12th Edition

Roundtable Japan

Thinking the future of Japan in the global context

"Japan in the New Global Landscape"

Tokyo, 2 - 3 June 2016

EXECUTIVE SUMMARY

FRMA CORPORATION

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The global economic outlook

From the global picture…

Volatility, uncertainty, stress and political drama are key features of the global economic outlook with vast monetary policy experiments taking place in different parts of the world. Over 28% of global outstanding debt trades below 0%.

Three key issues:

1) <u>The future course of oil prices</u>: oil was at $25/barrel last January, it is now at $50, expected to be at $60 by the end of the year and $70 by mid-2017. However, given the sharp cut down of investment in the sector we might see shortages in the next couple of years.
2) <u>General productivity slowdown</u>: the productivity rate is about 1% in the U.S., 0.5% in Europe and Japan and 3-4% in China (compared to 10%, 10 years ago). Are we now in an era of "secular stagnation"? Hence much lower potential growth: 2% in the U.S., 1% in Europe and Japan, 5% in China.
3) <u>Capital mobility has disappeared</u>: German excess savings remain stuck in Germany. Less and less cross-border loans. This makes for a very inefficient monetary union in Europe with a major risk of continuing financial crisis. Countries such as China, Japan and Germany have huge unused savings but are not ready to use them as long-term capital for infrastructure projects. There is a need for a credible intermediate structure to channel these resources. In that respect, Japan should revisit its position toward the Asia Infrastructure Investment Bank (AIIB).

There are major structural issues across the globe:

- Japan: debt to GDP issue and income sharing discrepancies.
- China: excess capacity in most industries and loss of competitiveness.
- Europe: lack of investment issue.

In this context, expansionary fiscal and monetary policies are useless:

- What is needed in Japan is wage increases.
- China does not need more monetary easing but a reform of SOEs and significant productivity increases to compensate for wage increases.
- The issue in Europe is not "lack of capital" but "mobility of capital".

Two types of risks:

- Excess liquidity leading to enormous volatility of equity markets.
- An unprecedented expansion of the balance sheets of central banks that could lead to a currency crisis. A key question: What is the maximum size of the balance of the central bank?

THIERRY PORTE, PATRICK ARTUS, YOSHIMASA HAYASHI

…To the Japanese picture

In the global context outlined above, the risks to Abenomics are:

- A premature U.S. interest hike that would lead to a backlash in emerging economies.
- Unexpected inflation forcing central banks to increase the level of interest rates that could be the result of overshooting of oil prices or from U.S. election results.

Beyond the external factors, a key question is whether Japan can increase the productivity in the service sector which is 20-30% of the U.S. one and going down. Deregulation, new ideas adapted to the Japanese context and FDI are needed to boost productivity in services, which can make a real difference in high growth potential sectors such as tourism, agriculture and food. This is even more important to create sources of income in rural areas to attract young people back if jobs, education and welfare are made available.

A key challenge is to create a new image for the Japanese society, encouraging smart professionals to develop their capabilities and get rid of the egalitarian approach of the past. Japanese people need to be freed from the embrace of government and get a “Yes you can” attitude.

Assessing geopolitical risks in the new political landscape

The geopolitical landscape has been so volatile, uncertain, so fraught with risks in the last 70 years. Geopolitical instability has become a major consideration for corporations throughout the world. Is it just a structural factor or a new reality that needs to be reckoned with?

Resurgence of a U.S./Russia confrontation: Putin wants to show that the world cannot avoid dealing with Russia as a great power. Moscow has taken advantage of the decreasing presence of the U.S. in the Middle East to become an unavoidable player in the Syrian conflict. Mr. Putin has shown to Europe and the U.S. that they cannot infringe on what he sees as Russia’s traditional sphere of influence in Ukraine.

China stops policy of lying low: China is trying to change the status quo in the South China Sea through assertive moves. There are also a number of questions with respect to the “one belt one road” initiative launched by President Xi Jinping and China’s “String of pearls” strategy through which Beijing is expanding its presence in a series of locations stretching from Southern Asia through the Indian Ocean.

We are witnessing a new situation where there is competition, cooperation and confrontation, between Russia, China, and the United States. What does that mean for Japan? On the one hand, Japan has to rely on the U.S. security umbrella but on the other hand, it must also deal with Russia and China. It is in this context that Prime Minister Abe, wishes to change the constitution, especially article 9. However, this requires changing the public view that the constitution is untouchable.

Disintegration in the Arab World: The region counts today a string of failed states (Iraq, Syria, Libya, Yemen, Sudan) while an ever more repressive Al-Sisi regime in Egypt is also fighting a jihadist insurgency in the Sinai Peninsula. Antagonism between the Sunni and Shia is today the #1 issue, a primary factor for conflict in the Middle East and the backdrop for the confrontation between Saudi Arabia and Iran. One direct impact of this situation is that Saudi Arabia's oil policy was previously dictated by economic considerations while geopolitical and strategic elements are now a primary factor as Crown Prince Mohammed Bin Sultan looks at oil as a strategic tool in the Sunni-Shia confrontation.

CLAUDE SMADJA, YURIKO KOIKE

In this context, Japan could use some elements of its "soft power" to strengthen its international positioning. It can offer an image of social cohesion, integrity and trust and technological capabilities on issues such as energy savings and efficiencies, dealing with aging societies, and it can be more of an active contributor to the emerging new world order. Japan needs to learn how to communicate more and better with the rest of the world, and to promote more what it has the potential to contribute.

How does Japan fit into the new global landscape: The risks and the new opportunities

The relationship between Japan and the United States has been excellent since PM Abe has come back to power with Japan reactivating itself and taking a more realistic approach towards the long-term challenges in the Korean Peninsula and its relations with China. Under Abe, Japan has allied even more with the U.S. and like-minded seafaring democracies (Australia, India).

This strengthening of the U.S. /Japan relationship has to be seen in the context of an ever more uncertain situation in the Korean Peninsula. North Korea has been advancing its military capabilities, specifically nuclear and long-range missiles. The recent party conference confirmed that North Korea intends to be a nuclear power. Neither sanctions nor negotiations have worked as intended and the regime in Pyongyang has managed two successful hereditary successions in the past 25 years; it has expanded its economy and bolstered its exports. Dealing with an enduring North Korea is proving to be much more complicated than everyone in the region would want it to be.

Japan's move towards closer relations with seafaring countries has been met with a reciprocal move from Prime Minister Modi in Delhi. There is a link between India's improving economy (7.9% GDP growth) and the country's growing involvement in global strategic matters. The U.S., India, and Japan have been conducting naval exercises together. India wants to see Japan playing a role in infrastructure investments. Japan has the resources and technology, to help address pressing infrastructure needs in the region. India now wants to develop national manufacturing in the defense sector and Japan could play a significant role in this domain. Similarly, India would like to see Japan involved - along with India, Iran and Afghanistan - in the huge development project of the Port of Chabahar, strategically crucial for India as it would give it direct trade access to Iran, Afghanistan and Central Asia, bypassing Pakistan.

Managing the relationship with a more assertive China will remain a key challenge for Japan. The tensions might continue over the next year or two. China's moves in the South China Sea have now exacted a cost for Beijing, which will be more motivated to defend its actions. China is increasingly interested in the Indian Ocean region as well, hence the rationale for Japan to get engaged in the Indian Ocean together with India and the United States.

China's goal is to provide a security blanket over ships going between China and South America. There is an opportunity for like-minded seafaring democratic nations to join together to send a message to China. The rise of China is bound to challenge the international status quo. However, as any kind of containment policy would fail, the only option is for seeking win-win solutions which does not mean that countries could neglect to speak up against aggressive actions.

Updating the growth strategy

The postponement of the consumption tax increase has highlighted the difficulties the Abe cabinet is facing in trying to pull Japan out of deflation and revitalize the economy. The fiscal mobilization capability is not enough to get Japan out of recession and the monetary strategy has been over-relied upon while the reforms needed for the growth strategy to succeed remain politically difficult to promote. While the "to do list" remains quite long, there is no underestimating the reforms undertaken so far by the Abe government, such as the lower corporate tax, the new corporate governance and stewardship code, the TPP agreement, the visa relaxation etc.

To increase productivity, Japan must create an environment conducive to the introduction of new technologies. The present system protects inefficient companies and the labor system protects people who are inside, but is unfair to those who cannot get in or want back in. Regulatory reform should be part of a package: tax reform, social security reform, vocational training. Two types of growth strategies are needed:

- Support policies for starting new businesses.
- Removal of bureaucratic barriers.

It is imperative for Japan to go back to growth to absorb the huge amount of debt and the cost of an aging society. Corporate governance reform has been one of the great successes. The agriculture reform has touched on land ownership but not fully, and the government needs to go further. The Abe administration has tried to introduce a new approach to work and labor but has not been able to make the necessary reforms. Medical reform and social security reform are also priorities.

It is important to reduce the over-reliance of the private sector on the public sector. The government can foster the right environment, but innovation has to come from the private sector. This is the biggest issue for Japanese companies today.

New technologies are opening tremendous possibilities to create new businesses and develop new markets. Yet this is not happening on a large scale in Japan. Not one single Japanese company comes close to the companies that are currently changing the world such as Facebook, Amazon, Alibaba, Airbnb, Uber, etc. Beyond growing existing industries, Japan needs to focus on creating new ones. Entrepreneurs need to push the boundaries of the administration, to challenge the status quo.

Roundtable Japan

Negative rates policy: what implications, what alternatives?

For the last 20 years, the BOJ never had interest rates above 0.5% and as the goal of 2% inflation was proving harder to reach despite the Quantitative Easing, BOJ's interest rates have been lowered to minus 0.1% earlier this year. The key question remains on the efficacy of negative interest rates policies, and above all, on their long-term consequences.

OKI MATSUMOTO, KAZUMASA IWATA

Markets are now facing an unprecedented situation as the BOJ balance sheet has increased exponentially – 80% of Japan's GDP – and the impact of negative rates on bank's earnings has been very large. The introduction of NIR is a paradigm shift. It means a transfer of income from lender to borrower. This has put depositors and retail investors in a "wait and see" mode, and has not led to an increase in the demand for funds, so far, while having a negative impact on the stock market. Will these policies lead down the road to a significant increase in lending which would help economic activity?

There is some international consensus that there are limits to how far and for how long NIR can be applied. One school of thought is they could go down to –2% but as deposit rates are already at zero, another assumption is that would be hard to go beyond –1%.

TATEAKI ISHIDA

One positive element of the NIR has been to contain the appreciation of the yen. As importantly, it has pushed down further the yield curve with 10 years bond yield turning negative. This should, at some stage percolate into the real economy. In Sweden – the second country to introduce negative interest rates in the Fall of 2014 –, the banking sector's profitability is beginning to increase as well as lending. The key challenge remains to get the tremendous amounts of "sleeping money" – around 200 trillion Yen to move into the economy.

Highlight from the roundtable dinner discussion with Kevin G. Nealer, The Scowcroft Group

China:

- No regime risk but - for the first time - governance and policy risks;
- The SOEs and tax reforms are stalling although there has been the recent introduction of a VAT based tax system;
- Uncertainty about China's growth and the evolution of its foreign and security policies have the effect of a tax on Asian economies.

Middle East:

- Militant Islamist movements will be a persistent threat that will continue to depress growth in the Middle East. Even if ISIS suffers set-backs this will not stop asymmetric warfare focusing on Saudi Arabia, Egypt, and North Africa;
- The terrorist risk in Europe will be an enduring one.

Russia:

- Russia's actions in the Ukraine, the Baltic States and in Eastern Europe are a source of instability for the global economy that could produce spikes of increased risk in many regions;
- The issue of sanctions against Russia may create frictions between the U.S., the EU, and Japan;
- Vladimir Putin is here to stay.

Globalization:

- Declining support for globalization in Japan, Europe, and the U.S. The U.S. debate on this issue is more complicated than politics now seem to indicate;
- Both in Japan and the U.S., trade's role in employment is seen much more negatively than is its broader impact;
- With emerging markets growth flattening, productivity gains shrinking, and global consumers cautious, the combination of government debt and limited policy options threatens to create a serious risk to global growth and employment. India, Indonesia, Vietnam, and – so far – the Philippines are all poised for reforms that could make up for declining Chinese growth.

Fighting the confidence gap

Public support for Abenomics has dropped significantly with a majority of people feeling that it has aggravated the wealth gap. Half of the gains achieved on the TSE since 2013 have now been erased. Could a spiraling down of confidence deal a severe blow to Prime Minister Abe's revitalization plans?

How has Abenomics fared on three key challenges?
Unleashing the pent up savings of corporate Japan: Corporate profits doubled in the last three years, but the issue is to get that cash off the balance sheets. With the corporate governance reform, companies are starting to unleash some of that cash – at least back to shareholders through dividends. Shares buy-backs have been up 70% compared to last year.

The demographic crisis: Finally Japan is starting to deploy half of its population into the workforce in a way never seen before. 66% of women are working (64% in the U.S.) but many are still on a part time basis. Even if there is a long way to go in improving female labor participation and mobility, significant progress has been achieved and equal pay for equal work is now being discussed in the Diet.

Tackling the Mt. Fuji of government debt: While there is criticism for the postponements of the consumption tax hike, this is the first government that has created a taxpayer ID system to tighten a very leaky tax collection system in a country where there are 700 million bank accounts for a population of approximately 125 million.

Addressing the confidence issues means communicating not only at the macro but, even more importantly, at the micro economic level beyond the headlines.

A key concern is that the stimulus from the fiscal and monetary policies is fading while the key reforms for the provision of social security and for the pension system are not being put into motion and the delaying of the consumption tax increase could impact the credibility of the government.

The perception of a lack of direction in Abenomics is hurting confidence. Six months after the start of the Abe administration the growth and deregulation strategy was announced with an emphasis on demand side policies. In 2014 there was a revision of this growth strategy; now we are seeing a new revision towards supply side, and the last development is the call for “the dynamic engagement of all citizens”. Monetary easing has not given the expected results. Now, the introduction of negative interest rates - seen by some as an admission of failure - could lead to a liquidity trap.

The fiscal stimulus package cannot deal with the structural issues, so it will not result in sustainable growth. It is like giving coupons to consumers, but they know that they will have higher taxes in the future. Young people know they might not be able to get benefits, and while total income is increasing wages are going down resulting in a greater disparity of wealth. Younger people do not expect to do better than their parents, and these are all structural issues that make reform a must.

While there is the need to increase labor market participation, the bigger issue is the one of labor productivity especially in the services sector which employs 70% of the workforce and where productivity is half of that of the U.S. and Europe.

The government overestimates the resistance to reform: For instance, it is only the secretariat of the KEIDANREN that is against market reforms. The opposition to labor reform does not come mainly from Unions but from Chambers of commerce and SMEs associations. PM Abe needs to show the potential upside of the reforms which would require much less political capital than people think, especially as Japan is now suffering from a labor shortage. He should also take advantage of the external pressures created by TPP, (even if the TPP momentum is weakening in the U.S.) to accelerate the pace of reforms.

KAZUHIKO TOYAMA, KATHY MATSUI, CLAUDE SMADJA, YASUSHI ANDO, TAKAYUKI KAMIKURA

How can Japan leverage the transformative impact of the new technology era?

Start-ups are changing the structure of entire industries. Fintech companies are creating disruption in the financial sector while the development of Artificial Intelligence and the new wave of robotics could mean that 50% of human resources might lose their jobs. The development of Fintech in Japan means that companies and individuals can manage their finances better, reduce uncertainty and improve business activity by dealing with risk more easily. The flows of money between funds might be improved. Financial functions might change in the future, resulting in new industries. One can also expect better business models. Block chain technology might totally change the infrastructure of financial institutions.

The question is whether Japanese productivity and growth will improve significantly with the introduction of these new technologies. Can Japan lead in any of these industries? It was previously a leader in IT but the U.S., China, and India are now at the top. While not all companies are lagging behind, people are overwhelmed by the fast changes in R&D, by the speed at which they need to develop new things. Japan possesses a lot of the core technologies but companies do not think systematically on how to leverage them. This would require a horizontal nexus of companies to be able to develop new technologies.

There should be a greater use of open source technology. AI technology is there but it is not fully clear yet in which sectors it will be used most efficiently. While companies like Google and Facebook are in the cloud technology, Japan is stronger in the devices area. It has been a leader in domains such as robotics and it can continue to be very successful in those domains.

The key problem for Japan is its weakness of vision – on what should be the goal for the future. While 'innovation' is a buzzword in Japan, this is an issue left to engineers in the field, not driven by the top management. A more dynamic approach requires getting rid of the silo approach, importing people with the necessary expertise and experience to promote diversity.

Companies need to find ways to combine the physical world and the potentialities of the Internet of Things to regain some leading positions. Many Japanese corporations have become complacent about their manufacturing capabilities. They thought that they could do everything on their own, and that has made them lagging behind. Corporate Japan will increasingly need partners overseas.

Japan's new Energy equation

Four key parameters are orienting the Japan energy problematic:

1) After a sharp decline, oil prices are expected to go back to $70-80/barrel in the next couple of years;
2) Geopolitical question marks with respect to the Middle East instability, and the growing reluctance of the U.S. to continue to be involved militarily in the region;
3) Growing reluctance toward nuclear power;

4) Impact of COP21 agreement in Paris with respect to the reduction and then elimination of green-house gas emissions by 2050.

The liberalization of the energy sector is going to have a very big impact, which is already beginning to be felt as vertical integration is already happening in the gas sector with a drastic consolidation process in the gas and refinery sectors. The liberalization of the sector also means the separation of generation and distribution that will need to happen after a five-year preparation phase.

ROBERT ALAN FELDMAN, MITSUMARU KUMAGAI, AKIRA KOJIMA, HIROKI ASANO

Japan's grid vulnerability has to be addressed with the creation of a smart, integrated, nationwide grid which can be connected to other neighboring countries such as Korea.

The directions of the energy policy are not yet fully defined and the key issue is where to direct major investments. This is linked to the energy mix that should be achieved in the long term. The present energy mix took four years to be defined and sets the shares for 2030 as: Nuclear power: 20-22%; fossil fuel: approx. 32% (oil & natural gas); coal: 26%; renewables: 13-14%. However, this already needs to be reviewed and should rather aim at 15% nuclear, 35% fossil fuels, 15% coal and 30 % renewable.

How to increase the share of renewable energy is one of the most pressing questions. Technology solutions are already available and Japan should make use of them. China is moving fast toward renewables with an emphasis on solar and wind, and India is opening bids for renewable plants as the costs are going down. Japan will need to decide which technologies to go for. The energy efficiency growth rate has been 0.8% per annum and it needs to be increased which raises the issue of how to accelerate the pace of technological innovation.

What kind of corporate governance and culture to boost companies' innovation potential?

The reform of corporate governance stands out as one the significant achievements of the growth strategy. This has emphasized the crucial role that outside directors need to play in:

- Destroying the mono culture of companies;
- Pressing the CEO to use cash savings for innovation;
- Securing the freedom of employees to promote innovation.

Japan is a homogeneous society and the lack of diversity reflected in companies' workforce and management is a clear impediment to fostering innovation. This lack of diversity is also still prevalent at the board level. The rigidity of internal structures leading to a silo culture is antagonistic to the innovation spirit that needs to prevail today.

Another issue is that the corporate culture, in general, still links promotion to seniority and this is an impediment to risk taking. Americans fear missing out on opportunities whereas Japanese fear failure. There should be incentives for long-term risk taking, and that is the important aspect that corporate governance reform should aim at. There is an abundance of capital in Japan and a social safety net, so young Japanese people should be willing to take risks. They need to understand that they can absorb a certain amount of failure.

The reform of corporate governance should lead to a culture aiming at promoting human resources mobility, and diversity as this encourages innovation and risk taking. An efficient corporate governance and culture should also help facilitate the closing of non-efficient businesses to allow for capital reallocation towards R&D and more efficient/successful businesses or branches.

Japan outbound: A strategic Imperative

The outbound expansion of Japanese companies is basically driven by fear, by the uncertainty about the domestic economic prospects. Demographic crisis and the shrinking of the domestic market while immigration remains taboo, are leading to decreasing economic activity. So going out is a strategic imperative – a matter of survival. When looking at the motivations expressed by top Japanese executives about cross-border M&As, two key elements come into play: developing a new growth strategy and ensuring the geographic expansion of the activities.

The U.S. is by far the Number One destination for Japanese investment – Japan is the second largest acquirer of U.S. targets behind Canada. Europe, Australia, China, Brazil and Canada come after as distant followers. One reason why the U.S. is in such predominant investment destination is that American companies are usually doing global business, so when Japanese companies want to grow globally they look at U.S. companies to acquire.

There is a clear upward trend from 2000 to 2016 in Japan's outbound M&A transactions, with the number of deals and their size increasing steadily. Outbound transactions are happening in every single domain of activity, with the financial sector, consumer, healthcare, industrial and logistics in the lead.

China is now becoming a rival to Japan in many cross-border M&As deals. This new factor has to be taken into consideration by corporate Japan as China's outbound drive is also now a strategic imperative for many Chinese companies looking for outside sources of growth in the context of a slowing domestic market.

If Japanese corporations want to be fully successful in their outbound drive they will have to evolve from a "Made in Japan" business model – i.e. relying on export of domestically produced goods – to a "Made by a Japanese company" one (based on outward FDI returns including the income from the investment + IP rights and license fees). This implies, being able to sustain the same sense of quality and reliability whatever the new locations where these activities are undertaken.

Japanese corporations need to be prepared to deal with the difficulties involved in integrating large acquisitions overseas, and in creating a common vision and a sharing of objectives organization-wide. One proven approach would be a function-based integration model. There needs to be the proper incentives for local executive to feed flow information to headquarters.

This outbound drive imperative applies not only to big conglomerates but also to SMEs also in need of new sources of growth to survive and thrive in the context of a stagnant or shrinking domestic market. SMEs that were not even thinking about global business need to conceive overseas strategies. While they were in the past looking at overseas expansion as a way to cut costs, market development has now become their new priority. They also have to reduce their dependency on the keiretsu and respond to the competition from Emerging Market countries.

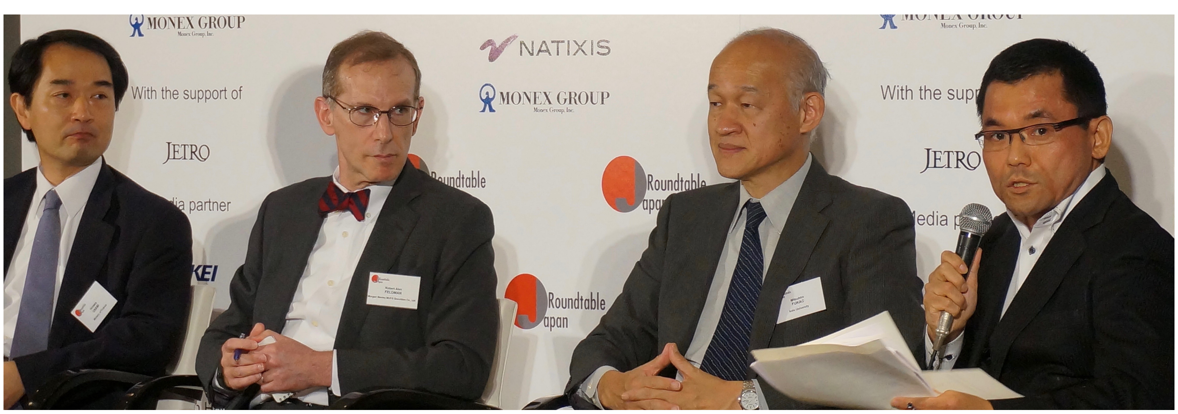
The percentage of SMEs planning to expand their operations overseas has increased from 53.8% in FY 2011 to 72.5% in FY 2015. However, SMEs need to address key challenges in their outbound drive, the most important being the ability to mobilize the necessary human resources for overseas business, the understanding of business conditions abroad, the compliance issues and the difficulties to find the right business partners.

Time to stop living at the expense of the future

Tackling the country's "Mt. Fuji of debt" is today recognized as an unescapable priority for Japan, especially at a moment when the new fiscal stimulus launched by the government has raised much criticism of fiscal discipline being once again abandoned and sacrificing the long-term need for fiscal sustainability to short term pressures.

Social spending will have to be halved – even with a 10% consumption tax – if there is ever any chance to achieve fiscal consolidation as the debt to GDP ratio is now even worse than after WWII. In addition to that, the concern is that tremendous pressures will build on government finances when interest rates go back to normal levels. A primary fiscal surplus of 2% would be needed to cover the debt burden.

Although the fiscal balance has improved recently due to the previous increase of the consumption tax more efficient tax collection, and the revival of the markets in the last three years, the goal of fiscal consolidation remains directly linked to achieving the long-term sustainability of social security spending. While the share of social spending in total government spending has been increasing, the share of the corporate contribution has been diminishing between 1990 and 2010.



HIROTAKA UNAMI, ROBERT ALAN FELDMAN, MITSUHIRO FUKAO, HARUKATA TAKENAKA

This means covering of the existing current population at the expenses of the future population. Putting an end to this situation requires containing social spending while increasing the government revenues and revitalizing the economy. However, even assuming that the growth target of 2% per annum can be achieved, the share of the population getting into retirement age compared to the people entering the work force is steadily increasing, adding to the demands on the social and pension systems. The only way to put public finances on a sustainable path is to accept immigrants. Japan may first invite those conversant in the Japanese language. Many have already achieved the highest level of proficiency. They should be invited to attend school here, and be given visas, and some might choose to stay and work in Japan. Inviting families and spouses with a second degree Japanese language ability and giving them some kind of visa might also help increase immigration.

The baby boom generation is potentially the biggest problem as they are now retiring and their medical spending is going up. Luckily, their impact is still positive for the moment because the consumption is high amongst this category. But as time passes the need for more hospitals and elderly care centers will arise. One way to reduce social security and pension spending is to cut pensions for the baby boomers still in activity and to provide support for people who do not have revenues or savings above a certain level. 20% of people have "0" savings, so their fear for the future is enormous. Average people who have savings and assets should not be put in the same category as those who have nothing.

The goal is to prevent a nasty war between generations and to protect the universal insurance system. This requires innovations in the government, which have not yet been considered and to either increase productivity in spending or decrease benefits.

Much of the spending goes to labor costs in hospitals. Productivity in the medical care sector is about half of the U.S. or European countries. This is where significant gains need to happen if a system with free access to medicine and low cost for users is to be maintained in the future.

Another area for improvement and for reducing the healthcare burden is preventive medicine. One third of the population will not change their lifestyle to stop preventable illness and there are ways to create incentives for people to have healthier eating habits and lifestyles.

Hospitals need to be incorporated to introduce an element of efficient corporate governance in their management. The prefectural and municipal hospitals are subsidized by local governments and not really working to improve productivity. As pensions are very high for regular nurses working for local hospitals, any reform faces union resistance. Incorporating hospitals should be seen as a way to address this issue.

Why can't solutions be carried out more swiftly? Even though the national debt is inflated, nobody in the general public thinks it's a risk. And with the low interest rates, the strong yen, the perception of a risk, the sense of urgency is even lower.

One issue is that the younger people who should be the most concerned about the future sustainability of the system do not work and do not vote, and the system favors the old generation mostly interested in the status quo which goes to the polls. This makes reform difficult. The election system still favors rural areas where reform of the hospital system is not popular. The problem is compounded by the way bills are being negotiated at the Diet and by the slowness of the legislative process. The schedule of the Diet has to be changed first, and the number of parliamentarians should be reduced as a step to improve the efficiency of the parliamentary process.

The twelfth Edition of Roundtable Japan

"Japan in the New Global Landscape"

Tokyo, 2-3 June, 2016

PROGRAM

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"Setting the Landscape"</td></tr>
<tr><td>8:30 – onwards</td><td>Registration</td></tr>
<tr><td>9:00 – 9:15</td><td>Welcoming Remarks</td></tr>
<tr><td>9:15 - 10:30</td><td>The global economic outlook and its impact on Japan.
✓ Europe's economic outlook.
✓ Can the US sustain its recovery?
✓ Where is the Chinese economy going? The reforms and growth prospects.
✓ Could India become the new growth champion?
✓ What perspectives for oil prices?

Patrick Artus, Global Chief Economist & Member of the Executive Committee, Natixis.

Yoshimasa Hayashi, Member of the House of Councillors; Deputy Chairman, Research Commission on the Tax System.

Moderator: Thierry Porté, Managing Director, J.C. Flowers & Co. LLC.</td></tr>
<tr><td>10:30 – 11:00</td><td>Coffee break</td></tr>
<tr><td>11:00 – 12:30</td><td>Assessing geopolitical risks in the new global landscape.
✓ US Presidential election and implications on the US role into the world.
✓ Where is the US-China relationship heading?
✓ Korean Peninsula.
✓ Is Russia's Putin heading towards more confrontation?
✓ Europe as a new area of geopolitical risk.
✓ The Saudi-Arabia/Sunni-Shia confrontation and the Middle-East conflagration.

Yuriko Koike, Member, House of Representatives; President, Central Asia and Caucasus Research Institute.

Claude Smadja, President, Smadja & Smadja.</td></tr>
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12:30 – 14:15	***Working Lunch*** ***How does Japan fit into the new global landscape: The risks and the new opportunities?*** ✓ How is the power balance around Japan evolving? ✓ What kind of role could Japan shape for itself in the changing global landscape? ✓ What prospects for a China/Japan/Korea revamped relationship? **Jong Kun Choi**, Associate Professor, Department of Political Science & International Studies, Yonsei University, Korea. **Douglas H. Paal**, Vice President for Studies, Director, Carnegie Endowment for International Peace. **Baijayant 'Jay' Panda**, Member of Parliament, Lok Sabha. **Tomohiko Taniguchi**, Special Adviser, Prime Minister's Cabinet; Professor, Keio University, Graduate School of System Design and Management. **Moderator: William Pesek**, Executive Editor, Barron's Asia.
14:30 – 15:45	***Updating the growth strategy.*** While strategic reforms have taken place in some areas and are still facing obstacles in others, additional "deregulation and reform targets" are becoming more apparent as the external and domestic economic and business scenes keep evolving. ✓ What parts of the unfulfilled reform agenda require priority now? ✓ Labor market reforms. ✓ Stimulating innovation. ✓ Addressing trade barriers. ✓ Tax reform. ✓ Promoting the dynamic engagement of all citizens. ✓ Others. **Yasutoshi Nishimura**, Chairman of the Standing Committee on Cabinet, House of Representatives. **Hiroko Ota**, Professor, National Graduate Institute for Policy Studies (GRIPS). **William H. Saito**, President, Intecur, K.K.; Special Advisor, Cabinet Office (Government of Japan). **Haruo Shimada**, President, Chiba University of Commerce. **Moderator: Motoshige Itoh**, Professor of International Social Sciences, Gakushuin University.
15:45 – 16:15	**Coffee break**

16:15 – 17:45	***Negative rates policy: what implications, what alternatives?*** ✓ Assessing the implications for the economic players. ✓ Learning from the European experience. ✓ What chances of success, what alternatives? **Tateaki Ishida**, President & CEO, Tokai Tokyo Financial Holdings, Inc. **Yuko Kawamoto**, Professor, Waseda Graduate School of Business and Finance; Independent Director, Mitsubishi UFJ Financial Group, Inc. **Mitsumaru Kumagai**, Senior Managing Director, Deputy Head of Research Division, Chief Economist, Daiwa Institute of Research Ltd. **Oki Matsumoto**, Chairman & CEO, Monex Group, Inc. **Moderator: Kazumasa Iwata**, President, Japan Center for Economic Research.
18:30 - 20:30	***Working Dinner.*** **Welcome Speech & Toast:** **Tateaki Ishida**, President & CEO, Tokai Tokyo Financial Holdings, Inc. Keynote speaker: **The Hon. Kevin G. Nealer**, Principal, The Scowcroft Group.

Friday 3 June, 2016 ***"Actions for Japan in the New Landscape"***	
8:00 – onwards	**Registration**
8:30 – 9:45	***Fighting the confidence gap.*** The gap between the expectations raised by Abenomics growth strategy and the actual implementation is increasingly threatening to affect Investors' confidence. Is this becoming a major risk for the success of Japan's revival? What would help bridge the confidence gap? **Yasushi Ando**, Chairman & CEO, New Horizon Capital Co., Ltd. **Takayuki Kamikura**, Vice Chairman of the Board, The Matsushita Institute of Government and Management; Chairman and CEO, Imagineer Co., Ltd. **Kathy Matsui**, Vice Chair, Co-head of Macro Research in Asia, Chief Japan Strategist, Goldman Sachs Japan Co., Ltd. **Kazuhiko Toyama**, CEO & Representative Director, Industrial Growth Platform, Inc. (IGPI) **Moderator: Claude Smadja**, President, Smadja & Smadja.

10:00 – 11:15	***How can Japan leverage the transformative impact of the new technology era?*** ✓ Using ICT and IOT to boost productivity. ✓ Leveraging the AI new wave. ✓ The new opportunities of Fintech. **Junichi Hasegawa**, Director & Chief Operating Officer, Preferred Networks, Inc. **Takuya Kitagawa**, Executive Officer, Office Manager of Behavior Insight Strategy Office, Rakuten, Inc. **Satoshi Nagashima**, Managing Partner, Roland Berger Ltd. **Mio Takaoka**, Executive Director, Monex Group, Inc. **Yoshihiro Takiguchi,** Vice President, The Graduate School for the Creation of New Photonics Industries; Senior Research Manager, Hamamatsu Photonics K.K. **Moderator: Waichi Sekiguchi**, Senior Staff Writer, Nikkei Inc.
10:00 – 11:15	***Japan's new energy equation.*** ✓ The impact of low energy cost. ✓ The deregulation of the power sector. ✓ Opportunities to boost demand through new investments. ✓ Foreign perspectives. **Takeo Kikkawa**, Professor of Management, Graduate School of Innovation Studies, Tokyo University of Science. **Clyde V. Prestowitz Jr.**, President, Economic Strategy Institute (ESI). **Masakazu Toyoda**, Chairman & CEO, The Institute of Energy Economics, Japan (IEEJ). **Kimio Yamaka**, Director, The Energy Strategy Institute Co., Ltd.; Professor, Kyoto University. **Moderator: Yuzo Waki**, Columnist, Nikkei Inc.
11:30 – 12:45	***Japan outbound: A Strategic Imperative.*** ✓ Illustrating this M&A Spree. ✓ What is Corporate Japan looking for outside Japan? ✓ What is happening to Japan's economic fabric? **Yasushi Akahoshi**, President, Japan External Trade Organization (JETRO). **Yasushi Hatakeyama**, President & CEO, Lazard Frères K. K. **Yasumasa Masuda**, Chief Financial Officer, Senior Corporate Executive, Astellas Pharma Inc. **Kunihiro Matsushima**, Director, Executive Officer, Dentsu Inc. **Moderator: Hikaru Okada**, Partner, KPMG FAS Co., Ltd., Head of Corporate Finance, Tokyo, Japan.
11:30– 12:45	***What kind of corporate governance and culture to boost companies' innovation potential?*** ✓ How to create employee diversity to stimulate innovation? ✓ Translating heightened emphasis on ROE into building innovation capabilities.

	Gen Isayama, CEO & Co-Founder, WiL, LLC (World Innovation Lab). **Makoto Kajiwara**, Columnist, Nikkei Asian Review, Nikkei Inc. **Sanjeev Sinha**, President, IJIP Asset Management Co., Ltd.; Executive Managing Director, Kuniumi Asset Management Co., Ltd. **Tatsuo Ushijima**, Professor, Faculty of Business and Commerce, Keio University. **Moderator: Kenji Govaers**, Partner, Bain & Company Japan Inc.
12:45 – 14:30	***Closing Lunch*** ***Time to stop living at the expense of the future.*** ✓ The unescapable necessity of social security reform. ✓ The bigger picture of fiscal reform. ✓ Achieving higher birth rate through support. ✓ Political mechanisms that would ensure better care for young families. **Mitsuhiro Fukao**, Professor, Faculty of Business and Commerce, Keio University. **Takashi Mitachi**, Senior Partner & Managing Director, The Boston Consulting Group. **Harukata Takenaka**, Professor, National Graduate Institute for Policy Studies (GRIPS). **Hirotaka Unami**, Senior Director for Social Security Budget, Ministry of Finance. **Moderator: Robert Alan Feldman**, Chief Economist, Managing Director, Morgan Stanley MUFG Securities Co., Ltd.

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