

News Letter



Institute for International Monetary Affairs
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Waves of Globalization, How Japan and Australia Should Respond

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Since the collapse of Berlin Wall in 1989 the single most important catchword for the world has obviously been “globalization”. Certainly, globalization is not a 20th century product. Great voyages and expeditions in the 15th century were historic events of globalization. The pervasion of industrial capitalism in the 19th century was also an important event of globalization. However, the globalization in the post-Cold War period is distinct from previous ones as it consists of three components which are inseparable and reinforce each other. They are, first, the new global paradigm of democracy and market economy; second, the global sharing of information, and, third, the free global flow of capital. The Cold War ended with the victory of the U.S. over the Soviet Union. It was the victory of market economy and democracy over centrally planned economy and socialist dictatorship. All members of the former Soviet bloc, including China, have rushed to steer their countries toward the new paradigm in order to redress the loss.

The U.S. came out of the historic paradigm shift as a global hegemon. It has become

military and economic superpower which no other country could contend with. The Washington Consensus became the dictum for all. American triumphantism became a common phenomenon. There is no question that the people of America are entitled to take the most credit of victory to themselves. Their social structure, their market mechanism and their political system have proved to be most dynamic and resilient under the circumstances. Their national ethos, which is benefited with the rare combination of strong patriotism and ability of self-correction, has provided the ground for the country's ascendance to a global leadership role. The rest of the world has accepted the American leadership, some willingly but some grudgingly. Most countries had to recognize that, in the post-Cold War environment, the American way was the most plausible and effective way to strengthen their international standing. Thus, the today's phenomenon of globalization can, first of all, be characterized as the global acceptance of American value.

The second important aspect of the globalization is found in the area of information. Although the information-related technologies have developed steadily throughout the 20th century, a major breakthrough was made during last twenty years. The technological development brought about a sea change to the way informations collected, processed, transmitted and disseminated. The phenomenal capacity-enhancement and downsizing of computers have enabled the processing of information with astronomical speed, quantity and complexity. Wide use of satellites, optic fiber and others enabled information transmitted much more quickly and accurately. The introduction of new devices such as internet, e-mail, cellular phone, broadband, etc. has enabled wide and easy dissemination of information which was totally unthinkable so far. The almost breathtaking progress made in the area of information as such has brought about far-reaching and fundamental changes to the wide range of human activities. The progress of informations technology has facilitated the improvement of all stages of economic activity including planning, designing, production, inventory management, and marketing. The biggest impact was seen in the financial services industry. A vast area of new commodities and services was developed, including so-called financial derivatives, taking advantage of the advanced technology. Financial market became an arena where the informations technology provided the indispensable infrastructure. Informations technology altered the landscape of the financial services

industry by converting it to a computer-dominated operation. However, what is more important was the fact that the information technology has profoundly changed the nature and the style of social governance. In old days both at the level of national government and corporate management the information pertaining to the operation of the government or the company was controlled and monopolized by the leadership. The monopoly provided the basis of authority and influence. The essence of the information revolution was that the information could no longer be monopolized. Thanks to the variety of devices millions of taxpayers, shareholders, voters, employees, and consumers can share the same information instantaneously. Some of the information may well be captious about the leader's performance. The impact of such a change on the government and the corporate management is that transparency and accountability have to be installed as the indispensable cornerstone of the governance. The revolutionary progress of information technology has enabled virtually everyone on earth to make access to the same information. Pervasiveness and instantaneity of the dissemination made the world covered with the same blanket of news. The new situation does certainly promote the process of globalization in a positive sense. However, as I will discuss shortly the indiscriminate sharing of information does also tend to expose underlying faults in our society.

The third important feature of the globalization is about the international flow of capital. Certainly the cross-border movement of capital is nothing new. Business investment in colonies and lending and borrowing between governments were not uncommon activities in the financial market for centuries. However, what happened in the international financial market during last twenty years or so was an unprecedented development which, not only quantitatively but qualitatively as well, changed the nature and the function of international financial market completely. Today's international financial market consists of numerous types of financial transaction ranging from the traditional financing of trade in goods and services to the sheer betting on almost anything. The size of transaction has been rapidly multiplied. According to one estimate, in today's international financial market one and a half trillion dollars worth of financial instruments are changing hands everyday. The dramatic development of the international financial market was prompted by several factors. The large current account imbalances, most notably the deficit

of the U.S., have to be financed by offsetting capital flow. Multinational businesses expanded their global activities thereby increasing the need of cross-border financing. The economic development and the aging of population have helped the accumulation of investible funds in the hands of households which in turn were siphoned to numerous investment funds, mutual funds, pension funds, hedge funds, etc. to be invested in various instruments all around the world. The global sharing of business information and the advanced financial engineering have greatly facilitated the international movement of capital.

Also, very importantly, the free flow of capital was encouraged, promoted and capitalized by American financial industry. Major American investment banks, insurance companies, accounting firms, rating agencies, law firms, business consultants, etc., under strong support of the Congress, the government, and the IMF, have applied pertinacious pressure on developing countries to open up their capital market for foreign participation. It cannot be denied that a freer capital market does attract foreign investments which in turn may bring in technology, employment and income. That is why many developing economies readily succumbed to the solicitation and opened their capital market. The influx of American financial services firms contributed not only to facilitate the capital flow but also to introduce American business culture to the recipient country. The indispensable softwares of the financial infrastructure, such as accounting, auditing, supervision, legal procedure, financial engineering technology, etc., were all devised emulating American models. In other word, the explosion of international capital flow has prompted the process of globalization by way of converging all markets on the globe at one single whirlpool of money. It also helped establish the hegemonic role of American financial services industry in the global marketplace.

All in all, the last decade of the 20th century was crowned with the glory of globalization. People considered it inevitable and irreversible. People considered it historic opportunity to spread the benefit of civilization to every corner on earth. However, not much time was needed before we started to hear about the backlash of globalization. Ever since the miscarriage of the MAI (Multilateral Agreement on Investment) in OECD in 1997 all gatherings of leaders of developed countries, be it Economic Summit, G-7, IMF, World

Bank, WTO, ADB or World Economic Forum, were besieged by tens of thousand demonstrators mobilized by many NGO's. Their common slogan was "anti-globalization". Their list of demands, however, is not consistent. They denounce free trade and free investment, but they also condemn poverty and environmental deterioration. Many of them are pacifists, but others are militant anarchists. Diverse they are, if we try to find a thread which binds them together we discover a strong sense of frustration. As I discussed earlier the development of IT has enabled everybody on the street to make an instant access to the same information. That is, they know what is happening in the world, but at the same time they are forced to realize that important decisions are made without paying heed to their demands. Informations are shared equally, but decision making power is not shared equally. As the result of globalization people realized that they cannot survive and prosper unless they win severe competition. The new environment created many losers and made many people uneasy. Nevertheless, leaders of the world, in governments and in corporations, do not seem to be paying attention to the grievance and the anxiety of these people. They gather in Washington and in Davos to celebrate the triumph of globalization. The gap between the shared information and the unshared power has created a deep-rooted and widespread sense of frustration among hundreds of thousand people around the world. Certainly, human sorrow is as old as history, and in the past in most cases unfortunate people had to resign themselves to their fate. Today, however, the advanced IT such as internet and e-mail has provided the disgruntled mass with powerful weapon with which to mobilize tens of thousand sympathizers quickly.

The attack by terrorists in New York and Washington on September 11 was indeed a dreadful shock not only to Americans but to the world as a whole. At this moment I am somewhat reluctant to argue that this was another act of anti-globalization because the whole background of this terrible crime is not clear yet. Nevertheless, it is certainly arguable that it could happen only in the age of globalization. Defiance to the American hegemony, full utilization of advanced information technology, and support by international financial network are indisputable evidences to show that this crime is a vicious product of the age of globalization.

In sum, what I wanted to convey to you is as follows. Globalization is a historic phenomenon which engulfed the world in the last decade of the 20th century. Three major components of this phenomenon are the new paradigm characterized by democracy and market economy, pervasive use of advanced information technology, and free and massive international flow of capital. There is no doubt that the globalization as such has contributed significantly to the improved welfare of the world community. At the same time, however, there are already signs of backlash. An increasing number of people are protesting on the street out of the sense of frustration that they are disregarded by leaders who champion globalization. The mass sharing of information some of which is clearly distorted and degraded, is undermining the traditional quality of the society. The massive flow of greed-driven capital has wrecked the stability of developing economies. The world at the beginning of the 21st century has paused to reflect upon the full implication of the globalization. The global recession and the terrorist attack in 2001 have compelled the change.

What the world should do now? I strongly believe that we should not simply retreat or throw ourselves in a quagmire. We have to vindicate that, in spite of the backlash, the main achievement of the globalization such as the improved governance in corporation and government, commitment to the rule of law, the principle of free trade, the heightened sense of global community, etc. should be sustained. It cannot be denied that the world was enraptured by the opaque and unsubstantiated catchword of globalization. What we need to do now is to break down the vague concept and focus our effort on concrete and specific goals. By doing so we will be able to know better why there are backlashes and how to respond to them. The process of globalization needs to graduate its phase of crusading and move onto the phase of settlement.

Now let me turn to Asia-Pacific. Future of the Asia-Pacific region still remains to be full of uncertainties, and the degree of uncertainty was even elevated by the global recession and the terrorist attack. It has been obvious that Asia-Pacific is a diverse region. It is so rich in economic, social, political, religious and historical differences. Thus it is extremely difficult to establish a cohesive regional structure. Unlike Western Hemisphere the region has no hegemonic leader such as the U.S. which enables the formation of a vertical stability.

Unlike European Union the region has no core of bilateral alliance between Germany and France which enables the formation of a horizontal stability. For many countries in the region their respective relation with certain outside country is even closer than the relation among regional members. However, because of the diversity, openness to the outside world and the shared aspiration toward development, the region has achieved a phenomenal ascendance during last several decades. So-called Asian miracle was a clear testimony to the vitality and dynamism stored in the region.

The Asian financial crisis of 1997 has marked a historic turning point for the region's developmental pattern. In a nutshell, the episode disclosed the sobering fact that the Asian miracle was a phenomenon which was possible only in the pre-globalization environment. The remarkable economic development of East Asian countries was achieved thanks to many favorable conditions. Motivated leadership of government, entrepreneurship of private business, amicable practice of cost and benefit sharing through negotiation and compromise rather than acrimonious legal procedures, cooperative and collusive relation among business, bureaucracy and politician, opaque and flexible supervision, protection of domestic market and industry, etc. etc. These practices are certainly not a monopoly of East Asian economy. What is remarkable was that in East Asia these practices were employed in a package as if they were integral parts constituting one unique economic model. The model produced a fabulous result. East Asians became euphoric and as the result became oblivious of the changing environment and the serious challenge it posed to the deep-rooted inertia.

As I have already discussed, the trend of globalization has brought with it intensified international competition, enhanced public scrutiny, and sharp-eyed speculators. The lack of transparency and accountability, lax supervision, and rampant corruption which were the soft underbelly of the Asian model could not meet the requirement of the market. Onslaught was launched and euphoria was shattered. East Asian economies are now undergoing painful process of reform.

The global recession and the terrorist attack have made the process of reform and recovery considerably murkier. The burst of the IT bubble has badly hit export industries. Many countries are forced to reconsider the viability of the development strategy which was heavily dependent on exports of IT related products. Slower growth has made it more

difficult for banks to clear up their bad assets. Vested interest groups are mounting their resistance to reform.

Development of political situation is neither encouraging. Five years ago many Asian countries seem to have started assiduous process of nation building. There were signs that the general public was awaking to find the sense of national identity. It was hoped that Asia was at last developing to become a group of viable nation states like Europe. However, what we observe today in countries such as Indonesia, the Philippines, Malaysia, Thailand, India, and Pakistan is the erosion of centripetal power of the national authority. Ethnic, religious and local groups are claiming power thereby undermining national cohesiveness. This is a setback and discouraging. The security situation in Korean Peninsula and Taiwan Strait is not improving. The terrorist attack on September 11 may complicate the situation further. There are several populous Islamic countries and regions. No one can exclude the possibility that the international terrorist group exercises influence over some of their population. If that is the case the stability of the country concerned will be jeopardized and its effect will be felt in the region as a whole.

Having said that, I have to stress that the most serious problem which will be hanging over the entire region in coming decades is the problem of China. For last twenty years China has achieved an extraordinary economic development. The success was made possible by a skillful combination of the introduction of market economy and the maintenance of authoritarian control. The massive inflow of foreign direct investment and advanced technology was the driving force of the economic growth. Foreign business was first lured by the prospect of a huge market with 1.3 billion consumers. Now foreign companies are rushing to China to exploit the limitless supply of cheap and skillful labor. As the result China has rapidly become a major global production center of whole array of products ranging from consumer goods to sophisticated capital goods. China has managed to weather the damage of the Asian crisis by the wall of capital and exchange control, and has been maintaining growth considerably higher than other economies in the region, although the reliability of official statistics is questionable. Many people anticipate that the size of the Chinese economy will surpass that of Japan in a matter of a few decades. Change of the scenery of some big Chinese cities is simply dazzling. The sheer size of population

and the steaming fervor of development have indeed mesmerized many foreign observers.

Yet, China still has daunting problems. Widening gap between coastal and inland regions, growing inequity within society, rampant corruption, intractable deterioration of environment, formidable mismanagement of state owned enterprises, shaky financial position of banks, deteriorating fiscal position, increasing unemployment, still defiant minority groups, unrestful farmers can easily be mentioned as potential sources of disruption. The Chinese leadership is fully aware of the precarious situation. Thus, their strong conviction today is that political stability must be maintained at all cost. They know also that, under the current environment, the political stability can be maintained only by the continued economic improvement and the strengthening of the sense of national unity and national pride. If we infer motives behind any Chinese policies, both internal and external, we will be convinced with the validity of such analysis. So far, the Chinese leadership has succeeded in the grand maneuver. Chinese people now, including forty million overseas Chinese, are enchanted by the dream of rebuilding a Great Chinese Empire which will play the global leadership role just as the U.S. does today. In that sense, China is now in the phase of historic ascendance. The biggest concern for the Asia-Pacific region and for the world as a whole is whether China is going to accomplish the dream through amicable and harmonious policies with the rest of the world or through expansionist and confrontational policies. Optimists do argue that the Chinese leadership is wise enough to know that the international acceptance is crucial for the success. They also argue that Chinese society and political system are already changing gradually but steadily, toward the direction of making themselves more harmonious with the Western democracy. However, we should not forget that Chinese leadership, at least at this moment, does not acquiesce to the American leadership role and does not accept fundamental elements of Western value standard such as the respect of individual human right and political freedom. In other words, the Chinese leadership is aspiring to establish a new world paradigm which is different from the one which became dominant in the post cold war era. We can draft many different scenarios for the future of China. China may fail in its difficult economic and political management resulting in the country's disintegration creating a chaotic situation. Or, China may succeed in elevating its living standard to the Western level. The affluent society may provide the

basis for an enlightened open democracy. Or, China may follow an expansionist and chauvinistic policy antagonizing neighbors. These scenarios are all possible, and we cannot tell which one will happen in reality. In my view, the best approach is to convince China to understand that China's sustainable development is absolutely depended upon friendly international environment and therefore China must abide by international rule of law and principle of peaceful settlement of dispute.

As I have discussed so far Asia-Pacific region is loaded with many difficulties and uncertainties. It is indeed a huge mass of imponderables. It is unrealistic to expect that the region should have one umbrella structure with which we can deal with all regional issues. What we need is a large set of bilateral or multilateral arrangements focusing on separate problems of different nature. The network of such multi-layered arrangements will provide a flexible but resilient structure to ensure the best possible stability for the region.

Now I came to the last chapter of my remarks. What is the role of Japan and Australia, individually and collectively, against the backdrop of regional and global environment as I described. The position of Japan and Australia in Asia-Pacific is unique in respective way. Japan is the largest economy in the region possessing almost two-thirds of region's GNP, the largest provider of official assistance to developing economies in the region. However, Japan is not a military or a political power. Its overall influence over the region is much less than that of the U.S. It has a strong tie with the U.S. but its relation with other Asian countries is stained with certain amount of ambivalence because Japan was the last imperialist power who exploited Asia. Australia has long been a Johnny-come-lately in Asia. Even after the removal of the Commonwealth Preference it was not clear to the Asians whether Australia had seriously committed to become a member of the region. The legacy of White Australia had haunted in the Asian perception of Australia. Yet Asians know Australia is a free and developed democracy. Thus for many Asians today Australia is one of the most attractive safe havens. All in all, I believe it is fair to say that both Japan and Australia are now viewed by most Asians as bona fide partners in the region. If that is the case I would argue that two countries together have an important role to play for the peace and stability in the region. As I discussed so far the Asia-Pacific region is beset with many unresolved problems in spite of vast potentials. Most of countries are in the process of

difficult economic restructuring. Many of them are struggling to establish national unity and identity. There are many potential rivalries. In a situation as such what is badly needed is a core of economic prosperity and political stability. There should be a group of countries who can enjoy the trust of the market for the sound economic policy, who can demonstrate the model of a mature and enlightened democracy, and who can provide initiative and leadership to encourage and support others effort to achieve the common goal. Japan and Australia should be able to act as core members of such group because both are deeply committed in the future of the region and yet neither has any intention to dominate the region. We can play together the role of trustworthy and reliable partner of goodwill in the region.

It is needless to say that in order to play such a role we have to establish a strong bilateral relation. For last fifty years Japan-Australia relationship has never experienced any serious strain. Throughout the changing global and regional environment our bilateral relationship has developed gradually but smoothly in economic, political and cultural spheres. We were always friendly and polite each other. There were no issues between us over which we had to confront seriously each other. I am not complaining about it. We should consider ourselves very fortunate. However, one can also argue that we could maintain such a comfortable relation because we were distant friends. In economic term our relation was strongly characterized by its complementarities. It has very little element of horizontal interaction. In political term neither of us was truly convinced that we shared a common destiny as members of the same region. Some may ask what is wrong with it. However, I would argue that it is an opportune moment for us to reappraise our bilateral relation against the backdrop of the global and regional reality in the 21st century on which I presented my view. In economic arena we should realize the rapid change taking place in the industrial structure of the region and of our respective countries. In the coming decade Asia-Pacific region will become a stage of severe competition among major producers of vast range of manufactured goods. Japan, China, Korea, Taiwan, ASEAN countries, India will be leading players. Supply channel of energy, raw material and components will change. Also, the relative importance of service industries, particularly information related industries, will grow. In such an environment the old pattern of our bilateral relation, i.e. Japan being producer of industrial goods and Australia being supplier of raw material and

energy will ought to change. We need to diversify and expand our economic relation to a horizontal collaboration in advanced technology areas. We also need to cooperate to play a leading role to ensure the economic competition in the region be carried out while abiding by principles of free trade, respect of intellectual property right, and other international rules. In this respect I believe we should start studying desirability and feasibility of having some sort of formal bilateral arrangement. It could be a free trade and investment agreement, or it could be more comprehensive alliance. As I argued earlier, a network of bilateral arrangements between like-minded countries in the region will help provide valuable flexibility and resilience for the region's stability.

On the political front, in view of the continuing instability in many countries in the region and the unpredictable future of China, our two countries have an important responsibility to act as a cornerstone of stability in close alliance with the U.S. As I pointed out earlier, our position with countries in the region is respectively unique and there is certain sense of ambivalence on their part. Thus we have to be extremely careful whenever we wish to make contribution to the region's peace and stability so that our bona fide steps do not create misunderstanding and misgiving. Japan and Australia, as matured democracies in the region, need to be respected and trusted as members with wisdom, goodwill, and strength. I believe our mutual efforts at both governmental and private levels, will enable us make valuable contribution to Asia-Pacific region and world as well.

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