JAPAN’S PROSPECTS: UNLOCKING GROWTH AND EXPANDING CHOICE

Hiroshi Okuda

Geneva, November 2001
Japan’s Prospects: Unlocking Growth and Expanding Choice

Public Lecture
by
Hiroshi Okuda

International Institute for Labour Studies
Geneva
Opening Statement

Padmanabha Gopinath
Counsellor to the Director-General,
Director of the International Institute for Labour Studies

The last decade has faced Japan with possibly its greatest challenge in the post-Second World War period. One realizes the starkness of what has happened if one compares what has happened in the last decade to what happened in preceding period.

From 1956 to 1973, Japan grew at 10 per cent per annum on a cumulative basis. From 1973 after the oil shock, to 1991, when the bubble burst, it grew at 3.8 per cent per annum. Since 1991, growth has been less than 1 per cent. This year a GDP decline of 1 per cent is expected.

Unemployment in Japan now stands at over 5 per cent, a post-Second World War high, excluding the extent of underemployment or, as it is known in Japan, “excess” employment of approximately 3 per cent.

Japan has faced four recessions in 11 years. The Nikkei index of share values currently stands at 1985 levels. Japanese property values today are at a level last seen a quarter of a century ago. State debt stands at 130 per cent of GDP. The situation is one of acute deflation and, what is worse, the traditional policy levers of fiscal and monetary policy to increase liquidity in the economy no longer function because of the crisis in the banking sector. Banks are unwilling to lend even if reserves are increased and interest rates are down.

The problem is further compounded by a series of interlocking crises. There is the crisis of the State and regulatory systems; the crisis of social change compounded by demographic change; and the crisis in social security.

This is the dark side of the picture.

What is not often talked about is the positive side.

Japan today has probably a lower crime rate, better health, cleaner cities, longer life expectancy, better mass transit, higher literacy and more equitable income distribution than virtually any other industrialized country. It has also a precious asset: a strong commitment by its corporate structure to ensure growth through reform, a commitment which has been underpinned by a deep seated and traditional value system; a certain view of corporate governance, which takes into account stakeholders as well as employees, and a deep belief in social partnership rooted in the culture of the country.
Opening Statement

Our speaker today exemplifies this commitment both to these values and to the cause of reform. What he has to say is relevant not only for Japan, but I believe for all of us as we look at the world post-September 11, and when a new phase of globalization has probably begun.

Mr. Okuda is Chairman of NIKKEIREN, the Japan Federation of Employers’ Associations, and he is President of the Board of the Toyota Motor Corporation. In both capacities he has given new meaning to NIKKEIREN philosophy and to what is known as the Toyota creed or the Toyota guiding principles, which embody this vision of the world. He is a member of Prime Minister Koizumi’s Council on Economic and Fiscal Policy and has been closely involved in recent months with economic policy making. Last August, he launched a new employers’ association in Asia, the Confederation of Asian Pacific Employers, for the 19 countries covered by the ILO Asian region and of which he has been elected Chairman. This Confederation will hold its first executive board meeting in Geneva tomorrow. Yesterday in Tokyo he was appointed Chairman-designate of the new Japan Business Federation, which represents the merger of two of the largest Japanese business organizations, the NIKKEIREN and the Keidanren. It is a great pleasure to welcome Mr. Okuda to this house and I have great pleasure in giving him the floor.
I am happy and honoured at this opportunity to address the distinguished members of the ILO Governing Body and leading thinkers in the constituency.

Let me begin by expressing sadness at the unspeakable death and suffering in the terrorist attacks in the United States on September 11. I extend my heartfelt sympathy to everyone who has been touched by those horrible events. I share the spirit of the statement by the Director-General of the International Labour Office and the Officers of the Governing Body. We need to be resolute in our fundamental commitment to democracy and humanity. We need to be resolute in opposing terror but to avoid the clash of civilizations.

The economic damage from the terrorist acts is huge. Signs of slowing economic growth were already appearing this summer in nations around the world. But after September 11, conditions have deteriorated further, and we now face the danger of global recession. We might need to cope with an extended period of sluggish economic growth worldwide.

The former German Chancellor Ludwig Erhardt noted that half of economic success is a matter of psychology, a matter of how people feel. Today, people and their nations are hard at work in cooperating to prevent terrorist acts.

Even as we tackle those efforts, we need to address the challenge that is the subject of my talk today. That is, we need to find ways to unlock growth and expand choice.

This is a time of declining expectations in terms of economic potential. But determined efforts by all of us in all our nations can reverse that trend. We can re-establish a promising perspective on the 21st century.

In my talk today, I will discuss five main subjects:

1. I will offer some introductory comments on economic conditions and issues in Japan.
2. I will discuss approaches to employment issues by labour and management in Japan and elsewhere.
3. I will examine the role of Japan in the global community amid the progress of globalization.
4. I will take a look at the social responsibility of corporations.
5. I will conclude with some remarks on the right philosophical stance for maximizing our prospects in the 21st century.
Hiroshi Okuda

Before I go further, let me emphasize something important about Nikkeiren. We are in fact an organization of employers. But our members have devoted themselves for 50 years to achieving two very broad goals. One is to promote sound practices in corporate management. Our other is to improve the quality of life for working people. At Nikkeiren, we recognize that labour and management are crucial partners. Good relations between labour and management are an anchor of social stability. Cooperation between labour and management is essential to corporate and economic growth. I will be speaking from that basic perspective in the five subjects of my address.

1. Economic conditions and issues in Japan

The current state of economy

Japan has yet to emerge from a decade of economic stagnation. Our economy was already weak before the terrorist attacks on September 11. Following those attacks, we now expect the economy to shrink in 2001. And it appears likely to shrink further in 2002. The unemployment rate in Japan reached its worst-ever level in September, at 5.2 per cent. That was up from 4.7 per cent last year, 3.2 per cent in 1995, and only 2.1 per cent in 1990.

Bad debts in the financial sector remain a huge burden on the economy. And consumer spending remains weak as people worry about their jobs and about their lives after retirement. The prolonged economic stagnation has undercut capital spending in the private sector. And yet Japan remains a high-cost environment for business, which encourages domestic manufacturing companies to shift production overseas. And it discourages investment in Japan by foreign companies.

Japan's economic bubble burst at the outset of the 1990s. It has essentially stopped growing for some 10 years. And people now talk about this period as Japan's "lost decade". Our nation failed to cope to the dramatic change that occurred in the 1990s. Globalization and information technology changed the structure of industry and of society itself. People had fewer children, and they lived longer. They became increasingly concerned about environmental issues. And now, our chronic economic weakness is the result of our failure to respond effectively to those and other issues.

A special problem in Japan is the big differences in productivity among different industrial sectors. Of course, differences occur in all nations, but they are especially big in Japan. And they are partly responsible for Japan's high-cost environment. Our industrial structure is a mix of highly competitive industries and uncompetitive industries where productivity has stagnated under government protection. This industrial mix hinders efforts to revitalize the Japanese economy.

We need to shift people, capital, and other resources to high-productivity sectors from low-productivity sectors. We need to foster industrial activity in sectors at the leading edge of economic and technological progress. The challenge for Japan is to lay a new foundation for self-sustaining economic growth.
I serve on an economic and fiscal advisory committee to the Japanese Prime Minister, Junichiro Koizumi. We have sketched a scenario for revitalizing the Japanese economy in the new century, and the cabinet adopted it in June 2001 as a basic outline for macroeconomic management and structural economic reform. The Koizumi cabinet is committed to the dynamic regeneration that the economist Joseph Schumpeter called "creative destruction". The cabinet is committed to transforming the foundations of the Japanese economy to support lasting economic growth.

To revitalize our economy, we need to start with bold measures for eliminating the bad debts in the financial sector. That will include closing down companies that are in default and have no prospect of making good on their debts. Foreclosures will cause job losses. So we need to accompany our measures for eliminating bad financial assets with measures for alleviating concerns about employment.

We can do a lot to foster new jobs in the service sector. For example, demand is growing rapidly for care services for the elderly, for child care services for working mothers, and for various residential services. We also can generate jobs by promoting a more flexible labour market.

The Government has pledged to eliminate most of the bad debts in the financial sector over the next three years. It also has pledged to push ahead with a seven-point programme for structural economic reform. Its emphasis is on invigorating the Japanese economy and Japanese society. The Government wants people to be confident in the potential for improving their lives and fulfilling their dreams through their own efforts. It also intends to construct a social safety net that is convincing and reassuring.

The seven points of the economic reform package:

1. Privatize state enterprises and revise regulations to unleash the vitality of the private sector.
2. Encourage entrepreneurs and investors in promising new sectors by revising the tax code and other pertinent systems.
3. Review Japan's public programmes for pensions and medical insurance and develop a vision of the social security system for the future.
4. Support new approaches to human resources development that honour the freedom of personal choice.
5. Put in place infrastructure to accommodate social trends, such as the growing number of working women and the growing number of elderly citizens.
6. Promote more autonomy and initiative in local government.
7. Let economic and fiscal reforms be an opportunity for streamlining the national Government and making it more efficient.

In tackling these reforms, we will need to accept a slow pace of economic growth in the short term. But the reforms will resolve some fundamental weaknesses in the Japanese economy. They will lay the groundwork for vigorous growth over the long term led by the private sector.

The Koizumi cabinet is moving to make sure that its plans for reform do not just sit on the shelf. It really is committed to putting the plans into action quickly. In September, each ministry and agency announced a reform schedule for translating the cabinet's policy into concrete measures.
We in Japan know that reform must move forward. We are resolved to do whatever is necessary to keep reform on track.

2. Approaches to employment issues

A big concern in pushing ahead with economic reform is the effect on employment. Governments in the industrialized nations have given top priority to employment in drafting policy. And they have taken diverse measures to provide their citizens with meaningful jobs. Today, Japan faces unprecedented needs in regard to maintaining stable employment.

The Nikkeiren vision for coping with structural reform

Management, labour and Government in Japan are working hard to come up with sound measures for keeping people gainfully employed. Nikkeiren believes that companies are responsible for protecting jobs and generating new jobs. Corporate managers who lay off employees casually are unworthy of their positions. However, the fundamental answer to employment issues lies in invigorating the economy and generating new employment. In that spirit, we need to establish a clear direction for economic and social policies and build a broad consensus in support of those policies.

Globalization means escalating competition in an international framework. That competition will erode the significance of nation states that fail to enunciate a clear vision for their economies and societies. In Japan, our goal is to achieve self-sustaining economic growth led by domestic demand. To achieve that goal, we need to push ahead with structural reform and transform our high-cost economic environment. We need to rekindle the flame of conscientious manufacturing and foster advanced industries in the service sector. We need to shape an industrial structure that centres on science and technology and that is internationally competitive.

In fulfilling our vision, raising productivity will be the guiding principle in structural reform. At Nikkeiren, we have called attention to the problem of establishing wage scales without regard to productivity differentials between companies and between industries. That problem is responsible for the high cost of living and doing business in Japan.

Labour and management at each company and in each industry, need to work out wage levels appropriate to the pace of productivity growth at their company and in their industry. And we need to eliminate regulations that prevent labour and capital from moving freely to high-productivity sectors from low-productivity sectors. To survive as a nation in the 21st century, we need to foster high-productivity sectors and build a high-value-added structure for the Japanese economy.

Raising productivity to cope with international competition is as important in the service sector as in manufacturing. In both sectors, we need to take advantage of the latest technology to create high-value products. Making things well must remain our core strength as we build an industrial structure based on science and technology and composed of high-value-added industries.
We at private-sector companies need to manifest a powerful entrepreneurial spirit in creating products and services that appeal strongly to customers. We need to identify core operations for today and tomorrow. And we need to give priority to those operations in allocating people, technology, and capital. That will include focusing resources in such fields as genomic science, other biotechnology, environmental services, information technology, and nanotechnology. It will foster new business that will generate new employment.

Putting in place a social safety net promptly

Along with generating new employment, we need to put in place a social safety net to alleviate concerns about unemployment. That will include setting up training programmes to increase employability and improve the mobility of labour. It also will include upgrading programmes of unemployment insurance.

Realistically, the benefits of structural reform in stimulating new employment at private-sector companies will take time. Japan now has 7 or 8 per cent more labour than it is employing usefully. More than 5 per cent of our work force is actually unemployed. Companies are keeping more people on their payrolls than they really need. A lot of people work at companies that are basically insolvent. Cleaning up bad debts in the financial sector will involve closing down insolvent companies. This will throw more people out of work.

Formerly, Japan’s tradition of lifetime employment and employment-conscious corporate management helped us maintain the lowest unemployment rate among the large industrialized nations. But our prolonged economic slump is forcing change in that tradition.

The resultant concerns about employment have dampened consumer spending and retarded economic growth. Alleviating those concerns is a pressing issue for Japan.

In August 2001, we at Nikkeiren announced a programme of emergency employment measures and called on the Government to support them. The core emphasis remains on generating new employment in the private sector. But we also are calling for limited-term programmes to offer short-term employment in the public sector. We continue to aim for smaller, leaner government. But staffing remains far from adequate in several important services in the public sector. That includes such services as the police, education, medical care, geriatric care, and tax administration.

Increasing employment in those services will help improve the quality of life in Japan. They are labour-intensive services and therefore offer great potential for generating employment. And the Government is moving to provide funding for increased employment in those services through a supplementary budget.

Another important element of the safety net that we require is training programmes for improving employability. Technology continues to evolve swiftly. And the business environment continues to change rapidly. Lasting and satisfying employment depends on acquiring sufficient skills to cope with that evolution and change. Companies need to create ample opportunities for employees to master specialized skills. National and local government needs to help. Companies and governments around the world have focused on creating similar opportunities. The time has come for Japan to redouble its efforts in this regard.
Building a social consensus in regard to employment

Putting in place an improved safety net will require close cooperation between labour, management and government. I have noted that good relations between labour and management are an anchor of social stability. A social consensus built on the tripartite collaboration is also essential in promoting structural reform and in addressing employment issues.

We at Nikkeiren serve as a national labour-management centre in tandem with our labour counterpart, Rengo. Leaders of Rengo and Nikkeiren meet regularly to discuss national issues of mutual concern. We debate issues where we have different perspectives. And we identify issues where we advance common interests by cooperating closely.

Nikkeiren and Rengo emphasized the need for cooperation with each other and with the Government as employment issues became serious in the 1990s. In 1998, we established the Tripartite Council on Employment Measures. In 1999, Nikkeiren and Rengo issued jointly the Declaration on Employment Security, which reaffirms the social responsibility of both management and labour in maintaining stable employment and in generating new employment. The joint declaration was a revolutionary initiative in the history of Japanese labour-management relations.

In October 2001, we issued another joint declaration that calls for promoting a social consensus with regard to employment issues. It calls for both our organizations and for the Government to do everything possible in addressing employment issues.

Our declaration calls for management to maintain jobs and create new jobs to minimize unemployment. It calls for labour to cooperate in strengthening corporate foundations by raising productivity and lowering costs and to be flexible in wage demands. The declaration also calls for labour and management to cooperate in diverse efforts to maintain and create employment. That includes studying the potential for work-sharing and new modes of work. Labour and management pledge to develop appropriate evaluation criteria and fair compensation on the basis of kinds of work, to help foster work skills, to manage working hours optimally, and to improve working styles.

Our declaration calls on the Government to upgrade the employment safety net, to improve vocational training programmes, to expand work-referral programmes, to revise the tax code and regulations for creating employment and encouraging entrepreneurs, and to promote broader choice in patterns of work by revising the tax code and social security system.

In addition, our declaration calls for building a social consensus in support of all these measures through the Tripartite Council on Employment Measures.

Meanwhile, Nikkeiren and Rengo are working on our counterparts at individual companies to take part in our efforts.
3. The role of Japan in the global community

Recognizing Japan's responsibility

Japan has the second-largest economy in the world. It accounts for about 60 per cent of the aggregate gross domestic product of Asia. Japan therefore has a major responsibility to fulfill in preventing the global recession that is a growing threat. We need to begin with structural reform for restoring our own economy to a pattern of growth. We also need to cooperate with other nations in broad-ranging measures for resolving the global crisis.

Our global responsibility extends beyond economic measures. Japan has been a silent partner in the global community. Now, we need to speak out on issues of global concern and take the initiative in tackling those issues. Diversity can be a positive stimulus. And a multilateral organization like the ILO can benefit greatly by hearing diverse views. Conclusions reached after a thorough sounding of diverse opinions, are the most-valuable. We in Japan have a responsibility to offer our experience as a contribution to the debate.

We also have a responsibility to increase our contribution to the global community through human participation. That includes a big role for companies, which I will discuss later in connection with corporate responsibility to society.

The Confederation of Asia-Pacific Employers

In regard to the value of diversity, I want to mention the Confederation of Asia-Pacific Employers. We launched the Confederation in August 2001. The Confederation comprises members from the 19 nations covered by the Asian regional office of the ILO. The participants in the founding conference selected me for the very great honour of serving as the first Chairman.

The Confederation took root in the Asia-Pacific High-Level Employers’ Conference. That Conference has convened every three years since 1998, which was the 40th anniversary of the founding of Nikkeiren. The fifth conference convened in Singapore in October 2000 and participants voted to establish the Confederation of Asia-Pacific Employers.

The Employers’ associations in the region have developed a lot of trust and cooperation through their gatherings at the High-Level Employers’ Conference. We now have a standing organization to carry us beyond mere discussion of shared concerns. It will coordinate surveys, research, and other joint work to lend a continuing voice to our common interests.

The establishment of the Confederation reflects our common perspective on some important issues. Asian nations are experiencing social and economic change of unprecedented speed. That is on account of globalization, technological progress, and escalating competition. We needed a broadly inclusive framework to support a common approach to trends and events. The need for that framework became especially apparent in the currency crisis of 1997. Asia is home to the greatest diversity on earth. We in Asian business believe in the importance of cooperating across borders while respecting our national differences. It was in that spirit that we established the Confederation of Asia-Pacific Employers.
The role of the confederation is clearly defined. Below is an extract from the preface of the constitution:

"We, the Employers’ organizations, conscious of our role in the formulation of socio-economic policies for stability and growth, recognizing the challenges and opportunities of globalization, and realizing the imperative need for cooperation, cohesion and interaction in a borderless economy, hereby establish the Confederation."

The goals of the Confederation are to help improve the business environment in the Asia-Pacific and to contribute to economic and social progress throughout the region. In the world of today, labour issues are inseparable from larger economic issues. Meaningful solutions to labour issues require comprehensive approaches, and corporate managers who are familiar with economic realities are well qualified to help develop those approaches. As the most-populous region on earth, Asia is the subject of great expectations. People everywhere are counting on Asia to make a big contribution to economic growth for the whole world.

On the other hand, Asia's diversity presents huge challenges for business leaders. That diversity presents us with the world's broadest ranges of history, religion, language, political systems, culture, and living standards. Asia's diversity heightens the need for promoting cross-border understanding. We need to identify common values even as we respect our differences. We need to welcome divergent opinions and the fresh ideas that they can represent. We have a lot to learn from each other. The Confederation of Asia-Pacific Employers can provide a common voice for expressing our shared concerns to the world.

4. The social responsibility of corporations

As noted, we in Japan are working to make private-sector initiative the driving force in our economy. So corporations have growing responsibilities to fulfill as the principal movers in the economy. Japanese managers need to take the initiative and take responsibility. We need to respond to escalating global competition by establishing a distinctive identity. We need to do that as a nation and as individual corporations.

We are keenly aware of our larger responsibility at my company, Toyota. We have the Toyota Creed, which emphasizes that companies are tools for benefiting society. It calls for us to look beyond our own immediate gain and serve the wider interests of society. And it has guided management in the Toyota Group since the 1930s. We updated the creed in 1992 as our Guiding Principles to address modern circumstances. The Guiding Principles express our commitment to being a company that will earn the confidence of people around the world and call for various contributions we have to make.

Companies are the chief vehicles of economic activity. We need to shoulder responsibility commensurate with our position in society. We need to create more than corporate profits and shareholder value. We also need to create employee satisfaction. More broadly, we need to fulfill a full range of social responsibility and harmonize all our activity with the needs and sensitivities of all our stakeholders.

In the same spirit, we need to put in place sound frameworks for corporate governance. Those frameworks are essential for monitoring corporate integrity and efficiency.
Today, the perception is growing among Japanese companies that they have not devoted sufficient attention to shareholder value. Changes in the business environment have heightened the need for new approaches to corporate governance. Japanese companies can no longer rely unconditionally on their main banks for funding. The traditional pattern of cross-shareholdings is breaking down. Companies now need to take responsibility for raising capital in the marketplace. To appeal to investors, they need to strengthen their financial positions. But managements need to avoid the temptation to achieve quick results on the balance sheet by sacrificing necessary investment or selling off important assets.

I work in the manufacturing sector, where success depends on projecting long-term trends and investing heavily in new technologies. A good example is the Prius, a gasoline/electric hybrid car developed by Toyota. We took five years to move the Prius from the drawing board to the showroom. And we spent 20 years working on the core technologies. Serving the true interests of shareholders requires a long-term perspective. Continuing growth by companies is the best way to serve the interests of shareholders and of employees and other stakeholders.

5. How to maximize our prospects

The question is how to maximize choice for our citizens and foster a supportive, rewarding society in the 21st century.

A market economy with a human face

I have worked to promote a market economy with a human face since becoming Chairman of Nikkeiren two years ago. The words "human face" appear in the comments of lots of people, including the United Nations Secretary-General, Kofi Annan. They all seem to use those words in the same basic spirit, that is, people are the chief dynamic of society. Serving people is the rightful purpose of any organization or economic system. Nations everywhere have embraced market economies since the end of the Cold War. But we need to consider carefully how market economies should develop. And the human face is the crucial consideration. I envision a society that benefits from the dynamism of capitalism driven by free-market competition and that also benefits from careful respect for human values. That will be a society that promotes the happiness and well-being of people everywhere and guards against the potential excesses of the marketplace.

Nikkeiren has worked for 50 years to promote management based on human respect and a long-range perspective. But Japan's economy and society have evolved over the past half-century. Today, we need to develop a more sophisticated model for combining the principle of human respect with the principles of the marketplace and free competition.

That will be a model for a market economy with a human face. It will be a model for maintaining international competitiveness while maintaining a sound basis for job satisfaction and personal fulfillment. At the heart of all economic activity is the human element. We always need to remember that people are the movers and purpose of society and that capital should be a means of enhancing the quality of life.

Japan is moving to revitalize its economy by stimulating competition through structural reform. But we must provide for people who stumble amid the competition or who experience special difficulties. We need to offer a dependable safety net for our citizens.
A society rich in choice

Stable employment is fundamental to the principle of human respect. But personal satisfaction depends on more than just stable work. The Japanese people have devoted themselves for several decades to the pursuit of economic abundance. We built an economic system for the purpose; we standardized life styles and modes of work to accommodate our economic system. Today, we have attained economic abundance. Now, we seek spiritual fulfillment.

Our challenge in a new era is to promote economic growth in ways that balance our material and spiritual needs. Addressing spiritual needs means acknowledging individual differences in personal values. It means respecting those differences by welcoming diversity in life styles and in working styles.

Providing people with satisfying work and fulfilling lives means investing society with a wealth of choice. It means making choice equally available to all members of society. It especially means accommodating the changing needs of working people during their entire working lives. We need to provide diverse and individualized support for all working people. That includes adapting work procedures, company rules, training curricula, and social welfare programmes to individual needs. Having the opportunity to manifest our full potential is crucial to personal fulfillment. That is why we need to offer a full range of choice. Maximizing choice will mean lifting and loosening some of the regulations that pertain to labour.

We need to break out of our pattern of standardized working styles. As a nation, as companies, and as individuals, we need to grow independently and assert unique personalities. We need to nurture a society that welcomes diversity as a source of vitality.

Japan is in the midst of profound change in many ways. We face daunting challenges, but we view a promising future. We can fulfill that promise by taking bold and well-considered measures to deal with the challenges that we face.
Debate

The Chairperson - Thank you very much for a very comprehensive and carefully argued presentation which has raised many issues of importance. Let me point to two messages which I get from your presentation and which we might discuss. One is your description of a programme to meet the dilemma of productivity and growth in a global economy while preserving fundamental values of social and corporate partnership. You also implied that economic reform requires social change in two respects: one, in terms of employment, particularly employment generation in the service sector, health care and the care of the ageing, and second as concerns the infrastructure to support social change, such as changes in childcare, working time organization and in the attitudes of employers towards women. The floor is now open for comments and questions.

Question - I would like to congratulate the Institute for its brilliant idea, as usual, to invite eminent speakers to lecture on matters of utmost importance, especially to developing countries. I am from Venezuela, and I have had the opportunity to visit Japan as a guest of the Japanese Government. In spite of my visits to Japan, and in spite of my contacts with Japanese people, for me there is still a mystery that I have not been able to figure out: the fact that a country can fight all sorts of adversity. Japan is a very small island, with a very dense population and all sorts of problems. It had problems of corruption and they have managed to solve them. We in Venezuela have corruption problems and we have not been able to solve them. You have an educational system which seems perfect. Also, you have social peace, because we never hear of labour crisis or strikes in Japan, at least not in the last three decades. We do not read about demonstrations or pressures from NGOs or the social actors of civil society. I wanted to know what your secret is. What is the Japanese formula that allows for an apparent social peace? How do you manage to get everybody rowing in the same direction? Because, Mr. Okuda, in many of our countries, we all want to row but we want to row in different directions. So it is very difficult to compensate for the problems and to attain sustainable development. This is a question I also want to ask for advice, since you are a very knowledgeable man on the subject. What can we do in developing countries? Which examples can we follow from you?

Mr. Okuda - What is important essentially is education. In my view, Japan was vanquished in World War II and we lost all the wealth we have had prior to that. In the half decade of the post-Second World War period, we worked very hard aiming at achieving material wealth and material prosperity, and our education system was geared to that objective. Although we did have some opposition or some resistance, generally speaking everybody supported and protected this view: the education system geared to that wealth, and also protecting the social system; and that I think lies behind of what we have achieved in the past. However, during the 1990s, we encountered social difficulties, including deterioration in social security and in the education system and also very poor corporate performance.
In my own analysis of the problems currently confronting Japan, I realize that while Japan successfully attained her primary objective of pursuing wealth in the post-war period, we have not been able to identify the next objective that we should be dedicating ourselves to in the next period. So we are currently in the quest of new objectives, so that we can lay the ground for the new generation or a new period for Japan, and in doing so I think we need to pursue simultaneously both spiritual as well as material affluence. If one looks at Japan currently, the reality is just the opposite of what you have described Japan to represent. That is to say, we are observing an increasing crime rate in Japan, increases in the number of suicides, and very poor and deteriorating corporate performance. So, what we see today in Japan, in reality, is very poor performance. And therefore we are at the birth of a new administration that is committed to the reform of the Japanese economy or Japan as a nation, and we are in the process of achieving and implementing that reform currently.

Q - You mentioned the need to allocate more resources to meet the new challenge of human resource development and technological change. I would like to know how the Japanese Government and employers have contributed to upgrading the skills of workers and to meeting new technological requirements in the process change that you have outlined. Secondly, you have two caps, one as Chairman of your national organization, another as Chairman of the Asia-Pacific Employers Organization and you have declared that, Asia having diverse development and different culture, you would, as an employer, lead the way to exchange experiences for the benefit of the whole of Asia. I would propose that in the last session of the regional conference, we the workers group in the ILO who are pro-Asia-Pacific and your esteemed organization have a small meeting, to discuss these issues. Your organization could have more bilateral dialogue with the workers’ organizations to exchange experience about what good practices are and how pitfalls can be overcome in order to meet the trends of the 21st century and bring Asia, particularly South Asia, out of the present serious unemployment situation.

A - Confronted with the problems in Japan, what the management is doing is to make substantial investments in research and development. I specifically mentioned civil-specific sectors including biotechnology and nanotechnology so that new technology can be developed in those new promising areas. In particular, the corporate sector is collaborating with universities so that the fruits of research and development could be brought into the company, which in turn could be transferred to the workers. That is what we are currently doing on the part of the management.

Very frankly speaking I believe that in the 21st century South Asia would be confronted with two major problems. One relates to the fact that two major economies, Japan and the United States, are deteriorating substantially - the economies on which Asia as a whole, or South Asia in particular, relied on thus far. And the second problem relates to the Chinese economy, which has become much stronger and powerful and will continue to do so. I expect these two tendencies to be with us for some time to come.

And in that sense I think it is necessary for us in Japan to explore opportunities to share technology or knowledge through management interchange or labour interchange so that we can share in greater growth going forward, especially with those countries in South Asia.

Q - I represent the employers from Saudi Arabia and all the employer organizations in West Asia. I would like to ask you three questions. First do you think Japan in the new century will change its strategy as concerns the transfer of know-how? We are finding this transfer from Japan low, compared with what we are getting from the United States and Europe.
Second, you advised our good friend from Venezuela that education is one of the very important elements for those countries. How could Japan help those countries everywhere in transferring their education system to them? We have sent hundreds of thousands of students to the United States and Europe and just a few hundred to Japan, how can we learn from you or your management or your administration?

Third, in Asia, East and West are doing fine; Middle and South Asia are suffering. What is Japan planning to do for those nations in the Middle and the South?

A - Your question relating to the transfer of technology has been pointed out as a problem throughout the world.

Simply receiving manuals of producing goods does not result in actually making good things. Manuals plus know-how, this combination is essential in creating an ability to produce something good or good products and I very often encounter complaints saying that although technology is transferred from countries other than Japan, transfer of technology from Japan is inadequate.

However, our way of going about this, our way of transferring technology is not just giving manuals. We try to give opportunities to those being trained so that they can seriously acquire know-how. But know-how is not something visible, it is intangible and both the people who will be transferring technology and people who will receive technology would have to work hard, really work hard, make efforts, getting their hands dirty, so to speak, with sweat on their forehead to really acquire this know-how. And that essence of know-how must be duly understood.

So, in my view, if a country says that someone has successfully transferred technology by simply giving a manual to the other party, I believe it did not result in the ability of being able to produce good things.

Concerning the problem of fewer students coming to Japan to learn or study, we are actually carrying out very serious reflection and trying to find out why students from overseas are not willing to come to Japan to study. We are now analysing that problem very hard trying to identify the reasons behind it.

One problem in the background relates to the language. In Japan, probably English education or foreign-language education at the lower educational level must be quite inadequate and lagging behind and that must constitute a serious bottleneck. Another element might relate to the fact that Japan after all is an island country with very few opportunities of getting in touch with foreigners or non-Japanese, and we may not have adequate ability to get in touch with them or in contacting them, dealing with foreigners. Therefore I believe that for the older generation it may still be quite difficult. However, younger people nowadays in Japan travel abroad, study abroad, and therefore they know how to deal with foreigners, so the situation should improve going forward.

Before I answer your third question, I must confirm which areas you meant by saying “middle” or “south”. If the area you have just referred to includes Sri Lanka, Pakistan or India, that is the area where Japan has had the fewest contacts thus far.

However, looking forward, Japan will be more active in moving into that area. Japanese companies will be doing business even in those areas more actively than in the past.
Q - I am from Kenya. Two aspects of Japanese industrial relations have been long-term or lifelong employment as well as a seniority wage system. In the restructuring process that is going on, is Japanese industry also dealing with the issue of the seniority wage system and, if so, what are they replacing that system with? Secondly, the poor performance of the Japanese economy in the last decade: is it a case of too little too late in terms of the restructuring of the economy, especially with the protected industries that were inefficient, at a time when countries in Europe and America and other Asian countries were restructuring their economies at the beginning of the decade? Thirdly, I would like to assure Mr. Okuda that we in my federation have enjoyed the facility of your training programme for the last three years, so in terms of transfer of management technology we are very grateful for that effort.

A - Lifetime employment and seniority based wages were only possible when Japan was achieving very rapid growth, and now that Japan is not growing that rapidly, long-time or lifetime employment or seniority based wages are disappearing gradually. At the same time the population of Japan is already decreasing, so including that aspect we are seriously considering how those two issues need to be addressed in the context of the population problem as well.

After the bubble burst in 1990, did Japan take too long to restructure its economy, did it react too late to the recession that it went through at that time? True, I think that Japan was late, or Japan did not react quickly enough but the crux of the problem is why Japan was late in tackling that particular problem. I think that part of the reason is because Japan had been economically so successful prior to that and Japan had, in a sense, been mesmerized to the extent that it had forgotten the need for reform and the need to catch up with the changes taking place outside of Japan. So to put it very bluntly we have been too arrogant in the past.

The Chairperson - Thank you very much, I think the applause speaks for itself and the questions show the stimulation and the interest which your talk has evoked. I could not help being reminded, as you spoke, about a visit I made to Japan a couple of months ago, where I went to visit a temple in Kyoto, the Ryoanji Temple, which contains one of the most celebrated Zen gardens in Japan. Now the unique feature of this garden is that it contains 15 rocks, but wherever the observer may stand, only 14 can be seen. You have reminded us that there is always a 15th rock.

Geneva, 13 November 2001