 percent of the Japanese public are satisfied with their current lives.

Superficially, our society is exceptionally calm, uneventful, and carefree; Japan can justly be described as a country rejoicing in peace. But the Japanese public need to wake from this reverie and adopt a sound sense of urgency. First and foremost, we must gain a firsthand understanding of the reality on the ground, and confront our situation head-on.

Japan remains third in the world in terms of GDP, which indicates the size of a nation's economy. However, China's GDP is more than double that of Japan, while US GDP is nearly four times Japan's, and these gaps are set to widen further. In terms of prosperity, Japan ranks 17th among Organisation for Economic Co-operation and Development (OECD) member states for GDP per capita (as of 2017), and it has dropped to 21st position (as of 2016) for labor productivity per worker, which is the source of GDP per capita. In 2013, moreover, the government presented its *Japan Revitalization Strategy: Japan is Back*, in which it announced the intention to improve Japan's business environment, aiming to be ranked in the top three among developed countries by 2020. Having ranked 15th in the World Bank's Ease of Doing Business ranking in 2013, Japan dropped steadily down to 26th position in 2017, and in 2019 remains in 25th place (out of 36 OECD member states; as of November 2018).

In the spheres of public administration and finance, administrative reforms leveraging digitalization are behind schedule. A particularly notable example is Japan's "My Number" personal identification system: issuing of the relevant cards started three years ago, but still only 12 percent have been issued, while no obvious improvements have been achieved in public services or administrative efficiency.

With regard to fiscal consolidation, the primary balance surplus the government was aiming to achieve by fiscal 2020 has been postponed by five years. Furthermore, the budget proposal for the fiscal year starting April 2019, which assumes a consumption tax rate increase to 10 percent in October 2019, has topped 100 trillion yen for the first time ever. These courses of action can only be described as approaches bound by convention that may lead to bankruptcy of the nation.

Since fiscal 2016, Keizai Doyukai (Japan Association of Corporate Executives; hereafter, Doyukai) has dispatched six chairman's missions overseas. With regard to innovation especially, in the "start-up nation" of Israel I was very aware of an entrepreneurial spirit epitomized by "chutzpah" and the creativity to make something out of nothing, as well as the audacity and nerve necessary to succeed in business; I was also impressed by the education that forms the wellspring of this young, gutsy country.

In the United States I heard some harsh truths about Japan's engagement with computational design thinking, which employs AI-based big data analysis to design brand-new business models and societies. I was informed that Japanese companies implementing the method are nonexistent, and that Japan is lagging far behind.

In China, when I visited two and half years ago I was inspired by the entrepreneurs who had no hesitation in saying that the barriers of legal regulation were constantly standing in their way, but if they did not have the courage to keep moving forward they would not survive. And during the second mission to China last month, developments including the electric vehicle market—which has grown dramatically since the turn of the century—and the permeation of the cashless economy throughout society enabled me to appreciate again at first hand the explosive business expansion capability that can increase scale from one to 100, or from one to 10,000, as well as the world-leading 5G communications infrastructure technology.

For Japan to keep up with the rest of the world amid societal globalization, we must transform ourselves in a number of ways, including in terms of creativity and speed. First of all, however, we need to nurture a sound sense of urgency among the Japanese people by fully disclosing information to enable individuals to understand data and evidence as the basis for repeated dialogue.

3. The Four Areas in Which We Must Break with Convention

In December last year Doyukai compiled a policy proposal entitled *Japan 2.0: Designing an Optimized Society*, aimed at realizing a vision of society according to a “national 100-year plan.” In specific terms, an optimized society is one in which maximizing the value of our nation and increasing the sustainability of society form a virtuous cycle. The vision of society we should strive for in 2045 is one characterized by fair competition and equitable distribution.

Amid concerns about a rapid business downturn following the Olympic and Paralympic Games to be held in Tokyo in 2020, we gained a new goal of making the World Expo 2025 in Osaka a success. I want 2019 to be the year in which we break with convention, so that in terms of these events, and in other ways, we can ensure a good start for the optimized society known as Japan 2.0, which is due to launch from 2021. Described below are the four areas in which we must free ourselves from convention with the understanding and participation of all stakeholders in our society.

(1) Free ourselves from politics based on short-term thinking by talking to young people about Japan’s future

Assuming that globalization continues, strong political leadership is essential if we are to change Japan under a national 100-year plan. One cannot help feeling, however, that often the primary goal of political action in this country is to focus entirely on Japan, or on a particular constituency, with the aim of winning the next election. It is undeniable that politics prioritizing the interests of older constituents—known as “silver democracy”—accompanying Japan’s demographic aging has made it even more difficult to rectify inequities among generations and has sapped economic and social vitality.

In order to break with this convention we must encourage young people to participate in politics by talking to them about Japan’s future and fundamentally overhaul our current politics, based as it is on short-term thinking.

The year 2019 heralds a milestone that occurs only once every 12 years: there will be nationwide local elections in April and an election for the House of Councillors in the summer. As such, it is a golden opportunity to reflect the will of the electorate in politics. The House of Councillors election in particular is a focus of attention as the first election since the number of Upper House seats was increased via revision of the Public Offices Election Act last year. In the previous House of Councillors election of 2016, which followed the extension of voting rights to 18-year-olds, voter turnout was 46.78 percent among those aged under 20 and 35.60 percent for those in their 20s, both substantially below the 54.70 percent turnout for all ages. I therefore want to ask companies, educational institutions, local administrations, and other entities to do their utmost to address

and help deal with the issue of raising voter turnout among the young people who will be responsible for Japan in future.

Furthermore, as a medium-term initiative, we must look in greater detail at how we can create an environment that makes it easy for young people to vote, such as by enabling online voting and absentee voting for those who move residence to attend a particular school or who are studying overseas. At the same time, we must advocate for the importance of citizenship education and continue endeavoring to improve political literacy.

(2) Use digitalization to free ourselves from public administration based on sectionalism and a culture of paper documentation and personal seals

The true aim of administrative reform is to make administration more streamlined, efficient, and transparent, and to achieve greater convenience for the public. Japan has kept pace with the development of information and communications technology, expending large sums of money on adoption of various automated systems, but the Japanese public have not really benefitted from these as much as they ought to have done. It is precisely now, when the digital transformation of society is under way, that public administration too should free itself of the sectionalism and the culture of paper documentation and personal seals that have prevailed for so long.

As a means of opening the way, the first requirement is to make progress with digitalization of administrative services by submitting a “Digital First” bill to the regular Diet session and getting it approved soon.

The area that should be of greatest relevance to the public is the use of “My Number” personal identification numbers. In this regard, the provisions of Article 9 of the relevant act—which allows the individual numbers to be used for public administration only—need to be amended to allow them to be used in the private sector as well. Other measures required as soon as possible include combining the health insurance card and the “My Number” card into a single card, and enabling official personal authentication via smartphone.

Furthermore, the central government should create a collective framework for developing the IT systems of local public authorities to ensure standardization and more efficient IT investment through use of innovations such as cloud computing.

(3) Free ourselves from the risk of returning to bloc-based protectionism and a new Cold War

Having experienced two major wars, the world managed to achieve economic development and resolve disputes by building international frameworks such as

the United Nations, the International Monetary Fund, and the World Trade Organization. Looking back over the past, the process leading up to the Second World War was characterized by formation of closed economic blocs, while the war itself was followed by a long period of Cold War. And now, the risk of returning to bloc-based protectionism and Cold War is once again rearing its head. At this point in time, humankind must avoid repeating the same mistakes.

Under long-term stable government Japan has deployed a form of diplomacy that takes a global overview, and the role played by such diplomacy is enormous. This year too, we should hope that such diplomacy will be deployed even more actively, while companies should also strive to cooperate and contribute even more.

This year marks the first time that Japan will host meetings of the G20, including the G20 Osaka summit to be held in June. Japan must seize this period until the end of November 2019 as the perfect opportunity for it to exercise leadership as the standard-bearer for free trade.

Amidst a worldwide struggle for data supremacy, moreover, Japan should get actively involved in creating an international framework for data policy. As a rule appropriate to the era of “data democracy,” the treatment of rights relating to handling of data used in the private sector requires that we first protect the rights of individuals, then seek to maximize utility.

(4) Free ourselves from low-profitability business management by breaking down the barriers inside corporate executives’ minds

Japanese corporate performance is currently strong and returns on equity (ROE) are improving. From an international perspective, however, breaking away from excessive competition, low productivity, and low profitability remains the issue for Japanese companies. Unfortunately, moreover, scandals involving companies occurred one after the other again in 2018. This year, 2019, is therefore the year in which Japan’s corporate executives must break down the barriers inside their minds and free themselves from traditional management paradigms.

It is now beyond doubt that a new era will arrive in which higher levels of transparency and accountability will be demanded, and technology will make it possible to capture information of every type conceivable. In this new era, events that hitherto caused no problems, or physical objects and actions that previously remained concealed, could be capable of seriously damaging corporate value. Corporate executives should therefore be brave and pull back the covers that conceal inconvenient truths.

They should, moreover, seek solutions to issues on the global agenda by selecting and focusing their business resources and taking bold risks to try out

new businesses as a means of achieving high levels of productivity and profitability. It is above all corporate executives who must be quick to switch the paradigm from the tangible to the intangible, and from there to human well-being, and must be the drivers of management that will generate new forms of added value in the era of human well-being.