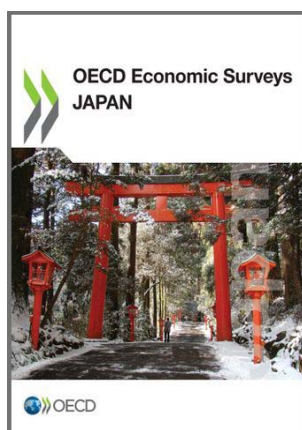


How the digital transformation can help Japan secure sustainable growth

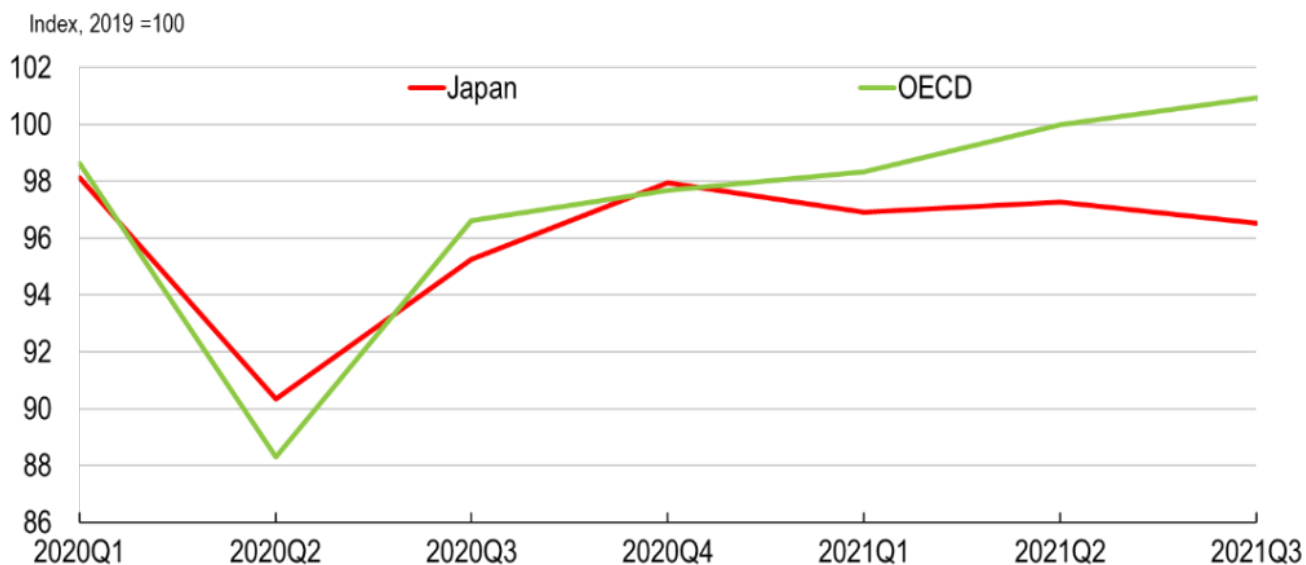
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The pandemic dealt a heavy blow to the Japanese economy, at a time past reforms were bearing fruit in raising labour force participation and reducing the size of budget deficits. Difficulties in bringing infections under control and the pressure new cases put on hospitals forced the government to declare a succession of states of emergency. The prolonged imposition of sanitary measures in combination with voluntary distancing measures held back growth after the initial bounce-back in economic activity (Figure 1). However, after a relatively slow start, the share of the fully-vaccinated population is now amongst the highest in the OECD. The government has recently outlined a new sizeable policy package to support the recovery. Thus conditions are in place to underpin a strong pick-up in growth, once the impact of the omicron variant is mitigated.

Figure 1. The pandemic hit economic activity hard

Real GDP



Source: OECD Economic Outlook Database No.110.

The pandemic exposed structural weaknesses, notably the long-standing plight of temporary and non-regular workers, who were more exposed to the economic downturn. But other weaknesses had hitherto been less in focus. The difficulties workers, businesses and government faced in moving to remote working and targeting support to those most in need, highlighted the patchiness of the digital transformation.

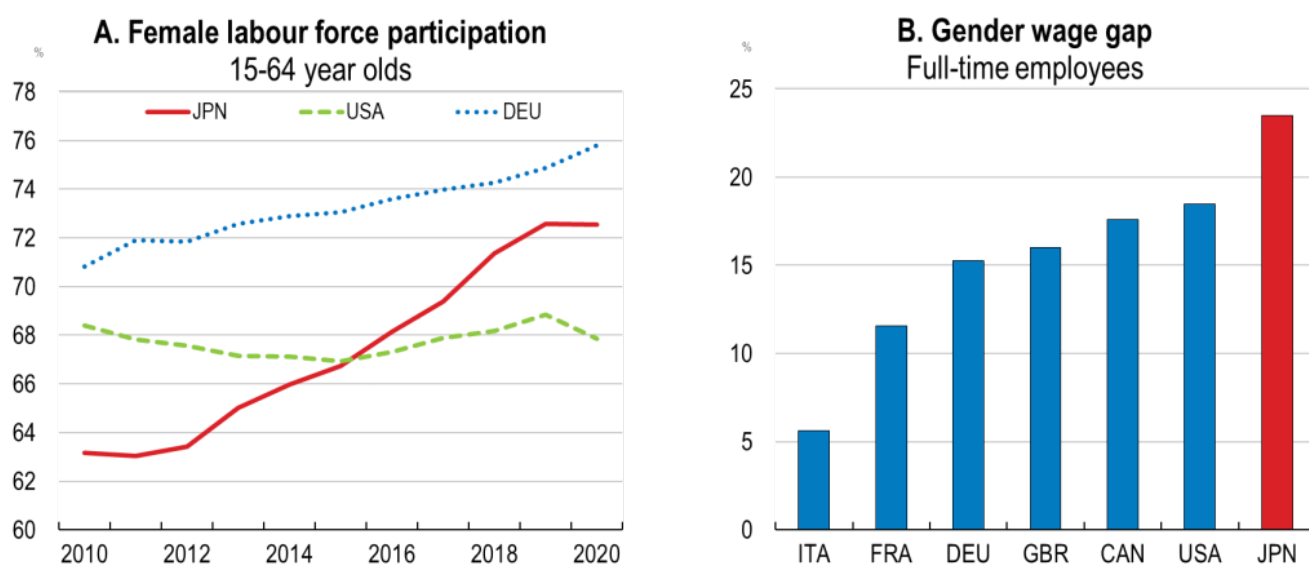
The OECD Economic Survey of Japan advocates policies to address these weaknesses. These policies would contribute to sustainability by boosting productivity and resilience to future shocks. In addition, they would reduce inequalities and promote fiscal sustainability.

Addressing structural weaknesses to boost productivity and labour supply

Past reforms have successfully increased labour force participation by women and older workers. Yet more can be done, particularly by promoting workplace flexibility and addressing other barriers to participation. Continuing *Work Style* reforms that promote flexibility and cap overtime hours while increasing the provision of childcare places will help boost participation further (Figure 2). Reforms such as promoting *equal pay for equal work* also promise to reduce inequalities by eroding the differences between regular

workers and those workers with temporary jobs or less secure positions. Output can be boosted further by raising productivity growth, which has been very sluggish in recent years. One aspect of this is weak business dynamism hindering the diffusion of new technologies. Policies to enhance entry and exit of firms, such as by increasing competitive pressures and facilitating bankruptcy, could help in this context.

Figure 2. Labour force participation has risen but gender gaps remain sizeable



Source: OECD LFS by sex and age indicators and gender wage gap indicator.

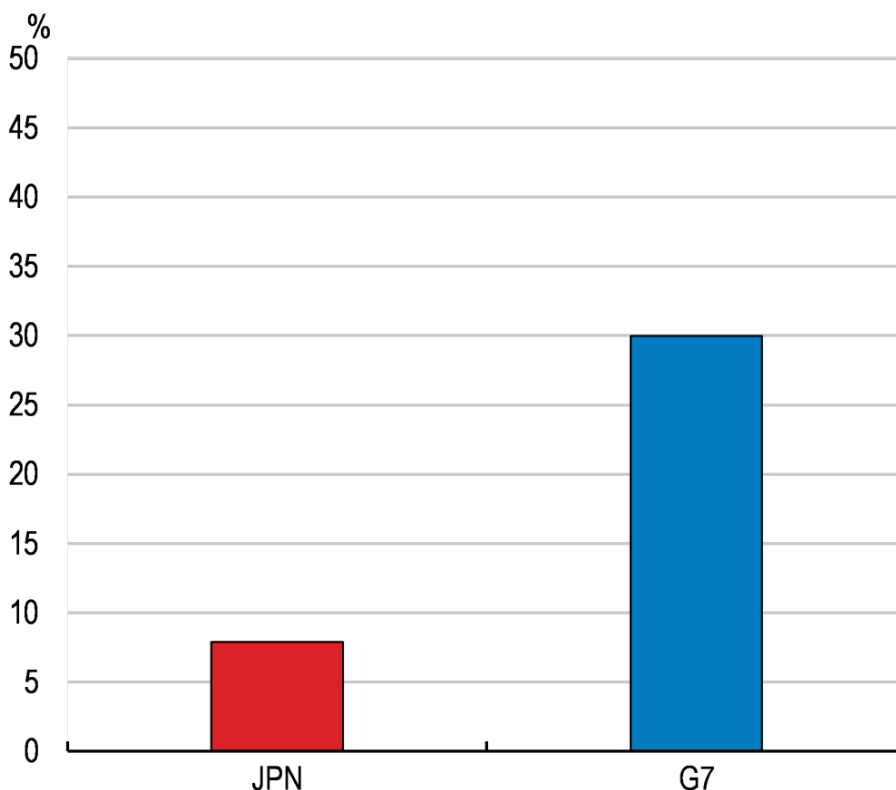
Making the most of digital transformation

Japan is well placed to benefit from greater digitalisation. The digital infrastructure is well-developed and most people are highly skilled. However, while some parts of the economy are at the international frontier, such as in robotics, the diffusion of new technologies is often not widespread. Small firms and those in the service sector in particular often make less use of digital technologies. Furthermore, research and development in the ICT sector is weaker than in the rest of the economy and than in ICT sectors elsewhere in the OECD. Policies that strengthen business dynamism and promote the diffusion of new technologies would help lift productivity. Complementary investments in intangible capital are needed to

ensure that the potential benefits are fully exploited.

The government itself can also play a role in promoting the adoption of digital tools. At present, *hankos* (physical stamps) are still widely required for many official procedures and the use of online forms for government services is amongst the lowest in the OECD (Figure 3) and this has hindered the development of digital service provision. Some parts of government have already taken the initiative to raise e-government supply, to wit the case of the city of Fukuoka, which has identified around 3 800 procedures that can now be completed without a *hanko*. However, more can be done in this direction and to utilise available data. The newly established Digital Agency can push such developments across government.

Figure 3. Individuals using the Internet for sending filled forms via public authorities' websites

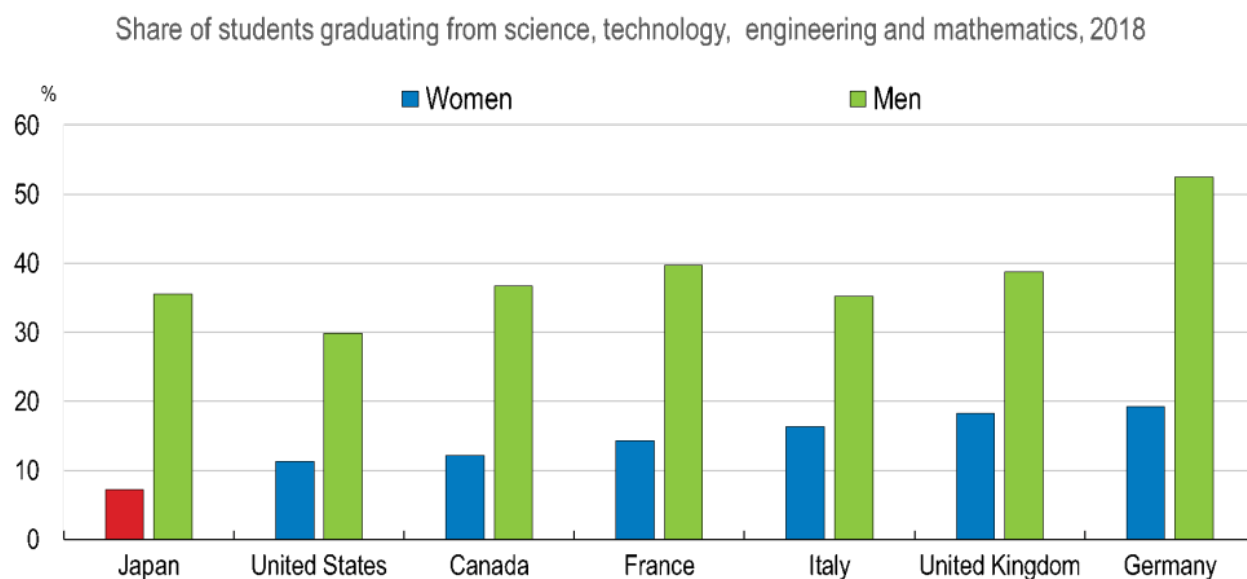


Source: ICT Access and Usage by Households and Individuals database, Main Science and Technology Indicators.

To capture the full benefits from digitalisation, policy needs to ensure people have the necessary skills. The government has

recently ensured that schoolchildren have access to computers, but schools and teachers are often unprepared and need training and support to make best use of them. In addition, comparatively few students graduate in science, technology, engineering and mathematics (STEM) disciplines, particularly women (Figure 4). Reforming STEM curricula to make them more attractive to study and breaking down the barriers, especially for women, could enhance labour supply and deepen the pool of talent in a digital era. Finally, the system of firm-based training and adult learning is weak. Promoting training and job mobility will also help raise skills and productivity and help those workers most at risk from technological shocks remain in employment longer.

Figure 4. Relatively few students graduate in science, technology, engineering or mathematics



Source: OECD Education at a Glance, 2020.

References: OECD Economic Surveys: Japan 2021