



Keidanren Chairman's strategy for overcoming the global crisis: Executives must perceive "change as opportunity"

Nakanishi Hiroaki, Chairman, Keidanren, Executive Chairman, Hitachi, Ltd.

No prospect of much-needed international cooperation

—The Japanese government has acknowledged with regard to the impact of the COVID-19 pandemic that the global economy is now truly facing the greatest crisis in the postwar period.

Nakanishi Hiroaki: The “Keidanren’s Urgent Proposal to counter Coronavirus disease (COVID-19) Pandemic,” issued by Keidanren (Japan Business Federation) on March 30, also positioned the COVID-19 pandemic as a “dilemma, which is unprecedented in modern times” and then called for action, including “fiscal measures on a scale equal to or greater than the measures taken in the event of the financial crisis of 2007–2008,” saying “the implementation of additional measures, as well as providing focused support to workers and businesses who are truly in need is essential.”

The worst part of it all is not knowing when or how the situation will improve. Even assuming the outbreak in Japan is brought under control, if the virus is flaring up in various places around the globe, the world economy will ultimately be unable to function. The current crisis is different from difficulties experienced in the past such as the 2008 financial crisis in the sense that it is hard to predict how long economic activity will be shut down. On the other hand, during the financial crisis, the balance sheets of financial institutions took a hit, whereas this time the balance sheets of both financial institutions and non-financial companies are healthy. The cause of the economic downturn is the COVID-19 pandemic and it all boils down to suppressing the virus as quickly as possible.

Unless every country brings the virus under control within its own borders and effectively cooperates with the rest of the world, this problem will not truly be solved. Moreover, the virus will probably not be completely stamped out until a treatment or a vaccine is developed.



Nakanishi Hiroaki, Chairman of Keidanren
(Photo: Courtesy of Keidanren)

—The United States and China are trading barbs over the coronavirus pandemic and international cooperation has not really been achieved

Nakanishi: In this sense also, the outlook is extremely gloomy, President Trump’s decision-making appears to have been guided largely by his re-election prospects. China has experience of treating the virus. It would be good to see China willingly share its experience and data.

Even if a treatment is developed, we are not out of the woods until a cooperative framework for mass producing the treatment and making it globally available is established. How do we develop a treatment quickly and how do we make the developed treatment widely available? These are both questions that need answering.

This is not an issue that concerns the United States and China alone. The only countries with the capabilities to develop a treatment are the G7 countries and China. And yet, I heard that even some G7 countries are unable to reach an agreement over treatments with good grace. Prime Minister Abe is reportedly keen to reach an agreement but apparently “other countries are not.”

Japan’s strategy for combatting COVID-19 is a two-pronged strategy of maintaining health systems as much as possible whilst avoiding an “overshoot” (explosive spike in coronavirus infections). The strategy is to weather the pandemic in this way until an effective treatment is developed.

China is said to have established a system for tracking the contacts of newly infected patients and overcome the crisis through strict disease control at an individual level. Hitachi also has many employees in China and this is also the impression one gets from reading their reports. A response like China’s probably cannot be easily replicated in other countries.

In countries such as Italy, “overshoots” have occurred. And nobody expected COVID-19 to spread like it has in the United States. This is scary given that the United States has the Centers for Disease Control and Prevention (CDC), one of the greatest disease-detective agencies in the world.

The question facing the world is how to bring the virus under control. There is a danger that COVID-19 will spread to less developed regions such as Africa in the future. Even if Japan suppresses the spread of COVID-19 to some extent and the domestic economy starts reopening bit by bit, cooperation with other markets still appears a long way off. This is why international cooperation is important.

With no silver bullet for the coronavirus crisis, businesses must first ask themselves what action they should take

—The Japanese government declared a state of emergency on April 7, and the cabinet decided the Emergency Economic Measures for Response to COVID-19. The response was criticized by some as overdue. What is your view of the government’s response?

Nakanishi: I acknowledge that the government’s declaration of a state of emergency was a judgment made mainly to maintain health systems. I seriously accept that the government made a huge decision based on the spread of COVID-19 in Japan and overseas, scientific advice and

the opinions of local authorities and medical workers. Keidanren will fully support and uphold the requests and instructions issued by the government and local authorities in connection with the declaration.

Those who criticize the government for issuing the declaration too late are just being wise after the event. When Prime Minister Abe requested all schools in Japan to close, some criticized the government for taking such unnecessary action. It is not as though there is a silver bullet for ending the current pandemic. I have frequently attended meetings at the Prime Minister's Office and have, therefore, seen Prime Minister Abe and the cabinet agonizing over decisions. Before issuing the declaration of a state of emergency, they believed that Japan was on track to prevent the spread of COVID-19 and Mr. Abe himself issued a message. However, I believe that our only option now is to cooperate with the administration rather than criticizing it. I would like to see the government continuing to focus all its efforts on containing COVID-19 through international cooperation and collaboration.

The Emergency Economic Measures are a unique set of comprehensive measures on an unprecedented scale. Not a moment is to be wasted in providing support to protect people's lives, health and livelihoods and to maintain jobs and businesses. In the short-term, what is needed first is rapid relief for workers and businesses facing financial difficulties. Unless the government takes bold, well-targeted steps, the support will be ineffective. While I also understand the argument for fair and equitable treatment, support will come too late if there are too many conditions attached. In the medium-term, it will be necessary to prepare for a return to our potential growth rate once the COVID-19 crisis is over. In the long-term, Japan must embrace digital transformation and accelerate investment in the future.

It goes without saying that we will need to continue implementing a range of measures in the future. If I had to point out shortcomings in the latest Emergency Measures, I would say that they seem to be lacking in terms of "acceleration of the development of treatments and vaccines." But it is difficult to criticize given that I lack the expertise to say "we could accelerate development if we did such and such."

—What kind of action should businesses take? And in your view, is the support for businesses included in the government's emergency measures sufficient?

Nakanishi: It is important that senior executives try first and foremost not to fire employees who contract COVID-19. Valuing the lives of their associates as much as possible — this is what businesses must do in the short term. Since executives are basically the ones who presumably have the most insight into how the company is doing, they must ask themselves what measures they are going to take.

In this latest crisis, nobody knows the full picture. It is not a case of relying entirely on the government and things will somehow work out. It is the job of business executives to consider questions like these every day. By all means rely on things that are reliable but do not blame the government. Some have pointed out that support varies depending on the local authority but

those authorities that can provide support should provide it while those that cannot, well, “that’s life.” Businesses can afford no further delay and have no choice but to take the initiative themselves to begin with. It is a situation that puts the skills of executives to the test. Businesses have to consider what action they will take straight away and what is going to happen next.

Even when COVID-19 is stamped out, things and people are unlikely to go back to the way they were before. The way customers think will also change and this means that markets will also probably change. Change is, without doubt, an opportunity for business management. Where there is change, there is always opportunity. Executives who do not perceive change in this way will be described as not hungry enough.

In this latest crisis, in particular, reforms which were not implemented previously despite calls for reform, such as telework, have actually been forced on businesses. When they tried it, they found that “hey, it’s actually okay” or “hey, it’s inconvenient but doable.” Making this new way of doing things even more convenient would probably lead to even greater commercial opportunities. An Internet world offers diverse ways of communicating. There will probably be numerous instances in which businesses could use these ways of communicating to offer various goods or services or introduce more flexible ways of working.

The COVID-19 pandemic is changing worldviews—this will also affect markets

—Are there any other noteworthy changes besides those related to the Internet?

Nakanishi: Moves to review supply chains and pre-empt market trends. Worldviews will also change depending on how countries react to COVID-19 itself. In a sense, global crises such as climate change also intensify the debate on how to respond to them. When things are going well as they were before, such debate may not have taken place. Business, expressed as *keiki* in Japanese, is a question of mood or “*ki*” and influences people’s worldviews to some considerable degree. I believe that the current pandemic will have such an impact that it will influence what people around the world value and how they view the world in the future.

Supply chains need to be altered so that suppliers of products have networks which, as far as possible, are not overly dependent on specific regions or countries. Each time there has been a disaster in the past, there have been moves to review supply chains, and this latest crisis will no doubt provide business with another opportunity to do this.

For some time, there have been signs that supply chains were being reviewed with respect to China. Initially, companies moved operations to China with their sights set on cheap labor. With the subsequent rise in labor costs, a considerable number of businesses have drifted to other regions such as ASEAN. China is moving to the next step and desperately making investments in order to provide high-tech products itself. This is part of the backdrop to the standoff between the United States and China.

China is a gigantic market. In Hitachi’s case, China is an important market, accounting for 11% of total sales. It has a population of 1.4 billion, including 300–400 million middle class.

Countries like China are rare. In that sense, given the geographical proximity of this gigantic market, Japanese businesses which want to go global are unlikely to be picky and ignore China.

To take Hitachi as an example, one product which generates high sales in China is elevators. As you will know if you go to China, the newness of the buildings and the high number of elevators is completely unlike anywhere else in the world. Today, China accounts for more than 50% of global elevator demand. Because of this, importing motors developed in China to Japan allows us to make far cheaper and better elevators. Already, these kind of supply chains are evolving. China is no longer a base for manufacturing products developed in Japan.

Avoiding a second employment ice age — The employment environment is different from last time

—Keidanren has indicated that it is “firmly committed to preventing the creation of a second generation suffering an “employment ice age.” Do you acknowledge that there is the high possibility of another employment ice age? [During the prolonged recession that followed the collapse of the economic bubble, businesses curbed new graduate hires.] Could such a situation change the nature of corporate recruitment activities including the mass hiring of new graduates?

Nakanishi: On April 6, Keidanren issued a request to Keidanren member companies and organizations regarding recruitment and selection activities that take account of COVID-19 responses. Keidanren is firmly committed to preventing the creation of a second generation suffering an “employment ice age,” and I have asked companies to proactively provide students with accurate information regarding recruitment activities. The question of whether or not there will be a second employment ice age depends on the extent to which demand weakens. During the employment ice age, companies really did not hire. However, these days there is essentially a shortage of labor and demand for talented individuals is strong. In my view, things are, therefore, probably different now than they were at the time of the employment ice age.

However, while I am not harking back to the good old days, at the time of the employment ice age, students were acutely aware that they would have to search for a job themselves. After such a long period of affluence, these days, students possibly tend to think that they will be able to find a job somehow. I think the circumstances are quite different.

For some time, I have been debating whether or not companies should call time on the mass hiring of new graduates. However, there is the question of whether universities and students would be open to this idea. I hear that an overwhelmingly large number of students only look at information about companies when they need to start thinking about finding a job. And this is probably actually the case. There is a danger that if companies stop mass hiring, such individuals will get left behind. As long as students are not taking the initiative to look at companies themselves, they are not going to be inundated with offers from employers.

It is not simply a debate about whether to put an end to mass hiring—rather it is a debate about prompting large numbers of students to reconsider how they are going to create their own

lives. I guess it is something that will take time and those involved will “consider what to do this year” whilst the debate continues.

A challenge for humanity

—In your view, what impact will postponement of the Olympics and Paralympics have?

Nakanishi: The decision on whether or not to hold the games was not something that could be made by Japan alone. In light of the COVID-19 pandemic, postponement was inevitable.

The Japanese government’s Reward Point Program for Cashless Payments, which was intended to offset last year’s consumption tax hike, will end in June 2020. The government assumed that Olympic demand from July would stimulate consumption and that it would launch the myna-point program (a smartphone-based rewards program using national identification My Number cards) from September. However, none of this materialized. Since the expected stimulus failed to materialize, there will be an economic impact. There will also be no tourists from overseas and another problem is that Keidanren will also have to start collecting donations again [laughs].

Though postponed, the games will be a national effort and Japan just has to host them without complaining. Some may take a negative view, but hosting the games in Japan is better than not. People will come to Japan from all over the world and these people will have fun in Japan and return. The benefits are immeasurable. It will be more worthwhile to cast the net wider in this way than to encourage domestic consumption.

Left to its own devices, Japan becomes inward-looking. Because Japan is an island nation, Japanese do not really need to speak a foreign language to go about their daily lives. They tend to become inward-looking as a matter of course. In a sense, Japan has a handicap. Japan’s population is shrinking and as things stand, its economy will never grow at a rapid pace. In view of this situation, instead of wondering how to adapt in a shrinking market, Japanese businesses have no option but to look outward to the wider world and move beyond selling goods to develop a range of capabilities.

To put it slightly more harshly, Japan is an unarmed nation and, therefore, has no better defense than to prosper through trade. Japan relies upon the United States for its national security but unless Japan is “a country which is better to have around than not,” there is no knowing what will happen or when. The United States today is not the country it was after the Second World War. Everybody thinks so and the United States itself also thinks so. Given this situation, I think it would be advisable to discuss more seriously how Japan will create a position for itself in the world.

These days, disputes between nations are not limited to military force in the traditional air, land and sea domains but also extend to cyber space and space. Just because a country has outstanding military or economic power no longer means that it is entirely safe. The most frightening is the cyber domain, the possibility of a nation’s critical infrastructure being attacked.

Economies prosper in peacetime. When I think about our company, Hitachi has the advantage that people see us as a company they can trust because we are a Japanese company. This is trust in Japanese culture, and the economy is one aspect of a country's culture. A nation comes into being when a culture and economy prosper.

In this sense, a country's national security is extremely important. This latest battle with COVID-19 is also a question of national security, pure and simple. The COVID-19 pandemic can, in a sense, be described as a challenge for humanity. Which is why we have no other option than to seriously focus on resolving it.

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NAKANISHI Hiroaki

Chairman, Keidanren, Executive Chairman, Hitachi, Ltd.

Born in Kanagawa Prefecture in 1946. Graduated from University of Tokyo and earned his M.A. in computer engineering from Stanford University. He joined Hitachi in 1970. Has served as President of Hitachi Europe Ltd., Chief Executive of Hitachi Europe Ltd. in 2003, Hitachi Global Storage Technologies, Inc. in 2005, Chief Executive for North America, Hitachi, Ltd. in 2006, Chairman and Chief Executive Officer, President in 2010, Chairman & CEO in 2014 and Executive Chairman from 2016. He became Chairman of Keidanren in 2018.
