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Creating a New Socioeconomic System — A Reiwa Model of Collaborative Capitalism —

Chairperson's Remarks at Fiscal 2024 Annual Meeting

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Introduction – Japan at a Turning Point in an Era of Geopolitics

After more than two decades in a deflationary spiral, we are beginning to see the light at the end of the tunnel. Looking around the world, the return of an era of geopolitics and the resurgence of realpolitik are distinctly foreseeable, with our nation also caught in the turbulent currents. As Japan's economy and society face a once-in-decades turning point, I would like to discuss what actions Keizai Doyukai should be taking.

1. Regaining the Dynamism of Capitalism

This year we have truly witnessed the spring of wage increases. Just a few years ago, no one could have imagined seeing large-scale wage hikes across industries. Companies secure and develop top talent through wage increases. This talent drives innovation, giving rise to new products and services, enabling companies to enhance the value added to their pricing. Consumers who have seen their incomes increase due to wage hikes also respond—restarting the long-stalled engine of economic growth.

The era of deflation, where maintaining the status quo and taking minimal action were considered the optimal approach, is coming to an end. We are entering an era of inflation, where inaction will inevitably result in falling behind. Moreover, geopolitical upheavals are hindering free trade, and the artificial restructuring of supply chains is imposing new

costs on economic activities. Global inflationary pressures are unlikely to ease anytime soon.

In this new era, what is required more than ever is the ambition and drive to take risks to break new ground, overcome constraints, and pioneer the future—*animal spirits*. We must cast aside the deflationary mindset that has taken firm root over the past three decades, reignite innovation along with our feral nature, and reclaim the dynamism of capitalism.

Though some say “Japan is back,” we should not misinterpret this. While the end to the prolonged downturn is in sight, the path to regaining growth will not be easy. Companies that invest in talent, innovate, and deliver greater added value will attract even more capable individuals, while companies that do not may see talent leave and be forced to exit markets. The dynamism of capitalism that drives economic growth is predicated on fierce competition and metabolism.

Growth of the overall economy is meaningless unless it leads to social prosperity and people’s well-being. Indeed, looking around the world, excessive greed in capitalism has led to serious divisions and put societies in crisis. We must regain growth, but at the same time, we should not repeat the mistakes made by countries that experienced growth during our 30 years of stagnation.

2. Creating a Cycle of Collaborative Capitalism Predicated on Growth

Since taking office as Chairperson, I have advocated the concept of *collaborative capitalism*. Regrettably, due to insufficient effort on my part, the idea has yet to be adequately communicated. What I want to emphasize here is that at the foundation of collaborative capitalism is capitalism based on growth through innovation. Collaborative capitalism demands that the corporate world go beyond the one-dimensional social contribution of returning profits generated from growth back to society. Through cooperation with the social sector such as NPOs working to solve social issues, companies become necessary and indispensable members of society.

Companies abandoned by society cannot survive. Conversely, strong ties with society enhance corporate resilience, lower hurdle rates, and reduce future risk premiums. In other words, such ties can enhance corporate value. Furthermore, a company’s commitment and purpose to coexist with society attracts capable talent and becomes a

driving force for new innovation.

The provision of funds and technology from the corporate world to the social sector will strengthen the social safety net—which is insufficient when relying solely on self-help and public assistance in an aging society with declining birthrates—by leveraging the power of collaboration. As a result, inclusiveness and flexible resilience will emerge in society, allowing all people to ignite their animal spirits, paving the way for the future equally and without fear of failure. This energy will, in turn, invigorate companies. Pioneering collaborative capitalism in our country ahead of the rest of the world is our new frontier.

3. Initiatives toward a Reiwa Model of Collaborative Capitalism

As business leaders in this era of geopolitics, we must become more informed. We must know more about competition surrounding new technologies, such as AI and quantum computing, and semiconductors and energy that support them; rule-making for sustainability and digital data; and the conflicting national interests in geopolitics. World order is in a constant state of flux, continuously challenged by new problems, and fiercely battling for dominance. During decades of an inward-focused, deflationary mindset, Japan's corporate world became less sensitive to global affairs. To rectify this, we will create opportunities to learn from each other about dynamically shifting global trends. And we will continue to refine the concept of collaborative capitalism.

We in the private sector must take the lead in boldly redesigning our economic and social structures, swiftly parting ways with Showa and Heisei models that assume a growing population and high economic growth, as well as policies optimized for the deflationary society of the “lost three decades.” Internally, we must live with the inevitable realities of population decline and an aging society, while externally, we must construct a Reiwa model of collaborative capitalism to survive in an era of geopolitics. To this end, I will highlight five themes we must urgently address.

— *The first is employment and labor policy.*

Labor shortages are occurring across all industries. The shortage of labor supply could become a bottleneck for the Japanese economy, which has finally just begun to regain momentum. To resolve this, first and foremost, workers should be able to work while maintaining their health, connect to society, and receive fair compensation—without

being forced to leave their job due to age, being tied to an unwanted workplace, or facing discrimination based on gender. They should be free to work as they wish, whenever they wish, and for as long as they wish. And, if so desired, they should be afforded opportunities for reskilling and pursuing new endeavors. Creating such an environment is essential.

As I mentioned before, fierce competition and metabolism are necessary for growth. However, workers must be given access to opportunities. We must abandon the traditional idea of protecting workers by keeping afloat companies that fail to adapt to change. Even if some companies do not survive, workers should be able to seek new opportunities to excel—meaning that we should create a society rich in workforce mobility. This will safeguard those who have the desire to work.

Additionally, if institutional designs such as excessive work style reforms and the “annual income barrier” are hindering the participation of motivated and capable individuals, they need to be corrected. We also need to actively welcome foreign workers. I would like to engage in fundamental discussions aimed at genuine labor reforms in the form of revisions to the labor laws.

— *The second is fiscal and social security policy.*

Bold endeavors that open up new opportunities in life need to be supported by a sustainable safety net. While ensuring wise spending through evidence-based policymaking, we must promote budgetary reforms to strengthen fiscal discipline. Confronted with the reality of a low birthrate and aging population, we must advance pension system reforms and healthcare and nursing reforms appropriate for the Reiwa era to achieve sustainable social security.

— *The third is DEI, which stands for diversity, equity, and inclusion.*

The once frequently heard sentiment that DEI is important has recently become less common in the business world. Here, I would like to reaffirm its importance. The era of deflation, where maintaining the status quo was rational, is coming to an end. The future demands that we generate new value by taking on bold new challenges. DEI is the source and driving force of that innovation. In other words, it is the very essence of a company’s competitive strategy. We must diligently continue our efforts until this takes root in Japanese society.

— *The fourth is political and administrative reform.*

We will strongly advocate to amend the Political Funds Control Act towards greater transparency and stringency, and to establish a political party law. Additionally, it is even more crucial that both the Diet and Cabinet discuss and implement effective policies swiftly and robustly. To achieve this, it is also necessary to enhance the functioning of the Diet for the reforms in the work style of civil servants and the improvement of parliamentary deliberations. We also intend to give recommendations regarding the role of the House of Councilors—one wing of the bicameral system.

— *The fifth is energy policy.*

Even now, geopolitical risks are increasing around the Middle East, on which Japan heavily relies for its energy supply. The Strait of Hormuz, through which 80% of the crude oil imported by Japan passes, is literally a chokepoint that holds the fate of the Japanese economy. Since the era of the oil crisis, the fundamental vulnerabilities of Japan's energy have not changed much.

Furthermore, we have entered an era in which computing power significantly influences national strength. Vast amounts of electricity are needed to operate the AI and data centers that serve as the foundation, and to manufacture the semiconductors that power them. Not only must we secure a stable supply of energy to power current industries, but we must also consider acquiring new forms of energy to build competitiveness for the next generation. We aim to build a national consensus on how to achieve 100% self-sufficiency in Japan's energy mix by 2050.

In addition, our country's energy policy must squarely confront the issue of nuclear power. Prioritizing safety to the utmost degree, it is necessary to engage in open discussions with various stakeholders. We must promptly begin careful deliberations on forward-looking topics such as the early reactivation of existing nuclear power plants with approval from the Nuclear Regulation Authority, as well as the replacement and new expansions to existing plants. Advances in technology have increased the feasibility and safety of endeavors that were once deemed too difficult. Attention must also be given to research and development in advanced fields such as small modular reactors (SMRs), fast breeders, and nuclear fusion.

These five key issues, along with various themes related to startup creation and regional revitalization, will be thoroughly deliberated and fact-checked. Keizai Doyukai intends

to compile recommendations and disseminate them as a clear message to help shape public opinion. And we would like to work towards making them a reality.

4. Initiatives for the Growth of the Japan Association of Corporate Executives

Lastly, in order to accelerate the realization of a Reiwa model of collaborative capitalism, I would like to discuss our policies regarding the operation of Keizai Doyukai itself.

■ Improving Member Engagement

Presenting policy proposals and taking action towards their implementation is crucial. And at the same time, we are business leaders. Through learning and networking, each member can execute transformations of the companies they are responsible for. This is our strength. For this, all members must eagerly engage in discussions, exchange opposing views, and take ownership of the resulting conclusions. I want all members to become partners in changing reality together. For this purpose, we will establish a Member Engagement Committee and improve member satisfaction through initiatives such as enhancing opportunities for mutual study and networking.

We will particularly focus on creating opportunities for learning. In addition to the traditional development program for future business leaders, we will establish a Liberal Arts Program to enhance problem-solving and ethical decision-making skills, as well as to broaden perspectives. Additionally, hearings with experts invited to policy committees will be archived and made available to members of Keizai Doyukai and our regional associates. With these and various other programs, we will establish an academy to cultivate the next generation of leaders who will navigate through this era of disruptive change.

■ Project 2000

We will also accelerate efforts to increase membership. Thanks to the efforts of all members, we achieved a membership of 1,600 in the fiscal year 2023. We will further increase this number to over 2,000 during my term. Under Project 2000, we will launch various initiatives to promote membership from a wide range of industries, including startups and the service industry, as well as IT and digital, dining, retail, distribution, and healthcare sectors.

I too personally believe, from my experience as a business leader, that we are facing the

most significant changes of our time. Now is the chance to shed the old and seize the once-in-a-lifetime opportunity to envision new ideas and models on a fresh horizon. I am excited to shape the future alongside the diverse and accomplished colleagues who come together at Keizai Doyukai.

Upon assuming the post of Chairperson, I conveyed our action principles in three words: “Connect” with the world’s outstanding wisdom, “Open” ourselves to diversity, and “Act,” not just discuss, to change ourselves and society. Let us put our heads together and spare no effort in this endeavor.

Thank you.