

Regional Agenda

World Economic Forum Japan Meeting Leveraging Collective Intelligence for Unprecedented Challenges

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Preface

The World Economic Forum Japan Meeting is the annual meeting of the Forum's Japanese community. The focus of the 2014 meeting was the programme of Prime Minister Shinzo Abe's government to revitalize the Japanese economy and society, and Japan's engagement in the world. Known as Abenomics, this "three-arrow", or three-pronged strategy, aims to transform Japan and help it out of its more than two decades of stagnancy, debt and doubt.

Held more than 18 months after Prime Minister Abe took office, the Japan Meeting offered 200 business, government and civil society leaders from Japan and other countries, including several participants via videoconference, the opportunity to assess the progress of Abenomics, particularly the third "arrow" or component – the growth strategy, the most complex and challenging part of the programme. Sessions included interactive discussions of the reform agenda ahead, the potential impact of the Tokyo 2020 Olympic Games, gender inequality, Japan's capacity to be a leader in contributing to energy efficiency and sustainability in the world, the geopolitical challenges in the region and the opportunities for Japan to share its expertise and social innovations.

Prime Minister Abe addressed participants, reviewing the achievements of Abenomics since addressing world leaders at the World Economic Forum Annual Meeting 2014 in Davos-Klosters, Switzerland, in January. In a succinct speech delivered with resolve, the prime minister provided a preview of the reform package that his government would unveil just days later, declaring that "Japan is clearly becoming reborn and will continue to change going forward."

The meeting in Tokyo allowed all stakeholders in Japan's future to exchange views and to chart the way forward for the country's economic resurgence. "It is very crucial for the world that the Japanese transformation succeeds," Klaus Schwab, Founder and Executive Chairman of the World Economic Forum, said at the breakfast opening the event.

Many young people participated, including Members of the Forum of Young Global Leaders and the Global Shapers Community. They ensured that the deliberations were forward looking, inclusive and focused on finding solutions. To reinvigorate its economy, Japan will need to mobilize its young people to drive many of the necessary social and political changes.

The meeting's discussions will help shape sessions on many related issues at the Forum's upcoming global meetings – the Annual Meeting of the New Champions in Tianjin, China on 10-12 September 2014; the Summit on the Global Agenda in Dubai, United Arab Emirates on 9-11 November 2014; and the World Economic Forum Annual Meeting 2015 in Davos-Klosters on 21-24 January 2015.

The World Economic Forum's Japanese community will redouble its engagement in Forum activities to contribute not only to the success of Japan's transformation, but also to addressing the global challenges in which Japan can be an important actor.



Akira Tsuchiya
Executive Director
World Economic Forum Japan

Executive Summary

The World Economic Forum Japan Meeting, held in Tokyo on 2-3 June 2014, offered the Forum's Japanese community the opportunity to review the progress of the reform programme, known as Abenomics, of Prime Minister Shinzo Abe's government, and to chart the future for Japan's transformation. The country faces unprecedented challenges as it tries to not only stimulate its economy out of its deflationary spiral, but also to transform its society so it can recapture its confidence and strengthen its engagement in the world. Tackling these challenges – from bridging a persistent gender gap to reforming longstanding labour practices – must be an inclusive project involving the collective efforts of all sectors of Japanese society.

The discussions in Tokyo brought together ministers and senior government officials with business and civil society leaders in frank exchanges on topics including the progress of Abenomics, the opportunities provided by the Tokyo 2020 Olympic Games, gender inequality, sustainability, the geopolitical challenges in North-East Asia, social innovation and risk resilience.

Seven key action points emerged from the meeting:

- **Focus on growth strategy:** While the “three-arrow” Abenomics programme has yielded significant results, owing particularly to the first two “arrows” or components (the implementation of monetary easing and a flexible fiscal policy), the government must focus on implementing the third component, its growth strategy.
- **Move faster on priority issues:** The government has put in place key measures of its growth strategy, which includes increasing the consumption tax, liberalizing the power sector and joining the Trans-Pacific Partnership (TPP) negotiations, but it must move faster and more comprehensively on agriculture, the labour market, immigration and solutions to the gender gap.
- **Communicate results:** The government should achieve early, concrete results from its growth strategy reforms, and communicate successes to the public, to shore

up support for the programme and drive further, deeper restructuring. This will help with trickier areas in need of change, such as immigration.

- **Use the Olympics to drive reforms:** Japan must harness the inspirational and motivational power of the Tokyo 2020 Olympics to drive the social and economic reforms needed to generate new growth. The goal of using the Olympics to showcase Japanese technology, talent and culture can be a powerful engine for innovation, action and unifying the country.
- **Address the challenge of gender inequality:** Government measures and policies, including tax reforms, will not be enough to bridge the gender gap. A comprehensive change of mindset is required at all levels in the workplace, both in urban and rural areas. Gender inequality must be regarded not only as an issue for women, but also as a challenge that men must confront and help to resolve if Japan is to succeed in transforming its economy.



01: Japan's National Transformation: Abenomics' Third Arrow: Societal and Economic Structural Reforms session

- **Develop multitrack diplomacy:** To lower the tensions in relations between Japan and China, both sides should develop person-to-person connections, including deepening business ties and investment, and cultural and educational people-to-people exchanges.
- **Share expertise:** Japan possesses experience and special knowledge in key areas such as energy-saving technology, infrastructure development and financing, dealing with ageing demographics, caring for the elderly and disaster preparedness. Japan can build goodwill with its neighbours and cultivate new markets and fresh growth by focusing on ways to share what it does best with its economic and trading partners.

“I hope that you can now understand that Japan is clearly becoming reborn, and that it will continue to change going forward.”



Shinzo Abe, Prime Minister of Japan



01: Georges Desvaux, Managing Partner, Japan Office, McKinsey & Company
02: Masaru Kato, Vice-Chairman, Sony Corporation
03: GAC Session: Disaster Risk Resilience and Japan's Global Contribution session



Japan's Vision

Facing the challenges and concerns

The intense international interest in the Japanese government's reform programme underscores how important it is to the world that Japan's transformative process succeeds. Since the global recession more than five years ago, the global economy has lacked solid growth drivers. The recovery has been weak and slow. While emerging markets rebounded quickly, their performance has since lagged. Europe has been hobbled by its debt crisis and existential questions about the integrity and viability of the Eurozone. Meanwhile, the recovery in the United States has gradually taken hold, though the severe winter has led to a setback.

Great hopes are pinned on Japan and Abenomics, Prime Minister Shinzo Abe's "three-arrow" or three-pronged plan to revitalize the economy and make it more competitive and better able to contribute to global growth. Monetary easing and the implementation of a flexible fiscal policy – spending where necessary for growth, consumption tax increases, lower corporate taxes and reducing public debt over the long term – are well under way. Notably, expectations

are for rising inflation, with the economy now half way to the 2% goal. Domestic demand is now fuelling recovery.

But in the more than 18 months since Abe returned to office, doubts have mounted over his ability to get the third "arrow" or component – a growth strategy involving difficult structural reforms – even close to the target. Abe has been bold with his promises, insisting that the widely held assumption that major reforms in Japan are impossible no longer applies. At the World Economic Forum Annual Meeting 2014 in January, he declared that he would advance his reform agenda by breaking through the "fixed thinking" that has kept Japan from breaking out of more than two decades of stasis, marked by deflation and debt.

Yet, members of his government have been cautious, warning that the growth strategy is not something that can be implemented and yield results in the short term. Plans have to be made, and laws amended and put into effect. The third component should aim at many targets – social security, healthcare, agriculture, infrastructure development, the expansion of trade, immigration and the labour market. Some will be easy hits, while others will be more difficult.



"Japan can no longer be inward looking. It is imperative for us to pursue even further growth by both interacting and engaging in friendly competition around the globe."



Akira Amari, Minister for Economic Revitalization and Minister for Economic and Fiscal Policy of Japan



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01: Japan's Contribution to Global and Regional Agendas: Designing New Social System and Infrastructure session
02: Japan's Contribution to Global and Regional Agendas: North-East Asia's Geopolitics and Geoeconomics session
03: Sadako Ogata, Chairperson, World Economic Forum Japan

Indeed, the government has moved on several fronts, including measures to liberalize the power and healthcare sectors and an increase in the consumption tax. It has set in motion efforts to increase the participation of women and the elderly in the workplace. In addition, Japan has joined negotiations for the ambitious Trans-Pacific Partnership (TPP) trade framework involving 12 nations, including the United States.

But business and civil society leaders have concerns. One is a growing labour shortage, driven by Japan's shrinking workforce due to ageing demographics and restrictive immigration controls, and a rebound in manufacturing owing to export growth

supported by the yen's falling value. Many corporations have held back from investing because of uncertainties on tax policy and regulatory reform. Japanese companies tend to have a low return on equity and need to be encouraged to invest more to stimulate growth.

While the TPP talks have continued and are regarded as critical to driving new growth in the Japanese economy, chances for concluding an agreement soon appear to be fading, especially considering the US political cycle. Persistent questions exist about Japan's willingness to liberalize immigration and open its labour market. Can the country radically change its society to make it easier for

women to work and remain employed? And will it revamp its educational system to promote innovation, creativity and a global consciousness and, more specifically, a facility in foreign languages, especially English, among its people?

External uncertainties are also creating worries. Japan's relations with China and Korea have been tense, with territorial disputes and their past history causing lingering bitterness. Prime Minister Abe's visit to the Yasukuni Shrine in December 2013 and his sending of a ritual offering in April 2014 have stirred further controversy. The challenging global economic climate – with sub-trend growth, the slowdown in China and continuing weakness



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in Europe – is making it trickier for Japan to implement its three-pronged strategy.

Despite the clouds of concern, Japan clearly has a vision for moving forward. Looking ahead, the Tokyo 2020 Olympics could have a significant impact in focusing the Japanese on the goal of revival. TPP could also be a game changer. Klaus Schwab, Founder and Executive Chairman of the World Economic Forum, told participants at the Japan Meeting that “there is a clear vision here and a clear willingness to implement that vision”. That will surely count for a lot.

Can Abenomics deliver?

When he took the stage at the Japan Meeting, the prime minister reminded participants that, at the World Economic Forum Annual Meeting 2014 in January, he had made the pledge that “through Abenomics, we will create a vibrant Japan”. In Tokyo 130 days later, Abe asserted: “Japan is clearly becoming reborn and will continue to change going forward.”

In his brief but robustly delivered remarks, Abe outlined how his vision of a more vibrant Japan is becoming a reality. As the underpinning of that vision, his three-part Abenomics programme – monetary easing, flexible fiscal policy and a growth strategy – had received widespread support at home and abroad; however, doubts have grown about his ability to push through the tough reforms needed for

the third component to hit its target. Yet, Abe argued, restructuring to stimulate growth is happening. “My reforms have already transitioned into a new stage,” he stated.

According to Abe, moves to liberalize the electricity market mean that in two years, anyone will be able to generate and sell electricity, and this will spur innovation in the industry. The medical services sector will change as well, giving people prompt access to advanced treatments even within the public health insurance system. “We will create a structure that will channel patients’ unbridled hopes,” Abe told participants.

Agriculture will become a growth driver. “We will boldly review the various systems that have long been in place in the post-war period,” he promised. This will include fundamental reforms of public management and organization of the agriculture industry.



“It is now even more important to address the long-term challenges – that is, to raise the growth potential and raise the labour participation of women and the elderly.”



Haruhiko Kuroda, Governor, Bank of Japan



01: Kiyoshi Kurokawa, Academic Fellow, National Graduate Institute for Policy Studies (GRIPS)
02: James Nakagawa, Chief Executive Officer and Chief Care Architect, Mobile Healthcare Inc. (MHC)
03: Yorihiro Kojima, Chairman of the Board, Mitsubishi Corporation

“In Davos, I stated that no vested interests will remain immune from my drill,” the prime minister explained. “I will continue to increase the speed at which this ‘drill bit’ of reform spins as I shift gears rapidly.”

Taking on the labour market – another bastion of stasis – Abe said his government will review regulations and update them. This will mean making it more attractive for skilled workers to work in the country. “We must make Japan a place where non-Japanese, brimming with ability, will find it easier to be more dynamically engaged,” he said. Abe noted that the employment picture in Japan had improved, with the ratio of job offers to job seekers rising for 17 consecutive months to a level not seen in over seven years. Monthly wages have grown more than 2% on average, the largest increase in the past decade. Summer bonuses have increased more than at any time in the last 30 years.

The government, Abe added, is also reforming the tax system, including the corporation tax. In April, the consumption levy increased by three percentage points, the first rise in 17 years. “We will weather the adverse economic impacts of the tax increase without that much concern,” the prime minister remarked. The \$1.2 trillion Government Pension Investment Fund (GPIF) has also been a target, with its management strategy completely revised.

Japan has taken steps to widen and deepen engagement with its trading partners, Abe observed. It reached a broad agreement on an economic partnership with Australia. Japan and Europe are aiming to conclude a free-trade agreement by 2015. Last year, Japan joined the negotiations for the TPP, the proposed free-trade arrangement involving 12 countries. Declared Abe: “Competition now takes place on the global stage. Japan can no longer be inward looking. It is imperative for us to have the mettle to pursue even further growth by both interacting and engaging in friendly competition around the globe.”

Abe vowed that the new reform package that was to be released just days after the Japan Meeting would further bolster the reform drive. Among the proposals eventually announced: cutting the corporate income tax rate of 35% to between 20% and 30%; localized pay bargaining to allow for direct negotiations over pay and conditions between employers and workers; expansion of immigration to address the shrinking workforce; and elimination of a spousal tax exemption considered to be discriminatory against two-income families. Concluded Abe: “We are going to achieve concurrently the three goals of revitalizing the economy, rebuilding government finances and reforming social security. Japan will continue steadily down this path.”



01: Japan's National Transformation: Enhancing Diversity – Closing Japan's Gender Gap session

Japan's National Transformation

"The government is doing so many things. Now maybe it is time for the business sector to take ambitious action."



Heizo Takenaka, Director, Global Security Research Institute, Keio University, Japan; Global Agenda Council on Japan 2012-2014

Abenomics' third "arrow": societal and economic structural reforms

Eighteen months into Prime Minister Shinzo Abe's administration, the big question is whether his Abenomics programme is yielding results. The focus is on the third component – the implementation through various reforms of a wide-ranging growth strategy. At the 2014 World Economic Forum Japan Meeting, participants agreed that, while some progress had been made – notably in liberalizing the power sector, raising the consumption tax and taking Japan into the TPP trade negotiations – more work needs to be done.

Days after the Japan Meeting, the Abe government announced a fresh package of proposals to promote growth, including: cutting the corporate income tax rate from 35% to between 20% and 30%; localized pay bargaining to allow for direct negotiations between employers and employees over compensation and conditions; expanding immigration to address the shortage of labour; and eliminating a tax exemption that is regarded as biased against two-income families.

01: Yasuchika Hasegawa, President and Chief Executive Officer, Takeda Pharmaceutical Company Limited, ; Hiroko Kuniya, Anchor, Today's Close-Up, NHK (Japan Broadcasting Corporation), Japan

02: Shinzo Abe, Prime Minister of Japan; Klaus Schwab, Founder and Executive Chairman of the World Economic Forum,





At the Japan Meeting, business and civil society leaders conferred with government ministers to discuss the reform agenda, what is being done and what needs to be done. Among the priorities was revitalization of agriculture – for the government to deregulate the sector to promote the production of quality food that is fairly priced and appealing to consumers. Rice is a particular target, with the government moving to introduce market-oriented policies on production and to dismantle the price controls that have been in place for decades.

Another important priority on the government's agenda is addressing the challenge of Japan's ageing demographics, already evident in its shrinking workforce. The goal is to turn the problem into a growth dividend by investing in areas such as infrastructure that caters to older people, and research and development to create new pharmaceutical products. Japan can export its ideas, as well as its approaches to elderly care and to adjusting to an older and declining population.

Business leaders put forward a range of concerns. One pressing issue is the shortage of labour, particularly in the agriculture, manufacturing and service industries. Some restaurants

are closing at night because of a lack of workers, despite having raised hourly wages by 30%. While some participants argued that the tight labour market is good news – an indication that wages and compensation are rising – many stressed the need for a sustainable immigration policy; not to open the gates to a flood of cheap labour, but to proceed in a deliberate way to bring in either people with the skills Japan lacks or those able to do the jobs that cannot be filled by domestic workers.

Japan must also move to restructure its labour market to allow for more flexibility. Measures are required to help workers shift from mature industries to growing ones without experiencing unemployment. In addition, reforms are needed to make hiring and firing practices, as well as regulations and wage structures, less rigid.

In April 2013, the government announced that special economic zones (SEZs), or tokku, would be set up. In these SEZs, employment rules would be less strict, with at-will employment possible. The government is also moving to improve labour safety standards and allow for more bargaining between employees and employers.

01: Japan's National Transformation: Leveraging the Tokyo Olympics session
02: Ricart Costa, Professor of Strategic Management, IESE Business School

“The Trans-Pacific Partnership should be an opportunity for Japan to undertake reforms to enable it to take leadership on the global scale.”



Douglas L. Peterson, President and Chief Executive Officer, McGraw Hill Financial, USA

Freeing up the labour market will also stimulate entrepreneurship. And, through steps to integrate more women and elderly in the workplace, constraints on growth due to the labour shortage can be addressed and thus help to drive new economic growth.

Some business leaders have also called for improvements in the way infrastructure projects are allocated, and for the government to move more quickly to enable R&D and to boost tourism by measures such as increasing international airport landing slots.

The overarching aim is to encourage more investment for growth and to make Japan's economy and its enterprises more competitive. Japanese companies have been marked by low profitability and low return on equity. Moves to upgrade corporate governance, such as the inclusion of independent directors from outside the country, are necessary to improve company performance.

Another important goal is to expand trade. To this end, the government announced last year that it would join negotiations for the TPP. This free-trade initiative could be an opportunity

for Japan to drive structural reforms needed in key sectors, such as agriculture and the automotive industry, to generate more trade, investment and fresh growth.

Despite the resolve that the Abe government has expressed to keep pushing the reform "drill bit" forward in the face of vested interests and bureaucratic reluctance, doubts remain as to whether meaningful deregulation and restructuring can be achieved. Participants applauded the elegance and clarity of the Abenomics framework, but proposed that the government make an effort to communicate even the small successes of the third component to the public. Tangible progress in implementing the growth strategy should be achieved quickly and highlighted, to build confidence in the government's reforms and shore up support for its vision.

"Many industries like automobiles have started to suffer labour shortages. This is an urgent matter. Wage increases may not solve the problem."



Takeshi Niinami, President and Chief Executive Officer, Lawson; Global Agenda Council on the Role of Business 2012-2014



stimulate new investment in the same way the British government did with the London 2012 Olympics. Foreign direct investment flows into Japan are the lowest among Organisation for Economic Co-operation and Development (OECD) countries.

But formidable tasks lie ahead. Japan will need to address its labour shortage in certain industries, among them services. To do this, a more open immigration policy will be required that smartly assesses the skills Japan needs, and that brings in the necessary workers in an orderly way, minimizing social and political tensions. Civil society leaders called for an initiative to turn Tokyo into a creative and cultural hub – a city where “the coolest people” from around the world want to live and work.

The Olympics can be the impetus for inclusion, helping to give a boost not only to elite athletes, but also to youth. Planning and participation should be as diverse as possible, including women, young people, the elderly and disadvantaged groups. Japan should not forget the legacy of the Paralympics, and should make efforts to improve access for the elderly and the disabled. The nation has to become more hospitable to foreigners, with bilingualism, especially the use of good English, more widespread. Young people should be mobilized to drive these changes. Time is of the essence; while the Tokyo 2020 Olympics are six years away, that time can go by very quickly, many participants warned.

“By 2020, we will double the export of Japanese food products. Rather than focus on the domestic, we will look to the global food market.”



Yoshimasa Hayashi, Minister of Agriculture, Forestry and Fisheries of Japan

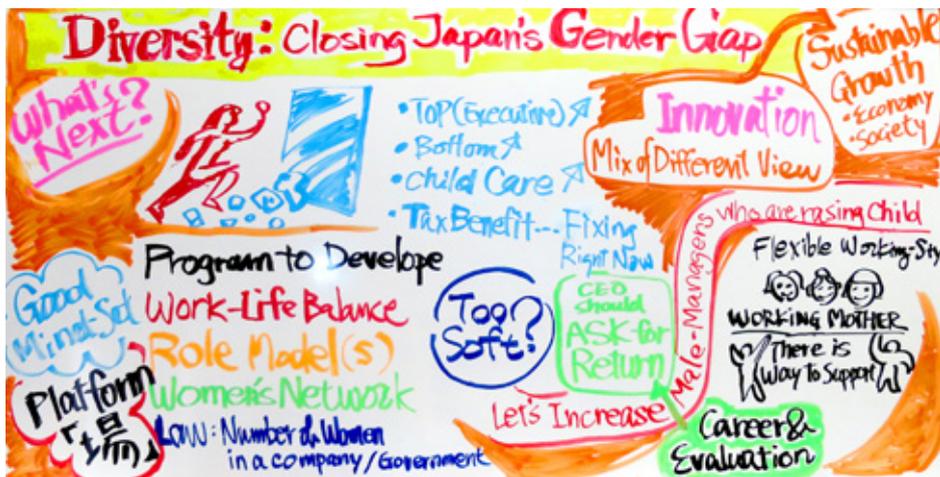


“Japan clearly has the vision and leadership. The legacy of the Games is critically important. I am 150% sure that Japan will deliver.”



Sir Martin Sorrell, Chief Executive Officer, WPP

- 01: Japan Meeting 2014 Executive Dinner Reception
- 02: Japan Meeting 2014 Executive Dinner Reception
- 03: Heizo Takenaka, Director, Global Security Research Institute, Keio University, Yoko Ishikura, Professor Emeritus, Hitotsubashi University, Akira Tsuchiya Executive Director, World Economic Forum Japan, Hiroataka Takeuchi, Professor, Harvard Business School



Enhancing diversity – closing Japan's gender gap

Addressing gender inequality is a core part of Prime Minister Abe's reform programme. In the growth package released just days after the 2014 World Economic Forum Japan Meeting, the Abe administration indicated it would introduce a new law that would give incentives to companies as well as the local and national governments to promote women to leadership positions. It had already pledged to improve childcare facilities and revise or eliminate tax rules that discourage women from full-time employment.

The prime minister aims to increase the proportion of women in managerial positions to 30% by 2020. Increasing female participation in the workforce is crucial if Japan is to develop new drivers of growth while facing a shrinking workforce over the coming decades. According to a "womenomics" report by Goldman Sachs, Japan could raise its gross domestic product by as much as 13% if it closed the gender employment gap. Currently, the country has one of the biggest gender gaps among OECD countries.

However, narrowing gender inequality will require not only new policies and measures to boost the participation of women in the workplace, but also a major shift in mindset for both managers and employers that will take time to achieve. A recent incident at the Tokyo Metropolitan Assembly

illustrated the cultural and social hurdles that must be overcome. When a female lawmaker spoke on the need for the local government to assist women who are infertile or require help raising children, male colleagues taunted her out loud.

A crucial step in addressing the gender gap will be information gathering, particularly at the microlevel – for example, what percentage of employees in a particular company are women. Measuring the extent of the gender gap at the enterprise level will make it clear where companies stand, and will allow for better-targeted policies and remedies.

Within companies, measures have to be taken to ensure that women are able to rise to leadership positions. Putting women in managerial roles and in the boardroom makes for better decision-making, human-resources specialists argue. But the path for Japanese women to senior positions is difficult, especially when it comes to balancing career and home life. This often makes women reluctant to take such jobs. Typically lacking connections to the old boy network that can help male counterparts, women should have easy access to the major business groups.

"In the past, policies for women were regarded as a human issue, not an economic one. But now it is an economic issue. It has become visible to men's eyes."



Masako Mori, Minister of State for Gender Equality, Minister in charge of Support for Women's Empowerment and Child-Rearing, Cabinet Office of Japan

"Gender parity is an issue not just for women only but for men, not just for large corporations but for small and medium enterprises, and for rural areas as well as cities."



Yoko Ishikura, Professor Emeritus, Hitotsubashi University, Japan; Global Agenda Council on Education & Skills 2012-2014



Addressing the lack of women in a company will require strong commitment from top management and the board. Mentoring programmes can be helpful. Corporations, including small to medium-sized enterprises, should also look at their policies on paternity leave and on ways to get male employees to become more involved in child-rearing. This will inevitably mean changing long-held work habits including overtime. The issue of sexual harassment should be addressed and not swept under the office table.

Business and government should examine ways to make workplaces more diverse and more supportive

of women. More childcare facilities, particularly for after-school hours, are critical. The government should make it easier and less costly for Japanese to hire qualified caregivers, just as foreigners are able to do. There should also be efforts to equalize pay for equal work.

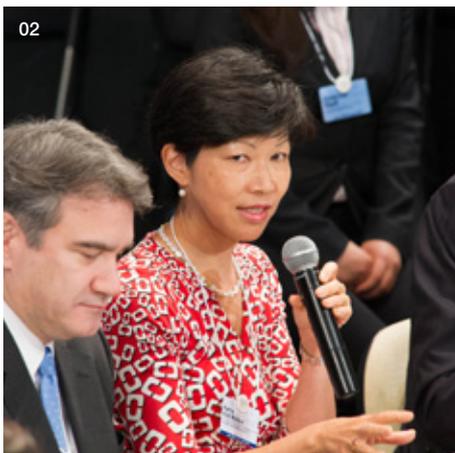
While participants lauded the Abe administration's decision to make "womenomics" a central focus of its reform programme, they concluded that the gender gap in Japan will only be eliminated once the challenge is regarded as much of an issue for men as it is for women.

- 01:** Japan's Contribution to Global and Regional Agendas : Innovation and Sustainability session
- 02:** Kathy Koll Matsui, Co-Head, Asia Investment Research, Goldman Sachs Japan Co. Ltd
- 03:** Philipp Rösler, Managing Director and Member of the Managing Board, World Economic Forum

"Measurement and target setting, awareness and training, incentives and accountability, work environment and work-life balance, leadership and company commitment – these are practices we know that work."



Saadia Zahidi, Senior Director, Gender Parity, Human Capital and Constituents, World Economic Forum



“Women have no access to the old boy network. If we have mentoring, this will change very rapidly.”



Etsuko May Okajima, Chief Executive Officer, ProNova



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- 01:** Shuhei Abe, President, Chief Executive Officer and Group Chief Investment Officer, SPARX Group Co. Ltd
- 02:** Shoukei Matsumoto, Managing Director and Buddhist Monk, Japan Fellowship of Buddhists, Rikiya Abe, Professor, Presidential Endowed Chair of Digital Grid, University of Tokyo, Japan
- 03:** Sakie T. Fukushima, President, G&S Global Advisors Inc.
- 04:** Shinzo Abe, Prime Minister of Japan, Klaus Schwab, Founder and Executive Chairman, World Economic Forum



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Japan's Contribution to Global and Regional Agendas

Innovation and sustainability

Despite volatility in world energy markets, one certainty is that energy demand over the next 40 years, including for fossil fuels, will continue to grow. Thus, greater efforts are needed to boost energy efficiency. As one of the world's leaders in energy efficiency technology and practices, Japan must play a major role. Because energy security is the country's biggest existential challenge – it depends largely on imported sources of fuel – Japan has had to explore ways to make consumption efficient and to find alternatives to fossil fuels, such as geothermal energy for power

generation. This has given the country an unparalleled level of experience and expertise in energy efficiency, especially in industry.

Japan has been criticized for declining, along with other countries, to join the Kyoto Protocol extension on greenhouse gas emissions. Others point out that Japan's energy use has climbed in recent years, and that it has to do more to make homes and buildings more energy efficient. Still, the country has contributed to the fight against global warming by focusing on enhancing energy efficiency through the use of technology in industry, and on recycling.

“In the future, the distinction will be between high-innovation countries and low-innovation ones. Japan's challenge is to remain a high-innovation country.”



Klaus Schwab, Founder and Executive Chairman, World Economic Forum

“Global warming will be solved if technology prevails and Japanese technology is available all over the world.”



Hideki Makihara, Parliamentary Vice-Minister of the Environment of Japan



01: Tomomi Nishimoto, Artistic Director and Principal Conductor, The IlluminArt Philharmonic Orchestra

02: Yasuhiro Sato, President and Chief Executive Officer, Mizuho Financial Group



This opens the opportunity for Japan to become a leader in promoting the circular economy, in which waste is eliminated throughout the use and life cycles of products and components. This potentially game-changing concept could yield significant gains through the re-engineering of supply chains to allow for the reuse of materials. Japan could become a model for other countries in procurement practices.

Other countries could also learn from Japan's Top Runner programme, a regulatory initiative introduced in 1998 that focused on improving end-use efficiency. The aim was to get manufacturers and importers of

energy-consuming equipment to use technology for improving efficiency. Some countries including China are copying or taking lessons from the programme.

Japan can also take the lead in the development of solar, wind and biomass energy. In addition, it has strong capabilities in product and management innovation, such as through public-private partnerships, and can show the way in promoting procurement and other processes that encourage efficiency. Japan can share this specific knowledge with other Asian countries and the rest of the world through technology transfers or international forums, or exchanges

"We talk about an energy shortage, but we still have plenty of resources – sunlight, wind and biomass can be utilized."



Naoto Kan, Prime Minister of Japan (2010-2011)

- 01:** Victor L. L. Chu, Chairman and Chief Executive Officer, First Eastern Investment Group
- 02:** Naoko Yamazaki, Member, Space Policy Committee, Cabinet Office of Japan
- 03:** Christophe Duchatellier, Chief Executive Officer, Asia, Adecco Group
- 04:** John Pang, Visiting Scholar, NYU Stern Urbanization Project



between educational and research institutions. Sony's partnership with the Japan International Cooperation Agency to bring renewable energy solutions to Africa is an example of social innovations that can be driven by Japan's technological capabilities.

The Tokyo 2020 Olympics are the ideal opportunity for Japan to showcase its energy-saving technology, capacity for innovation and commitment to sustainability, particularly among its young people. Japan, for example, could convene a global meeting on innovation and sustainability.

"Japan's leadership in energy and resource efficiency is greatly felt around the world, especially in China."



Wu Changhua, Director, Greater China, Climate Group, People's Republic of China; Global Agenda Council on Climate Change 2012-2014



01: Tsutomu Kamegai, Gravity One
 02: Scribe of North-East Asia's Geopolitics and Geoeconomics Session by Tsutomu Kamegai

North-East Asia's geopolitics and geoeconomics

The relationship between Japan and China is very strained, particularly over territorial disputes. Japan also has tense ties with its other neighbours, the Democratic People's Republic of Korea and the Republic of Korea. Neither China nor Japan appears to be doing anything to step away from the brink and avoid a military clash. Chinese actions in the South China Sea, which have inflamed relations with Vietnam and the Philippines, have raised questions about emerging nationalism in China and its leadership's intentions. In Japan, Prime Minister Abe's visit to the controversial Yasukuni Shrine and his moves to remove constitutional constraints on the Japanese military have stirred concerns.

Meeting participants warned that the rise of nationalism and populism across East Asia is fuelling tensions that could lead to conflict or an unintended escalation. The tough geopolitical climate is now having an impact on business, with Japanese investment in China decreasing in recent months. Yet, small signs have appeared that both sides want to mend ties, including the scheduling of visits by officials.

More should be done, such as steps to improve trade and tourism. In 2013, Japan joined the negotiations for the TPP, the US-led trade framework that is a pillar of the American strategy to bolster ties in the region, but which some have regarded as an initiative aimed at China's containment. However, even in China, it is felt that the Chinese could eventually join the TPP. While this would complicate the talks, it would counter the exclusion argument and could help bring Japan and China together.

Japan and China could convene a joint panel to review their histories, assess the controversies, find common ground or even resolve differences. The territorial dispute souring ties could be made a lower priority, and not addressed through state-to-state talks (which may be difficult to conduct, and only through parallel-track diplomacy). Both countries could focus on enhancing educational exchange and collaboration on the environment. Japan could step up its sharing of energy-efficiency technology with China. The two nations could work together in development projects in Africa and South Asia, two regions of mutual interest.

“Nationalism and populism emerging in Japan and elsewhere are leading to a vicious cycle. This must be stopped.”



Yoichi Funabashi, Chairman, Rebuild Japan Initiative Foundation, Japan; Global Agenda Council on Japan 2012-2014

“The world is going through the biggest adjustment in the international order since the end of the Cold War. It is important for us to have the wisdom to get through this as peacefully as possible.”



Akihiko Tanaka, President, Japan International Cooperation Agency (JICA), Japan; Global Agenda Council on Japan 2012-2014



01: Yoshito Hori, President, GLOBIS University; Managing Partner, GLOBIS Capital Partners; Chairman and Chief Executive Officer, GLOBIS Corporation

Scope appears to exist for adversaries to discuss difficult topics, as Japan and North Korea have launched discussions on the controversial issue of abducted Japanese citizens. The key players, including the United States, have to bear the responsibility for peace and stability in the region. The United States plays a crucial balancing role and should take steps to prevent a new cold war from emerging.

Japan and China could build on the goodwill between their citizens, especially among youth. Hate speech may be prevalent in the blogosphere, and extremists on both sides stoke the flames of resentment. For the most part, however, young Chinese, particularly in Hong Kong, are fascinated by Japanese and Korean popular culture. Moreover,

the Japanese are uneasy about Prime Minister Abe's tough stance, offering a good foundation for building strong people-to-people ties, with the business community and youth taking the lead. The Tokyo 2020 Olympics, and their preparations, could serve as a useful platform for emphasizing shared values and the common hope of citizens in both countries of avoiding conflict that would only threaten regional prosperity.

01: Satoru Nishikawa, Vice-President, Japan Water Agency (JWA)

02: Masa Inakage, Dean and Professor, Director, Keio Media Design Research Institute, Graduate School of Media Design, Keio University



“It is crucial to strengthen geopolitical cooperation in our region to sustain and advance our geoeconomic partnership.”



Shen Dingli, Professor and Associate Dean, Institute of International Studies, Fudan University, People's Republic of China, Global Agenda Council on Nuclear, Biological & Chemical Weapons 2012-2014

“There is growing animosity and a deterioration in political relationships in the region. It is of pressing importance for all players to address such uncertainty.”



Zhu Feng, Professor, School of International Studies, Peking University, People's Republic of China

Contributing to regional risk resilience

In a private meeting on 3 June 2014 convened by the Global Agenda Council on Catastrophic Risks, Members of the World Economic Forum's Japanese community discussed the issue of risk resilience in the context of responding to natural disasters. Japan's experience with the earthquake, tsunami and nuclear crisis of March 2011 that resulted in nearly 20,000 deaths placed the country in a position of responsibility. Given its knowledge and expertise in disaster preparedness, response and rebuilding, Japan can help build the risk resilience of other countries, particularly its immediate neighbours.

The contributions that Japan can make could be as straightforward as sharing technology or disaster-response procedures and know-how. For example, gas meters are equipped with sensors that shut off supply if an earthquake is detected. Installed in all households, this system has meant that dangerous gas leaks have not occurred since the 2011 disaster. Warning devices have also saved lives by halting high-speed trains, preventing any derailments. Japanese companies implemented business continuity plans that allowed for essential services such

as mobile convenience stores to open quickly in disaster-hit areas. These products and practices can be shared with others.

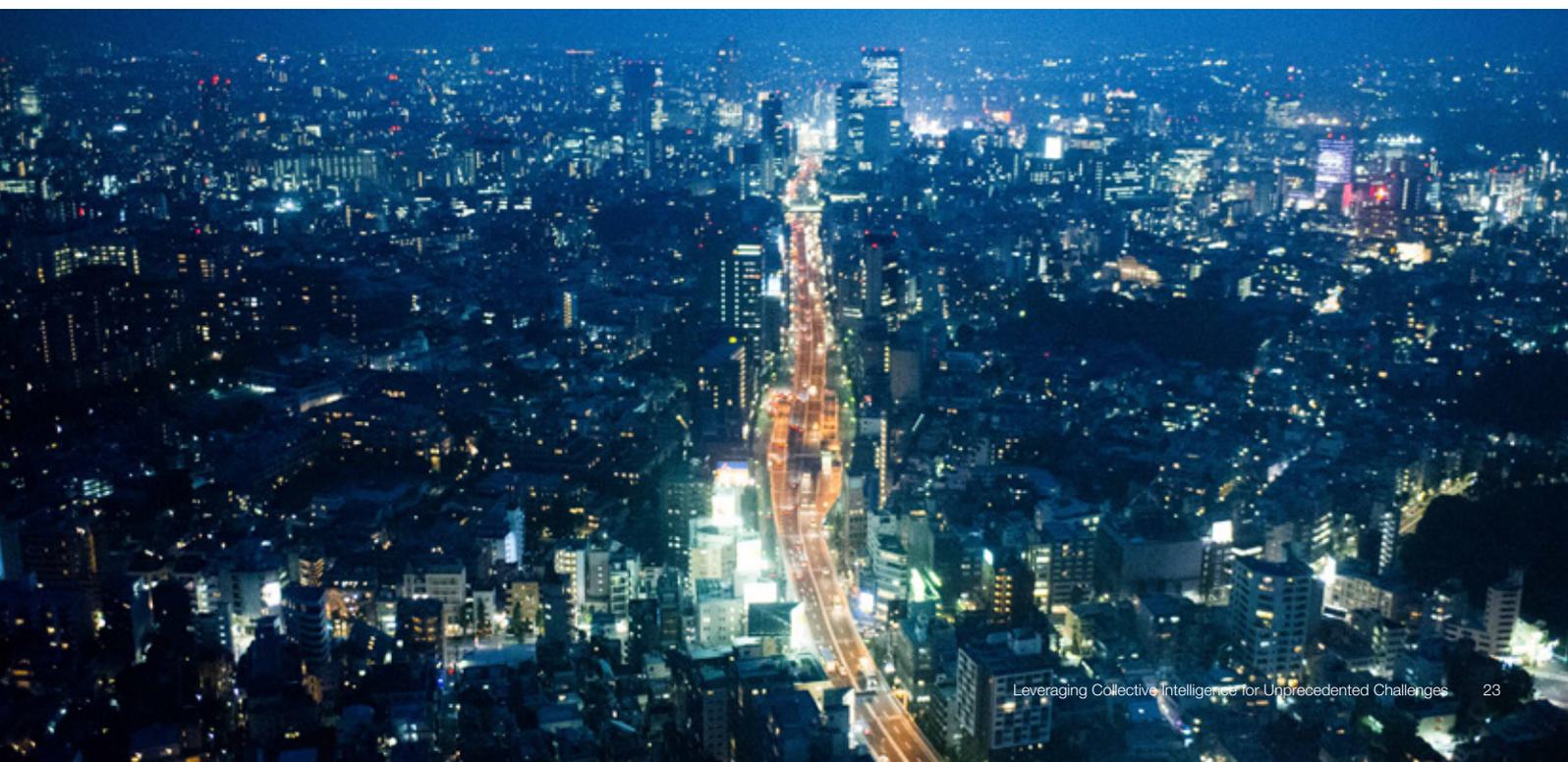
During the discussion, participants considered what motives Japan should have for assisting other countries with disaster risk reduction. They also examined strategies for the private sector to share knowledge and technological expertise with other nations.

The motivation for helping is simple. Aside from the moral imperative, not helping is not an option in a globalized world of interconnected supply chains. Providing assistance could ensure that supply chains essential to the assisting nation remain open or are quickly re-established in the countries hit by a disaster. Helping neighbours builds trust.

Participants agreed that Japan should brand itself in the area of disaster risk mitigation. Products including gas meters with earthquake sensors, designed to mitigate risks associated with natural disasters, should be a major market opportunity. Japan should also develop ways to share its knowledge and experience, such as through a website platform for matching expertise. It could create

educational programmes on disaster preparedness and teach other countries about its system of school drills that have successfully limited the number of casualties during earthquakes. Japan can also lend its expertise in areas such as insurance and infrastructure.

In March 2015, the United Nations will convene a conference on disaster risk reduction in Sendai, Japan, a city badly hit by the 2011 earthquake and tsunami. This will be an opportunity for the country, particularly its business community and civil society groups, to share ideas with other countries on disaster preparedness and risk resilience.



Designing a new social system and infrastructure

As Japan aims to drive new growth, it is tapping its leading-edge capabilities in areas such as infrastructure development, smart transport systems, energy-saving technology and social solutions to keep elderly people leading productive lives. Whether through innovations in financing or smart grids, Japan has proven its capacity for solving problems. It can share its know-how and approaches, especially with neighbours in the region that need better infrastructure and energy efficiency, and that must deal with ageing demographics.

Collaboration, after all, is essential to driving innovation – and Japan can derive significant benefits from sharing its expertise. Expanded trade and investment abroad, for example, could stimulate growth domestically. Infrastructure has been and will continue to be an area in which Japan can make a major contribution, especially in countries where it has strong business interests – the Republic of Korea, China, Vietnam and other South-East Asian nations.



“We are developing technologies and using this momentum to achieve a new stage of growth. We are now a front runner in problem solving. We would like to share our experience with the world.”



Toshimitsu Motegi, Minister for Economy, Trade and Industry of Japan

01: Yoshiaki Fujimori, President and Chief Executive Officer, LIXIL Group Corporation
02: Koichi Hamada, Special Adviser, Office of the Prime Minister of Japan



Japan's demographic challenge is another area where it can lead the way in social innovations that turn the decrease in its population into an advantage. The country can take such measures as revising the social security system to reduce the per-capita burden, promoting lifelong learning to prolong careers and enhance skills development, and raising or removing retirement requirements to create a lifelong active society.

Japan must focus on improving its own economic position to be in a position to share its knowledge and approaches with other countries. For this reason, Prime Minister Abe's reform programme is critical. By

putting its domestic house in order and deregulating and liberalizing its markets, Japan will be in a better position to engage its partners and become much more of a global player in those fields where it can have impact. The Tokyo 2020 Olympics could be just the motivational force to focus Japanese attention on achieving the vision of a reinvigorated country, whose dynamism at home allows it to project its strengths abroad.

But Japan's transformation is still at an early stage. As Sadako Ogata, Chairperson, World Economic Forum Japan advised, Japan still has to think about what it needs to change before worrying about how to change.

"For smart infrastructure, collaboration is critical."



Hiroaki Nakanishi, President, Hitachi, Japan



- 01:** Japan's Contribution to Global and Regional Agendas: North-East Asia's Geopolitics and Geoeconomics session
- 02:** Tamako Mitarai, Chief Executive Officer, Representative Director, Kesenuma Knitting Co., Ltd.
- 03:** Community Lunch

“To realize a workforce that is growing needs new quality infrastructure. In this area, Japan is making a great contribution, including in financing.”



Donald P. Kanak, Chairman, Prudential Corporation Asia, Hong Kong SAR, Global Agenda Council on Social Security Systems 2012-2014

We need to liberalize infrastructure so that more employment can be created.



Teruo Asada, Chairman, Marubeni Corporation, Japan

“Many older people remain motivated to continue working. We should construct a lifelong active society.”



Atsushi Seike, President, Keio University, Japan, Global Agenda Council on Ageing 2012-2014



01

01: Japan's Contribution to Global and Regional Agendas: Designing New Social System and Infrastructure session

02: Timothy Latimore, Country Executive, Bank of America Group; President and Representative Director, Merrill Lynch Japan Securities Co. Ltd

03: Christopher Knight, Chief Executive Officer, Standard Chartered

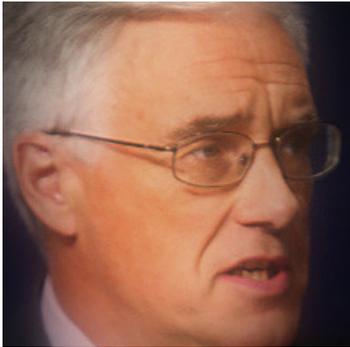


02



03

“It is essential that we increase retirement ages and get rid of barriers such as mandatory retirement ages.”



Lord J. Adair Turner, Senior Fellow, Institute for New Economic Thinking (INET), United Kingdom



01: Glen Fukushima, Senior Fellow, The Center for American Progress
02: Sandra Wu Wen-Hsiu, Chairperson and Chief Executive Officer, Kokusai Kogyo Co. Ltd
03: Charles D. Lake II, Chairman and Representative, Aflac Japan
04: Hiroshi Mikitani, Chairman & CEO, Rakuten, Inc.
05: Richard Samans, Managing Director and Member of the Managing Board, World Economic Forum



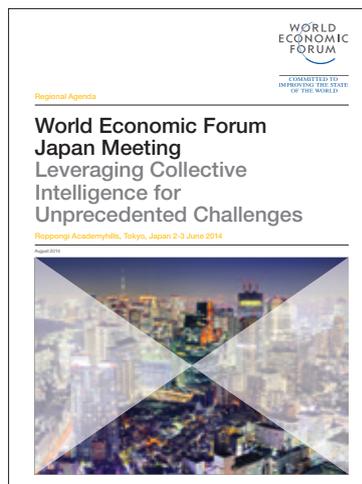
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Further Information



This report is also available to download in PDF or HTML format:

<http://www.weforum.org/japan2014/pdf>

<http://www.weforum.org/japan2014/html>

Contributors

Akira Tsuchiya, Executive Director,
World Economic Forum Japan

Alejandro Reyes, Writer
Akira Sato, Photographer

Editing and Production:
Floris Landi, Senior Graphic Designer,
World Economic Forum
Kamal Kimaoui, Director, Head
of Production and Design, World
Economic Forum
Fabienne Stassen, Director, EditOr
Proof



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World Economic Forum
91–93 route de la Capite
CH-1223 Cologny/Geneva
Switzerland

Tel.: +41 (0) 22 869 1212
Fax: +41 (0) 22 786 2744

contact@weforum.org
www.weforum.org