

Speech by Minister Aso at the Center on Japanese Economy and Business' Annual Tokyo Conference

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Thank you, thank you so much.

In America, right now, it seems that you are busy soul searching, looking into who you are.

That is quite all right.

But let me begin by saying something.

A pessimist America is not the kind of America the rest of the world wishes for.

Bear in mind, a self-confident, even exceedingly self-confident America is what the rest of us across the world cherish.

Because in this world of deepening chaos, we still need America's leadership. And that's what you should always bear in mind.

Sometimes, I see visitors coming from the States who sound highly pessimistic about the current state of U.S. politics.

Do I buy that argument?

No. And let me tell you why.

The moment I close my eyes, what I saw on that momentous day comes back to me.

It was November 22, 1963.

I was in a student lounge at Stanford University.

We were all stunned, watching the TV news report that President Kennedy had been killed.

Over the next several years, I would be in London, Sao Paulo, Brazil, and Sierra Leone, paying attention at all times to what was going on in the U.S.

Martin Luther King Jr. was killed in 1968. So was, in the same year, Bobby Kennedy.

And in the summer of 1971, all of a sudden, President Nixon closed the gold window.

I would say that the United States is a “been there, done that” country.

That is why I am long on America. Shinzo Abe is long on America, too.

For me, America is about the sky, the blue sky I looked up to from the campus of Stanford University.

And in America, the sky is still the only limit.

Do make America strong again. Make your leadership strong as well.

Because a strong America is in the best interest of Japan, just as a strong Japan is in the best interest of America.

The U.S. and Japan can work out challenges, common challenges, down the road.

Between us, trade talks are going on.

And we can solve whatever difficulties that lie ahead.

After all, America and Japan have together overcome lots of trade friction.

Now, Japanese car makers produce three million and seventy thousand cars in the US, which is twice as many as their exports to the U.S.

So far, Japanese firms have invested four hundred and sixty-nine billion dollars in the US.

They employ eight hundred and sixty thousand people in the US.

That is not the end.

In March, Toyota announced that they are going to invest thirteen billion dollars in the U.S., within the next three years.

More such Japanese companies will follow suit, creating even more jobs.

I am confident that the U.S.-Japan economic partnership has only one direction to go, that is, north.

Let us look beyond our short-term concerns such as trade negotiations.

Take, for example, GDP.

Is it still a good enough tool to measure our economy?

What about the future of our sovereign currencies?

Or, what should we make of the interplay between investment and saving?

Also, we now have crypto-currency, or crypto-assets.

What should be done for us to better deal with crypto?

And the list goes on and on.

To tackle those challenges, we need a new playbook to rely on, and who else could make it happen?

It is us, Japan and the U.S., who should face up to those emerging challenges and set standards for our future economy as the most like-minded partners.

And it must be you, you at the CJEB, who lead the debate, and this is where applause is due.

Let me repeat.

The United States and Japan must work not only on short-term issues but also, more importantly, on much longer tasks that are everyone's concern.

Next, I am going to walk you through some of the important changes now taking place in Japan.

Professor Patrick, as I recall, your book on Japan's main bank system came out in 1995. Already nearly 25 years ago, isn't it? That is amazing.

Much has changed since then, especially about corporate governance.

There was a time when the main bank gave governance to corporate Japan.

The main bank of the main banks was the IBJ, or the Industrial Bank of Japan, which is no longer there, as it is now part of Mizuho.

If you say IBJ today, the initials now point you to an online dating service company. I remember IBJ's corporate mascot was Cupid, and the founders of the dating service company are ex IBJ bankers.

Now the IBJ is gone, and also gone is the governance the main bank system provided to Japanese companies.

Indeed, it is no longer possible for Japanese banks to give good enough governance, because something unique has happened.

In Japan, it is the corporate sector, not the household, that is the primary saver.

As of the end of 2018 the Japanese corporate sector possessed 262 trillion yen in cash or reserve. That was about 2.4 trillion US dollars.

There is little motivation on the part of commercial banks to urge the corporate sector to reduce that cash.

In these circumstances, banks cannot give good governance to the corporate sector.

At the same time, we cut the statutory corporate income tax rate, while expanding its tax base, and made it as low as the internationally-competitive level.

We did it, together with improving corporate governance, to encourage companies to increase investment, wage and return to shareholders.

This is how we came to urge the Japanese corporate sector to build good governance, and to raise return on equity.

To that end, we introduced the corporate governance code in 2015, which was symbolic of the Japanese economy having changed its fundamental structure.

What would you say, Professor Patrick? I am keen to hear your thoughts.

This last January, a company in Japan, run by an ex Goldman banker who is a female PhD in astronomy, put a small satellite into orbit.

When the time comes, the satellite will let out dozens of small particles into space.

When they fall and enter the atmosphere, they will make a star shower.

Imagine that at a time of your choosing you could see dozens and dozens of shooting stars, shining in red, blue, violet and so on.

The company, called ALE, is the first-ever maker of human-made shooting stars.

That is a dream innovation and Japan badly needs more such attempts and entrepreneurs such as Ms Rena Okajima, the founder of ALE.

Nothing is more important than encouraging young entrepreneurs who are willing to take risks to scale new heights.

And the question is how.

Here, I must remind you that the gross total amount of welfare spending in Japan now amounts to 120 trillion yen.

That is the U.S. defence budget, China's defence budget, Russia's, Saudi Arabia's and France's all combined. All put together.

At present some 60 per cent of welfare spending is covered by taxpayers' money, and that rate is on the rise.

In these circumstances how can we give hope and encouragement to people like Rena Okajima, and generations to come?

One of our answers is to spend more for families with children and their generations.

Come autumn, we will be raising our VAT rate, and the revenue generated will be spent precisely to reduce the financial burden for families with children.

Pre-school education will be made free of charge.

College tuition will follow suit, for less well-to-do families.

We are effectively rewriting our social contract. That is what we are doing, and I urge you all to remain curious as to how far we can go.

So ladies and gentlemen, corporate governance has gotten better. And Japan is courageously facing up to the challenge of how best to rewrite our social contract.

Speaking of change, there must be a joint effort between Japan and the U.S., to look into our changing economic landscapes, and build new ways to capture our changed economic realities.

More and more people will live over the age of one hundred.
The household sector will be spending more and saving less.

Corporations that normally invest more and save less are doing the opposite.

The current account balance, as a result, cannot go unaffected.
More broadly, global imbalances must be tackled from the broadest possible perspective.

In other words, the current account balance is a reflection of the state of economy, especially the savings-investment balance.

Global imbalances imply underlying domestic imbalances.

This means that to impose tariffs on a single trading partner solves no such imbalance. It only invites imports from different sources.

Also, when there is a savings glut, as we have seen in a number of Asian emerging economies, we should build infrastructure -- quality infrastructure, not cheapish types.

Capital sees no borders, and yet every sovereign power in its own way seeks financial regulations, causing great financial fragmentation, to the merit of few.

On this point we are aiming at building, using the G20 as a springboard, a much closer consultation mechanism among financial regulators.

Again, it is crucial that the greatest allies of America and Japan work together to seek solutions, wherever possible, for those global problems.

I said before that Japan's welfare provision totals 120 trillion yen.

If left unchecked, it will surely grow bigger, to 140 trillion yen around 2025, and 190 trillion around 2040.

Still, that is not entirely bad news.

Because the flip side of the coin is that Japan is constantly creating demand as big as the total amount the five biggest defence spenders are spending.

In other words, Japan's power of generating demand is simply awesome.

One final note before I end my remarks.

A survey shows that Japanese men between the age of 75 and 79 walk at two point eight nine miles per hour, with women of the same age group at two point seven three.

Those walking speeds, surveyed in 2006, were equivalent to how fast 65- to 69-year olds used to walk back in 1997.

Japan's elderly people have effectively shaved ten years off how they carry themselves, which is a magnificent development.

That is why, I say to myself, I found it like a walk in the park to play golf with Donald Trump and Shinzo Abe back in late April. And that is why, I also say to myself, that I still enjoy what I do after all these years. Thank you so much.