

Toward a Resilient Society That Chooses Change and Allows Challenge

2023 New Year Message

January 1, 2023
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I. A Year to Step toward Realizing “a Society Co-created by Its *Seikatsusha*”¹ with Awareness and Pride in the Renewed Era of Corporate Executives

Last year, Keizai Doyukai proposed “a society co-created by its *Seikatsusha*” through the choices and actions of *Seikatsusha*. This is aimed at a sustainable and cyclical new capitalism with diverse individuals as the core, where individual *Seikatsusha* generate value making use of the ambitions of individuals and the strengths of organizations, and the fruits of growth inclusively spread to every corner of society.

For Japan to escape from the “lost 30 years” as quickly as possible, we corporate executives must recognize and take pride in 2023 as the beginning of a renewed era of corporate executives, and boldly take on the challenge of innovation. We also want 2023 to be a year when we step toward the realization of a society co-created by its *Seikatsusha* advocated by Keizai Doyukai.

II. Creating a Resilient Economic and Social Foundation That Supports Choices and Challenges

The spread of COVID-19 revealed the frailties of Japan’s economy and society and provided an opportunity to encourage the digitalization of the economy and society. The emergence of geopolitical risks starting with the war in Ukraine and economic security risks threatens the stability and sustainability of global supply chains, and we are required to make preparations for heightened tensions and the absence of hegemony. The declining birthrate which continues to advance is also a major risk to the resilience of society.

For individual *Seikatsusha* to securely choose change and take on the challenge of creating value in an era when global uncertainty and tension have risen significantly, it is necessary to establish a resilient economic and social foundation that supports choices and challenges. What are particularly important are (i) industry and company renewal, and smooth labor mobility; (ii) social security that is neutral on work styles.

¹ The Japanese term *Seikatsusha* means all individuals, who have multifaceted roles as consumers, workers, members of families, and participants in communities. The term also encompasses all active stakeholders in Japan, including organizations run by individuals of the society.

and sustainability of public finance; and (iii) realization of a level playing field toward creating world-class innovations. These form the foundation for the creation of disruptive innovations for the resolution of social issues led by the private sector.

1. Industry and Company Renewal, and Smooth Labor Mobility

While price rises are advancing in other countries along with wage increases, in Japan, cost-push inflation is becoming an issue. Because Japan's economic and social system has depended on internal labor markets, the external labor market is immature. Labor mobility across industries and companies is obstructed, and a vicious cycle has continued in which productivity stagnates and wages stagnate. To create a society with continuous mild wage increases, a virtuous cycle of renewal of industries and companies, wage increases from smooth labor mobility through an external labor market, and workforce reskilling which supports these is essential.

(1) Streamlining Resource Allocation through Industry and Company Renewal

Large corporations make use of capital strengths, technological capabilities, and human resources, among other assets, to advance open innovation with partners such as startups, universities, and research institutions. They pursue mergers and acquisitions, renew existing businesses, strengthen their earnings power, and bolster innovation investment. They also reinforce their organizational strengths, primarily by promoting diversity and inclusion and accelerating decision-making.

The revitalization of small and medium enterprises, which account for 70% of employment, is equally important to efficiently allocate limited resources and boost the productivity of the Japanese economy. To those ends, the stereotype that “small and medium enterprises are the weak” should be changed, and there should be a radical transformation to policies to draw out the animal spirits and investment appetite of corporate executives. The fact that the function of interest rates has not been working adequately as a result of long-term monetary easing is another factor obstructing the renewal of industries and companies. From the perspectives of the financial intermediation function, a change in monetary policy is required in the not-too-distant future.

(2) Invigoration of an External Labor Market That Supports Smooth Labor Mobility

Along with the recovery in economic activities from the COVID-19 pandemic, labor shortages are becoming even more severe than before, depending on the industry and company. This is an opportunity to advance fundamental labor market reforms that strengthen the external labor market function and

encourage human resources mobility. The government should remove factors that hinder smooth labor mobility—in particular, through the abolishment of the year-end tax adjustment system that assumes a work style of obtaining salary income by belonging to a single organization and of the retirement benefit tax system that gives preferential treatment to long-term employment of more than 20 years—and rush to realize a society where income sustainably increases.

In encouraging human resources mobility across industries and companies, it is important to enhance the direct support of individuals and the safety net. For example, whereas 75% of the government budget to support employees is executed via companies, the payment of benefits directly to individuals should be advanced utilizing the My Number system, the registration of accounts for receiving public funds, and so forth.

The invigoration of the external labor market is equally important for encouraging company efforts for the retention of motivated personnel. As the reform of the economic and social structure accelerates, to establish the reskilling of individual workers, companies also must rush to expand mid-career hiring and accelerate revisions of their training, promotion, and evaluation systems.

(3) Fostering World-Leading Personnel and Revising Policies on Foreign Nationals

Last year, the number of births in Japan fell below the 800,000 mark. Declining birthrates and the aging of society are common issues worldwide, with East Asia at the forefront. To realize a world-leading society co-created by its Seikatsusha, Japan must continue to create innovations that resolve social issues. Continually producing value-generating personnel who discover and resolve issues themselves is also a pillar of resilience, and fundamental reform from an educational system that has been suitable for a catch-up economy should be hastened.

Japan's presence in the global economy is further declining amid the current depreciation of the yen. For hiring and promotion of talented personnel inside and outside of Japan who are capable of leading digital transformation (DX) and green transformation (GX) and resolving social issues, efforts to maintain and boost Japan's attractiveness to foreign personnel are essential. While rushing to enhance basic infrastructure for high-level foreign personnel including facilitation and simplification of the acquisition of residence status, the education environment for their children, and English-language infrastructure, discussions on revising the systems for specified skilled workers and technical intern training should be accelerated.

2. Social Security That Is Neutral on Work Styles, and Sustainability of Public Finance

Social security resilience and inclusiveness are important to make it possible for individuals to choose change without anxiety. In addition, considering that large amounts of public funds are spent to support social security systems, the realization of a sustainable public finance structure is essential to maintain a resilient safety net.

(1) Construction of an Employment Safety Net That Is Neutral on Work Styles

As the declining birthrate and the aging of society accelerate, and distortions in the population structure expand, fundamental reforms of benefits and burdens including the medical and nursing care insurance systems are necessary. First, revision of the employment insurance system, which was designed presuming that workers are employed full-time, should be advanced in order to hasten the shift to an employment safety net and capacity development support that are neutral on work styles. As the number of births declined at a faster-than-expected pace under the COVID-19 pandemic, the revision would also be effective to expand those eligible for childcare leave benefits and increase the efficacy of countermeasures to the declining birthrate.

(2) Strengthening the Discipline of Supplementary Budgets, and Effective Budget Compilation

Deferring burdens to future generations amplifies anxiety about the future and prompts declines in the number of births. While exiting the crisis response public finances of the COVID-19 countermeasures and countermeasures against rising prices as quickly as possible, the government should return to the provisions of Article 29 of the Public Finance Act and strengthen the discipline of supplementary budgets, which have become massive.

In the growth strategies and other initiatives drafted each year, to date approximately 800 policy menus have been decided by the Cabinet, and as a result the Japanese economy has lost 30 years. To steadily advance the DX and GX that the government is focusing on this time for certain, considering reflections on the huge unused amounts and amounts carried forward to subsequent fiscal years in the budget for COVID-19 countermeasures, from now on the government should set key performance indicators (KPIs) and compile budgets emphasizing execution and outcome and repeat the plan-do-check-act cycle in a highly transparent manner.

3. Realization of a Level Playing Field toward Creating World-Class Innovations

The realization of a level playing field is essential to create world-class innovations. As the declines of the domestic accumulation of capital and the working-age population advance along with the progress of the declining birthrate and the aging of society, this is also essential to increase foreign direct investment (FDI) into Japan and the inflow of personnel with globally competitive strengths, both of which will be key to sustained economic growth.

(1) Globalization of the Startup Ecosystem, and Establishment of a Culture That Values Challenge

The government formulated its Startup Development Five-Year Plan last year. Not only to expand the base of entrepreneurship, but also to sustainably generate innovation that is supported worldwide, it is imperative to realize the globalization of the ecosystem surrounding startups and establish a culture where each individual Seikatsusha respects the stance of challenge and learning from failure.

(2) Reinforcing Digital Infrastructure, and Renewing Methods of Regulatory and System Reform

One issue made clear by the COVID-19 pandemic and the 2011 Great East Japan Earthquake is that the digitalization of Japanese society lags behind. While one policy measure was the creation of the Digital Agency, the sense of crisis among citizens is weakening; and the digitalization and platforming of government services and health and medical information is stagnating, including local government bodies. To prevent a repeat of the same problems when the next crisis occurs, the digitalization of the economic and social infrastructure should be accelerated anew as crisis preparation, starting with promoting the use of the basic infrastructure My Number.

Furthermore, amidst the advance of the platforming of industry, it is necessary to renew the methods of regulatory and system reform that have been advanced by each of the competent sectoral ministries based on the traditional classification of industries.

(3) Stable Supply of Clean and Economic Electric Power

Amid the irreversible advance of the digitalization of the economy and society, the importance of clean and economic electric power supply is only rising from the perspective of economic security and to increase FDI into Japan as well. To break through the conditions whereby electric power saving is requested because the reserve margin fell below 5% in the supply-demand outlook, in the short term it is necessary to restart 17 nuclear reactors including those located in eastern Japan and to advance energy conservation at data centers

and other facilities. In the middle to long term, the roadmap to steadily achieving the goal of carbon neutrality should be clarified; and while inducing active investment by enhancing the predictability of companies, KPIs on the effects of GX investment should be drafted on an outcome basis to consistently deliver results.

(4) Making Global Supply Chains More Resilient

The prolongation of the war in Ukraine has brought about a renewed awareness of the importance of energy and food security among the Japanese people. Japan needs to respond to geopolitical risk and economic security in coordination with countries that share the values of freedom, democracy, human rights, and the rule of law, and work to make the global supply chain more resilient. For that purpose, Japan should promote technology cooperation between the public and private sectors and rectify the delay in the execution of innovation-related budgets caused mainly by the labor shortage in the public sector.

At the same time, now that the 100th anniversary of the 1923 Great Kanto Earthquake is approaching, decisions must be made on the approach to the renewal and removal of superannuated roads, bridges, and other public infrastructure considering fiscal capacity and the distribution of population.

Finally, the stable provision of goods and services to consumers is one of the important duties of companies. Toward that end, we corporate executives will strive in particular to make the supply chain more resilient including transportation and delivery network, revalidate business continuity plans concerning major natural disasters and epidemics, and promote personnel exchange with public research institutions.