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JAPAN'S ROLE IN A NEW PARADIGM SHIFT

Setsuzo Kohsaka

Dubai, the ultra modern city that has suddenly appeared out of the desert like a mirage, Abu Dhabi, the operator of the world's biggest sovereign wealth fund, and Qatar, the largest exporter of liquefied natural gas (LNG) – these Gulf states have emerged as key players alongside Saudi Arabia in bailing out Western developed countries hit by the subprime crisis.

The views expressed in this piece are the author's own and should not be attributed to The Association of Japanese Institutes of Strategic Studies.

A new process that arose in the late 20th century with the rise of the so-called BRICs (Brazil, Russia, India, and China) and the liberation of East European countries – globalization – is spreading across the globe. It was in 1978 that China embarked on a course of economic reform. Economies like this and others achieved remarkable growth under deflation by serving as the world's factories, using low-wage labor as leverage. As they grew, however, these countries began seeking resources around the globe to protect their expanding markets. Thus, the world seems to be entering an era of inflation in the 21st century.

In the aftermath of the 1970s' oil shocks, the term "oil curse" was used to describe oil-rich countries wasting their oil revenues without decent strategies. This time around, it can be said that resource-rich countries have learned their lessons and created sovereign wealth funds to make better use of their surplus revenues. In addition to Middle Eastern sovereign wealth funds, such as the Abu Dhabi Investment Authority established in 1977, Norway, Singapore and Russia are accumulating their own state-owned funds. These state-owned funds are flowing into commodity futures markets along with pension funds that have nowhere to go. While the world gross domestic product (GDP) is estimated to have increased by two-fold in the past decade, the amount of money flowing into crude oil futures markets have expanded by twenty-fold. Mahatma Gandhi once said "wealth without work" is a social sin.


To secure resources, emerging countries like China and India are extending ties with politically unstable, corrupt, and even brutal countries. Gandhi also counted "politics without principles" and "commerce without morality" among social sins. The New York Times columnist Thomas Friedman, known for his books on globalization, *The Lexus and the Olive Tree* and *The World is Flat*, has argued that the price of oil and the pace of freedom operate in an inverse correlation. Observing countries surfing on the globalization waves, we may be seeing a new form of nation's being, and the rise of a nationalism nestled to this new form.

Climate change is having a huge impact on this, too. Price hikes for corn, soybeans and sugar cane, eyed as promising alternative sources of energy to

petroleum and LNG, shows no sign of abating. Iron ore, coal and nonferrous metals are also reaching astronomical prices. The world economy is shifting from a period of growth under deflation to one of stagflation under inflation.

One of the speakers told the World Water Forum held in The Hague in 2000 that if all countries were to expect the same living standards as the United States, four Earths would be required. Finite resources, wealth-seeking countries, globalization are all flattening the world on the one hand, and expanding the gap between rich and poor countries and rich and poor people, on the other hand. Solving these problems in a shrinking world requires cooperation and mutual concession.

I once heard a lecture by Peter Drucker at a time when Japan's trade surpluses were causing a serious problem with the United States. In response to an American who asked if Japan's expanding trade surpluses were posing a threat to the United States, Drucker argued that it was natural for resource-strapped Japan to accumulate a certain level of trade surpluses to prepare for a time when the terms of trade turned advantageously for natural resources and food and not for industrial products.

Japan has virtually no natural resources, domestic oil or gas reserves, and its food self-sufficiency rate has fallen below 40 percent. The time is nearing an end when we can easily assume that necessary resources and food can be bought with foreign reserves gained through exports of industrial products. We must consider the issues of globalization and climate change from a global perspective. The age of mass-production, mass-consumption, and mass-disposal that guided the 20th century is over. Japan gained influence over the world economy in the latter half of the "oil" century alongside the United States. This very fact is making it difficult for Japan to adjust to the new world. A new politico-economic system that takes into account this new paradigm is needed. 

Setsuzo Kohsaka was Trustee of Keizai Douyukai (Japan Association of Corporate Executives) and Chairperson of the Association's discussion group on constitutional issues. Previously, he was Executive Managing Director of Itochu Corporation, a leading Japanese trading company, and Chairman of Kurita Water Industries, Ltd.