

Comments on Japan's 21st Century Vision

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I find 'Japan's 21st Century Vision' very interesting and I believe it is a useful report for those who study national economic development strategies. It will also serve as a good reference for policy makers to establish a vision of the nation. While it is an excellent summary of national policy agendas, I hope the following three policy issues would be further elaborated.

First, it is interesting to know where Japan will stand in a global economy in 2030. There are several analyses that indicate that by 2025 the size of the Chinese economy is likely to be larger than that of Japan. These projections are based upon strong assumptions that the Chinese economy will continue to grow at its current pace for the next two decades and that China will maintain social stability by successfully overcoming political and social difficulties associated with market opening and economic liberalization policies. I am curious to know how the 'Japanese Vision' foresees the future prospects of Japanese economic power relative to other economies, particularly with China in 2030. Does the 'Vision' presume that Japan will be able to sustain her present influences? On the other hand, the future of Japan is generally depicted as an "aged but mature" economy. But the 'Vision' visualizes the image of Japan in 2030 as 'dynamic and rich in opportunities,' which is very ambitious but somewhat different from general expectations.

Second, the report very clearly describes the domestic issues but further explanations would be appreciated as to how the Japanese economy will be integrated into the global economy. It is indisputable that every economy in the world should indulge in liberalizing its economy in order to survive under a highly competitive globalization trend. The 'Japanese Vision' states very clearly that Japan also intends to do so. Naturally a question arises as to the extent and degree of liberalization. It is particularly relevant as the Vision indicates that 'Japan will be an investment-based country that conducts global investment activities.' Will there be a major change in Japan's immigration policy? Will Japan only receive foreign workers to cope with the labor shortage of unskilled workers? What policies will be applied to professionals? Moreover, the report argued the importance and urgency of East Asian economic integration. What is meant by 'urgency?' Will Japan take a leadership initiative in integrating East Asian economies? It will be desirable if the view of 'the Vision' is rendered as to why East Asian countries cannot be integrated in contrast to European countries. What do you think is the prospect of forming a club of Asia in the future, say by 2030?

Third, in discussing the governance structure of the government and society, it is often suggested in literature that participatory democracy is likely to be a dominant feature than representative democracy in the future. For example, the role of NGOs in policy making is likely to be stronger than ever before. On the other hand, the decision making process will take longer time and be more complicated as more parties and agents will participate. Furthermore, conflicts of interest among the parties concerned will be more apparent. In this respect, the importance of establishing an

appropriate conflict resolution mechanism cannot be overemphasized under such political circumstances. It seems that these issues are not dealt with seriously in the 'Vision.' Like other countries, Japan is also known as a country that had a hard time in concluding FTAs with other trading partners due to heavy protection of its agricultural sector. This is a good example of needing a better conflict resolution mechanism.

Thank you.

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A more integrated world, but international cooperation has a role to play

Over more than a century, and in particular in the last two decades, economies and societies around the world have become more integrated – more ‘globalised’. Advances in communications and other technologies, liberalised trade and investment, lower costs of transport, migration flows, have set the conditions for greater interdependence and cross-border linkages between the countries of the world. Increased trade and capital flows have generated gains in productivity and efficiency that have spurred growth and employment in developed as well as in developing countries. Globalisation has contributed to reducing poverty as low-income countries break into global markets for manufactured goods and services and people are able to move to better jobs.

On the basis of the current trends it is easy to predict that the world will become more integrated in the course of the 21st century. However, globalisation is far from being an irreversible process. Historical evidence shows that between 1915 and 1945 transport

costs continued to fall, but trade barriers rose as countries followed beggar-thy-neighbour policies. By the end of that period trade had collapsed back to around its 1870 level.

The challenge for policy-makers, therefore, is to sustain growth, to redistribute resources, to bring to the international markets more countries and to reduce poverty. Policies should be more co-ordinated internationally to ensure that developed countries are willing to provide open markets for the exports of developing countries. Developing countries, in their turn, should be focused on institution-building without feeling pressured by international organisations to embrace a single institutional model. Failure to make globalisation work can reverse the trend towards greater integration and trigger a protectionist response in some countries.

The rise of Asia

China's economy is expanding rapidly. Official Chinese statistics indicated that in the ten years to 2001 real GDP grew at an annualised rate of 9.9%. This compared with the 3.3% achieved in the US and a range of 5-7% for the other fast-growing economies of the Asia-Pacific region. Forecasts indicate that in the next ten years real GDP growth will slow down to an average rate of 6% a year. Exports have grown even faster than reported GDP, from just \$22 billion per annum in the early 1980s to \$249 billion in 2000 and \$593 billion in 2004 (representing over 35% of GDP at current prices). China has overtaken Japan to become the world's third largest importer after Germany and the US. It is now the second largest oil consumer after the US, using about 6.5 million barrels/day. The focus on the implications of China's high growth rates has rekindled speculation on topics such as when China will overtake the US as the world's largest economy.

China might be the success story of the 21st century, but there are also some potential risks. Besides the geo-political risks arising from China's search for a new role in the region, we identify two potential problems that could curb China's growth in the next decade. First of all, China, as most OECD countries, is facing the ageing of its population with the consequence pressures that such process puts on resources. Second, living

conditions in some areas are still poor with high population density. An outbreak of an epidemic, possibly of avian flu, resulting in thousands of deaths cannot be ruled out.

Along the rise of China we expect to see some significant steps towards the creation of an East-Asian community which will focus on four areas which are crucial for this region: energy, trade and investment, demographics and employment, monetary consolidation. Both in terms of population and output the East Asian bloc would be huge, comprising 2 billion people – almost a third of the world population – and counting for an ever-increasing share of GDP. These development in East Asia are bound ultimately to have a huge impact on the rest of the world.

Europe's slow reforms

The next five to ten years will be crucial to put the European economy back on the track and implement serious market-structural reforms. Given global competition and the rapidly changing world economic environment, Europe's only chance to remain competitive is to invest substantially more in knowledge-based industries and services.

Reforming economic governance and closing the gap between institutions and processes is the other challenge that Europe is facing in the next years. European institutions as well as governments of the EU member states should put renewed efforts in the process of building the single internal market. Europe is strongest when breaking down the barriers between countries, policing competition among them or negotiating with third parties. However, much remains to be done to fully open the internal market. This needs to be deepened in areas such as the service trade, and its interests defended in for a such as the WTO or the Doha Round of multilateral trade talks.

Tensions are likely to remain high in Europe due to the fact that the goal of implementing the single internal market is not widely shared by a large proportion of public opinion and policy-makers. Moreover, further enlargement and the likely inclusion of Turkey are due to create further strain. Immigration policies and the integration of Muslim communities will continue to be hot political topics.

We believe that the next ten years will be crucial for Europe to remain influential at the global level, undertake the necessary reforms and revive its economy. As size is going to become more and more crucial we see a big shift in economic power. It is plausible to expect the US to be in the driver's seat, but who will be the co-drivers? Possibly China, perhaps India. Certainly not some of today's economic powers – such as Germany, France, Italy and the UK, all G7 members and EU constituents. Would the European Union as a whole replace them? Only if it gets its acts together and manages to create a fully open internal market.

The US: still the truly global power

Despite all gloomy predictions following the widening current account deficit and the falling dollar, the US remains the only truly global power. Perhaps its influence is fading and, as some commentators have suggested, profligacy might lead to a decline of its power, similar to the decline of the British Empire during the twentieth century. However, this might be very long-term scenario. For the time being, the US seems to be very comfortable in the driving seat.