

JAPAN AND THE CHALLENGES OF A NEW GLOBAL REALITY

Florin BONCIU*

Abstract:

The research starts from the perception that once humankind has entered the new millennium and particularly in the post 2008 crisis period globalization changed its main characteristic from an integrating process to a global reality. This reality reflects a renewed role for states, a return to real politick and geopolitics and also a return to hard power instruments. The new global reality is the result of many factors of influence that include demographical aspects, climate change, the fourth industrial revolution and a new global and regional balance of power. This new global framework raises challenges to all countries of the world economy but this paper focuses on the implications on Japan as well as on the present and future responses Japan envisages for securing its competitiveness. The conclusion stresses that despite its huge economic, human and technological potential Japan may face a difficult task in reinventing itself as a global player in the world economy that will evolve from 2020 to 2050.

Key words: Globalization, globality, new characteristics of globalization, Japan economic prospects

JEL classification: F01, F60, F 63, O1.

Globalization as a process and as a reality

The concept of globalization as an all encompassing framework for human interactions (economic, political, cultural) is related mostly to the post World War II period. As a word, “globalization” (with the meaning of a process of expanding activities and interactions in order to reach a global scale) entered the English language in 1959 and was included in dictionaries in 1961⁴. Initially it had a mixed content (cultural and economic) and we may consider that the epitome of that first period was represented by the “global village” concept of Marshall McLuhan⁵. The global village represented a globalized world but the accent was on the awareness of the people about various news and events at a global level. The marvelous thing was that technology made this global awareness possible due to radio and television networks.

* Florin Bonciu is Professor of World Economy at the Romanian American University in Bucharest. E-mail: fbonciu@gmail.com

⁴ Jan Aart Scholte, Defining Globalization, CLM Economia, No. 10, 2007, p. 16

⁵ Marshall McLuhan, The Gutenberg Galaxy: The Making of Typographic Man, University of Toronto Press, Canada, 1962, p. 31

Later on, in the 1980s, Theodore Levitt changed the accent towards the economic activities when he spoke about the globalization of markets⁶ as an ever increasing interaction on a global scale between all sorts of economic actors (both states and multinational corporations). The interaction consisted initially in trade flows more and more substantial and more and more linking all parts of the globe. Starting with the 1980s foreign direct investment flows became permanent companions to the trade flows and gave a new meaning to the economic interaction. Economic integration was also a corollary of these more intense trade and investment flows and therefore free trade agreements and customs unions (as well as even more ambitious integration processes like those to be found in Western Europe – European Economic Community and, to a lesser extent, European Free Trade Agreement) assisted in the creation of an ever more integrated world economy.

The 1990s and early 2000s came with the Internet revolution and the “global village” got an entirely new dimension: from the passive listener of the McLuhan era that was just being informed about what happened in the world via radio and television the world moved to an active participant (connected to the Internet) that was selecting his/her information inputs and even responding to them (either by comments and/votes or by buying or selling goods or services).

In the economic area trade flows and foreign direct investment flows got a new companion, the global value added chains⁷ while, at the personal level, social networks created true global communities with billions of participants (Facebook registered 1.71 billion monthly active users in second quarter 2016⁸). The common characteristic of global value added chains and a social network is their flexibility and dynamism that implied a permanent adaptation and reconfiguration.

All these aspects related to both economic/professional and personal life gave a new meaning to globalization, which moved from being an integrated process to becoming a fact of life for a large majority of people.

Being a fact of life globalization became a part of reality and hence the new very illustrative concept of *globality* = global reality⁹ was invented in order to describe the new environment. The period after 2000 has been characterized not only by a more integrated world economy (from both economic and informational points of view) but also by a much more significant participation of the developing countries in this integrated world economy¹⁰. One important distinction is necessary here: while after the World War II and earlier when one spoke about developed or developing countries the

⁶ Theodore Levitt, *The Globalization of Markets*, Harvard Business Review, May 1983

⁷ Richard Baldwin, *Global supply chains: why they emerged, why they matter, and where they are going*, p. 13, in volume *Global Value Chains in a Changing World*, Deborah K. Elms, Patrick Low (editors), World Trade Organization, Fung Global Institute, Temasek Foundation Center for Trade & Negotiations, 2013

⁸ Statista – The Statistical Portal, at page <http://www.statista.com/statistics/264810/number-of-monthly-active-facebook-users-worldwide/>

⁹ Daniel Yergin, *The Age of Globality*, Newsweek, May 18, 1998 at page <https://web.archive.org/web/20090323082216/http://www.newsweek.com:80/id/92486?tid=relatedcl>

¹⁰ Hall Sirkin et al, *Globality: Competing with Everyone from Everywhere for Everything*, Business Plus, 2008

implicit reference was to entities (companies) being established and functioning to a very large extent if not entirely in the respective countries. In the 1980s and after that when one speaks about developed or developing countries the reference is to companies or other entities being registered/incorporated in those countries, irrespective of the ownership of capital.

Therefore, in this new, globalized context, characterized by foreign direct investments and global value added chains, the higher participation of developing countries (as share in Global World Product) means that companies/entities registered in those countries generate a larger part of world output, even if a significant proportion of them can be affiliates of multinational corporations. What is even more interesting is that after 2000 a growing number of affiliates in developed countries originate from developing countries (from China or India, but also other countries), increasing the loss of clear distinction between what developed or developing countries mean (from the point of view of economic output).

This new global reality has been the result of many factors of influence that include:

- Changes in the global balance of power;
- Advances in communication, transport and technology in general;
- demographical aspects;
- climate change;
- the fourth industrial revolution;
- and a new global and regional balance of power.

In order to avoid a confusion regarding the two terms *“globalization”* and *“globality”* we can say that globalization is an ongoing process by which all sorts of interactions among all sorts of actors from all over the world are more and more intense, frequent and complex while the very result of the process is the fact that this *interaction* (with an all encompassing meaning) determines a new reality (named *globality*), characterized by a permanent and substantial influence among actors (states, international organizations, companies, other entities, individuals) from the global economy.

The new characteristics of globalization

In view of the post 2008 period and taking into account the evolution of the main players in the world economy we can say that this new global reality reflects a renewed role for the states, a return to real politick and geopolitics and also a return to hard power instruments. Various conflict situations, changes in the balance of power, massive migration flows in Europe, terrorism, all these indicate a return (as a sense but not in a mechanical way) to the concepts of spheres of influence and active play on the global chessboard in the sense used almost 20 years ago by Zbigniew Brzezinski¹¹.

At the same time, the new characteristics of globalization brought about the manifestation of non-state actors as diverse as multinational corporations (some of them as big or bigger in economic terms than many states) on the one hand or religious based

¹¹ Zbigniew Brzezinski, *The Grand Chessboard: American Primacy And Its Geostrategic Imperatives*, Basic Books, 1998

organizations and movements, on the other hand, each of them acting in very different ways but at the same time competing with states and international organizations for decisions and strategies in the short or long term.

The world economy of today is more diverse but also more complex than 20 – 30 years ago because there are more actors playing significant roles but also because the rules of the game are more complex, changing and very often not observed.

As an example we can mention here the gradual and partial replacement of multilateralism in trade regulations with bilateralism and plurilateralism. This fact can be viewed not necessarily as a failure of Doha negotiations round and therefore of the World Trade Organization but rather as a proof that the world economy is so much more diverse today that finding common positions involving all actors becomes objectively impossible.

The increased diversity, complexity and interconnectivity are to be found not only at the level of the whole world economy but also at the regional level. European Union with its structural and conceptual issues is a proof that even at the level of the European continent the member states and regions are confronted with different realities and problems and therefore cannot efficiently and effectively apply the same rules and solutions.

Among them we can mention:

– The decoupling of financial trading sector from the real economy that was mentioned even from the late 1980s has reached new, unprecedented dimensions that make the world economy unstable in an intrinsic way. In 2007, just before the starting of the economic crisis, the Gross World Product in PPP terms was of 69.3 trillion US\$ while the total annual financial trading excluding bonds and other over-the-counter transactions was of about 900 trillion US\$¹². Despite the consequences of the economic crisis, data for 2015 indicate still an important difference. In 2015 the value of the Gross World Product in PPP terms was of about 111.02 trillion US\$ while the over-the-counter derivatives market plus interest rate derivatives and foreign exchange derivatives (which is an incomplete figure for derivatives market) was of about 640 trillion US\$¹³. Anyway, if all types of derivatives are taken into account the total market value reaches the unimaginable figure of 1.5 quadrillion which is about 14 times bigger than Gross World Product¹⁴. While it is true that there is a big difference between the notional value and the actual market value of derivatives¹⁵, the very fact that such figures are traded gives an image on the virtual or surreal economy;

– Inequality has become a significant issue not between countries but within countries, particularly the developed ones. The Oxfam Report of January 2016 indicated that in 2015 just 62 people had the same wealth as 3.6 billion people representing the poorer half of the world population. What was even more spectacular was the fact that in 2010 there were 388 people having as much wealth as the poorer half of the world

¹² Andrew Sheng, Global imbalances demand global fiscal system, 28 October, 2009, East Asia Forum at page <http://www.eastasiaforum.org/2009/10/28/global-imbalances-demand-global-fiscal-system/>

¹³ Bank for International Settlements, OTC derivatives statistics at end-June 2015, November 2015

¹⁴ Stephen Lendman, Global Derivatives: \$1.5 Quadrillion Time Bomb, Global Research, August 24, 2015

¹⁵ J.B.Maverick, How big is the derivatives market?, Investopedia, May 27, 2015, at page <http://www.investopedia.com/ask/answers/052715/how-big-derivatives-market.asp>

population¹⁶. This kind of inequality sooner or later would be translated into the political arena and it may pave the way to more radical views and policies;

– The crisis of the linear growth model and the search for a new paradigm (among which we can mention concepts like the circular economy or that of progress without growth). The main objective cause for the crisis of the linear growth model is represented by the fact that the resources of planet Earth are simply not enough for a continuation of the growth in their consumption. The acute character of the problem is represented by the fast decline of the so called Earth Overshoot Day (that is the day in the respective year when the consumption of resources and pollution overpasses the Earth capacity to regenerate and absorb the pollutants. In 2014 the Earth Overshoot Day was on August 19, in 2015 on August 13 and in 2016 was on August 8. Another way to express this reality is to say that at the level of consumption of resources and pollution for 2016 we need in one year the resources and absorption capacity of 1.6 Earths in order to have a balanced situation (meaning that all consumed resources are regenerated and all pollutants are absorbed and neutralized)¹⁷.

This new reality marks the beginning of a transition to a new world order that has to reflect and offer solutions to the new realities that include: a) a new balance of power at a regional and global level; b) large areas of significant instability (such as the Middle East); c) the need to rethink the European Union project; d) technological changes that can be compared to the first industrial revolution; e) last but not least the demographical and climate changes.

In different degrees all countries of the world are affected by these new realities and they have to participate in finding a new equilibrium. Ideally, this new equilibrium should be found by consultation and cooperation. As the global economy of today is far from being an ideal place the second best could be to have as little conflict as possible during this quest for a new international economic order.

In order to participate in an efficient and effective manner all states should observe certain check points that may prove valuable both for protecting their interests and for being able to negotiate with each other in a productive way.

Such check points may include the following:

- To understand the new global reality and its uneven dynamics;
- To design an adequate response that is both probabilistic (that means involving risks) and adequate to the intrinsic characteristics of the country designing it;
- To accept diversity both within the country and in the international arena as a driving force of progress and success.

In the following we are going to analyze how Japan can define its place within this new global reality towards the 2030 – 2050 time horizons.

¹⁶ Oxfam Briefing Paper – An Economy for the 1%, 18 January, 2016, p.2

¹⁷ Global Footprint Network, Earth Overshoot Day 2016, at page http://www.footprintnetwork.org/en/index.php/GFN/page/earth_overshoot_day/

Japan's challenges and possible responses to the new global reality

After the World War II Japan succeeded not only to recover after the destruction of the war that in its case included the impact of two nuclear bombs but also to become the 2nd economic power of the world economy, position that was maintained for 42 years (between 1968 and 2010 when China obtained the 2nd position)¹⁸.

Nowadays Japan, together with China, India, South Korea, ASEAN countries and others, is part of the Asia – Pacific area that represent the economic center of weight in the global economy and also the most dynamic part of it. At the same time, Asia – Pacific region is home for 4.41 billion people (about 60 % of world population)¹⁹. It is estimated that this share and importance of Asia – Pacific in the global economy will characterize the remainder of the 21st century, which is why this century was also named “the Pacific Century”²⁰.

From the point of view of economic geography Japan is located in a dynamic area, a fact which raises both challenges and opportunities. The main challenge is the geographical proximity to the 2nd world economic power, China, that also acts more and more as a world power (with all the connotations of this status). The opportunities are given by the large masses of consumers, many of them becoming until 2030 members of the “middle class” and therefore more inclined to buy the high technology – high price Japanese products. Anyway, the position of Japan in the Asia – Pacific and in the global economy is not without challenges and threats as its post World War II has not been linear and ever increasing.

Due to its high economic growth and high rate of innovation the Japanese economy was regarded as a miracle from 1945 until the late 1980s, while starting with the 1990s it passed through a Lost Decade and then a state of almost permanent recession (or a very low economic growth). This passage from economic miracle to stagnation and recession has a multitude of causes but it is clear that they are linked in one way or another with the changes determined by globalization and the way Japan reacted to them.

The big challenge for the Japanese economy in the past 20 years is related to designing a strategy for the next time horizons (2030 – 2050) that will allow a more competitive position in the new reality of the global economy, while, at the same time, taking into account the century old characteristics of the Japanese culture and society.

Due to its history characterized by 250 years of isolation²¹, followed by two dramatic changes (the opening to the world and modernization during the Meiji era²² and the reconstruction after World War II with significant US influence²³) the Japanese

¹⁸ Andrew Monahan, China Overtakes Japan as World's No. 2 Economy, February 14, 2011, The Wall Street Journal

¹⁹ Asia-Pacific Population Journal, Volume 30, No. 2, December 2015

²⁰ Mark Borthwick, The Pacific Century: The Emergence of Modern Pacific Asia, Westview Press, 2013

²¹ Spencer Stuart, The Challenge of Globalization: How Will Japanese Multinational Corporations Advance Their Organizational Cultures?, August 2012.

²² Encyclopaedia Britannica, Meiji Restoration – Japanese History, at page <https://www.britannica.com/event/Meiji-Restoration>

²³ Steve Jones, The United States and Japan After World War II - From Enemies To Allies, at page <http://usforeignpolicy.about.com/od/asia/a/The-United-States-And-Japan-After-World-War-Ii.htm>

perception and reaction to the globalized reality represents a balance between the official policy of **Kaikoku** (open-door policy) and the long-standing reality of **Saikoku** (secluded/isolated nation)²⁴. Another balance, characteristic to Japan, is that between the state and the private companies, particularly the very large ones. Different from other states and cultures in Japan the two parts (the state and the private companies) cooperate in most cases in a synergy aiming for the long term goals.

In this context, the fact that at we witness a return to an increased role of states in the new global reality may favor Japan based on its post World War II experience. Anyway, the challenge for both the Japanese state and Japanese private companies maybe that they have a very profound understanding of the Japanese economy and society but not so profound for the foreign / global environments²⁵.

At the same time, in its attempt to adapt to the new realities, Japan and Japanese companies may encounter difficulties in the global economy particularly because:

- Japan has very well defined models in business, education and representation of the world;
- those models have been successful for long time periods.

In the new global reality Japan can no longer rely primarily on exports and also cannot rely only on replicating abroad approaches used in the home market (in areas as diverse as marketing, management and human resources²⁶).

In order to answer to these challenges, while at the same time capitalizing on its previous experience, Japan has attempted to adapt to the new global reality by focusing on science and technology as well as by supporting large scale innovation. In this attempt Japan has certain advantages that have to be used in an efficient way. Among them there are:

- The advantage of global public awareness for brands like Sony, Matsushita, Toshiba for consumer goods;
- Car brands like Toyota and Lexus, Mazda, Nissan, Mitsubishi, Subaru, Suzuki or watch brands like Seiko, Casio, Citizen.
- The impact on younger generations of computer games and devices like Pokemon Go, PlayStation (Sony) or Wii (Nintendo) as well as cartoons (manga) or animation (anime) series;
- Japanese foods like sushi;

In the context of the so-called 4th industrial revolution Japan has also an important advantage because it is among the most advanced countries in the field of robots and robotics. Some aspects are significant:

²⁴ Carin Holroyd, Ken Coates (editors), Japan in the Age of Globalization, Routledge Contemporary Japan Series, 2011, p.3

²⁵ Leo Lewis, Shunsuke Tabeta, Japan business leaders urge real globalisation, Financial Times, January 11, 2016

²⁶ Naoyuki Iwatani, Gordon Orr, Brian Salsberg, Japan's Globalization Imperative, McKinsey Quarterly, June 2011

- In 2015 Japan had 314 robot units per 10000 employees (second place after South Korea with 478)²⁷;
- Japan is very advanced in the design robots for older persons as a solution to the aging of population;
- Japan has experience in the use of robots for rescue missions such as the Fukushima nuclear power plant.

The experience with robots and robotics may prove to be a competitive advantage for Japan in the coming period when the ability to design and use robots and artificial intelligence may make the difference between winner and losers in the global competition.

Other advantages for Japan in the new global reality may be represented by its very high level of mobile internet and e-commerce that make a large part of the population already prepared for the new types of economic interactions.

At the same time, in the context of the climate changes Japan can share to other countries, first of all in the Asia – Pacific region, its expertise in environment protection and recycling of resources..

Conclusions

Despite its huge economic, human and technological potential Japan may face a difficult task in reinventing itself as a global player in the world economy that will evolve from 2020 to 2050. The difficulty may arise from the uniqueness of the Japanese culture and society that has been rather introverted for a very long time. This situation may determine difficulties in the adaptation to other cultures and values but also to a rather unstable international environment, characterized by many changes and instability.

While Japan is fully aware of the need to adapt to the new reality, the main issue is represented by the speed of adaptation, not by the possibility to adapt. The current adaptation to a new global reality may be considered the 3rd for Japan after 1853 (Meiji period) and 1945 (post World War II 1945) eras. The fact that Japan was successful in both occasions may give reasonable optimism for the future. In this adaptation process the very high ethnical homogeneity of Japanese people can be an important asset because once a strategy for the future is adopted it is easier to be implemented by people with the same culture and values.

Japan is nowadays both more open to expanding abroad and more open to allow foreign investors operate in Japan, even if the two processes are not equal. The success of adaptation will come for Japan at the cost of giving up old values and traditions.

The Japanese response to the new global reality include aspects like:

- Changing the business model;
- Replacing the meaning of “global market” from the market of developed countries to include developing countries all around the globe;
- Replacing the concept of national defense to that of global security;
- Accepting diversity as an intrinsic characteristic of globalization.

²⁷ IFR Press Release, Survey: 1.3 million industrial robots to enter service by 2018, 25 February, 2016

In our view, in order to succeed in adapting to the new global reality Japan has to:

- Get rid of the mentality of dependence on foreign sources of raw materials and energy;
- Accept the partial renunciation of some components of sovereignty as the new global reality means more interaction and interdependence;
- The new growth paradigm will have to accommodate low growth rates and population aging.

All these changes are possible and many of them are already underway. Chances are that Japan will be able to compete in the new global reality being innovative but also preserving its culture, values and traditions.

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