

A Year to Forge a New Way Forward for Japan: Renouncing Vested Interests to Co-create our Future

2022 New Year Message

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Keizai Doyukai

(Japan Association of Corporate Executives)

1. A Year to Forge a New Way Forward for Japan

Japan has reached a crossroads where it must demonstrate whether it can escape from many years of stagnation and the contraction resulting from the coronavirus crisis to once again play a leading role internationally as a country that is not only valuable, but indispensable, to the common good of the world.

We regard the Kishida administration's proposal to realize a new form of capitalism as an initiative that enables Japan to present itself to the world as a role model for a new socioeconomic system. As corporate executives, we support that ambition, and we too will do our utmost to forge a new way forward for Japan.

I want us to make 2022 the year in which Japan escapes from its crisis mindset induced by the COVID-19 pandemic and focuses on the tide of the times, so that all elements of society, including individuals, companies, and the government, can join forces to embark on creating a new socioeconomic system.

2. Reaffirming Japan's Position in a Turbulent World

The world as a whole is growing ever more troubled, due to factors including the increasingly protracted, complex confrontation between the United States and China and intensified international rivalry with regard to the issue of global warming. This year, Japan's position and strategy are likely to come under closer scrutiny than ever before.

As countries around the world seek to determine the future shape of capitalism and democracy, Japan benefits from both a fully functioning democracy and the will to lead multilateral cooperation. It needs to leverage these benefits as strengths to present the world with a vision of the type of society it aspires to become in order to engage in cooperation and fair competition with the international community.

Within Japan itself, the coronavirus crisis has highlighted a whole range of problems, including a data strategy that is lagging behind internationally and vulnerabilities in terms of capacity to provide medical care, and the country has learned a great deal as a result. Our challenge now is to make use of the lessons learned to seriously address issues we faced even before the coronavirus crisis—such as dealing with our declining birthrate and graying society, and undertaking fiscal consolidation—and to seek ways to solve these issues.

3. Striving for “a Society Co-created by its SEIKATSUSHA”

The future vision of Japan that Keizai Doyukai is aiming for is “a society co-created by its SEIKATSUSHA” that is grounded in sound democracy and capitalism. The term *SEIKATSUSHA*, a Japanese word, encompasses all individuals, who have multifaceted roles as consumers, workers, participants in communities, and members of families. In the sense used here, all Japanese nationals are citizens, including students, company employees and executives, politicians, and government officials. The direction in which a society moves is determined by the opinions and values of a diverse range of SEIKATSUSHA and the autonomous choices they make as individuals—which product to buy, where to work, who to vote for—by means of mechanisms based on democracy and capitalism. The “society co-created by its SEIKATSUSHA” we are targeting is a country that produces prosperity for its entire society and optimal, future-oriented solutions.

We want Japan to become a country that exemplifies a new model for growth by setting such a vision for society and seeking to achieve multiple forms of value simultaneously, including growth in the scale of its economy, as well as sustainability and well-being. In order to achieve this, we at Keizai Doyukai aspire to lead future change based on a vision of Japan as a country where a

diverse range of companies demonstrate enthusiasm for solving problems both at home and abroad, and produce tremendous innovation by investing in human resources and advancing diversity, thereby generating social progress and growth.

4. Aiming for Growth through Innovation

The reason Japan failed to achieve growth over the past 30 years is that it did not generate any innovations capable of transforming society. It is we corporate executives who should be the first to ask ourselves some tough questions and reflect on our failings in this regard. Unless we track down the root causes of the stagnation in our country's growth and innovation, and show the determination necessary to resolve the underlying problems once and for all, we cannot forge a future for Japan.

One could say that Japanese society as a whole has a firmly entrenched tendency to resist change and support maintenance of the status quo. Unless we go far enough to tackle the underlying fear of relinquishing vested interests and the interests of the current generation, Japan will remain a country that cannot change, and its downfall will continue. Vested interests are deeply rooted in every sphere of our society. This framework of vested interests is the underlying reason why regulatory reform has failed to progress in various fields including medicine and nursing care, education, and employment, allowing the sectionalized structures of existing organizations to impede the formulation and implementation of rational, effective policies.

Vested interests are by no means a problem particular to government organizations or specific industries. One could argue that it is because of vested interests and long-established customary practices that companies are unable to free themselves from their attachment to doing everything in-house and make a start on boldly transforming their business portfolios. Vested interests and customary practices could also be the reasons why organizations have achieved little progress in relinquishing power to the next generation, or in improving diversity. Given that all organizations are made up of a broad range of SEIKATSUSHA, we need to recognize that all Japanese nationals—SEIKATSUSHA of all kinds—are benefiting from

vested interests in one form or another, and therefore play a part in shaping this country that cannot change.

However, if that is the case, we should not be calling solely on the government to implement reform. It is SEIKATSUSHA themselves, and the companies where they gather together, that should take responsibility for reform and change, and create a new tide of the times.

5. Abandoning Vested Interests and Forging a Path to the Future and Growth

As corporate executives, we should start by making determined efforts to pursue innovation and societal change. In order to do so, individual corporate executives should publicly state the types of societal issues they intend to tackle, and the innovations they intend to bring about. Then, they should seek to overcome any vested interests within their companies and spend the whole of this year exploring ways to break free of structural issues and regulations that could block the path toward generating innovation.

(1) Pursuing Further Regulatory Reform and Transitioning to a Regulatory Regime for an Era of Data and Digitalization

In order to make Japan a country brimming with innovation, we must first of all take action to reform our regulations. The coronavirus crisis has provided a rare opportunity to bring about many innovations previously considered impossible, such as online medical care and drug administration guidance, online classes, and teleworking. We now need to take these innovations even further, ensuring that they become well established and widely practiced as the new normal.

Another requirement is a fundamental reexamination of the very concepts that inform how the regulatory regime is designed. It is by taking unprecedented ideas and employing a process of trial and error to turn them into business models, then progressing to implementation in the real world, that growth is generated, productivity improves, and opportunities multiply. According to this premise, Japan should convert its regulatory regime from one based on predictive regulation to one based on

retrospective checks and reviews.

At the same time, it will be essential to radically redesign legislation relating to competition and the protection of personal information, as well as laws and regulations governing various types of business, and rules governing the ways in which people work. The aim should be to transition to a regulatory regime appropriate for an era of data and digitalization in which optimization transcending the boundaries of existing organizations and authority will become possible.

(2) Committing to Cutting-Edge Technologies and R&D, and Taking a More Strategic Approach

Japan's annual R&D expenditure amounts to roughly 19 trillion yen; although this is less than US and Chinese expenditure in absolute terms, it by no means compares unfavorably if the relative sizes of the countries are taken into account. However, Japan needs to thoroughly reexamine how this expenditure is allocated and used in order to ensure that it results in a balance between future growth and innovation on one hand, and national security on the other.

Most importantly, now that the target of net-zero carbon dioxide emissions is regarded as an opportunity for growth, leading to accelerated competition around technological innovation and international standards, Japan too must leverage and further bolster its own industrial infrastructure and strive to achieve the net zero target. Another point worth noting is that every single industry, technology, and supply chain is inseparably intertwined with national security, and the fact is that state-of-the-art technologies control Japan's fate in terms of its continued existence, security, and prosperity.

Future R&D in Japan requires prompt establishment of a new mechanism that enables a top-down approach to devising strategies and undertaking investment. It will be crucial to identify the sectors to which Japan should commit as a nation and demonstrate the determination and decisiveness to invest funds boldly in these sectors. To identify the appropriate sectors, we must completely disregard all earlier precedents in terms of

compartmentalized fields of research and boundaries between military and civilian industries, and broadly consider the latest technological trends, intelligence, and corporate management strategies.

(3) Dealing Fully with Structural Issues to Ensure Sustainable Public Finances

As coexistence with the novel coronavirus becomes a precondition of our lives within society, Japan must lose no time in showing the determination to depart from crisis-response public finances. Moreover, now is the time to establish why Japan has for so many years been unable to curb the burgeoning of its fiscal deficit into previously uncharted territory.

Underlying problems include Japan's lack of a sense of urgency and excessive consideration for the interests of the current generation. As a nation, we must act as quickly as possible to devise structural and institutional means to ensure the best policymaking and policy implementation as a prerequisite for drawing up and implementing budgets, as well as to ensure the optimal relationship between benefits and contributions. Specifically, we should ensure wise spending by drawing on the lessons learned during the COVID-19 pandemic and simultaneously pursuing all methods available to us. Such methods include making use of data and scientific knowledge, ensuring that every aspect of the policymaking and policy implementation process is transparent, and establishing a flexible PDCA (plan, do, check, act) cycle that combines trial and error with course correction.

(4) Energizing Individual Employees, Enabling Mobility of Human Resources, and Creating a Safety Net

The wellsprings of innovation are people and diversity. Companies should constantly maintain their efforts to be employers that individuals choose to work for by properly investing in the individuals who are responsible for creating value, and by continuously allocating a fair share of profits to them. At the same time, it is essential to create an environment and systems that enable everybody to move freely among organizations as they seek workplaces that judge their own value appropriately and ways of working

that suit their own values or lifestyle.

To achieve this, Japan needs to fundamentally overhaul its labor legislation including the Labor Standards Act, which originated in the Factory Act enforced in 1916, and transition to a legal system that is better suited to the digital age and is predicated on more flexible, diverse ways of working. As the prerequisite for such a transition, we must also start discussing the type of safety net we need for those who are genuinely vulnerable, going right back to the essence of the issue.

In addition, we must forge a consensus throughout society that we should start designing an educational system that forms a coherent whole from preschool education through lifelong recurrent education, designating the purpose of education as enabling diverse individuals to engage proactively in value creation and acquire the capacity to live in accordance with their own choices and decisions.

6. Keizai Doyukai's Implementation and Action in 2022

As a group of corporate executives, Keizai Doyukai endeavors first and foremost to identify issues that could act as barriers to innovation and growth. I would like to start the year with each individual member of Keizai Doyukai preparing their own personal statements setting out the types of issues they aim to tackle, the innovations they intend to bring about, and the changes they want to make in society through their own businesses. Then, we will offer practical advice pinpointing any vested interests and constraints preventing these statements from being put into practice, and indicate how such vested interests and constraints could be reformed, while also engaging in dialogue with the government.

We will also expedite our efforts to interact and engage in mutual learning with startups that possess cutting-edge knowledge and insights regarding technology and societal issues, as well as leaders in various spheres, to develop Keizai Doyukai into an ecosystem of executives who aspire to innovate and change society.

If Japan shifts its focus from current interests toward future possibilities and

tackles the range of problems it faces, it is definitely capable of becoming a country with the power and presence to lead the world. I want Keizai Doyukai to communicate this vision and the options available to achieve it, and to call on all SEIKATSUSHA to change their way of thinking and take action as stakeholders building our future together.