



Launch of the OECD's Economic Survey of Japan

Japan Will Bounce Back Quickly From The Great East Earthquake

Remarks by Angel Gurría,
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(As prepared for delivery)

Ladies and Gentlemen,

It is a great honour and privilege to be back in Japan. On behalf of the OECD, I express our profound sorrow at the enormous loss of life and extend our condolences to all those who have been affected by this terrible tragedy. At the same time, we admire the courage and resolve of the Japanese people in face of adversity and we are confident that Japan will emerge from this disaster stronger and better.

The Great East Japan Earthquake struck just when Japan's economy was getting back on track and gaining momentum after a slowdown in the latter part of 2010. By early 2011, exports were accelerating, the unemployment rate was falling and confidence was rising.

The damage from the earthquake and tsunami is estimated by the government at 16 to 25 trillion yen – around 3% to 5% of GDP, making it the worst disaster in Japan's post-war history. To put it in comparison, the 1995 Kobe earthquake – the worst disaster in Japan's post-war history up to that point -- caused 9.6 trillion of damage. The negative impact of the 3/11 disaster was magnified by the disruption of the electricity supply and the problems at the Fukushima plant.

In addition to the immediate damage and electricity shortages, the earthquake and tsunami have disrupted supply chains both within Japan and internationally. Tohoku is an important producer of parts and components in a number of industries, including autos. Even Japanese auto factories as far away as the United Kingdom have been forced to cut production in the wake of the disaster.

These negative factors will combine to reduce output in this quarter. The decline will not be near the 20% drop in the wake of the Lehman shock in 2008, but it will be significant nonetheless. It is important to stress that with very little data available since the 3/11 disaster, economic projections are exceptionally difficult and the error margins are large.

But, we are already seeing signs of reconstruction spending that will drive Japan forward, including investment by firms and households. If we look back to Kobe in 1995, business investment in Hyogo prefecture had risen by 18% two quarters after the earthquake, lifting business investment nationwide by 4%. Similarly, investment in housing was 54% higher.

And of course, the government has an important role to play in rebuilding infrastructure damaged by the earthquake and tsunami and this will be an important driver of growth. Some have questioned how we can expect government investment to be mobilised so quickly after such a severe disaster. After all, it takes time to make plans, to get the machinery in place and begin the work.

But past experience shows how quickly the Japanese authorities can respond to emergencies. Looking back again at the Kobe earthquake, government investment in Hyogo prefecture in the third quarter of 1995 rose by 21% on a quarter-on-quarter basis – 116% at an annual rate -- resulting in a 6% rise nationwide. We know that the current government is capable of a similarly rapid response.

But this time, there is one significant difference compared to the Kobe earthquake. In 1995, the government budget deficit was less than 5% of GDP compared to around 9% in 2010. And government debt was 86% of GDP, compared to almost 200% at present. This time, reconstruction spending will have to be combined with efforts to improve the fiscal situation, which has become an important risk for Japan.

This is the reason why for the medium and long term, a credible and detailed consolidation plan will be necessary. It will have to include spending cuts and tax increases while taking into account the need for spending on reconstruction. In view of the severity of Japan's fiscal predicament, a reform of the fiscal framework may help achieve the fiscal targets and bolster credibility, helping to mitigate the risk of a run-up in long-term interest rates.

Let me share just one final number to demonstrate our optimism that Japan will bounce back quickly from this disaster. If you look back to the OECD Economic Outlook published in November 2010, we projected that the Japanese economy in 2012 would be 3.1% larger in real terms than in 2010. In the projection that we have distributed today, we have a similar picture: real output in 2012 is 3.1% larger than in 2010, albeit with a reduced level of physical wealth.

Of course, economic resources are not the only things that matter in people's lives. The well-being of individuals depends on a variety of indicators, such as health and education, and developing appropriate indicators of well-being is an area where the OECD is taking the lead. Japan, with the longest life expectancy in the world and a high level of educational attainment, has many strengths that are not fully reflected in GDP.

Nevertheless, economic growth is essential to maintain living standards as the number of working-age persons per elderly is set to drop from a ratio of 2.8 in 2009 to 1.3 in 2050. Fortunately, Japan has a number of strengths that will support economic growth.

- Japan's R&D spending is 3.4% of GDP, the fourth highest among the 34 OECD countries.
- The share of the adult population that has completed tertiary education in Japan is the second highest in the OECD area at 43%.
- The performance of Japanese students in the OECD's PISA assessment is outstanding. In 2009, Japan ranked second among OECD countries in science, fourth in math and fifth in reading.

Japan's strength in education and R&D gives it a solid base on which to build a bright economic future.

The 2011 OECD Economic Survey of Japan examines a number of areas – including the New Growth Strategy, education and the labour market -- where Japan can improve its policies in order to achieve a stronger, cleaner and fairer economy. Japan is facing the same structural problems today that it was before the 3/11 disaster. We understand the difficulties that the natural disaster brought to Japan. But once the emergency phase is overcome, the reform agenda should continue. It is very important to continue to make reform happen for a better future.

Ladies and gentlemen,

The OECD has absolute confidence in Japan's capacity to overcome the Great East Japan Earthquake, building on its unique stock of human capital, financial wealth, technology and discipline.

A new path of growth is ahead of you now, thanks to Prime Minister Kan's vision to secure the "Rebirth of Japan". As the country implements the founding principles of this vision -- a strong regional society that is highly resistant to natural disasters, a social system of harmony with the global environment and a society that cares about people, particularly the most vulnerable -- the OECD and its member countries are anxious to assist Japan in any way possible to achieve its goals.

We can do so through our work on local government effectiveness and coherence to further strengthen regional resilience; identification of the challenges posed by the growing importance of global value chains; public management of catastrophes; risk preparedness and risk management; and nuclear safety, through the activities of the OECD Nuclear Energy Agency (NEA).

We can do so through building on the OECD Green Growth Strategy that will be delivered during the upcoming OECD 50th Anniversary Commemoration in Paris at the end of May. We would welcome a representation of Japan at the highest level in this meeting of leaders.

We can also do so through our work on employment and social policies, which has now been fostered by paying closer attention to family policies and gender equality.

Last but not least, as the champion of the fight against protectionism, the OECD will strongly convey a message to the world not to restrict imports from Japan and to respect the spirit of the WTO agreements.

Together with the international community, the OECD will continue to work closely with the Japanese authorities to achieve these goals.

Thank you very much.