

Japan's Economy beyond 11th March

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Today I would like to present you with some basic facts and figures that I hope will speak for themselves as to how Japan is recovering from the disaster, and more particularly how and in what direction the Japanese economy is heading in its quest for rebirth following the events of 11th March, 2011.

1 Great East Japan Earthquake and Tsunami

The scale of the earthquake with the magnitude of 9.0 was one of the largest ever recorded in world history and certainly the severest ever in Japan. Meanwhile, there is a silver lining to this disaster, too. Some precautionary measures that had been taken based on the lessons learned from the previous disasters demonstrated Japan's technological prowess and fundamental economic strength in many crucial respects.

Communications networks and supply chains quickly resumed operations. Japan's economy returned to normal earlier than anticipated and industrial production is in the process of being restored to pre-disaster levels. Concerning the accident at Tokyo Electric Power's Fukushima Dai-ichi nuclear power plant, the situation at the stricken plant is definitely making headway.

2 Policies of the Noda administration

Noda Administration's first priority of the Government is the earliest possible recovery of the affected areas. In the next ten years, public funds of up to 190 billion pounds will be spent for this purpose. In order to meet the cost of reconstruction, Prime Minister Noda intends to raise income tax while freezing corporate tax reductions so that the burden will not be passed on to future generations.

In parallel with the reconstruction, we will have to reinvigorate our long-term pursuit to restore the national finances to a healthy state. Reform embracing both the social security and tax systems is something which Japan, with its fast ageing and diminishing population, simply must implement, while also trying to sustain economic growth. All other developed countries will face the same problem sooner or later, as they are also undergoing or will soon undergo a similar demographic change. Japan can provide a model for the rest of the world in addressing what is sure to become the universal question of the ageing society.

3 The Asian and world economies

As we have seen from the disruption to supply chains due to the earthquake and tsunami, this disaster really brought home once more the close connection between world markets and the Japanese economy. Japan's dependence on external demand has increased during this decade. From these facts, the importance to Japan of the revival of the world economy is clear. By the same token, it is obvious that the revival of Japan, the world's No. 3 economy, is indispensable for the recovery of the world economy. The growing Asian economy is also essential to the prosperity and stability of the world economy. Thirty years ago the region's share of world GDP was less than 15 per cent, while it has since expanded to 25 per cent.

It is commonly accepted that Japanese cooperation in the form of FDI aided by ODA centring on infrastructure building and human resource development played an important part what a World Bank report in 1993 dubbed the "East Asian Miracle". The philosophy and practice of Japan's economic assistance has been based on Japan's own successful experience of post-war economic development. Above all, it emphasizes the importance of the establishment of an investment-friendly environment including infrastructure to attract private-sector investment as well as the importance of the resources development.

Some people try to underestimate or sometimes even dismiss Japanese financial assistance just because in terms of volume its major element has been concessionary yen loans rather than grants. However, if soft loans are organized properly by the donors and implemented with a sense of

responsibility by the recipients, the huge amount of money made available at very low interest rates will support the construction of major elements of infrastructure and will give the recipients a sense of ownership rather than the dependence they would feel from indulgent hand-outs.

The famous bullet train system, major motorways and many big power plants as well as a number of giant steel mills in post-war Japan had to be built with soft loans totalling over \$800 million provided by the World Bank in the 1950s and '60s as Japan was extremely poor in foreign currency reserves in the wake of the devastation of the war. It was only in 1990 that Japan completed its repayments to the World Bank – long after the success of such infrastructure projects had facilitated crucial investment in the manufacturing and other industrial sectors, which in turn resulted in the phenomenal economic growth and accumulation of foreign reserves of the 1960s onwards.

The economic success of the original five ASEAN countries – Indonesia, Malaysia, Thailand, The Philippines and Singapore – was contingent on the building of key elements of infrastructure, including roads, ports, railways and power plants as well as schools and technical training centres, many of them with Japanese assistance. ASEAN, after the expansion of the organisation, still needs outside help to raise the economic level of the new members such as Vietnam and Cambodia. For example, in FY2009 Japan provided Vietnam with \$150 million in yen loans, which was the largest amount ever. Even after their resounding success, the original ASEAN countries still found a crucial helping hand from Japan in the form of roughly \$30 billion of credit extended to them in the Asian financial crisis of just over a decade ago.

Japanese ODA to China from 1979 to 2008 amounted to \$21 billion centring on that country's economic infrastructure and technical cooperation, accelerated greatly the remarkable development of the Chinese economy. More than one third of the investment for the construction of the over 13,000 km of electrified railway systems is said to have been financed by yen loans. The construction of Shanghai Pudong International Airport, and the expansion of Beijing Capital Airport's New Terminal are just two among the many major projects that were made possible by funds from Japan.

India is now the largest recipient of Japanese ODA and has remained so for the past six years as she requires a massive injection of funds to build and improve her infrastructure so as to fulfill her vast potential for economic development. Japan's financial and technical assistance brought about the extremely successful construction of the New Delhi Metro system and Japan is further prepared to help finance such giant and critical projects as the Mumbai-Delhi Industrial Corridor and the Dedicated Freight Corridor.

Japan will share with the other Asian countries the abundant and indispensable experience gained from its own growth and will play a major role as a "bridge" for growth in Asia. In the "New Economic Growth Strategy: Scenario for a Return to a Healthy Japan" which was announced in June last year, Japan aims to meet new demand in the Asian market:

- (1) by supporting Asian countries' efforts to create social capital (railways, roads, electricity and sewers), and
- (2) by demonstrating a model for solving the environmental problems as well as the low birth rate and ageing society that accompany rapid economic growth.

To this end, Japan will attempt to apply its expertise overseas in a number of areas.

- (1) One is to help create a seamless market in Asia through the liberalisation of trade and investment, including the use of Economic Partnership Agreements (EPAs).
- (2) Secondly, Japan will seek to extend to Asia and the rest of the world its various technologies, rules and standards for environmental and product safety, including smart grids, fuel cell batteries, electric vehicles and food safety standards. Japan will also help build regional infrastructure, for instance in the transportation, water and energy sectors.
- (3) Thirdly, Japan will aim for the emergence of a unified Asian market and will take actions to double the flow of people, goods and money with the

rest of the world. Relevant measures include the further opening of the Haneda Airport to international services, promoting the Open Skies concept of liberalisation of air services.

- (4) Fourthly, Japan will promote “things distinctly Japanese” in such areas as the contents industry, design, fashion, cuisine and traditional culture.

In November last year, in order “to open up the country and to usher in the future”, the Cabinet decided to promote drastic domestic reform particularly pursuing EPAs. At the APEC meeting which Japan hosted the same month, Japan decided to pursue the construction of a Free Trade Area of the Asia-Pacific region within APEC. Japan also intends to decide at the earliest possible time on the question of participation in negotiations on a Trans Pacific Partnership,.

As Japanese companies increasingly transfer their operations to overseas, it is becoming a major concern because it may take domestic jobs away. This “hollowing out” trend has been further accelerated by the disaster in March together with the ongoing steep appreciation of the yen. However, the current situation provides a good opportunity for the further integration of our economy into the Asian market.

At the same time, in order to maintain advanced and value-added technologies in our own country as well as to secure employment, Japan is to launch its “Programme for making Japan a base in Asia and for attracting inward investment in Japan” involving the enactment of legislation for foreign enterprises within this fiscal year.

If we turn our attention to Europe, it is apparent that the crisis in the eurozone and the sluggish performance of the European economies threaten to stifle economic growth throughout the world. The recovery and stability of the European economies is important in that both Europe and Asia benefit through the close commercial and investment ties that exist between the two regions.

4 Japan-UK co-operation

In order for Japan to recover, prosperity in Asia and the world including the European economy is indispensable. The UK and Japan share the common principle of pursuing prosperity through open and free trade in a global environment of peace and stability. When Foreign Secretary Hague visited Japan in July of last year, he referred to Japan as “our closest partner in Asia” and spoke of how the two countries agree almost instinctively on a broad range of policies.

Japan and the UK have developed extremely close economic relations. In terms of the total accumulated volume of Japanese direct investment, the UK, with 24 billion pounds, is the number two destination in Europe after The Netherlands. The number of Japanese companies operating in the UK totals nearly 1,300, and they have created more than 130,000 jobs. There are 60,000 Japanese residents in the UK. This country hosts the largest concentration of Japanese companies and residents in Europe. The number of Japanese direct investment projects in the UK was second only to that of the US in 2010.

The Great East Japan Earthquake and Tsunami reminded us of the deep connection between the two economies. The Japanese car factories in the UK account for half of of British car production and exports. A small company located in Tohoku called Renesas Electronics, which makes microcomputer chips used for controlling engine fuel injection as well as brakes and gears for automatic transmissions, and has a 40 per cent share of the world market, stopped production at its factory because of the earthquake. As a result, in the month following the disaster British car production dropped by 13 per cent.

In order to boost both the Japanese and British economies, the conclusion of a Japan-EU Economic Partnership Agreement is of paramount importance. Japan and the EU agreed to start the process for negotiations for an EPA in May and have started discussions to define the scope of the negotiations. Such a move will encourage further Japanese inward investment into the UK. At the meeting with Prime Minister Cameron in Cannes, France, Prime Minister Noda expressed his appreciation for the UK’s consistent support for the EPA.

There are many potential fields for co-operation between Japan and the UK which will contribute to world stability. Our two countries share fundamental values including democracy, the rule of law, respect for human rights and a market economy. One notable example of such a convergence of views is our assistance to Afghanistan. Japan and the UK are among the three top contributors to the country and are co-chairs of the reintegration fund for Afghanistan. By jointly contributing to world peace and stability, perhaps in close coordination with the US and other common friends, we could maximize the effect and efficiency of our economic and human resources. It will certainly enhance our shared security and prosperity.

5 Conclusion

There is no doubt that the earthquake and tsunami constitute one of the greatest challenges that Japan has ever faced. However, it is not the only one in our history. In the aftermath of the Great Kanto Earthquake in 1923, the total defeat in World War II in 1945, the oil shock in the early seventies, or the Great Hanshin Earthquake of 1995, Japan did not simply restore itself. Reconstruction was not easy then and will not be easy this time, either. However, once again the Japanese people will unite towards a common goal. In this endeavour they will no doubt enjoy the help of other countries, including the UK.

The challenges for Japan are not limited to the earthquake but include the rebuilding of public finances, dealing with the ageing society and formulating new energy policies. You may have noted how, since the recent economic troubles of the US and Europe, the term “Japanisation” has sometimes been used in the media to describe a situation which is better to be avoided and yet in which many countries in the developed world nonetheless find themselves. However, I take issue with the idea that following in Japan’s footsteps is necessarily a bad thing. In facing these new trials that the world has not experienced before, history offers examples of the birth of new concepts and technological advances. Through its search for a way forward in such daunting circumstances, Japan is prepared to play the role of a front-runner and provide a model for the world.