



Trends in Selective Globalism

EU-style economic unification with its simultaneous cross-border flows of goods, money and people is on trial. But rather than considering this a reversal of globalism, we should seize this opportunity to rethink what kind of globalism we want.

Itoh Motoshige, Professor, Gakushuin University

In 2016, there were a number of political changes that exerted a significant influence on the world economy, including Brexit in the EU and Donald Trump's victory in the US presidential election. Although the US and UK situations are different, this still feels like the domestic issues of income inequality and unemployment have met disillusionment with the political establishment and criticism towards globalism to create a powerful groundswell. To an extent, this may be a shared phenomenon among advanced democracies, including countries of the EU that have been rocked by the refugee issue.



Prof. Itoh Motoshige

Political change, however, does not determine economic trends. The media often talk about the post-world war two international political-economic order, saying that it is “close to crisis” or “heading for its demise”. But when we reassess the nature of these phenomena from the bird's eye view of economics, while there are some points about which to be concerned, it is not necessarily true that the economic rules accumulated to date, nor the ideas on which they are based, have lost their validity.

Is the US becoming a protectionist state?

As regards the US economy, during the several months after the election of president Trump long-term interest rates rose sharply, global share prices increased, and the dollar also got stronger: phenomena that were termed the “Trump rally”. It was a trend that brightened the future for Japanese companies. Compared to that time, the present market reaction is probably something like “wait and see”. The Trump administration's is basically stimulating the economy via its lower tax policies, energy policies, and financial deregulation, so we can expect a macroeconomic effect. On the other hand, the market has some suspicions as to

whether these policies will really be implemented. Trump's difficulties in congress over passing a healthcare bill to repeal Obamacare is one example of the lack of unity in the Republican party, as well as an absence of shared will regarding Trump's policies. Fears that the same thing might happen to the tax bill and to a bill to expand expenditure are having an effect on currency rates and share prices.

Yet, it would be a misreading to say that the Trump administration will determine the direction of the American economy. The economy takes daily circumstances into account and, to an extent, operates with autonomy. Independent of the results of the US presidential election, the world economy has been on an upwards trend since last year, and the US economy has been in particularly good shape. The Trump administration's proposed policies to stimulate the economy have been in harmony with world economy trends, and if they are implemented there is high probably the economy will improve. Of course there are also different medium-term problems, such as the public finances.

Meanwhile, there has been a big shift on trade. Early on, President Trump announced that he would leave the TPP (Trans-Pacific Trade Partnership). He said he wants to negotiate "one-on-one". It may be that the US being one of 12 in the TPP is incompatible with Trump's "America First" policy. Concluding the TPP has been a main focus of Japan's trade policy these last few years, but it appears that has all gone up in smoke.

Having said that, essentially it is a separate matter as to whether or not this shift to a bilateral negotiation policy equals protectionism. America First is a kind of rhetoric and, at least so far, the US is not implementing protectionist policies. During the meeting of finance ministers and central bank governors at the G20 conference in March 2017, we did see US Treasury Secretary Steven Mnuchin refusing to include an anti-protectionism wording in the statement. But I don't believe the US opposed this because they would take protectionist policies themselves. Rather, I think it was because they disliked how protectionism had become a label with which to criticize the Trump administration.

Of course, Japan prefers multi-nation negotiations such as the TPP. One-on-one negotiations can get very tough, and sometimes Japan can experience situations it would rather avoid. Yet, compared to the 1980s and '90s when the US put in place unilateral protectionist policies, there is a certain amount of action that Japan can take.

Rather than the US government taking the lead on protectionism, we need to beware it acquiescing to extreme demands from private companies, and somehow indicating an attitude of support. During the 1980s there was friction between the US and Japanese car industries, and at that time Japan voluntarily restricted its exports. There was a complicated situation where US companies made use of government policies and advocated "anti-dumping". Now too, the US car industry is taking an aggressive stance towards Japan, so there's no guarantee the same thing won't happen again.

Most importantly, although Japanese companies suffered from trade friction during the 1980s and early 1990s they certainly didn't collapse. The car industry, for example, actually expanded its trade investment. We need to think about micro scale friction separately from the issue of whether or not macro trade and investment shrinks.

We could also say the same thing about the relationship between politics and economics. About 10 years ago in Taiwan, Chen Shui-bian's Democratic Progressive Party administration was at loggerheads with China. Yet during that time Taiwan's investment and trade with China increased considerably. Macroeconomic movements and the ups and downs of political relationships do not always progress in sync.

We should seize this opportunity for economic dialogue between Japan and the US

Bilateral negotiation between Japan and the US is gradually turning into concrete Japan-US economic dialogue. It is definitely better to have economic dialogue than not to have economic dialogue. About 10 years ago, there were arguments on the Japan side in favor of moving forwards with a Japan-US economic partnership agreement, but the US did not show interest in the idea. Considering that, we should be acknowledge the value in both countries proactively entering into negotiations. There are also risks related to the unknown actions the Trump administration might take on currency rates, and on tariffs and investment, so a direct conduit to the administration's center would be useful.

But we should resign ourselves to very tough negotiations. In particular, further liberalization of the agricultural sector and medicine prices in the pharmaceutical sector may be up for discussion. And although there may be considerable political resistance, the benefits for Japan and the US are also substantial. Meanwhile, it is not a good idea to discuss anything and everything. When separate and specific matters get taken up in high level talks they become a source of friction. We must make sure sufficient attention is paid to the setting of agenda and how discussions are conducted.

There is value in continuing trade dialogue

Alongside economic dialogue with the US, the Japanese government is also moving ahead with the TPP 11 (the 11 remaining members of the TTP minus the US). This course of action is correct.

The TPP is by far the most liberal of all the economic partnership agreements Japan has advanced to date, and agreement has been achieved on market access and in a wide range of other areas. The absence of the US will have a significant effect, but with the exception of some sectors such as agriculture almost all of Japan-US trade is already liberalized.

Simulations of the expected effect of the TPP show that there will be considerable benefit for Japan from new market access to countries other than the US.

Also, once the trade negotiation train starts moving, as long as it keeps going it will serve as a barrier to protectionism, irrespective of whether an agreement is concluded or not. We might do nothing and leave the negotiations, intending to restart them when the situation in the US eventually changes, but if they are suddenly needed they will not work. On aspect to the TPP-11 negotiations themselves is the stimulation of free trade across the world, and I think we should stress the value in that.

The most significant factor that affects whether the TPP-11 will move forwards or not is acceptance (or lack of acceptance) from the US. If the US shows fierce opposition it will be difficult, but for the moment there is no sense that is happening. On the other hand, some countries such as Malaysia and Vietnam are pessimistic regarding a TPP without the US, and there is significant possibility of change to the agreement.

I believe that Japan should also join the Regional Comprehensive Economic Partnership (RCEP). The TPP and RCEP are different in nature, and the latter features a low degree of liberalization, so there may be some value in Japan joining. To be frank, it is not clear what the effects of joining would be.

The RCEP members mainly consist of the Association of Southeast Asian Nations (ASEAN), and it brings together the actions of “ASEAN plus +1” nations such as Japan, China, South Korea, India and Australia. Japan already has partnership agreements with Australia and India, so at the end of the day RCEP’s substance will depend on agreement between Japan, China and South Korea. At the moment, however, it is difficult for Japan, China and South Korea to head towards a practical economic partnership agreement, if the priority is to sign an agreement, it will have to be less comprehensive, and it is doubtful whether the Chinese government considers this issue a high priority.

A lull in “China Risk”

Getting an accurate picture of the Chinese economy is no easy matter. While traditional industries such as steel production face tough times, IT industries are growing. The economy of Dalian is poor, but Shanghai is healthy. As the situation is different in industry and town it is necessary to carefully study both positive and negative. Yet, compared to the Autumn of 2015 when share prices fell sharply and people spoke seriously of “China risk”, the situation has stabilized considerably. Of course, that’s because the Chinese government shored up the economy, resulting in more bad loans. In that sense, although we can’t be optimistic it is not a crisis situation. I see this as a state of reduced activity being maintained and controlled.

During the Davos conference in January 2017, Premier Xi Jinping attracted attention with his statement that “China will go through with consistent and open win-win regional free trade, and oppose exclusionism.” These last few years China has been focused on the creation of a global economic order, producing new frameworks such as the One Belt, One Road and the Asian Infrastructure Investment Bank (AIIB). Putting aside the question of whether this will lead to a global economic order in the real sense, it will be interesting to see the eventual results of this vision to bring together an economic sphere encompassing South East Asia and Pakistan, as well as Central Asia, Russia and Africa.

Meanwhile, Japan needs to be careful of bargains between the US and China. On currency rates for example, the Trump administration is restraining Japan, China and Germany so that the dollar does not rise. On the other hand, the Chinese government is desperately buying Yuan to support the currency and prevent it getting any cheaper. The Trump administration’s wariness of a strong dollar and China’s intention to prevent a weak Yuan fit together, so there is a risk of sudden change in the situation due to a political decision.

Desirable globalism doesn’t have just one form

Aspects to the situation in Europe are still unclear. In particular, arguments over the nature of the EU itself have yet to be resolved. Yet, interpreting the movements of recent years to exit the EU as “anti-globalization” doesn’t quite match the actual situation.

If we interpret globalization generally as the free cross-border flow of goods, money and people, the EU aimed for an economic union that encompassed all three elements. In that sense, it was an extremely aggressive “experiment”.

Yet, common sense tells that there are both pros and cons to the free movement of goods, money and people. In reality, even among staunch supporters of free trade (goods liberalization) there are many who place more emphasis on regulation of the financial order than on liberalization, or who think that a common currency is a mistake. What’s more, the movement of people (in particular the migration and refugee issues of recent years) is a complicated problem closely linked to the political situation. Lumping these together for consideration is a problem. Since the common currency and the Shengen Agreement was politically-lead and prioritized further European unity, a reaction against may now have appeared.

We have reached a stage where all over the world people are seriously considering what kind of globalization they now want. Of course, global corporations seek a free flow of people, but at the same time we can see harmful effects in various places. There is no one answer to the questions of how we should combine goods, money and people, or how we should regulate that combination. The people of Europe have stopped in their tracks and are now

asking these questions again. Brexit is the same; it should not itself be interpreted as protectionism, but as a choice to stop the free movement of people, i.e. the Shengen Agreement.

Conflict between capitalism and democracy

On the other hand, how the governments of the world deal with the domestic issues of income inequality and unemployment is crucial. In her book *World on Fire*, Yale Law School professor Amy Chua notes that there are incompatibilities between market economics and democracy, and sketches that conflict. Market economics often works on a winner-takes-all principle and concentrations of wealth come about. And through allowing this, a dynamism also develops. Yet on the other hand, a situation is created in which many people experience financial hardship. Then, with the intervention of the element known as democracy (elections), opposition to the principles of market supremacy arises. Although elections and referenda sometimes bring about unexpected results and plunge society into confusion, without the adjustment function of voting there would probably be frequent uprisings.

On the other hand, history gives us many examples of when democracy has “failed”. In the African country of Zimbabwe, rule by the white 1% of the population was overturned for a system of one-person one-vote. However, when the leader Robert Mugabe became president he became a dictator himself, and monopolized the country’s wealth. In Russia during the time of Boris Yeltsin too, there was a rapid large-scale shift to a market economy, and seven new financial-industrial conglomerates, known as the “Big Seven” appeared. Of these, six were apparently Jewish owned. Vladimir Putin then used the argument that “our precious oil has been stolen by Rosprom’s Mikhail Khodorkovsk” to target the company, brought the undecided onto his side, and secured influence over all the companies. Yet, we cannot say that this made the Russian economy stronger. This is nothing new, but realizing democracy that gives form to the opinions of large numbers of the discontented in society does not produce good results.

As globalism progresses, market mechanisms speed up and income disparity also grows. Yet, capitalism and democracy are the two pillars of stable growth for nations. Although the situation of growth and wealth division varies from country to country, we don’t know of any other method for progress other than keeping a balance while moving in-between capitalism to democracy.

The international economic order in a leaderless age

Looking back about two years ago, the world economy was in a desperate state. Crude oil

prices kept on dropping, share prices in China were falling, the economies of emerging nations were in the doldrums, the EU Greek crisis was getting worse, and even in the US (whose economy was relatively strong) the Federal Reserve Board of Governors (FRB) was not able to decide on raising interest rates. Compared to that, today's crude oils prices have recovered to the 50-dollar mark after falling at one point to 30 dollars, while the economic situation is good, mainly centered on the emerging economies of Indonesia, Vietnam, the Philippines and other nations. China is also more or less stable, and the US has embarked on a course of staged interest rate rises. I hope that the Japanese will also progress to escaping deflation as part of this trend.

This is now the fifth year of Abenomics, and rather than putting in place new policies, it is more important to continue steadily with those that have been implemented so far.

I'd like to look at two areas where Abenomics has shown results. The first is the labor market. That the labor market has become so tight is partly down to the effects of the aging Japanese population, yet it is also evidence that demand really is growing.

Whether or not this leads to higher wages will be key to escaping deflation. Also, if wages increase companies will need to improve productivity, and structural reform on the supply side will move ahead. The home delivery sector is under extreme pressure right now. If other companies catch up, I believe that the Japanese economy can shift to a trend of powerful growth.

The second is corporate savings. Calculated via the SNA (system of national accounts), the savings and investment balance of the Japanese corporate sector is approximately 25 trillion yen, or about 5% of GNP. Comparing this percentage to other countries, Germany is 2.5% and the UK is 0.5%. It is a huge difference. The issue is that companies are bound by their old deflation mindset, and don't look towards investment.

Nevertheless, there are several examples of dramatic change; the automobile industry, for example. In 2015, the Japanese government joined the Paris Agreement of the United Nations Framework Convention on Climate Change (COP21), setting a target of an 80% reduction in CO2 emissions by 2050. It will be impossible to meet these targets while using gasoline cars, so the government has readied itself to invest in electric vehicles (EVs) and fuel cell vehicles (FCVs). Once this starts to happen an investment battle will follow. The spur for this investment will be change to how various industries make things and provide services, itself dependent on continuing technological revolutions in areas such as AI and the internet of things (IoT). If Japanese companies lacked money they would have to give up. But, since they do have this money, I hope they will actively address look to investment, and that the government can also give them support along those lines.

The current of the global economy is absolutely not moving towards a rejection of liberalization. And overall, the economic trend is upwards. Although there are some

worrying aspects to the situation in the US and Europe, Japan is politically stable and leading the world in the correct direction via Japan-US economic dialogue, and negotiations such as the TPP and RCEP. At the same time, by stimulating its own economy that engine will become even stronger. I hope that Japan will return to a mindset of proactive investment while engaging with different technological revolutions.

Translated from “Sentakuteki gurobarizumu no chorū (Trends in Selective Globalism),” Gaiko (Diplomacy), Vol. 43, June 2017, 12–20. (Courtesy of Toshi Shuppan) [June 2017]

ITOH Motoshige, Ph.D.

Professor, Gakushuin University, and Professor Emeritus at the University of Tokyo

Born in Shizuoka in 1951. Graduated from the Faculty of Economics at the University of Tokyo in 1974. Received a Ph.D. (economics) from the Graduate School of Economics at the University of Rochester. Has held his current position since 1996 after teaching at the Faculty of Economics at the University of Tokyo as an associate professor and professor. His has also been a private-sector expert for the Council on Economic and Fiscal Policy since 2013.
