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Realizing Society 5.0 for SDGs through ESG Investments

Report on the Findings of a Joint Study by
Keidanren, the University of Tokyo, and GPIF

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Keidanren, the University of Tokyo, and the Government Pension Investment Fund (GPIF) recently collaborated in a joint study to realize Society 5.0 for SDGs.

As representatives of the Japanese business, academic, and investment communities, the three entities mutually recognized the need for a steady flow of medium- and long-term funding to companies, universities, and startup ventures engaged in the development of innovative solutions to a range of related challenges, and held extensive discussions regarding strategies to meet that need. The findings of their study were released on March 25, 2020 in the form of a joint research report titled "Promoting environmental, social, and governance (ESG) investments, creating Society 5.0, and achieving the SDGs."

The current coronavirus (COVID-19) pandemic has confronted the world with an unprecedented crisis. COVID-19 will drastically reshape the world that we know. It is imperative that we quickly restore our battered economies, recognize the opportunities brought on by several megatrends including the digital transformation (DX), shifting economic and social structures, and changing mindsets at the personal level, and work to achieve medium- and long-term economic growth and build a sustainable, human-centered society. Japan's concept of Society 5.0 for SDGs will hold the key to the success of these undertakings.

Society 5.0 is Japan's growth strategy that seeks to fully harness the digital transformation in eliminating a variety of constraints on a personal level, crafting solutions to global environmental problems, issues in human health, and other challenges of international scale, and aiding the creation of a sustainable, human-centered society. This will contribute significantly to the achievement of the sustainable development goals (SDGs) championed by

the United Nations. In the meantime, global financial and capital markets have witnessed a sharp upsurge in ESG investments as an investor strategy aimed at financing solutions to social challenges.

As a new approach, the above-cited joint study called for a series of four initiatives to expand ESG investments and implement the Society 5.0 vision deemed essential to the timely and unequivocal achievement of the SDGs. The four initiatives cover (1) the current state of and measures to boost understanding of the Society 5.0 vision, (2) economic and social benefits, (3) policy guidelines for the disclosure of information on companies engaged in efforts to make Society 5.0 a reality, and (4) the development of the investment environment.

In the interest of transforming the momentum behind the Society 5.0 for SDGs concept into a major movement going forward, this paper has been prepared with consideration for the coming post-coronavirus era and the objective of disseminating, both within Japan and abroad, information on the four initiatives to expand ESG investments and implement the Society 5.0 for SDGs concept.



1. Improved awareness and understanding of the Society 5.0 vision will expand ESG investments

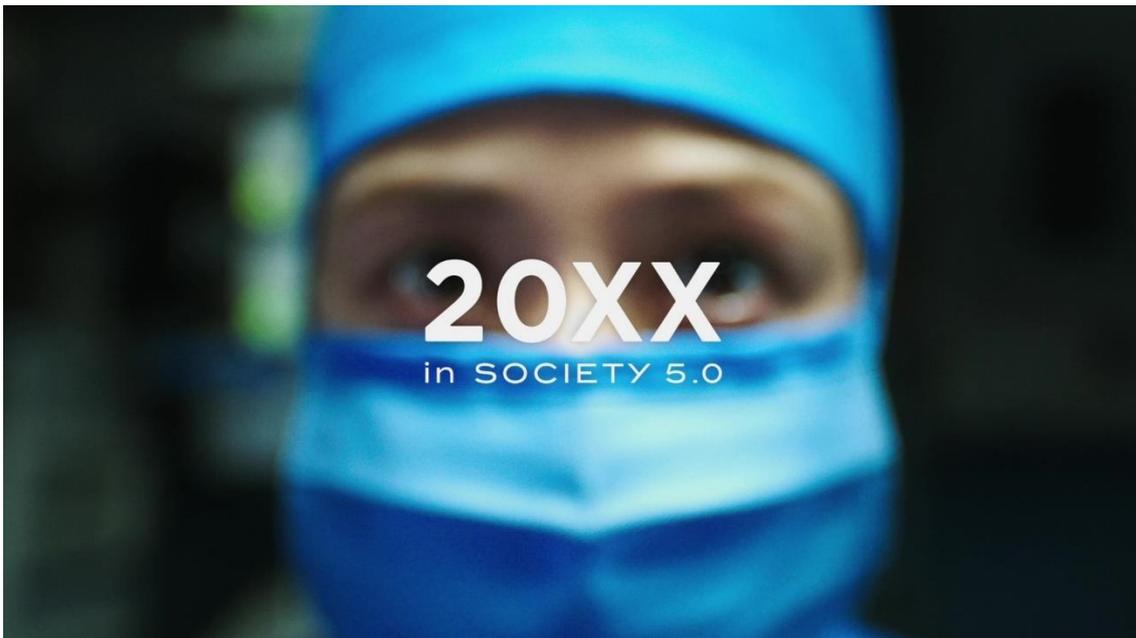
Questionnaire surveys of corporations and investors have revealed a relatively weak awareness of the Society 5.0 vision compared to ESG investments and the SDGs. Consumer and social surveys conducted by the Keizai Koho Center (KKC) have yielded comparable results.

However, corporate and investor surveys highlighted the potential for gains in corporate value and the promotion of constructive dialogue on medium- and long-term business strategies between corporations and investors if Society 5.0 objectives are integrated into ESG investments. To meet investor expectations regarding this fusion of ESG investments

with Society 5.0 goals, steps to boost awareness and understanding of the Society 5.0 vision among investors and other stakeholders will be vital.

Four specific ideas were cited for that purpose: (1) utilizing natural language processing to identify terminology and phrases that foster empathy with Society 5.0 concepts; (2) showcasing specific Society 5.0 themes (e.g., issues that demand attention, technologies with promising social applications); (3) preparing videos and other promotion methods; and (4) approaching influential institutions in Japan and abroad.

Movie: 20XX in Society 5.0—Our Future Created through Digital Transformation—



Long version (4 mins 45 secs, in English): <https://youtu.be/cWdGHWfAD1c>

Short version (90 secs, in English): <https://youtu.be/F1WWKRQMwSQ>

2. **New growth opportunities and social benefits that Society 5.0 will deliver**

The joint study sought to examine and quantitatively assess the types of economic and social benefits that would derive from the realization of Society 5.0.

First, several factors were cited as reasons to expect massive economic benefits derived from the utilization of artificial intelligence (AI), robotics, and other innovative technologies. These include sharp gains in productivity, the creation of new demand, the optimization of production, and an acceleration of economic trade. Similarly, there would also be multiple social benefits; for example, many things that were not possible before in daily life would become possible, a variety of social problems would be addressed and solved, growth would be achieved through the introduction of high-quality goods and services, and ethical

standards would be respected.

The quantitative assessment found that implementation of the Society 5.0 vision would generate new growth opportunities in a variety of industries: for example, on a scale equivalent to 36.2 trillion yen in the next-generation health-care field, 21.3 trillion yen in the smart mobility field, and 19.3 trillion yen in the next-generation energy field. Furthermore, it was shown that implementing social applications for all of the related technologies would generate fresh growth opportunities with an aggregate value of 250 trillion yen by the year 2030, resulting in a nominal GDP of 900 trillion yen, which will require a cumulative investment of 844 trillion yen. At the same time, several social benefits would also accrue, including the alleviation of gender-based wage gaps and the reduction of CO₂ emissions.

3. The "future" financial information valued by investors

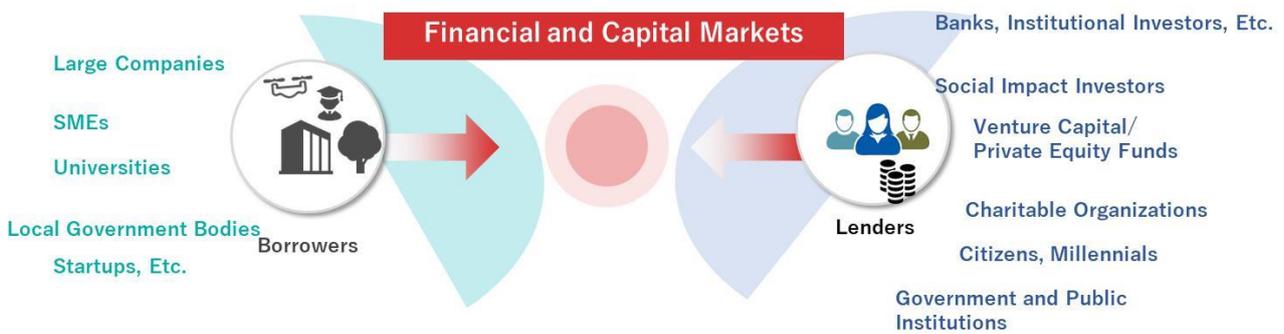
To actively invest in companies that are enthusiastically engaged in the realization of Society 5.0 (hereinafter "Society 5.0-supporting companies"), it is essential to present policies to disclose information in a way that enables investors to evaluate companies appropriately. To that end, the joint study explored the disclosure policies that were deemed to be emblematic of Society 5.0-supporting companies.

As a precondition, "Society 5.0-supporting companies" were substituted with "companies that can be expected to make contributions to medium- and long-term growth and the creation of a sustainable society." Attention was then focused on each company's long-term vision and other types of "future financial information" (non-financial information indicative of a company's future status). The findings of a questionnaire survey into investor evaluations of "future financial information" revealed that 96 percent and 76 percent of respondent investors, respectively, considered "sustainability" and "digital transformation" to be important as factors supporting medium- and long-term corporate growth. Furthermore, natural language processing of investor comments on long-term corporate visions identified "safe and smart technology-driven life," "changes in demographic structure," and "climate change and disaster prevention" to be among the top mega-trends investors should heed, and identified three elements of the long-term visions that investors find desirable: "business operations that place people first," "solutions to global challenges," and "the creation of new markets."

These assessments identified three forms of "future financial information" that investors value: corporate comments and perspectives on trends in their respective industries; corporate perspectives that spur expectations of growth, including clarification of their future roles within society; and corporate perspectives that support expectations of

sustainability, including the clarification of targets and their relevance with the SDGs.

4. Steps corporations, investors, and universities should take to promote investments in Society 5.0



To foster investments in the creation of Society 5.0, it is essential the companies, investors, financial institutions, universities, research institutions, rating agencies, government entities, and other stakeholders each take action to help develop the investment environment. Developing a favorable environment for investment can encourage the participation of a diversity of stakeholders in Society 5.0 investments.

First, companies that seek funding will face the necessity of establishing business strategies that integrate the goal of creating Society 5.0 into their growth visions, promoting innovations, and disclosing information to investors and the public at large. At the same time, investors, banks, and other providers of funding will be expected to engage in constructive dialogue with corporations and integrate Society 5.0 goals into their own investment strategies and principles. Furthermore, the national government should assume a role that involves strong promotional efforts including the creation of a council for the realization of Society 5.0 for SDGs.

To attract more investment, universities will be expected to organize their in-house technologies and research programs from a Society 5.0 perspective, engage in public disclosure, and formulate shared visions with industry. Fostering investments in startup ventures will demand efforts to promote broader understanding of the social significance of those startups, establish corporate venture capital (CVC), and promote company-driven "Dejima-style" innovation (a corporate strategy method, named after a Japanese artificial island for trade in the Edo period, that involves forming tie-ups with outside experts and start-up companies to achieve open innovation by setting up a subsidiary that is independent

in terms of corporate decision making and remuneration), among other projects. Additionally, indices geared to mega-trends, along with the integrated utilization of METI's DX promotion indices (assessment indices for digital management reforms) and ESG indices, can serve as a viable technique for Society 5.0-related investments.

Finally, promoting ESG investments, linking them with Society 5.0, and striving for the timely and reliable achievement of the SDGs will call for more extensive research and advanced levels of action. In line with that understanding, the three collaborators involved with this report have drawn up an action plan for steps that should be taken going forward.

Hiroaki Nakanishi is Chairman of KEIDANREN, Chairman of Keizai Koho Center, and Executive Chairman of Hitachi Ltd.

KEIDANREN (Japan Business Federation) is a comprehensive economic organization with a membership comprising 1,444 representative companies of Japan, 156 nationwide industrial associations, and 31 regional economic organizations (as of April 1, 2020).

Keizai Koho Center (Japan Institute for Social and Economic Affairs, KKC) has served as a bridge for the Japanese business community to interact with its key stakeholders inside and outside Japan. With a wide range of its domestic and international programs, KKC has developed a worldwide network encompassing businesses leaders, lawmakers, government officials, journalists, university scholars, and school teachers.

The **KKC INTERNATIONAL PLATFORM** is a forum to discuss new developments, changes, and challenges in Japan and the international society.

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