



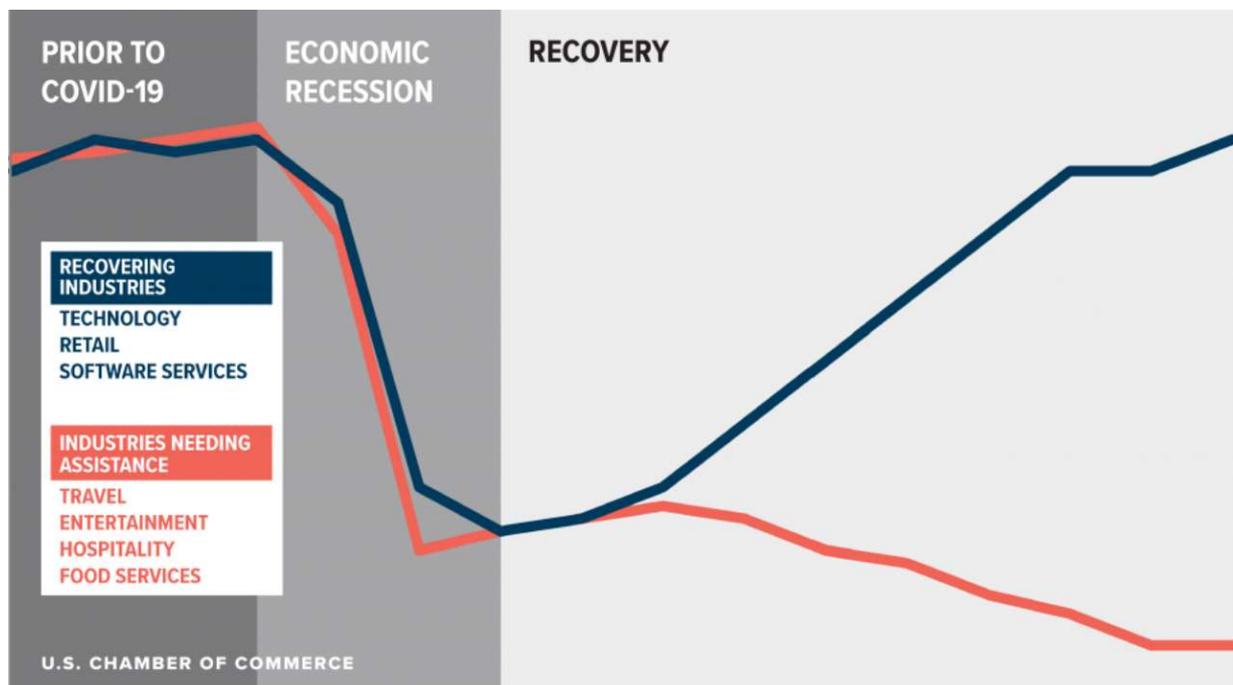
The World Beyond Corona—The World and Japan in Shock from Corona: Accelerating Structural Change and Amplified Uncertainty

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The Novel Coronavirus (COVID-19) was detected in Wuhan, Hubei Province, China at the end of December 2019. In January 2020, cases of infections were confirmed in Japan, and the pandemic intensified as the infection spread rapidly around the world. The subsequent Great Lockdown, to quote the International Monetary Fund (IMF), has plunged the global economy into the worst recession since the Great Depression in the 1930s, creating disparities between countries, types of industry, and social classes. In 2020, the growth rate for the global economy slumped to negative 3.3%. The widening disparity has also drawn attention to how economies and societies have started to develop in the shape of a K, i.e., polarizing into areas of growth and expansion, and areas of downturn and decline. The coronavirus shock is not transient, but the start of major changes to the economic and social frameworks.



Prof. Kojima Akira



K-shaped recovery

Source: U.S. Chamber of Commerce <https://www.1x.exchange/insights-what-k-shaped-economic-recovery-means/>

In the World Economic Outlook (WEO) dated April 2021, the IMF projects global growth of 6.0% in 2021 and 4.4% in 2022. Compared to the previous projection, dated October 2020, these figures represent upward revisions of 0.8% and 0.2%, respectively, suggesting that further deterioration is preventable. However, this positive growth is based on factors and premises such as (1) fiscal expansion policies on an unprecedented scale in major countries including the United States, and (2) smooth progress of effective vaccination programs underpinned by monetary easing. Despite the anticipated effects of vaccinations, the IMF warns of extremely high uncertainty surrounding the forecast including the effectiveness of policy support that will serve as a stop-gap until the normalization of economic activity. Fiscal expansion would further increase the already alarming levels of government debt in many countries, thus amplifying the uncertainty.

One can argue that the current pandemic is a war that has engulfed the whole world. As the infection spread, many countries and cities were locked down and the movement of people and goods constrained, which is why economic activities have been significantly reduced. Even so, there were approximately 146.5 million cases of infection and as many as 3.1 million deaths worldwide as of the end of April 2021.

In Japan, the response has taken the form of requests for self-restraint rather than imposing lockdowns on cities. However, the government declared a state of emergency in April 2020, and again in January and April 2021 when there were waves of infections. As of the end of April 2021, there had been a little under 570,000 cases of infection and more than ten thousand deaths. The problem for Japan is the extreme delay in the vaccination rollout.

According to a joint tally by *The Nikkei* and *The Financial Times*, more than one billion COVID-19 vaccinations had been administered worldwide as of the end of April 2021. Roughly sixty percent of the population of Israel and fifty percent of Britain had had at least one injection, with economic and social activities in both countries gradually returning to normal.

In the case of Israel, daily new infections have recently declined to around eighty. This contrasts with Japan where, as of the end of April, approximately 1.8 million people had had their first vaccination since the rollout started on February 17, 2021, which is a rollout rate of barely more than 1%. This also compares unfavorably with the vaccination rate for Asia a whole, which is 4%.

The corona response poses a major problem in itself, but apart from that, the COVID-19 pandemic has exposed various structural issues. Firstly, global pandemic preparedness is fragile. As a consequence of this fragility, each country focused on itself and, far from reinforcing much needed multilateral systems of cooperation, took measures to limit exports of ventilators and other medical supplies, products for personal and medical use including the masks and thermometers required as the infection spread. Since many countries were highly reliant on China for supplies of masks, there was global competition for masks made in China. Capitalizing on the situation, China developed the so-called Chinese Mask Diplomacy with the intention of boosting its diplomatic influence and increasing the number of friendly and cooperative nations.

Japan is unable to produce its own vaccines and relies on imports of medical supplies. Incidentally, the value of total global exports of medical supplies is nearly one trillion dollars, and the top ten exporters are, in descending order, Germany, the United States, Switzerland, the Netherlands, Belgium, Ireland, China, France, Italy and the United Kingdom.

Referring to COVID-19, the joint statement adopted at the Japan-US Summit Meeting of President Biden and Prime Minister Suga in mid-April 2021 says:

“COVID-19 has shown our countries and the world that we are not prepared for a biological catastrophe. To that end, the United States and Japan will also strengthen cooperation to advance health security, respond to future public health crises, and build global health.”



Japan-U.S. joint press conference at the White House on April 16, 2021.
Photo: Cabinet Public Relations Office

Further, the statement points out that “We will also cooperate on global COVID-19 vaccine supply and manufacturing needs toward ending the pandemic,” but unfortunately there is little scope for such cooperation as Japan is still not able to secure vaccines for itself.

The second problem laid bare by the pandemic is that Japan is lagging behind in the use of digital technologies. The Suga administration plans to establish a digital agency in September 2021 with the aim of digitizing administrative processes and promoting Digital Transformation (DX) nationwide. Addressing a meeting in Tokyo, Hirai Takuya, Minister for Digital Transformation, said that the COVID-19 pandemic has been a forceful reminder of how the use of digital services in Japan has fallen behind. He also stated that in the super-aging society where the population is declining, it is essential to use digital power to build models capable of sustainable growth.

The COVID-19 pandemic has led to a rise in teleworking, online lectures at universities, videoconferencing, and e-commerce, as well as major changes in ways of working, lifestyles, and

management models. The so-called digitalization accelerated all at once with the COVID-19 pandemic, but it had been underway before the pandemic and had already caused a paradigm shift in the economy and society. People say that several years of digitalization happened in a few months. While this is true, countries that were more advanced than Japan have also accelerated digitalization as a result of the coronavirus crisis. So, it should be pointed out that Japan's relative inferiority remains unchanged.

I dare say that several Key Performance Indicators (KPI) will be set out for the new digital agency. However, progress toward the KPI will be difficult unless we look squarely and objectively at the reality of the digitalization lag in Japan, and investigate the causes of the delays. Past administrations have actually aimed to turn Japan into a top digitally advanced country, but the truth is that Japan has dropped down the international rankings in the field. According to the World Digital Competitiveness Ranking 2020 of the International Institute for Management Development, Japan is ranked 27, which is a drop of four places since 2015. Even in Asia, Japan is in seventh place behind Singapore, Hong Kong, South Korea, Taiwan, China and Malaysia.

The preamble to the Japan Digital Agenda 2030, published by the American Chamber of Commerce in Japan (ACCJ) in February 2021, states that “the world enters a new and transformative era” while emphasizing that Japan has fallen behind other countries in terms of regulatory reform and streamlining systems; that Japan must undertake a transformative set of reforms; and that incremental changes will not close the digital competitiveness gap. The report also identifies a number of reasons why digitalization in Japan has fallen behind. Since the report is intended to advise other countries, it points out the “potential” using roundabout and forward-looking language, stating that there is room for reform and progress in Japan. However, unless the identified causes are removed, it is probably meaningless to set out KPIs.

DX is now a buzzword in Japan. However, it has been nearly twenty years since the Swedish information scientist Erik Stolterman proposed the concept of DX in 2004. In the digital age, data, patents and other intangible assets are strategically important, but I wonder if Japan is not too caught up in the ideas of tangible assets and *monozukuri*, which brought the country so much success in the twentieth century.

According to forecasts by US analysts, in 2022, five American IT companies (Google, Apple, Facebook, Amazon [GAFA] and Microsoft) will invest a total of 164.1 billion dollars in research and development, a figure that exceeds the total investment in research and development by the entire private sector in Japan in 2018.

The digitalization of public administration is also lagging far behind, something that was made evident by the inefficient handling of cash payments of 100,000 yen per person in early 2021. But this does not mean that Japan needs big government. What is required is regulatory reform that does not obstruct the imaginative and creative efforts of the private sector. Japanese government regulations are similar to a multi-layered onion (Glen S. Fukushima): no matter how much you peel off, another regulation pops up. For example, the legal framework consists of seven layers: laws, cabinet orders, ministerial ordinances, circulars, regulations, internal regulations and administrative guidance. There are also as many as twenty types of regulatory paperwork: permit, approval, license, approval, designation, acceptance, certification, confirmation, certification,

notification, submission, report, declaration, and so on. The definitions are not clear and administrative staff interpret them at their own discretion. Such opacity and discretion clearly impede the data-driven digital age.

As the writer going by the pen name of Mr. Muku lamented in a *Daiki Shoki* column entitled “When did we become a backward country?” in *The Nikkei*, Japan is a vaccine backwater, a digital laggard, a Fossil Award recipient for its lack of action on the environment, ranked 120th in the world in terms of gender equality, a human rights dinosaur, and in addition, a public finance backwater with an outstanding public debt that has ballooned to 2.7 times the annual GDP.

Japan has a number of unique and difficult structural problems. Many of them existed before the COVID-19 pandemic, but attempts to deal with them were postponed. The current set of difficulties for Japan must not be blamed on COVID-19. It is a fact that current policy is preoccupied with the coronavirus response and any attempt to deal with structural issues appear lukewarm.

For example, take the decline in potential growth rates. Looking at the average annual potential growth rates for developed nations in the most recent five-year period, the rate is 2.0% for the United States and 1.3% for the euro zone, which contrasts with a mere 0.6% for Japan. While the decline in the labor force has had an impact, Total Factor Productivity (TFP) is low. Reforms of the social security system, a requirement for the super-aging society, have not made much progress either.

With income and consumption in free fall due to the coronavirus shock, the payments of 100,000 yen were expected to have an effect, but most of the money was stashed away into savings. The wage deflation (Yoshikawa Hiroshi, Yamaguchi Hirohide) that preceded the COVID-19 pandemic continues, and people are cutting back on consumption out of concern for the future. Even though wages have decreased, savings have increased and the so-called propensity to consume has fallen from 75% in 2014 to 61% in 2020, creating a phenomenon that has not been seen in other countries or in Japan in recent years.

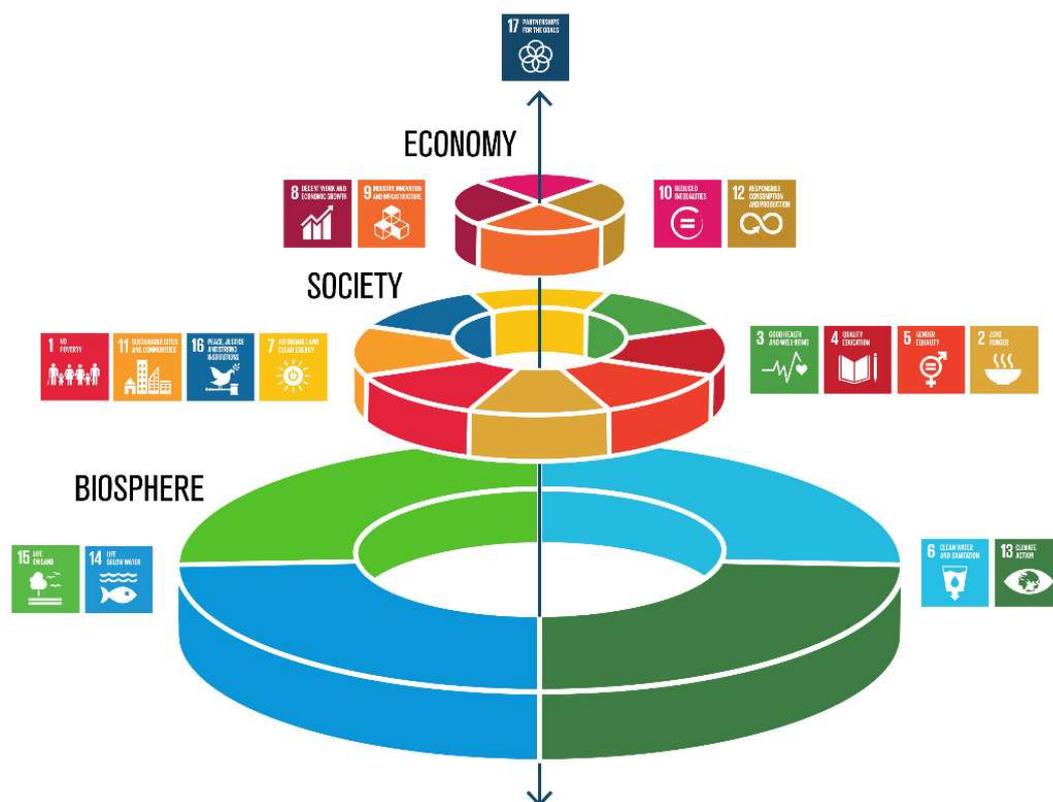
Global warming, a problem that preceded the COVID-19 pandemic, has also gained importance. This is in the context of a sense of crisis about the increasing severity and frequency of natural disasters such as super typhoons, flooding and forest fires around the world in recent years. Climate Emergency Declarations have been issued around the world and, above all, in the European countries. Even in the United States, theories of stakeholder capitalism are debated alongside theories of information capitalism as moves are underway to change the priority on shareholder profits. Another emerging view is that planet Earth is the biggest stakeholder. The idea of global security has also become manifest (the Global Industrial and Social Progress Research Institute [GISPRI]).

The Paris Agreement, ratified by 190 countries and regions as the international framework for tackling climate change, came into effect in November 2016. In 2017, the former Trump administration withdrew from the Paris Agreement, but the Biden administration returned in February 2021. It is likely that the United States will now become the flag bearer for environmental policy. The joint statement following the Suga-Biden summit in April 2021 is symbolic. This is what the Statement says:

“Acknowledging that the climate crisis is an existential threat to the world, we realize that our countries must play a critical role in leading the global effort to combat this crisis. The United States and Japan are committed to taking decisive climate action by 2030, both aligned with efforts to limit the global temperature increase to 1.5 degrees Celsius and 2050 greenhouse-gas emissions net-zero goals. In recognition of this responsibility, President Biden and Prime Minister Suga have launched the U.S.-Japan Climate Partnership.

The Sustainable Development Goals (SDGs), which were unanimously agreed at the UN Sustainable Development Summit in 2015, the same year as the Paris Agreement, are converging with the principles of the Paris Agreement, accelerating efforts by countries to tackle climate change and global warming.

The SDGs set out 17 goals, which, interestingly, have been grouped together into three dimensions resembling a three-tiered wedding cake where the bottom tier relates to the global environment and supports the other goals.



Graphics by Jenker Lohrenz/Alamy

Credit: Azote Images for Stockholm Resilience Centre, Stockholm University

This is how the Paris Agreement and the SDGs converge. There is also rising awareness that challenging these issues in positive ways will not constrain growth and development, but lead to new forms of growth and development. More and more countries are bringing out Green Growth Strategies. Somewhat belatedly, Japan is also trying to relinquish its Fossil Award. In October 2020, the Suga administration announced that “by 2050 Japan will aim to reduce greenhouse gas

emissions to net-zero.” Immediately after the Japan-US Summit Meeting (at the meeting of Global Warming Prevention Headquarters held on April 22, 2021), Japan laid out its goal as follows: “[We] aim to reduce our greenhouse gas emissions by 46 percent in fiscal year 2030 from the fiscal year 2013 levels.”

Achieving this goal requires the so-called Great Reset, a major transformation that spans policy responses, industrial structures, management models and lifestyles. Digitalization is also an essential strategy to support such a transformation.

It will also be necessary to control the side effects of digitalization and informatization. Another important issue is how to handle privacy safeguards. Discussions about the nature of democracy are also gaining momentum. On this point, we will have to think about the issue of information literacy in the digital age. The infodemic, a play on pandemic, has attracted a lot of attention. It is a reference to the dangers of becoming inundated with unverified information.

Much information on the internet is anonymous and some individuals have a reach that exceeds that of the existing major media outlets. A rise in fake news about COVID-19 is also causing social confusion.

The categories of wrong information are misinformation, which is simply erroneous information; disinformation, which is deliberately falsified information; and mal-information, which is malicious attacks.

People also talk about the post-truth era. Increasingly, people tend to believe that information they can identify with, or information that benefits them, is true. Another phenomenon is one where online search engines identify users, inferring what information users want while filtering out information they think users probably don't want to see. How do we deal with such problems in order to secure a healthy democracy and market economy? Information literacy is an important topic in the digital age.

The present coronavirus crisis will eventually come to an end, but the timing depends to a large degree on the rollout of vaccines. If the vaccine rollout does not go smoothly, we run the risk of prolonging the crisis, which will lengthen the time we have to cope with the coronavirus.

Some people have begun to think that there will be repeat pandemics as long as the destruction of the environment continues. The theory is that when natural ecosystems are destroyed, viruses are released, thus facilitating viral infections.

At all events, the current coronavirus crisis has accelerated digitalization and fomented a sense of crisis about the global environment. As a result, we are looking at major transformations and shifts in the economy and society. Or, we need to do so. The combustion engine civilization, which has lasted for more than one hundred years, is being challenged by electric vehicles (EVs), a trend driven by the combination of digital technology and environmental focus. In many respects, the effects of the coronavirus crisis extend to conventional policies, institutions, administration, lifestyles, as well as international relations. It is the age of a Great Transformation and a Great Reset.

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Born in 1942. Graduated from Waseda University and joined the *Nihon keizai shimbun* (*The Nikkei*) newspaper. Served as Managing Director and Chief Editorialist of the *Nikkei* and Chairman of the Japan Center for Economic Research (JCER). He is presently a member of the Trilateral Commission, Councilor of Japan-German Center Berlin; Councilor of the Aspen Institute, Japan; a member of the Board of Trustees of the Institute for International Policy Studies (IIPS), a member of the Advisory Council of the Japan External Trade Organization (JETRO) and a member of Board of Directors of the Japan Productivity Center. His publications include *A New Development Model for Japan: Selected Essays 2000–2008*, *A New Development Model for Japan Part II: Selected Essays 2009-2019*, *Chosei no jidai* (An Era of Adjustment) and *Nihon no sentaku* (Japan's Choice). He earned the Vaughn-Uyeda Memorial International Journalistic Prize in 1988 and the Japan Press Club Award in 1989.
