

A Year to Embark on Redesigning Japan's Economy and Society through Innovation

2021 New Year Message

January 1, 2021

Keizai Doyukai

As we enter 2021, we would like first of all to express our sincere gratitude and admiration to the many people striving on the front lines of the battle against the coronavirus pandemic, including medical professionals and caregivers, as well as those who work in transportation, distribution, manufacturing, and sales. We are thankful to them for enduring uncertainty and risk to sustain the public's day-to-day lives and economic activities.

1. Considering Japan's Mission in the Context of Historical Trends

(1) The World at a Crossroads in History

The year 2020 was a year in which the worldwide novel coronavirus pandemic derailed humankind's assumptions and future prospects. These circumstances served to once again highlight the gravity of the negatives that have accompanied the progress of global capitalism and the new industrial revolution: the environmental sustainability crisis, growing economic disparities resulting from worldwide restructuring of industries, and societal fragmentation.

Despite facing these crises, the international community is still lacking cohesion. Confrontation between differing political systems, as exemplified by the rivalry between the United States and China, involves elements including economics, politics, and national security that are entangled on multiple levels with no prospect of improvement.

Global capitalism driven by economic rationality and technological innovation has now reached its peak. If the nations of the world stand still at this point, the

steady effort to achieve development and peace invested by the international community to date could all come to nothing.

Around a century ago, during the era when the Spanish flu wreaked its havoc, the world underwent a major change of direction from the idealism that inspired the establishment of the League of Nations through a period of conflicting national interests and fragmentation to the emergence of totalitarianism and autocracy. Will we repeat this wretched past, or will we forge a different future based on a new paradigm? The world today is standing at a crossroads in history.

What is required of us now is the determination to break with our past and the will to create our own vision of the future we want. We should face this year with the courage to overhaul global capitalism in its existing form and build a new economy and society supported by a diverse range of stakeholders.

(2) Switching to Capitalism That Encompasses Sustainability, Inclusivity, and Resilience

As we strive to redesign our economy and society, we must appreciate that constant change and progress are precisely what will comprise “normality” from now on. Technological innovation, which is gaining pace in response to the coronavirus crisis, will bring about a succession of societal changes. We must realize that what is “normal” will be constantly updated, and change our mindset accordingly.

Moreover, it is essential to aim for a form of capitalism that incorporates values such as sustainability, inclusivity, and resilience, and aligns these with economic growth. Under the existing form of capitalism, we have been unable to find an effective answer to this proposition. But finding the answer is indispensable if we are to create a new economy and society.

The driving forces that will bring this new economy and society into being are innovation and the companies responsible for that innovation. Companies' continued existence depends entirely upon human society itself, and solving problems that threaten the sustainability of human society is precisely where the

true value of companies lies. They must leverage the power of business as a tool for sustainable value creation, in conjunction with the power of technology, to change society through innovation.

(3) Leveraging Japan's Strengths to Redesign Its Economy and Society

Japan is ideally positioned to redesign its economy and society. Our country commands assets that will become sources of future growth, such as a large economy and market, technical capabilities honed in the manufacturing sector, and high-quality real-world data. It also benefits from such attributes as a harmonious, stable society; cultural influence; and a mentality that emphasizes achieving the best outcome for everybody and respecting the interests of others. Moreover, Japan has consistently worked to build a free and open economic order based on fair rules, never aligning itself with protectionist tendencies.

Ensuring our ability to deploy these strengths is one reason why we must defeat the causes of Japan's protracted stagnation and reduced stature within the international community. In addition, we need to provide answers to issues of fundamental importance to our nation, such as our poor productivity, which languishes at the lowest level among developed countries, and our stalled innovation, as well as the sustainability of our social institutions amid a dwindling birthrate and graying society. Another issue is the question of where we stand along two axes: the axis between the United States and China, and the axis between the economy and national security.

Japan should adopt its own mission of overcoming these challenges and drawing on its unique practical wisdom to identify the forms that the new economy and society should take. Moreover, as a frontrunner in tackling new challenges, Japan should demonstrate leadership to help change the world's paradigm by acting as a role model. That, more than anything, would be the first step toward making Japan not only valuable, but indispensable, to the common good of the world.

2. Japan's Efforts to Change the Paradigm

(1) Promoting Societal Changes through Innovation

Creating a new economy and society will require societal changes through innovation leveraging Japan's strengths. The drivers of societal change will be digitalization and the green recovery for some time to come. The first step toward creating a new economy and society will be to accelerate innovation in these spheres in order to pursue competitive advantage for Japan combined with prosperity and enhanced well-being for the Japanese people, and sustainable social institutions.

In the digitalization sphere, the most pressing issue is to provide platforms that enable individuals, companies, governmental authorities, and all other entities in society to make use of data to create value in various fields. Japan should then use these platforms as the foundation for establishing the world's most advanced business models in fields where its strengths come into play, such as the medical, caregiving, and manufacturing sectors, where it has amassed an abundance of real-world data and know-how. In addition, we must improve the productivity of society as a whole by overhauling work processes of all kinds and investing resources including personnel, funding, and knowledge into work that leads to higher added value and into future growth fields.

In the green recovery sphere, we need to progress with making renewable energy our primary source of power to establish a sustainable foundation for life within society and for business. To reach our target of carbon neutrality by 2050, we must aim to explore every possible means of eliminating emissions entirely, including in construction, transportation, manufacturing, and corporate value chains, and leverage our successes in this regard as sources of competitive advantage.

Both the public and private sectors should make these digitalization and green recovery policies central to their innovation and growth strategies so that the entire Japanese nation can join forces to implement them.

(2) The Duty of Companies and the Government to Generate Innovation

Looking back over history, a great many companies brought prosperity to the Japanese people and changed society by creating innovative products and

services. The automobile industry, for example, gave rise to a diverse range of associated industries and employment opportunities both in Japan and overseas, enabling it to build sophisticated value chains, while at the same time it altered the way people live and the configuration of cities. The development of gaming devices for home use created a new market for content, improving quality of life in a whole variety of ways, including in terms of culture, education, health, and communication. Cutting-edge technologies and services employing innovations such as artificial intelligence (AI) brought about advances in medical care and helped to create a society in which people live long, healthy lives. Besides this, the smartphones that more than 60 percent of Japanese people own generated new businesses that go beyond mere communication and constantly evolved as platforms that serve as a form of societal infrastructure.

The corporate transformation required to regain this past dynamism should start with corporate executives changing themselves. We must be determined to root out and eliminate anything within ourselves that inhibits our courage to change society, or Japan's growth. Then, we must determine the fields that will lead to future growth and competitive advantage and focus investment of every resource available on those fields.

If the organizational operation, employment practices, and ways of working that have supported Japan's rapid growth in the past threaten to hinder the prompt execution of business strategies, corporate executives should take personal responsibility for root and branch reforms in these areas. In conjunction with this, it is crucial to urge the government to amend Japan's labor legislation in order to facilitate corporate growth and the personal fulfillment of individuals.

Meanwhile, the most important role of the government itself is to avoid hampering the evolution of business. When the transformative power of digitalization and green recovery extends to every business category and industry sector, it will lead to creation of businesses and services that do not fit any conventional categories within the industrial structure. Japan must therefore radically overhaul its existing regulatory regime in line with this premise. And we, as corporate executives, must set out detailed business plans and state their impacts in terms of societal change, urging the government to update or dismantle regulations that act as barriers.

(3) Building Social Institutions That Provide Sustainability, Inclusivity, and Resilience

Alongside promoting and accelerating innovation, it is also essential to radically overhaul Japan's social institutions as a whole. The key requirement in this regard is to lose no time in commencing serious discussion about Japan's fiscal structure and the optimal balance between receipt of benefits and the burden of contributions. As Japan's birthrate continues to dwindle and its society grays, the best form of sustainable fiscal structure and the path toward establishing it have come into question, given that it would need to be capable of combining support for Japanese citizens' livelihoods with investment to forge a new future. To prepare for future uncertainty as well as to invest in its future as a nation, Japan must fortify its institutional underpinnings in the form of its fiscal structure.

Japan also needs to transform the social safety net and all other aspects of its social institutions on the premise that private-sector dynamism is what creates opportunities and increases society's inclusivity. For example, if digitalization and green recovery were to progress all at once throughout our entire society, the need to build and operate communications infrastructure, and new facilities and systems for electric power production and supply, could be expected to lead to increased employment. New industries would arise in locations offering conditions suited to a diverse range of renewable energy technologies. The process of pursuing carbon dioxide absorption or fixation could add new value to forests and agricultural land, enabling profitable industries to grow in local regions. Creating chains of opportunity of this sort is another reason why we must not stop innovating or replacing the old with the new.

3. Investing in the Diversity of Individuals, the Wellspring of Innovation

Diversity is the wellspring of innovation. We need to focus our efforts on investing in diverse human resources. Our aim should be to create a society where an individual's motivation and active involvement are not hindered by personal attributes such as gender, age, nationality, or cultural background, and where a diverse range of individual personalities collide, generating energy.

To nurture the kind of talent and individuality that breaks the standard mold and can drive innovation, Japan should set up a new educational track for developing human resources outside the confines of school-based education. We propose that remote access and other means should be employed to create channels that enable students to access state-of-the-art knowledge from Japan and overseas according to their own individual motivation and initiative, irrespective of their age or school grade.

In a separate issue, the jobs of the essential workers who support social and economic activities need to be made more sustainable. It is precisely on the front lines of such occupations as medicine, caregiving, policing and security, delivery of goods, and public transport that we should incorporate digitalization, data, AI, and other outcomes of innovation to raise productivity. At the same time, it is important to solve structural issues by taking steps such as revising workers' terms of employment.

We must also attract to Japan a greater number of talented individuals working at the cutting edge of knowledge and technology overseas. The public and private sectors must share a common understanding of the likely impediments to achieving this, and both work to resolve them. Potential impediments include the challenges presented by institutions and day-to-day life in Japan, as well as Japanese organizational culture and management practices.

We believe the government should consider using this summer's Tokyo Olympic and Paralympic Games as a showcase for Japan in order to make up for lagging behind in terms of the global competition for human resources. By incorporating existing solutions and technologies into the running of the Games, and into life in society while the Games are underway, we can also demonstrate to the world Japan's motivation and commitment with regard to societal change.

4. Keizai Doyukai's Commitment

The coronavirus crisis is leading the world into an era of disruptive change. As business leaders living in this era, we must be determined to pursue disruptive innovation in our own businesses, companies, and industries. Otherwise, it is likely that Japan will be unable to create a new socioeconomic model, thereby losing its

chance to escape from stagnation. The question is whether we can really demonstrate the determination to create a new Japan shown by our predecessors who founded Keizai Doyukai after World War II. We must be conscious of the need to do so as we put words into action and pursue activities that will lead to concrete results and impact within society.

A specific measure in this regard will be to expedite our dialogue with stakeholders regarding the issues that hold the key to societal change at the Future Selection Forum we launched last year. For instance, how can we forge a popular consensus regarding the path toward fiscal consolidation that is supported by reliable theory? And how should corporate executives respond to the reality that the impact of the confrontation between the United States and China is causing the fragmentation of industrial value chains? How do we create an environment in which young people can play an active role in driving societal change? We will seek to identify the best answers to these questions by presenting clear issues for debate together with options, based on discussions with a wide range of stakeholders.

Furthermore, we will support corporate executives in undertaking their own business innovations. Among these innovations, those that depart from conventional ways of working and employment practices, and promote diversity, will be of the greatest importance in strengthening the competitive edge of Japanese companies. Keizai Doyukai, for its part, will further boost its activities as a forum for corporate executives sharing a common sense of urgency to engage in dialogue and learn from each other.