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Transcript

Lessons from Japan's Disaster

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Oliver Morton:

Good evening and welcome to this Chatham House discussion on: Lessons from Japan's Disaster. I will be chairing this meeting; my name is Oliver Morton, I am briefings editor at *The Economist* just around the corner.

We are lucky enough to have with us today two very distinguished and insightful speakers who have recently put together a book of lesson's from Japan's disaster, which was, of course, just over a year ago and one of the most striking and tragic disasters in recent Japanese history, and on a scale that was, of course, felt around the world.

Our first speaker is Professor Heizo Takenaka; he is an economist by training and a graduate of Hitotsubashi University, he has worked at the Japan Development Bank and at the Japanese ministry of finance, and was in the cabinet of Prime Minister [Junichiro] Koizumi in various different roles, as minister of state for economic and fiscal policy, for financial services, and for privatisation of the postal services. He is currently a professor in the faculty of policy management at Keio University.

Professor?

Heizo Takenaka:

Well, thank you very much for a nice introduction, Mr Chairman [sic], and good evening ladies and gentlemen, it is my great pleasure to be here at Chatham House. I would like to say 'thank you very much' in many senses, in many meanings. In the year 2006 – at that time I was the minister for privatisation, for postal privatisation – I had a chance to speak here at Chatham House. At that time I was seriously criticized in Japan, but I was strongly encouraged here in Chatham House, I remember. [Laughter] So, I would like to say thank you. Also, I would like to say thank you very much because we had a disaster, as you know, and this time many countries, including the UK, and many people in the world gave us a lot of support and encouragement. So, it is our repayment to the world that we transmit lessons from Japan's disaster, both success cases and failure cases.

Well we have been striving for prepare for the disaster historically; however, this time there scale of the disaster went beyond our predictions. The magnitude 9.0, this was the first biggest earthquake in the last 100 years, and also our tsunami... yes, this tsunami reached as high a 14 metres at the highest, at its peak. So, anyway, everything went beyond our predictions. So, anyway, this time also we had a very serious problem about the nuclear

power plant; this will be discussed by Dr Funabashi later on, so let me discuss the impact just on the economy, keeping in mind what the lessons are from the disaster.

By the way, in this regard, some economists at the Inter-American Development Bank made some very interesting research. They examined whether catastrophic natural disaster effected per capita GDP growth or not in the long run. Through an empirical analysis of data from 200 countries over about 40 years, the authors concluded that major disasters do not have significant effects on economic growth in the long run. At the same time, the study also found that if the disasters are in so large a scale that they trigger a very radical, social free-market change, in this case the outcome may differ.

Well, in the case of Japan, we have to consider two aspects: one is the negative aspect, another one is the positive aspect. For example, Japan is now facing a kind of compound and inter-linked crisis, rather than simply the damage of natural disaster, not only natural disaster, but also radiation contamination from nuclear power plant, lacking electric power and so on are the problems. Also from the purpose of reconstruction, the increase in government expenditures or a fiscal expansion policy is needed; however, this is concerned to have, again, a negative impact on the government's home market, or even on the foreign exchange market. There is also a possibility that firms will move their operational to foreign countries. So, in a way, the value of Japan is now challenged. This is, in a sense, also a negative aspect.

On the contrary, however, we are able to see the current situation as an opportunity to push forward with economic reform. For instance, we face the possibility to strengthen the agricultural sector. Agriculture in Tohoku were critically damaged at this time, but if farmland, fragmented farmland is consolidated and enlarged, taking this opportunity, it will create internationally competitive agriculture. It should also be possible to build 21st century-type energy-saving compact for cities from scratch. So – from scratch is key – again, we can create anything from scratch in that areas. In summary, this can be a chance to immediately advance the reform that Japan's society has been unable to achieve yet.

Anyway, based on these recognitions, I would like to raise today six lessons from Japan's disaster for the economy. To save time, I would like to summarize six lessons. Well, lesson number one: Japanese disaster counter-measures were worked even in this disaster. Japan had been piling up various counter-measures historically. They were not enough, this is clear,

since 20,000 people were killed this time. Still, they played an important role to reduce the damage. For example, a tsunami alarming [sic] was issued only three minutes after the earthquake in all cities, in all towns, and in all villages in the area. As a result, many people were able to evacuate. Furthermore, when the earthquake occurred, some commuter trains, [incoherent] commuter trains were travelling in the area at a speed of 200km/hour, but they all stopped safely because their emergency shutdown systems were activated. So, this prevented serious accidents such as derailments.

Also, the houses and buildings are very robust. For example, Sendai, the city of Sendai. Sendai is the biggest business centre in the Tohoku area. Sendai suffered from heavy shaking, but few buildings collapsed. This shows that building regulations, which had been revised, functioned well this time, and earthquake resistant construction technology was substantially good. We must seriously reflect on the fact that the disaster claimed 20,000 victims, but the same scale earthquake, which occurred in the Indian Ocean in 2004, that claimed 230,000 lives. So, it is important to continue our effort to pile up disaster counter-measures as we have been doing.

Lesson number two: the economy right after the disaster plummeted more sharply than predicted. Approximately two months after the earthquake the government estimated its first preliminary estimate for GDP growth for the first quarter of 2011. This indicated that GDP growth had plummeted to -3.7% during the period... -3.7% growth at that time. The steep negative growth was more serious than many economists [had] predicted. In terms of the components of aggregate demand, roughly speaking, roughly 70% of this negative growth can be attributed to a slump in personal consumption. Immediately after the disaster, Japanese consumers, in consideration of the plight of the victims, held back on their purchases. These actions, known as voluntary restraint on consumption, ended up depressing the economy, and becoming the obstacle to reconstruction. The remaining 30% of the negative growth can be accounted for by a decline in net of exports. In concrete terms, disruptions to the supply chain brought about the delays in part shipments to automobile manufacturers and other major exporters. And this caused exports to fall sharply. Anyway, many people underestimated the negative impact of the disaster on the short-run economy [sic].

Lesson number three: the disaster had a serious impact on the global supply chain, problem we had. Generally speaking people have a perception that Tohoku area, the damaged area, was relatively less advanced area in Japan. Ironically, however, this time we had to recognize the important role played by small businesses of Tohoku area in the global supply chain. Let us take us an

example: Renesas Electronics, this is one of the companies that has damage by the earthquake. This is a medium-sized company with 150 billion yen in sales, but medium-sized; however, this company had about 60% market share of the worldwide production of some micro-computers, the essential control components of automobiles. And this company's manufacturing was damaged, and Japanese automakers operational rate at the beginning of May [2011] dropped to about 50%, and it was said that it would not fully recover until November or December of that year.

Anyway, the damage inflicted on the economy by the earthquake and the tsunami was quite substantial; at the same time, with each passing month the economy had moved in the direction of successfully dealing with these challenges. This was particularly evident in manufacturing; to be specific, the recovery occurred more quickly than expected as a result of restoration of the supply chain. Anyway, based upon the experience of the destruction of the supply chain. Now, because of BCP, Business Continuity Plan, or BCM, Business Continuity Management, this became an important cure in corporate management.

Lesson number four: the mid- and long-run risk facing the Japanese economy still remained large right after the upheaval of the disaster had subsided. I would like to point out three risk factors in the midterm and in the long run. Number one, the bottleneck of electricity shortage. Number two, neglect or postponing of mid- to long-term reform. And number three, industrial hollowing out. Especially, the electricity shortage could be a serious problem as a mid-term risk factor. Nuclear power generation accounts for roughly 30% of the Japanese supply of electronic power. With concerns mounting about its safety, not only new construction of nuclear power plants will be suspended, but also there are strong pressures to stop operations of existing plants. Meanwhile, because of a lack of progress in deregulating the power market, the availability of new surplus power is extremely limited. So, one realistic option for dealing with the power shortage is to expand generation using gas [incoherent] plants, but this will dramatically increase the imports of natural gas. So, concerns have arisen about the hugely negative impact this would have on the trade balance of Japan. In order to conquer these risk factors Japan is facing... anyway, the strong political leadership is needed.

Lesson number five: it is important to have the big picture in mind when dealing with reconstruction, bearing in mind that the sunk cost is still not now. Now, we can create anything from scratch, this is the meaning of so-called 'sunk cost' is [incoherent]. In 1923, we had another great earthquake, the Great Kanto earthquake in the Tokyo area. This was a real disaster, and in

this earthquake 100,000 people were killed. After the Great Kanto earthquake, a reconstruction agency was established, and the president of this agency was Mr Shimpei Goto... Goto Shimpei, a former mayor of Tokyo. Goto developed a broad and large-scale plan for reconstruction, which amazed the people at that time. The [incoherent] for expenditures for reconstruction was 2.5 times that of the general account budget at that time, 40% of GDP. The plan became a target of widespread criticism, and Goto was rabid at the mouth [uncertain] with a 'pipe dream', and faced with opposition from many groups, the amount budgeted to the plan ultimately shrank to one tenth the size of the original proposal. But the very existence of this ambitious plan is what has given shape to the Tokyo of today, but clearly it is a major restructure. In the current situation, we also need a bold and ambitious construction plan that can respond effectively to the sunk costs of the current situation.

And, the final lesson, number six: policy must be implemented expeditiously, or promptly, bearing in mind that the historical effect is working. Please assume people who were living in the damaged area, but people leave the the damaged area after the tsunami, they are supposed to establish new lives in other places. This makes it difficult for them to return later even if the towns are rebuilt. So, quick recovery is needed after the disaster. Japan experienced a great [incoherent] earthquake in January 1995. During the recovery process, the importance of historical effect was deeply imprinted. This was epitomised by the story of Kobe port. Kobe port used to be the fifth biggest... ranked fifth in the volume of container handling, but now it ranks 46th in the world because of the delay of reconstruction.

Anyway, reviewing the actual policy actions, which were taken after the March 2011 disaster, these lessons were not fully utilized, regrettably, at this moment. An unstable political situation made it difficult for the government to take and prompt action, and still a strong leadership is needed. Well, Japan has been criticized to date for having a strong private sector but a weak government sector, and for being strong on the work flow but weak in central management functions. Under the extreme conditions under March 2011 catastrophe, this strong private sector and weak government sector situation has never been more clearly in evidence. So, rebuilding the Japanese economy, we require that this distortion be overcome.

So, what is needed is a strong political leadership who can be in office at least more than several years. So, anyway 'from scratch' are the important key words, so many people are now expecting that some shocks come to politics so that we can create a new politics from scratch.

Thank you very much. [Applause]

Oliver Morton:

Thank you very much indeed, Professor Takenaka.

Our second speaker is Dr Yoichi Funabashi, who is a former editor-in-chief and columnist of *Asahi Shimbun*, and has been a Nieman fellow at Harvard, and a distinguished fellow at the Brookings Institution. He is a member of the International Crisis Group, and currently he serves as the director of the Rebuild Japan Initiative Foundation, in which post he has been bringing forward very interesting private sector analysis of the disaster of March 11, and particularly what went on at the Fukushima plant.

So, Dr Funabashi?

Yoichi Funabashi:

Well, thank you very much for inviting me. I am very much honoured to be here. Let me focus on a year after... a lesson from March 11, particularly with Fukushima nuclear disaster.

Actually, I have felt somewhat nostalgic for the days in the wake of that March 11, when we Japanese really shared a sense of urgency as well as a sense of crisis, of national crisis... that was really genuine. But, observing what the parliament and the politicians have been doing in the past year or so, one, unfortunately, does not come away with the impression that this shared sense of national crisis is truly shared. People start to wonder how... what has actually changed in Japan in the past one year? Take an example of that debris which has been piled. 22 million tons of debris have been piled in the affected area. Only 7% have been removed so far. That may take years for them to be finally disposed. So, it is agonisingly slow for the politicians to tackle with these enormous problems. People have still been very much patient, have persevered, full of fortitude; but, I am afraid there has emerged some sense of resignation, a sense of helplessness on the part of some people, particularly in Fukushima prefecture. Fukushima – the negative legacy of Fukushima – I am afraid will remain an impediment to the Japanese, and Japan's recovery and rehabilitation for years to come.

As was introduced, we have established an independent investigation commission on the Fukushima nuclear accident because we have believed strongly that this time the Japanese citizens have to come up with a

thoroughly independent research and investigation on the root cause of the Fukushima nuclear accident. Fortunately, the Japanese parliament also has launched a similar investigation commission, as well as the Japanese government, but we have belief that a citizens' independent investigation was worthwhile to pursue. And we just published our report about three weeks ago, and I would like to share some of our fact-findings and lessons we should draw from that accident with you today.

First, we have realized now how precariously close that worst-case scenario actually was about to [be] realize[d]. Prime Minister Kan Naoto instructed Chairman Kondo Shunsuke, the chairman of the Japan's Atomic Energy Commission [AEC] to draw up a worst-case scenario in the thick of the crisis. And that was based on a scenario of a unit one hydrogen explosion of that container vessel, which would have released a huge radiation plume. If that [was] a reality that would have involved 30 million people in Tohoku metropolitan area to have been forced to evacuate. Fortunately, that did not pan out, but... while we were not aware of that very much critical stage unfolding at that time, but it was very much scary to think of that very close to that worst-case scenario actually happening at that time.

At the same time, we were very much struck with a thorough unpreparedness on the part of the TEPCO, the Tokyo Electric Power Company, in nuclear accident management. They could have prevented this nuclear accident if they would have been prepared in a much better way. For instance, Tokyo Power Electric did a much better job in preparation for that tsunami by strengthening their anti-tsunami measures, while TEPCO did not. A major reason why TEPCO did not prepare was that they trapped with that very much twisted myth of their 'absolute safety'. They have been highly reluctant to back-fit the current system to incorporate new scientific findings and technological innovations for better safety. They have feared that making such changes would be so bad an admission that the current one is insufficient and the company does not provide the 'absolute safety'. So they have, in a way, found themselves caught in their own trap.

But the government also shared the blame in believing this myth. Where Niigata prefecture proposed a nuclear disaster drill premised on that earthquake, because in Niigata we had a big earthquake in 2007, which temporarily halted that nuclear plant operation there, TEPCO's. NISA [Nuclear and Industrial Safety Agency], a Japanese nuclear safety regulatory authority advised that that scenario would cause unnecessary anxiety and misunderstanding in the public. So, Niigata prefecture was duly obliged to come up with a less 'menacing' drill plan, which is premised on [incoherent].

So, this is a sort of collusion between the regulator and the regulated to propagate this 'absolute safety' myth. So, ultimately, this avoidance translated into unpreparedness.

Secondly, the politicians and bureaucrats have long propagated sort of a safety with a small dose, which may perhaps have inadvertently sacrificed that security of the nation at large. And, I think this is perhaps... very much has something to do with that: Japan's self-image of a nation with safety and security which has been taking root deeply in the post-World War era. Japan... Japanese prided themselves in being a society that provides safety and security, which has been a trademark for Japan for years, and also has a strong appeal to the Japanese public. But this is now shattered, in my view.

So, the very clunky nature, structure of the regulatory regime also has not done a great service to Japan. The NISA and NSC, the Nuclear Safety Commission, pretended to regulate and utilities pretended to be regulated. So, this really is hollow, phony even. And the structure itself have been very much complicated, it is a double checking system or triple checking system, as it is called, because there have been so many players and regulators involved. You have the NISA, you have the NSC, you have the MEST, the Ministry of Education and Science and Technology in charge of the safeguards, whereas NISA has been, and the NSC has been, in charge of safety, and then the nuclear Atomic Energy Commission is in charge of security. So, this overlapping structure as well as stove piping nature and risk adverseness all have contributed to that inept response and reaction to that crisis this time.

People have been very much grasping for leadership in Japan, leadership in crisis. In Japan, too long, perhaps, people have not cared what kind of leadership they had in the past, but now it is a rude awakening to them how critical leadership is at critical junctions such as Mach 11. Prime Minister Kan has been vilified by some people, he has perhaps been involving micro-management including the accident management too closely, but others have now regarded him as the sole, or the nation's chief risk officer. Certainly the others, many more perhaps would take offence at this. Throughout the devastated areas, those administered parties under the very effective leadership have rebounded much quicker... quickly than the others. There are some how have already gained some prominence for very effective leadership, while the others have been very much slow at recovering, particularly when they are under very ineffective leadership. So, people are now very much keenly aware and they are very much now wondering what kind of leadership Japan really needs at this point. But it is very much divisive

and even polarising, this issue, as exemplified in the very much split and divided views of the prime minister's council leadership.

Lastly, what kind of implications this Fukushima nuclear accident and the response to that accident would have for the Japanese politics in the coming years. Just one; I think as we now have a more negative legacy plus more burdened with this radiation release, which will take years to be disposed and to be neutralized – detoxicated [sic] – we are basically shifting this burden to the next generation, and that also will complicate and perhaps worsen the situation, our fiscal situation, which already has been very much deteriorating. So, this inevitably poses a critical question as to inter-generational ethics and fairness in Japanese politics. How do you do with this inter-generational fairness? We have long not been confronted with this issue in Japan, and we actually have been very much careful of avoiding that. But, I think we have some signs the younger generations in their thirties and forties now challenging this conventional wisdom of the Japanese society in the past. And perhaps that Mr Hashimoto Toru, mayor of Osaka city, who has attracted a huge appeal from the younger generation, and he is thrust of that new politics, is maybe a harbinger of things to come in Japan.

Thank you very much. [Applause]