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**Address by Mr. Donald Johnston, Former OECD Secretary-General**

After my ten years as Secretary General, visiting and studying Japan on a regular basis, I thought this evening I would share with you some of my personal perspectives rather than simply quoting to you the views of others. Now I have been asked to speak of the economies of the region, and I will, but very briefly. My focus is on Japan, the second largest economy in history and the economic locomotive for the region in the years ahead not to mention its global role.

To focus first and foremost on Japan I will borrow from the advice of Maynard Keynes...always examine the present in light of the past for the purposes of the future.

Doing that exercise here in Tokyo in the fall of 2006 is much more gratifying than it was during much of my stewardship of the OECD beginning in 1996! But I will to the past in a moment.

As I thought about the comments I wished to make here this evening two well known American tunes came to mind.

One is entitled "Wrong Place, Wrong Time" and the other, "Right Place, Wrong Time". I said to myself we need a new tune for Japan ... "Right Place, Right Time".

Why do I say that? I have read the critics who weigh in on the problem areas, as they should.

The public debt of Japan now over 170% of GDP, by far the largest of developed economies.

A rapidly aging population complemented by what should be good news, longevity, but with potential heavy health and pension expenditures.

An increase in income inequality and relative poverty.

The risk of falling back into a spiral of deflation with the inflation target of the Central bank from 0-2%

With that much public debt, public expenditures must be reduced and tax revenues increased...politically never an easy thing to do!

I could continue and list all sorts of problems and recommendations...but I will not.

Instead let us recall that most of those same criticisms were made several years back when Japan was struggling with virtually no growth, massive non performing bank loans largely due to a collapse of the real estate bubble which in turn choked liquidity for the entrepreneurial sector, a disheartened population where consumer spending plummeted...well, need I go on? So following Keynes's advice we have looked back in order to measure where Japan is now, that is essential.

Today we find a Japan of renewed confidence with solid durable growth in place averaging 2.5% since 2002 and estimated to continue through 2007... by the end of 2006 this will be the longest period of economic expansion in the post WWII period.

Growth began in the export sector notably with exports to China. In fact, 50% of the rise in GDP from 2001 to 2004 is attributed to net exports but is now apparently supported by sustained domestic demand. In fact in 2005 it is estimated that domestic demand accounted for more than 90% of economic growth despite a cut back in public spending. What a difference!

I am pleased beyond measure that I accompanied Japan from my perch at the OECD through the depressing 1990s into the discouraging beginnings of the 2002s...and then, beginning in about 2002 to this period of sustained economic growth.

So, while we should thank the critics for the constructive advice, we know that the policy challenges ahead will be met against a background of prosperity and economic expansion, not the economic stagnation of the 1990s; against a background of optimism and enthusiasm, not one of pessimism and discouragement which characterised the 1990s; against a Japanese nation ready and able to seize the opportunities of the future, not a nation fearful of what lies ahead as was the case just a few years ago.

It is against this background that Japanese leadership will be able to address the serious but manageable challenges to which the critics point. This was not the case just a few years ago.

The sustainable development of all economies must proceed with a three pronged approach.

First, the preservation of natural capital, namely the environment. Japan is against a leader in this area and I hope will continue to be given the threats of climate changes to our collective futures as emphasised in the report of Sir Nicholas Stern just a few days ago.

Natural capital, namely, the air we breath, the water we drink., the soil we till and the living beings with which we cohabit this planet are all essential to our own survival...and they are all threatened because of climate change.

I believe working together we will manage climate change which is so obviously upon us,

provided we have enough time to adapt. With our use of the atmosphere as a garbage bin for CO2 emissions, the danger is that we may not be afforded the luxury of measured and successful adaptation. As you may know, CO2 remains in the atmosphere for up to 100 years. And when I say we, I am not thinking of me... nor perhaps even my children, although the Stern report talked about our lifetimes. In the absence of urgent action today, most certainly our grandchildren will be confronted with a very different world than the one we have known.

I was fortunate and privileged to have been in the Canadian Federal Cabinet of the late Pierre Elliot Trudeau.

One day when he and I were discussing environmental issues then more focused on local problems such as the depletion of forests through acid rain, he turned to me and asked ... "Don, do you believe that the future has a constituency today?"

My response was at best qualified.. as I recall something like..."I am not sure but I hope so".

Were he around to ask me that question today I would reply with a robust YES. The future does have a constituency and nowhere more than here in Japan! Why do I say that?

Because the Japanese have given concrete evidence of their commitment to sustainable development. One celebrated example was the World's Fair at Aichi last year. The theme was the environment and I had the opportunity of being there at the very beginning of the Fair...and I was impressed. Remember the three Rs upon which the theme rested? Reduce, recycle, reuse. However, for many of our countries I would add a fourth R, namely Restore. And therein lies a major challenge as we see over harvesting of forests and especially the fisheries, so important of Japan, where last week's report pointed to a dismal future for world fish stocks!

Allow me to add a footnote question to these comments. Is it possible that those of us who have entered the ninth inning of our lives are more concerned about the preservation of the natural capital of which we have been trustees, not very good ones, than our youth? I do not have an answer to that question, but I do believe that older people want to leave legacies to their children and grandchildren. Normally this takes the form of tangible assets... but just maybe we are now in era where we elders wish to give the next generations more than financial security as we begin to appreciate that the environment we took for granted is an serious risk. As I said to Trudeau, "I hope so".

Upon that foundation of natural capital all else of human progress must be built. And that in turn has two so called pillars...economic and social.

When I came to the OECD I described social progress in our member countries as a three cornered paradigm. One corner rests on economic development; one on social

cohesion and a third on governance. The latter ensures the policy framework which enables the benefits of economic growth to support social cohesion. The foundation of all this is of course Natural capital which I have just mentioned.

Good governance is the catalyst which is able with the right policy choice to balance economic growth and social cohesion.

My analogy is the of a tight rope walker. Think about it. To make progress along the tight rope the walker must have a balancing rod which is not too heavily weighted down at either end of balance will be lost. That is precisely the challenging role of government. No balance, no progress.

And that is the challenge of Japanese Policy makers...how to move forward by stimulating economic growth on the one hand, and meeting societal expectations on the other so as to achieve social cohesion. Some have asked what is social cohesion? That was a much debated subject when I arrived at the OECD and the term was used more in Europe than elsewhere. Now I am convinced of its value. It means broadly speaking a citizenry with a common purpose or purposes, common values, which can only be achieved by cohesion, sticking together.

While perhaps easier to achieve in homogeneous societies, it remains the challenge of all governments, democratic and otherwise.

To conclude, I began these comments by saying Japan needs a new tune...the Right Time, The Right Place...and I truly believe this to be the case. It is not just Japan, it is also China, Korea and, if politically possible, Taiwan or Chinese Taipei as we referred to it at the OECD.

These countries find themselves in the epicenter of global economic growth. Their challenges are all different yet their futures depend upon each meeting its respective challenges.

And they must help each other to do so. Japan's as well as Korea's opportunities lie very much in the future of the Chinese economy as it struggles to find the balance I have described. Indeed it is the robust growth of China which pulled Japan forward by export demand. The same was the case in Korea.

Everyone has an interest in seeing China succeed in moving itself to the centre of the world economy, but no one more than Japan. China will see growth in the 9% range far into the future if it can overcome some of its major challenges. The region, indeed the world will be the beneficiaries of that growth, something to be applauded and encouraged, provided China meets the standards required of it by its global partners. India will also soon take centre stage as a major global economy.

Yes, there will be challenges as China moves upscale in the products and services it

produces. More competition drives innovation as Japan proved to the world in the wake of WWII. But the opportunities for Japan and Korea within a Chinese market are enormous. I would accelerate all efforts to create a Japan-China-Korea free trade zone like the NAFTA.

That being said, multilateralism is the preferred route, but for the moment the Doha Round is not moving forward as it should, so many are being driven to the less attractive options, namely, regional and bilateral trade agreements.

That is the future.

But before leaving you, I would like to add one thought on the importance of Japan embracing the global challenge.

In May of this year, Japan's Council on Economic and Fiscal Policy publishes a very comprehensive Globalisation Strategy to enhance Japan's international competitiveness. It covers many areas from domestic reforms to increase productivity to maximising resources from abroad, including human resources.

I will not refer to them in detail, except to emphasise certain recommendations dealing with human resources, the most important resource in knowledge based economies. And this is especially important for Japan, also Korea, and in the not distant future, China as populations go into rapid decline. I cite a few critical recommendations:

"Establish an environment that attracts outstanding talent from other countries including researchers and students.

(This has been one of the greatest strengths of the United States)

Improve the immigrations system in order to increase the inflow of highly qualified human resources.

Consider relaxing immigration restrictions in non technical services, such as long term nursing care, to cope with population ageing.

Upgrade domestic human resources by improving the education system, with a goal of raising international test scores to the world's top level by 2010"

With this kind of approach Japan will greatly enhance its human capital base. It was the reason for its success in the past and so will be in the future.

Finally let me brag a little about my own forecasts. When I came to Japan in the bad economic days, and knowing that the Japanese love baseball, I said: "nearly all ball teams have a mid season slump. So Japan will emerge from that slump"... for some time my prediction of the mid season slump was probably seen by many as the uninformed views of a naïve optimist. But I had difficulty understanding the mood in Japan in those

days. After all, the assets which had brought Japan from the devastation of world to be the world's second largest economy had not disappeared. Unlike other countries where wealth depended largely on natural resources, forests, agriculture, coal, oil, gas, minerals, Japan had engineered its comparative advantages through the quality of its human capital. True the population was ageing and that is being addressed in the globalisation policies I just outlined, but the assets remained intact. And my prediction that the slump would be overcome proved to be correct.

Yes, lots of challenges but the slump is over and now Japan enjoys growth and opportunities with which to meet those challenges.

For young Japanese, what a challenge and what a promising future, especially if the lessons of the past 15 years are not forgotten! So Keynes was right. Examine the present in light of the past for the purposes of the future.

Thank you