



The Grand Design of the New Form of Capitalism I Seek to Achieve

Kishida Fumio, Prime Minister of Japan



On October 4, 2021, the Kishida Fumio Cabinet was inaugurated. Prime Minister Kishida overviewed his policies at a press conference later that day, stating his intention to set forth a new economic and social vision to open up the future of Japan.

Photo: Cabinet Public Affairs Office

We need to upgrade capitalism now

My proposal for a “new form of capitalism” has received considerable feedback, including some requests that I clarify its aims.

In response to these comments, in this article I will discuss the grand design of my proposal for this new form of capitalism.

We live in a capitalist society. Capitalism—a creation of the human race—has continually evolved by repeatedly rebalancing efficient resource allocation through the market mechanism and external diseconomies, such as pollution, a result of market failure. For a long time, capitalism has also been the driving force of growth in the world economy.

The expansion of welfare state initiatives in the second half of the twentieth century and the subsequent neoliberalist policies are all part of this process of correcting capitalism and the evolution of capitalism.

According to neoliberalism, everything will be fine if we leave it up to the markets and competition. This has been the mainstream approach internationally since the 1980s and has constituted the driving force for world economic growth. At the same time, the expansion of neoliberalism accompanied by the globalization of capitalism has also had strikingly negative effects.

Some examples are growing disparity and poverty attributable to an overreliance on the market mechanism and increasingly serious climate change issues resulting from putting too much pressure on the natural environment. Disparity and poverty have grown and employment opportunities for the middle class have declined with a focus on the West.

If we look at the labor share, i.e., compensation for employees and the total amount of wages paid as a proportion of gross national income (GNI), we see a downward trend in the United States and other advanced countries. In Japan, the labor share remained fairly stable between 50.5% in 2000 and 50.1% in 2019, but in the United States, the labor share dropped from 56.4% (2000) to 52.8% (2019). In Germany, there was a slight decline from 53.4% in 2000 to 52.3% in 2019. If we look at income growth by income bracket worldwide from 1980 to 2016, we see that the wealthiest 1% of individuals account for 27% of global income growth and that growth in middle class incomes in advanced countries has been sluggish even as emerging nations have prospered. In addition, excessive pressure on the natural environment has intensified climate change issues and other environmental problems. We have seen damage in many locations, including the city of Atami (Shizuoka Prefecture), where a mudslide disaster occurred in July 2021, a disaster still fresh in the public's memory.

Corporate management focused on short-term efficiency gains is also showing its limitations. When the COVID-19 situation arose, Japan teetered on the edge of being unable to provide a domestic supply of masks, which are essential for people to go about their daily lives. Recently, there have even been delays in the production of cars and game consoles due to a semiconductor shortage. The excessive pursuit of efficiency has come at the cost of resilience in the face of supply chain and infrastructure crises.

Based on the accomplishments of Abenomics and other policies, I propose a structure that rectifies external diseconomies brought on by market failure without relying on the market and competition, as well as a new form of capitalism that maximizes the benefits of capitalism, which are embedded in capitalism, from the dual aspects of a growth strategy and a distribution strategy.

If we look around at the world, we see that while capitalism is faced with issues, economic systems resembling state capitalism are flourishing mainly in authoritarian countries. With democracy on the verge of crisis due to internal divisions caused by growing poverty and disparity, we have no choice but to take measures to optimize capitalism in response to the challenge from authoritarian regimes increasingly gaining momentum because of state capitalism.

Upgrade capitalism with the focus on people

I would like Japan to implement a form of capitalism that transcends the disparities and divisions that have become a global problem. The former welfare state and capitalism, including neoliberalism, evolved from origins in Europe and North America, but I want the current evolution to be led from Japan. This is something Japan can do.

The reason is that the proud tradition and culture of Japan emphasize collaboration and bonds among people. Last year, the main protagonist in *Seiten wo tsuke* ("Reach beyond the blue sky"), a historical drama in the popular NHK series, was Japan's industrialist and philanthropist [Shibusawa Eiichi](#) (1840-1931) whose chief literary work is *Rongo to soroban* (*The Analects and the Abacus*). In his book, Shibusawa says that even though the purpose of a corporation is the pursuit of profit, that pursuit must be founded on morality. As early as 1916, Shibusawa advocated *Dotoku keizai goitsu-setsu* (the Doctrine of the Inseparability of Morality and Economy) [based on this doctrine, Shibusawa promoted *gapponshugi* (ethical capitalism)] that must bear responsibility for the prosperity of the nation and humankind as a whole.

Looking even further back in time, we arrive at the Edo period, when merchants based in Ohmi Province (currently Shiga Prefecture) peddled their goods on foot in other provinces, practicing a well-known business philosophy called *Sampo-yoshi* (good for three sides, or “a triple win”) meaning “good for the seller, good for the buyer, and good for society.” That is, satisfaction for sellers and buyers was a given, but business is only good when it is able to contribute to society.

Nurtured in Japan, these corporate management traditions precede the trend to explore a new form of capitalism that has now begun in the West. The idea is that a corporation is a multi-stakeholder process that should consider the interests of not only its shareholders, but also its diverse stakeholders including its employees, its customers and business partners, and the local community.

Why must we do more than pursue shareholder profits? Under the old form of capitalism dating back to the Industrial Revolution, factories and other physical assets were the main source of the value created by corporations. Therefore, the issue for corporate governance has been how shareholders monitor managers, based on their authority as shareholders owning the factories and investing money.

However, in our time, corporations are caught up in major waves of innovation such as digital transformation (DX) and green transformation (GX). When it comes to demonstrating creativity in those often-rough waters, people are more important than factories and other things. It is people that are the source of value.

Management that does not value human capital will find it difficult to maximize corporate value in the long term, making it all the more difficult for shareholders to recoup their investment down the road. Therefore, I advocate a “New Form of Capitalism” in which people are the key, that is, in which the emphasis is on human capital. The cardinal key concept of this “New Form of Capitalism” is its experience-centric, rather than material-centric, focus.

Investment in human resources is paramount

Japanese-style management used to be known as *jimpon-shugi* (human-centered capitalism). Japan’s specialty was a style of management that valued people, and on this basis, Japan built up a global competitive edge—the approach referred to as “Japan as number one.” Unfortunately, this image has been crumbling in recent years. The first thing I would like to do is to innovate this point.

These days, Japan’s expenditures on corporate human resources (off-the-job training [OFF-JT] costs) is miniscule at a mere 0.10% of GDP. Compared to the United States, which spends 2.08%, France at 1.78%, and Germany at 1.20%, Japan is markedly lagging behind. Moreover, for the past several years, such expenditures have been trending downwards. In the digital age, this is insufficient to enable a firm’s human resources to acquire basic knowledge.

Investment in human capital must be radically strengthened to break down the constraints on corporate growth in Japan, and in terms of sharing the fruits of growth, to avoid placing obstacles in the way of securing stable incomes for the current generation of children, who are the working generation of the future. To begin with, the government will establish a package of measures at a scale of 400 billion yen over three years to provide approximately one million people, including non-regular employees, with support for capacity building, reemployment, or career changes. We will also reflect on ideas solicited from employees, managers, education service providers, and members of the general public to ensure this is a meaningful initiative.

We have already heard from employees who would like their companies to subsidize their wages when they are away from their job to learn skills, or to support short-term studies in various fields. We have also heard from managers who would like their company to assist them with setting up courses for employees at universities or technical colleges.

Wage increases are not a cost, but an investment in the future, and an important element of investment in human capital.

Looking at the results of annual wage bargaining negotiations in recent years, we find that the rate of wage increases has been trending downward in recent years, from 2.18% in 2019 to 2.00% in 2002 and 1.86% in 2021 (Ministry of Health, Labour and Welfare statistics). I hope that downward trend reverses immediately into wage increases that are appropriate for an age of a new form of capitalism.

Management that views its human resources as a cost and secures profits by squeezing labor costs is not the ideal image of a corporation under this “New Form of Capitalism” I envision. Solving social problems through innovation by outstanding human resources, and realizing profits that correlate with investments in human resources, will be key in implementing the virtuous cycle of growth and distribution that this “New Form of Capitalism” aims to achieve.

On a single-year basis, investments in human resources may indeed look like nothing more than costs. However, from a long-term investment perspective, spending money prudently on human resources and paying proper wages will become a source of sustained value creation. There can be no question that this is both an investment and a growth strategy.

Some have claimed that this proposal for this “New Form of Capitalism” is all about distribution. In response, I would like to point out that investment in human resources based on a distribution strategy is also a strategy for growth. Under this “New Form of Capitalism,” labor as a cost will be transformed into human resource investment as an asset.

Lastly, it is vital for every corporation to get this message of “people as an asset” across to their shareholders. To do so, I believe it is necessary to strengthen the methods for coming to a mutual understanding by visualizing non-financial information that is not shown in any financial index.

If there is value in people, identifying that value within the framework of business accounting will encourage the accumulation of human capital. Where non-financial information is concerned, we have asked the Financial System Council of the Financial Services Agency to move forward with a professional review of how to improve disclosure in annual securities reports under the Financial Instruments and Exchange Act in addition to undertaking a review of quarterly disclosures that are already being requested. In addition to preparing the ground for the legal framework, we have also asked experts to study these matters and compile reference guidelines by the summer, which companies may use as references in devising methods of assessing the value of human capital, including cases of companies making disclosures at their own discretion.

Increasing added value through a new kind of public-private cooperation

Leveraging their excellent technological strengths and creativity, postwar Japanese corporations developed new innovative products and services that spread worldwide. For example, the QR code, which is essential to the digital age, was developed by Denso Corporation. The Walkman from Sony Corporation was a forerunner for on-the-go music, including that of Apple Inc. The Prius developed by Toyota Motor Corporation was the world’s first mass-produced hybrid passenger vehicle. Automated ticket gates at stations were developed by Omron Corporation. Honda Motor Co., Ltd. pioneered car navigation. Nissin Foods Holdings Co., Ltd. invented cup noodles, and NTT Docomo Inc. came up with emoji for cellphones. All of these were developed by Japanese corporations and have spread throughout the global market.

Nevertheless, in the case of Japan, the proportion of corporations launching new products and services has stagnated, at 9.9% for the manufacturing industry and 4.9% for the service industry, trailing Germany (manufacturing 18.8%, services 9.0%) and the United States (manufacturing 12.7%, services 7.6%) (OECD, 2012–2014). If we consider the markup rate—the ratio of the selling price to the cost—it hovers at only around

1.3 in Japan, so companies end up barely breaking even. This is in contrast to the United States and Britain (1.8 and 1.7 respectively), where the markup rate keeps going up.

We must create a corporate and industrial structure that can create products and services with high added value, establish a high selling price, and thereby secure a high markup rate. This cannot simply be left up to the market and competition, but the public and private sectors will have to cooperate on the creation of such a structure while fulfilling their respective roles. The way I see it, this is the objective of the growth strategy that underpins this “New Form of Capitalism.” Adding to the focus on experience-centric rather than material-centric, the other key concept for this “New Form of Capitalism” is public-private cooperation.

But if it is only about distribution, you will eventually run out of pieces of the pie to share. I am responsible for distribution not only among the working generation of today, but also among the working generation of the future, which is to say, today’s children. It is my goal to implement both economic growth, which provides the capital for distribution, and the sharing of the fruit that is grown, which is the foundation for growth. This is what I call the virtuous cycle of growth and distribution. To create high added value, both the state and the private sector must first fulfill their roles by making bold investments in science and technology, economic security, digitalization, and climate change, among other areas, while also boosting their investments in human resources, as I argued above.

If we conform to the concept of a multi-stakeholder process, the focus of the competition policies by the [Japan Fair Trade Commission](#) (JFTC) will also change. In the past, the focus has been on regulations that consider what happens to market shares when there is a merger or similar move (horizontal regulation). As markets move beyond prefectural areas and become globalized, the importance of horizontal regulation is weakened in relative terms.

With a new form of capitalism, it is increasingly important that the nature of relations with business partners who create value alongside employees (vertical regulation) be appropriate. Points at issue include whether reasonable price increases are passed through when doing business with subcontracting companies, and whether relations between digital platform companies and business partners, or between major corporations and startups or freelancers may involve coercion through the abuse of a dominant bargaining position. We aim to strengthen a JFTC system that is fitting for the age of a new form of capitalism.

The COVID-19 situation has impacted freelancers significantly. To create a safe and secure working environment for freelancers, we will submit to the Diet a bill to protect freelancers by clarifying contracts and clearly defining prohibited conduct when a business concludes a contract with a freelancer.

Startups will save Japan

I am counting on startups to develop added value.

To create innovative products and services with high added value, an ecosystem that continually cultivates new corporations must be firmly in place in Japan. Research has shown that innovation is more likely to happen within the first few years after a business is established. To have the younger generations establish one startup after another by a process of trial and error will, without doubt, contribute to increasing the added value generated in Japan.

I am fully behind these younger generations. Earlier, I referred to corporations that have come up with new innovative products and services and expanded globally, but the fact is that corporations like Sony, Honda and Nissan all emerged out of the burnt-out war ruins in the first decade after the end of the war in 1945. And what is more, if we look at the current configuration of listed companies in Japan, we find that 119 corporations established in the first decade after the end of the war still form a significant portion of Japan’s listed companies (2,182 as of the end of 2021).

To rephrase, corporations that were founded at a later stage did not become major players. On second thought, new companies are growing in the United States where 124 companies founded between 1995 and 2004 form a majority among listed companies. Amazon and Meta Platforms (formerly known as Facebook) are two such examples.

Could the public and private sectors not coordinate a second entrepreneurial age in Japan to follow the one that flourished after the end of the war?

To do so, we first need a listing system that startups find straightforward and user-friendly all around. Compared to other countries, the initial public offering (IPO), which is the stock price quoted by the market on the first day of listing (the first price), is much higher than the price at which entrepreneurs sell their stock (open price), suggesting that entrepreneurial fundraising is modest and that there is not enough financing for startups. The Special Purpose Acquisition Company (SPAC) regime, which has been introduced in many countries, is a system whereby investors and startups agree the price at the time of acquisition so that the company can be listed at a mutually acceptable price. Some people believe that the regime is meaningful for solving the current problems with listings, while others believe that it is necessary to have investor protection.

I will ask financial experts to look at this issue from the perspective of startups, to carry out specific reviews, and to provide their conclusions based on the situation in other countries. Meanwhile, it is also important to improve the environment that will cultivate new efforts by existing corporations to restructure their businesses. In the two years since the start of the COVID-19 situation, the number of entrepreneurs carrying excessive debt has increased. According to a survey by a private research company, 16.7% of major corporations and 35.7% of small- and medium-sized enterprises (SMEs) said that they “have a sense of excessive debt.” To promote corporate business restructuring aimed at new growth, we are preparing a legal framework that will facilitate decisions on relief measures in cases where the main lenders, or main banks, determine that there is potential for new investment if the debt is reduced, even if not all lenders are in agreement.

With regard to existing SMEs caught up in the COVID-19 situation, it is important to support SMEs facing structural changes as they undertake business restructuring. Examples include renovating accommodation facilities with an eye to the future by redesigning large tour group-oriented facilities into guest rooms with hot spring baths for families and other small groups, renovating banquet rooms into private dining rooms, introducing delivery sales at restaurants, and installing equipment needed to pursue online sales of products or content. We will support a broad range of initiatives through our expansion of subsidies for business restructuring.

Realizing bold investments

Along with fostering startups, investment is also important to create added value.

Looking at changes in the amount of capital investment (gross fixed capital formation) by the private sector between 2000 and 2019, we find that Japan’s investment is only 10% higher, whereas the United States has grown its capital investment by 45%, France by 42%, and Germany by 26%. Similarly, growth in the amount of research and development investment from 2008 to 2018 is languishing at 6% in Japan as opposed to a 35% increase in Germany, 33% in Britain, and 31% in the United States.

A new form of capitalism will not emerge simply by relying only on the market. We need public-private cooperation and bold investments based on the use of the market function with the government stepping in to supplement areas where the market falls short.

Over the next five years, the entire Japanese government sector aims to invest approximately 30 trillion yen in research and development. The total combined amount for the public and private sectors is estimated

to reach approximately 120 trillion yen. In order to cultivate universities in Japan with world-class research capabilities, we will implement and start operating a 10 trillion yen university fund by the end of March 2022. We will also submit draft legislation to the regular Diet session¹ targeting university reforms such as introducing reforms of the aspects of governance (university governance), and strengthening efforts to secure external funding that are required of universities ranked with the best in the world.

At the outset, I touched on the issue of supply stability, citing masks and semiconductors as examples. It is important to have initiatives bolstering our economic security in light of the global situation in which various issues impact our security and economic interests. We must promote initiatives aimed at securing Japan's strategic technologies and materials and while also preventing the outflow of technologies. We will submit new draft legislation to the current Diet session aimed at strengthening supply chains to secure a stable supply of strategic materials and to ensure core infrastructure reliability. We will also establish a 500 billion yen fund to support research and development in areas deemed essential for the future of the world, including artificial intelligence (AI), quantum science and technology, life sciences, space, and oceans.

Japan's reliance on imports of semiconductors is high at 64.2%, and we do not have the capacity to manufacture advanced semiconductors. We will strengthen our supply chains, improve the system rapidly, and provide support over several years to ensure that advanced semiconductor facilities are built in Japan.

Realizing a Vision for a Digital Garden City Nation with leading roles for the local regions

I have already mentioned two key concepts—the shift from a material-centric to an experience-centric approach and public-private cooperation—for realizing this “New Form of Capitalism.” Another key to the success of our efforts will be developing our local regions.

In that sense, my Vision for a Digital Garden City Nation is an important element of a growth strategy that intends to realize a new form of capitalism focused on local regions. By using digital technologies, we will deliver a sustainable economy and society and revitalize local regions while capitalizing on the individuality of our regions.

To realize this vision, we need to put in place public infrastructure, as we did in years past to build our system of roads, harbors, and airports. This time, the public infrastructure will consist of innovative digital infrastructure. The Digital Garden City Superhighway, a network of underwater cables around Japan, will be completed in three years. As a result, high-speed, high-capacity digital services will be available all over the country. We are looking at introducing 6G, the next-generation communications infrastructure, in around 2030. By using optical communications technologies across all networks and terminals, we will, in the next five years, establish technologies with communication speeds that are one hundred times faster than current speeds at an ultra-low one hundredth of the current power consumption. To aid regional initiatives that use digital services such as remote learning, telemedicine, and ICT offices, we will create local government models to provide good examples of how to solve these important issues and improve their attractiveness. It will be the responsibility of the state to roll out such initiatives across Japan.

At the same time, we will undertake structural reform to improve the user-friendliness of state, social, industrial, municipal, and governmental bodies and areas, so that citizens can enjoy better services through the use of digital technologies and experience a sense of growth.

One of the comments I hear about this “New Form of Capitalism” is that it lacks a reform mindset. I would like to clearly refute this point. Far from lacking a reform mindset, I will promote digital reform, regulatory reform and administrative reform in an integrated manner. Specifically, I will push for a review of appropriate

¹ This year's regular Diet session started on January 17th and is scheduled for 180 days.

regulations and systems for the digital age, and realize a government that is small, yet big, by taking advantage of the power of digital services (a government that uses digital infrastructure to provide full services in an efficient manner). I will also promote reform of the supply and demand structure for digital human resources, which are lacking in both the public and private sectors.

Towards these ends, we formulated digital principles at the end of last year, and from now we will conduct a bulk review of 40,000 laws, cabinet orders, ministerial ordinances and so on. This spring, we will compile a regulatory review plan to continue to create an appropriate socioeconomic structure for the digital age.

Responding to climate change issues

At the outset, I mentioned climate change and other intensifying environmental problems as examples of the side effects of capitalism.

Japan will implement bold investments and launch all-out efforts by the public and private sectors to confront climate change, an issue faced in common by all humankind. We will conduct a regulatory review to maximize the installation of renewable energy and make bold investments in the clean energy field toward achieving carbon neutrality by 2050 and 46 percent reductions in greenhouse gas emissions by 2030. Using our 2 trillion yen Green Innovation Fund, we have already started to make specific moves toward developing next-generation batteries and engines that hold the key to electric vehicle (EV) penetration and toward building supply chains, such as developing large-scale cargo ships for hydrogen. We are also moving forward with the mass introduction of storage batteries and upgrading the power grid in order to electrify all sectors of society. Aiming for zero emissions from thermal power generation, we will promote fuel conversion to ammonia and hydrogen and also use these technologies and infrastructure to help in achieving net-zero emissions in Asian countries.

We are also doing everything we can regarding the penetration of electric vehicles.

But it is not a simple matter by which everything changes for the better once there are electric vehicles everywhere around us. We have to think about how all the people who are employed by and make a living from the automobile industry will manage. Looking toward the future, we are planning responses such as capital expenditure support for the switch from manufacturing components for gasoline-powered vehicles to manufacturing components for electric vehicles.

A mono-pole structure depending solely on renewable energy is not realistic for delivering on our reduction targets. By pursuing various options such as nuclear power and hydrogen in addition to renewable energy, we will secure the future of stable, low-priced supplies of energy, which is linked to further economic growth.

For this reason, we will formulate a clean energy strategy this summer.

Raising the incomes of young people and households with children

Now, with regard to this “New Form of Capitalism”, it has been pointed out that there can be no distribution without economic growth. This is a fact.

It is also a fact that there is no growth without distribution.

In other words, similarly to the argument that we need growth to develop capital for distribution, distribution is necessary as the foundation for growth. The reason for this is that growth requires not only a supply side characterized by innovation and improved productivity, but also a demand side that purchases finished products and services.

In the 2010s, Japan’s economic growth rate averaged 1.0%. If we look at a breakdown of demand on the purchase side, we see that household consumption growth stagnated at 0.3%, which is less than the 0.5%

Japan spent on investment (i.e., gross capital formation). If we look at the United States, where economic growth averaged 2.3%, a breakdown of demand shows that growth in household consumption was 1.7%, which outstrips the 0.8% increase for investment.

It has been statistically proven that any increase in household consumption is strongly related to a rise in disposable income, but real wages in Japan rose by a mere 5% between 1991 and 2019. For Japan to grow, it is essential to increase consumption and to raise the incomes and disposable incomes of all citizens. Distribution is positioned as the route to a growth strategy.

The income-doubling plan in the Reiwa period², which I champion, expresses the basic direction of my economic policy, which is to create a virtuous cycle of growth and distribution with the roles divided between the public and private sectors. The key to accelerating this trend is the younger generations and families with young children, who hold the future of Japan in their hands. Focusing on them, we aim to substantially raise their incomes, including investments in human resources in a broader sense. Specifically, aiming for a society where both men and women can work as they wish, we will review the systems that hinder employment by women and realize universal workers' insurance. We will also provide support for both work and childcare, reduce the nursing care burden on households, and create structures for student loan repayment that are matched to income after graduation. We will also establish the Agency for Children and Families, a new administrative organization based on the child's perspective. We aim to control the rise in insurance premiums paid by young people and households with children by building a sustainable social security system in which users pay according to ability, by increasing the number of people who support the social security system, and by supporting the child-rearing generation by assisting with the cost of education. By fully mobilizing these policies, we aim to increase household consumption. I also believe that such policies will secure the sustainability of public finances over the medium and long terms and contribute to measures to counter the falling birthrate.

Conclusion

These are my main thoughts regarding the new form of capitalism I envision. Looking ahead to 2023 when Japan will hold the G7 Presidency, this summer we will deepen the grand design that I have described and formulate an action plan with specific steps to be taken and a clear schedule for progress. Building on this, I intend to publish a specific image of a new form of capitalism that will overcome the disparities and divisions that have become a global issue.

The Government of Japan will make a concerted effort to implement these measures, but the government cannot do it alone. The government, businesses, universities, the citizens of Japan—each of us must play a role in the search for solutions to these issues.

I always think that there is something wonderful about the existence of charitable foundations and associations that have emerged from the corporate world such as the Bill & Melinda Gates Foundation, which plays an important public role in the fight against infectious diseases. I have repeatedly talked about a new kind of coordination between the public and private sectors, and I aim to prepare an environment where the private sector can take on these kinds of public roles.

My fellow citizens, please join me in creating a society that abounds with new innovation and makes the most of the traditions of Japan.

² The Reiwa (令和) period began on May 1, 2019, when Emperor Naruhito ascended the throne as the 126th Emperor, succeeding the former Emperor Akihito (now Emperor Emeritus). https://japan.kantei.go.jp/98_abe/statement/201904/_00001.html

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Born in 1957. Graduated from the School of Law of Waseda University. Member of the House of Representatives since 1993. First entered the cabinet (First Cabinet of Abe Shinzo) as Minister of State for Okinawa and Northern Territories Affairs in 2007; served as Minister for Foreign Affairs for four and a half years from 2012 to 2017 in the Second Abe Cabinet. Has also chaired both the Diet Affairs Committee and the Policy Research Council of the LDP.
