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Economic
Club of
New York

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The Economic Club of New York

116th Year
723rd Meeting

The Honorable Fumio Kishida
Prime Minister of Japan

September 21, 2023

In-Person/Hybrid Event

Moderator: Becky Quick
Co-Anchor, Squawk Box, CNBC
ECNY Trustee

Introduction

President Barbara Van Allen

Good afternoon everyone. I hope you've enjoyed your lunch, those in the room. We also have a very large audience online and so we're going to start right on time and finish on time.

So again, good afternoon and welcome to the 723rd meeting of The Economic Club of New York. I'm Barbara Van Allen, President and CEO of the Club. The Economic Club of New York is known as the nation's leading nonpartisan forum for discussions on economic, social, and political issues. We've had more than 1,000 prominent guests appear before the Club over the last century and have established a strong tradition of excellence. In every instance, every speaker also answers questions, as is the case today.

I'd like to extend very quickly a warm welcome to students from the NYU Stern School of Business, Columbia University, and Mercy College who are joining us virtually today as well as members of our largest ever Class of Fellows – a select group of diverse, rising, next-gen business thought leaders. And on October 1st, the applications will be online for the Class of 2024.

Today, I am truly honored to welcome our distinguished guest, the Prime Minister of Japan, Fumio Kishida. He has served in that capacity and as President of the Liberal Democratic Party, or LDP, since 2021. A member of the House of Representatives, he previously served as Minister for Foreign Affairs from 2012 to 2017. From 2017 to 2020, he also chaired the LDP Policy Research Council.

Perhaps needless to say, he's had numerous achievements during his career in both finance and politics. We're delighted today to say he's the first Prime Minister of Japan to address our Club in all these years. So this is truly a special honor.

The format today will be a formal speech followed by a conversation. And we're so fortunate to have Becky Quick, our Club Trustee and Co-Anchor of CNBC's Squawk Box, as our moderator. The Prime Minister's speech will be in English, but for the conversation with Becky, he will speak Japanese. You each have a listening device at your seat for this part of the conversation for translation into English. At that time, please tune in to Channel 1, and it may actually already be on Channel 1. For those listening for Japanese, I understand that's Channel 3. Please leave these devices on your table and our staff will collect them afterwards.

As a reminder, this conversation is on the record, and we do have quite a bit of media on the line, and I believe we have 44 outlets in the room. So without further ado, ladies

and gentlemen, it is my honor to introduce to you, Mr. Prime Minister. (Applause)

Opening Remarks by Prime Minister Fumio Kishida

It is truly gratifying to speak today at the historic Economic Club of New York to so many leaders in the world of finance.

I'm delighted to be here in New York in the heart of capitalism. I remember a cartoon in which the news announcer is saying, "There was no trading on the New York Stock Exchange today. Everyone was happy with what they owned." (Laughter) Yet, as I know you would agree, it is the restlessness of capitalism that gives us growth and progress. It is this restlessness that helps us meet the future.

That future has been tested recently. Over the past year, we've seen Russian aggression against Ukraine, soaring commodity prices, supply chain disruptions, and rampant disinformation. At this history's turning point, I have been determined as Japan's prime minister to tackle head-on the issues we face, one and then the other. Today, I would like to speak to you about what we in Japan have achieved over the past year, as well as what we are determined to do going forward.

First, let's take a look at diplomacy. We have faced any number of major challenges on

the diplomatic and security fronts. There can be no question that the Russian aggression against Ukraine was history's turning point that ended the post-Cold War period. The Ukraine issue is a challenge that extends beyond Europe to the entire world order. So, what is the best option for the peace and stability of the world and of the Asia-Pacific? I have thought about this a great deal since taking office as prime minister.

First of all, I set out a fundamental reinforcement of Japan's defense capabilities. Supported by those defense capabilities, we have exerted every possible diplomatic effort to reinforce our relations with our allies and with like-minded countries. While the enhancement of our alliance with the United States, our true friend, goes without saying, we have also improved our relations with the Republic of Korea. That bore fruit when, last month at Camp David, my friend Joe, President Yoon, and I stated that we will open up a new era of trilateral Japan-U.S.-ROK partnership.

At the same time, I have also been very active under Japan's presidency of the G7. At the G7 Hiroshima Summit held in May this year, cooperation with the Global South was one of the important themes. The leaders of India, Brazil, Indonesia, and other countries in the Global South, along with the President of Ukraine, held discussions around the same table. The result was a significant achievement. We worked out the fundamental approach on which the international community is grounded, namely, that we will fully defend the free and open international order based on the rule of law.

One part of my life work on the diplomatic front has been nuclear disarmament and non-proliferation. I am a Japanese prime minister with roots in Hiroshima, so you will understand what this issue means to me. And you will not be surprised that it was also an important agenda item at the G7 summit. I truly believe we achieved the major goal of having the national leaders encounter firsthand the tragic realities of the atomic bombings and commit to realizing a world without nuclear weapons. We also sent a strong and urgent message to Russia, which has been recklessly making nuclear threats.

And I am here in New York to attend the U.N. General Assembly. I stressed the need to return to the very foundation of human dignity to change the specter of division and confrontation facing the world. I believe this is how countries can find a way to cooperate, overcoming the differences over their systems or values. Through such efforts, Japan, together with the United States, with which we have forged a solid alliance, will continue to lead the international community.

Next, I'd like to address the economy. For someone like me who used to be a banker, the economy is a basic pillar of my administration. Last September, here in New York, I declared the revival of the Japanese economy through a new form of capitalism, in which the public and private sector transform the social challenges we face into engines of growth. These challenges include climate change, energy issues, and Japan's

declining birthrate. Since then, we have formulated an economic package to fulfill this goal, at the scale of 72 trillion yen, and we are getting the job done.

Japan's economic indicators during the past year are at levels not seen in 30 years. Our nominal GDP annual growth rate was 11.4%, making it the highest among major developed countries. Domestic investment is forecast to surpass 100 trillion yen this year, breaking a record high in Japanese history. Although wages had been sluggish, labor-management negotiations resulted in wage increases greater than 3.5% which exceeded price hikes, while the minimum wage will also be raised by 4.5% next month. Meanwhile, stock prices have risen to a level not seen in 33 years.

We have also been working to tackle structural issues in the Japanese economy. Since the end of 2022, we made a major shift in our energy policy, and then we enacted the bills necessary to implement the shift. Also, to dramatically strengthen our efforts to counter our declining population and dwindling birthrate, which are Japan's top-priority issues, we compiled a comprehensive package addressing children and child-rearing that is at a totally different level than before. This package will raise the scale of per-child assistance for child-rearing to the very top level among OECD countries.

This autumn, I will commit to economic measures that place importance on two areas, namely structural wage growth, and public and private investments for enhanced

sustainability.

First, we will place high priority on moving steadily ahead with labor market reforms, which have not made sufficient progress. We will press forward by undertaking reforms to a three-pronged set of advancing reskilling, introducing Japanese style job-based pay, and facilitating labor mobility into growth fields. I will, at the same time, work to create an environment in which women and non-Japanese can flourish.

As for investment, we have enacted relevant legislation in anticipation of 150 trillion yen in public and private investment in environmental fields over the next decade. To accelerate public and private investment beyond the environment to cutting-edge fields such as AI, semiconductors, bio, and fusion energy, we will formulate and then implement an investment assistance package that can compete with the rest of the world on every front, including budgetary, tax, and regulatory considerations.

Particularly with regard to AI, Japan is leading the “Hiroshima AI process,” which was launched at the G7 Hiroshima Summit. I take pride in the fact that not only am I the only G7 leader to have had a one-on-one discussion with Mr. Sam Altman, the CEO of OpenAI, but probably the only one to have created a generative AI model at a university lecture during the summer vacation.

Alongside this, we will also decisively carry out structural reforms, an area where

Japan's efforts have been pointed out as too slow. We will drastically expand NISA, the tax exemption scheme for small investments, and make it permanent. Building on that, we will reform the asset management sector as well as asset ownership which will manage the expanding funds.

The funds managed in the Japanese asset management sector have skyrocketed by 50% during the last three years, and now stand at 800 trillion yen. We will push hard to encourage sophisticated asset management and to solicit new entrants. To start with, we will rectify Japan's unique business practices and resolve barriers to entry and will also introduce a new program to assist new entrants. We will also promote deregulation to enable asset management firms to outsource their back-office operations.

To encourage new entry from overseas, we will establish special business zones tailored specifically for asset management business where administrative procedure can be completed solely in English. In these zones, we will take measures to improve the business and living environment tailored to the needs of overseas asset managers. To ensure that our reforms reflect the needs of global investors, I will launch an asset management forum consisting of U.S. and Japan institutions as core members, including those of you participating today.

In parallel, I will strengthen the effectiveness of corporate governance reforms. We will

systematically follow up the developments to encourage management to place importance on price-book value ratio, as well as to promote formulation, disclosure, and implementation of their business reform plans.

The development of Japan's asset management business, leveraging more than 2,000 trillion yen of personal financial assets, will help bolster the flow of investment. A win-win relationship between the U.S. and Japan, which share universal values such as the rule of law and a market economy, will be a great contribution to the global economy. The vision I spoke about today will be put in concrete action as a policy package. To garner support for this vision, we will hold a "Japan Weeks" event this autumn and invite investors around the world. I would be delighted if you would join us in this endeavor.

I met a globally influential investor the other day who said to me, "You know, Mr. Prime Minister, I've been watching the Japanese economy every year for 30 years, and I have never seen it more positive than it is now." I would urge you to evaluate what we are doing in my country, look at the underlying strength of our economy and our plans for the future and then invest in Japan.

I have spoken today about a turning point in history. This turning point is not just something that historians of the future will chronicle and interpret. It is something that you can feel happening right now. When you see the suffering and the courage of the

Ukrainian people in the face of the Russian invasion, you can feel something important shifting. When you see the fires and floods around the world, you can feel the climate changing. When you see the advancements in AI in just the last year, you can feel the technological base adjusting. None of us know the outcomes.

What I do know is that Japan and the United States share the values to help us meet these challenges together. What I do know is that there is no country Japan would rather stand beside going forward than the United States of America. And that is what I came to tell you today.

So, thank you for inviting me to speak to you and thank you for your kind hospitality.

Conversation with Prime Minister Fumio Kishida

BECKY QUICK: Mr. Prime Minister, thank you very much. Obviously you've stepped into it a little bit and explained your family being from Hiroshima and why nuclear disarmament is so important. But I was hoping you could just explain a little bit more about why you're so passionate and how committed you are to this goal. It's something you've been speaking about here this week.

PRIME MINISTER FUMIO KISHIDA: Aiming to create a world without nuclear weapons,

and that is my lifelong mission. I am from Hiroshima and that's part of the big reason why I'm aiming for such a world, but at the same time when we look at the situation surrounding nuclear weapons, I think we are at a major turning point. The world is at a major turning point.

Look at the international security environment and you see that intensity is rising. And in this context, regarding nuclear disarmament, we are seeing division in the global community. (Audio Malfunction...)

BECKY QUICK: Sorry, I think we just lost the translation. I'm not sure if you're able to fix it in the back, but let's try again. It sounds like the static just went away. Can someone, could the translator speak to us again just so we see if it's working?

PRIME MINISTER FUMIO KISHIDA: Let me try to repeat once again. Regarding nuclear weapons, the international community has entered into a crucial stage. If we observe the global security situation, it's intensified and it's becoming severe. And the Russian threat of nuclear weapons is something real. We're facing that right now. Our predecessors have made great efforts in order to reduce the number of nuclear weapons. That effort has continued and this declining trend of nuclear warheads is about to turn around to once again begin to rise. That's the reality we face today.

All the more so because we are in such an environment, we have to focus on disarmament and non-proliferation. I think it's time that we squarely face that challenge. So at the United Nations General Assembly, in my general debate speech and also at the comments that I delivered on the occasion of the FMCT High Level Event, which was co-organized by Japan, Australia, and the Philippines, I called upon the political leaders to step up their engagement to nuclear non-proliferation and make more efforts to mainstream nuclear proliferation.

And Japan Chairs for a World Without Nuclear Weapons will be newly established. And we're going to establish the Japan Chairs at major research institutes and we will be contributing 3 billion yen to establish the Japan Chairs for a World Without Nuclear Weapons at various think tanks. We've made that proposal. All the more so because the global community is at a major crossroad, I would like to...(Audio Malfunction...)

BECKY QUICK: Thank you, sir. The Bank of Japan is meeting today and Governor Ueda has already indicated that he may very well end negative interest rates by the end of this year. Obviously inflation is a huge issue. It's at a 41-year high in Japan as it is in many other places in the world. Just politically speaking, though, if they did end zero interest rates, would it make meeting your political agenda more difficult because of the shrinking liquidity? Or would it perhaps be more helpful because it would strengthen the yen?

PRIME MINISTER FUMIO KISHIDA: Thank you. For foreign exchange, it is important that exchange rates move stably reflecting the fundamentals. In fact, authorities are in close communication internationally and with a shared understanding that excessive volatility is undesirable. So my government is closely monitoring the movements in the foreign exchange market, whether it is excessive, at a high level of vigilance and will appropriately respond to excessive volatility without ruling out any options.

Regarding the interest rate or the monetary policy, indeed in the case of Japan basically it is the Bank of Japan that carries the huge responsibility. So it should be aiming for a sustainable and stable achievement of its price stability target accompanied by wage increases, and I am sure that a monetary policy will be implemented appropriately. But at any rate, the government of Japan and the Bank of Japan, we will continue close coordination and, while nimbly responding to developments in economic activity and prices as well as financial conditions. We will nimbly respond in accordance with economic prices as well as financial conditions.

BECKY QUICK: Let's talk about the new form of capitalism that you and your government have been pushing. It's very interesting because it's about redistributing the wealth to shore up the middle class. And that's been something that a lot of people are in favor of, but it has raised questions about where you raise the capital that will be redistributed. When you floated the idea of potentially taxing stock sales or dividends,

the stock market dropped. And so I guess, I wonder, how do you raise the funds to redistribute to the middle class without scaring away investors?

PRIME MINISTER FUMIO KISHIDA: New form of capitalism, the basic concept of the new form of capitalism, distribution and growth. We're trying to achieve a virtuous cycle of growth and distribution. This is the major goal of a new form of capitalism. And in order to distribute, there has to be growth, so that's our basic concept. So in order to attain that growth that is needed for distribution we want investors to invest in our country. That is why I'm sitting here, to advertise our nation, to seek your investment.

Based upon this concept of a new form of capitalism, we will be implementing policies and measures. And as I touched upon slightly, in the past 30 years there was no positive offensive attitude in corporate Japan. But that's happening for the first time in 30 years, and that's what I wish to notify to you.

Take, for example, wages. In the past three decades, there was not much growth. But in spring of this year, there was the highest level of growth and equity prices, reached highest for the first time in 33 years. It was a record high. And 100 trillion yen plus investment is expected to be announced by the business circle. And in green transformation, public and private sector together will invest a total of 150 trillion yen. This kind of concept has been presented. So growth and distribution, by achieving both

we are to create a virtuous cycle.

And based upon this concept, we will be implementing policies and measures and, therefore, in Japan we are beginning to see signs of offense in the Japanese private sector. And that's one of the messages that I wish to leave with you. We want to make this a certain trend as we proceed into the next year. And that's why in this autumn we will be announcing a new economic package to make sure that this trend becomes rooted.

BECKY QUICK: All right, so the things that you've talked about should be implemented by the end of, the things that you've talked about should be implemented by the end of the year. Things like moving regulation to make it easier for other houses to come in and set up, some of the regulations should be approved, do you think, by the new year?

PRIME MINISTER FUMIO KISHIDA: First, foreign direct investment, that would introduce superior technology, human resources, ideas from across the world. And that will raise the innovative power of Japan which will lead to the sustainable growth of Japan. So that is very important for us. By April of this year, we set up a goal that by 2030, that the foreign direct investment balance should be 100 trillion yen. So that fresh goal has been established.

In the case of Japan, between like-minded countries, we are advancing the establishment of supply chains in the strategic areas such as semiconductors. Investment from like-minded countries into Japan, of course, capital investment is important, but we also welcome capital participation because that will lead to growth and business reform. So, of course, we will refrain from any rule-making that would inappropriately hinder such investment.

In addition, in announcing the function as an international financial center, we wish to become the largest startup hub in Asia or we want to streamline the status of residents' permit for highly skilled foreign individuals, make it more attractive for investment. Indeed, in the past there was a tendency among some Japanese companies to avoid investment funds that were proactive in proposing management strategies. But more recently, many Japanese companies, in fact, welcome investment from overseas for the purpose of boldly advancing business reforms and, therefore, indeed I sincerely encourage you to invest in Japanese companies and the government of Japan will improve the investment climate.

BECKY QUICK: In April, Warren Buffett, the American investor, traveled to Tokyo and he met with the heads of the trading houses, the five Japanese trading houses that he's invested billions of dollars in. Your message today is that Japan is open for investment. He certainly endorsed that with his trip and his comments around that. Did you see a

change in foreign direct investment after that trip? And did you see additional interest that came in as a result?

PRIME MINISTER FUMIO KISHIDA: No doubt as a trend, inward investment continues to grow. I mentioned that we will be hosting the Japan Weeks Event coming fall. I think we are receiving much attention. For example, Mr. Warren Buffett is paying attention to Japan and many other people are paying attention to Japan. And in order to respond to such voices, we want to create a venue to advertise our country, and that's why we are planning to host this event, Japan Weeks.

So this kind of virtuous cycle is beginning to be formed. And in order to further promote such trend, we will make much effort to further and better the investment climate and that, in turn, will lead to more inward investment and more attention from overseas.

BECKY QUICK: You also talked about changing the demographics, an issue that has been for Japan. I believe that 29% of the Japanese population is age 65 or older. That's the highest percentage in the world. It's something you've been fighting for a long time. You touched a little bit about what you're doing for childcare. Is that what you see as the biggest impediment to improving the birthrate at this point? Because I know for the last ten years you've had success with getting mothers from home back to the work place. But at the same time, we've watched the birthrate fall below the death rate. It seems like

every solution leads to another problem. But is this the biggest part of how you deal with that demographic challenge?

PRIME MINISTER FUMIO KISHIDA: Thank you. As you mentioned, on the one hand, the population has started to decline. In response to that, though, there are two approaches that the government of Japan is responding. First of all, the birthrate, to raise the birthrate, increase the number of children, but if the population is going down, we have to adapt to that. And therefore, digitalization and other systems will be used to raise the efficiency of the society and the community. So moving both of those in parallel, I think, are vital.

The children and childcare policy in order to raise the birthrate, regarding that policy, in summer of this year, the government has announced and prepared a drastic unprecedented policy package regarding this childcare policy of Japan, which was announced this year. The important point is as follows. There are many benefits or programs or nursing care or other facilities that will be expanded. Of course, naturally that will be done. But that alone does not increase the number of babies. So facilities and policies, they have to be usable, which means the entire Japanese society has to change the mindset or the atmosphere has to change.

For example, in corporate businesses, in the company, if a woman is to have a baby,

then childcare leave or such leaves, holiday systems for childcare or birth, the system does exist. But without the understanding or acceptance, women will not be able to access those systems. They will be frightened that she will cause trouble to her colleagues or they would not use the system of such leaves, even if the institutions exist. If that is the case, even if we have the policies or the companies have the systems, the children's number will not rise. So the social community, the company awareness, the mindset will have to change. So as a nationwide campaign, we are trying to change the mindset.

So under my administration, this is the basic perspective of the childcare system. In fact, asking for benefits, applying for benefits, regarding such support programs, what the government has prepared in terms childcare policy, if they are used and implemented, amongst the OECD members it should be one of the top-level generous programs. But it has to be a society where people can actually use those prepared policies. That has been announced this year.

In addition to those policies, the population is going down, and we want to reverse that trend. But that takes time and, therefore, we have to adapt to the smaller population. Such policies are also required, digitalization or many other technologies will be fully deployed so that the Japanese society and the community will raise the efficiency. So those are also implemented in parallel. So those are the two aspects. By doing both of

them in parallel, Japan will appropriately respond to the declining population.

BECKY QUICK: Mr. Prime Minister, I want to thank you very much for being here with us today. We are honored by your presence, and we appreciate your time very much. Again, Prime Minister Kishida, thank you.

PRESIDENT BARBARA VAN ALLEN: So again, many thanks to you both for sharing your valuable time with us. And on behalf of our board, sir, and our Club members, we wish you the best and a successful visit and mutually beneficial relations between Japan and the U.S.

If everyone could stay seated while the Prime Minister departs, he's got a schedule here. So if you don't mind, he is going to proceed. And thank you, everyone, for participating today.