

# The Asia-Pacific Region – a Place for New Knowledge Management for the Global Economy

By Japan SPOTLIGHT Editorial Section

## Arrival of New Age

A paradigm shift means a jump from the habitual world into the unknown where a common belief or indulgence in a preoccupation does not work as an effective instrument to think about a possible solution for a problem. In a paradigm shift, there is a discrepancy between the old world and the new.

Whether we live currently in an era of paradigm shift or not cannot be objectively proved, since only a historical study of the past can prove it. However, the latest developments of the world economy and politics seem to show us that we are coming into an era where the existing framework for interpreting reality is becoming obsolete.

The first thing to be noted as a primary change from the old world is that, while socialism and communism have almost ceased to exist, as the latest financial crisis shows us, market-economy-oriented capitalism is not working well either. Instead of market capitalism, state capitalism started from the nationalization of large corporations and government intervention in financial markets. However, state capitalism only ends up in a growing public deficit and thus destabilizes the world economy.

We are entering a new era where innovation is necessary to manage an economy, regardless of whether it is based on socialism or capitalism, or market capitalism or state capitalism. The age when many economists dreamt about the eternal prosperity of the market economy especially supported by IT innovation after the collapse of the Berlin Wall has come to an end.

Secondly, globalization led by G7 has been replaced today by globalization led by BRICs.

Globalization is a buzzword that has never been precisely defined. However, when this word started to be used in international fora such as OECD in the 1980s, the world's economic growth was mostly driven by G7 countries. In particular the US economy was then enjoying a long-run stable and relatively high economic growth thanks to IT innovation and steady population growth. That is one reason that this stage of globalization was sometimes interpreted as globalization under American influence. In other words, globalization was sometimes considered almost equal to Americanization, since the US was not only leading world economic growth but also leading international rule-setting processes such as those ruling trade and competition.

Thirdly, we face today some challenging tasks that cannot to be solved by a few leading countries but must be tackled by all the countries of the world. One of them is the global environment. In order to resolve the issue of climate change caused by CO<sub>2</sub> emissions, all the countries of the world without exception have to follow one single rule for reduction of the total CO<sub>2</sub> emissions worldwide unanimously adopted by all the countries. Under the current energy situation, all the countries in the world have to think

about a solution to meet the target for the reduction of CO<sub>2</sub> emissions without heavy dependence upon nuclear energy, a particularly tough challenge for the developing countries including BRICs, which are right in the middle of a growth path.

Another very difficult challenge that the contemporary world is facing is increasing poverty in the world. Whereas many developed nations including Japan are under a demographic structure of an aging population and declining young population, the majority of the nations in the world will have to deal with the challenge of an explosive increase in the young population in the future. Thus under limited economic growth, we will face the possibility of a tremendous increase in youth unemployment, triggering serious poverty. This will destabilize world politics through a possible confrontation between the rich countries and the poor countries.

This worldwide political destabilization process might be somewhat intensified by a domestic income inequality in particular among the developing nations or the poor countries. The value of democracy is now shared by all countries, as we saw in the latest revolutionary manifestation for a democratic regime in the Middle East nations.

Such a movement can be more serious due to the possible increase in income inequality in the country.

In addition, despite the increasing lack of confidence in the safety of nuclear power all over the world provoked by Fukushima Dai-ichi power station after it was destabilized by the earthquake on March 11, the desperate need for economic growth on the side of many developing countries still makes it essential to depend on nuclear power stations. This situation could produce another crucial need for an international rigorous security management system for nuclear power to be agreed upon by all the countries in the world.

The global processes to pursue possible worldwide solutions for these challenging tasks are to be ingeniously managed by an international institutional process. However, such an elaborate global governance scheme does not exist, since emerging new global agendas and a change of power structure in the global leadership as mentioned above are not well reflected in the management or decision-making process of existing international organizations such as the WTO, IMF, and UN.

Even a simple issue such as a global trade liberalization on which many countries could agree at least in principle has not been fixed, as seen in the stuck trade negotiation of the Doha WTO Round. Though we live in a rapidly changing world and increasingly need to respond flexibly to global challenges such as the above, the multilateral process makes it very difficult to find a solution in a short period due to the difficulty in reaching a consensus among the numerous member countries. G20, today almost becoming a replacement of G7, was instrumental in stabilizing a world financial scheme in response to the recent financial crisis by providing us with



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an international monitoring system for monetary policy. However, it is uncertain whether G20 can work well for the future stabilization of international macropolicy cooperation.

In addition, we are living in an age of paradigm shift as I mentioned above, where market vs. state capitalism or the leadership of the developed countries that used to provide a basis for our thinking about economic and foreign policy issues have now become obsolete concepts, and the emergence of new challenges such as the global environment necessitate a new institutional framework to deal with them.

How can we improve the quality of global governance as we face this paradigm shift?

This is a big question, and below we hope to whet your appetite for brainstorming on this crucial question influencing human welfare this century.

### **Regional Leadership: Key to Improving Global Governance**

A primary answer to the question raised in the first part of this essay should be to strengthen the functioning of existing multilateral organizations such as the WTO, IMF, G20, UN, etc. Since the nature of this challenging task is a multilateral one, then we should fix it in a multilateral context. However, a multilateral process takes a long time and sometimes has the possibility of producing very little outcome, as the Doha Round today shows us. The speed of a paradigm shift is extremely fast and we have to respond to it rapidly.

Another feature of living in a paradigm shift is that we can feel lost in a world that is changing too drastically. We need a captain to show us the way to proceed in a chartless sea.

The EU has a reputation for being a leading thinker in setting

agendas for the global community, creating new rules and standards, and contributing greatly to building international public opinion. A regional community like the EU has the potential to lead global governance, since it consists of countries sharing common values and interests in the economy and politics and it is easier to reach a consensus among themselves not only because there are far fewer members than in the case of a multilateral organization but also because they are generally like-minded countries. Their consensus could lead to a global consensus to be reached in a multilateral rule-making system, if a regional community's consensus provides us with a practical and convincing solution to achieve "economic prosperity," "economic and political stability," and "military security," all of which are shared common values of all countries of the world.

The EU, though it is shaken today by the common-currency turmoil, has provided us with a successful model as regional leadership contributing to global leadership. Founded as a regional community to achieve military security and peace after World War II, it has evolved firstly to become a Free Trade Area by eliminating tariffs and NTBs and then to become a regional economic integration by having a common currency and eventually achieving political integration. In this process, the EU has been engaged in setting up new agendas such as trade liberalization through domestic regulatory reform, protection of human rights, protection of endangered species, new rules for corporate social responsibility, etc.

The EU largely pursues "the third way" to manage an economy, neither market-oriented nor socialist, and thus provides us with a number of suggestions concerning our first aspect of the paradigm shift, namely, the changing nature of capitalism.

Is there any other potential regional community that could have a similar contribution to global governance for the world as it faces a paradigm shift?

## Asia-Pacific Region (APEC plus India)

The Asia-Pacific region is today the region attracting the greatest attention in the world in terms of its gigantic growth potential. Carrying out the production process and development by networking among nations has become common practice in the manufacturing industry. The Asia-Pacific region is leading not only the world's GDP growth but also this production networking, in the most important industrial innovation. Within the region, Asian-Pacific companies achieve an elaborated networking by the horizontal division of labor of a product. A wide range of regional FTAs in some form could support such networking (*Chart*).

JEF hosted a series of discussions among political scientists and economists interested in this region this year. According to their recently published final report, in addition to the above, as well as the EU, they recommended this region as a key to improve global governance for the following reasons.

Firstly, the US and China, the two largest and key players in terms of economy as well as military security, are included in this region and thus their cooperation, if it is agreed upon, could lead an extremely strong leadership in the region.

Secondly, another of the BRICs, India, is also a key player in this region and its membership of the regional community could strengthen the latter's functioning.

Thirdly, the three key members of the UN Security Council - the US, China and Russia - are included in this region. All three countries are opinion leaders on the issue of military security and Asia-Pacific regional cooperation could encourage a sharing of the national interests of these three countries.

Fourthly, many countries in this region commonly face the issue of expanding income inequality, while all of them are enjoying high economic growth. These countries commonly need to stabilize their economies through reducing their national income inequality. This means that in this region, we need a social policy as well as an economic policy. An argument of simple mercantilism or state capitalism can be pursued in this region.

Lastly, not a few countries are interested in introducing nuclear power as a stable energy source for their economic development, though the security of nuclear power stations has been exposed to a serious challenge worldwide with the occurrence of the Fukushima Dai-ichi nuclear accident. Many countries in this region are also exposed to the risk of natural disaster and the negative impact of climate change.

Thus, this region just like the EU has great potential to make a substantive contribution to global governance, since its countries have a common agenda in the above-mentioned paradigm shift and, more importantly, it contains some new key players in the new stage of globalization, namely BRICs.

The report of this academic group highlights some possible common agenda items to be discussed in this regional forum for achieving better global governance, as follows.

1) Trade liberalization is a key to achieving economic prosperity in this area by supporting a production network spreading all over the Asia-Pacific area. *Chart* describes the possible integration of a few ideas of FTAs into an FTA of APEC.

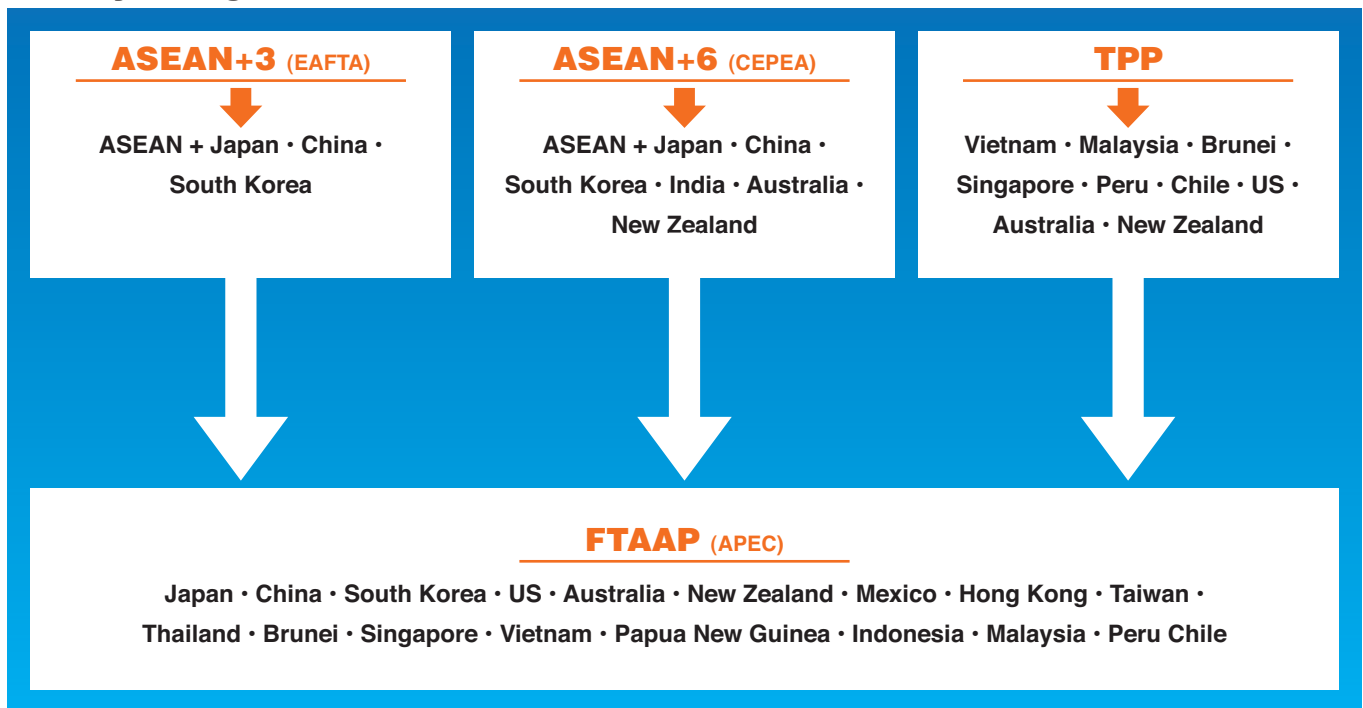
Elimination of tariffs and NTBs among the countries in the region is one specific agenda item for discussion. The possible adoption of new trade policy rules such as those addressing trade and competition policy, trade and environment policy, or trade and labor standards would lead to a significant improvement of WTO rules and thus contribute to an improvement in global governance.

- 2) Pursuing income equality in regional economic growth is vital in order to achieve both stable growth and regional political stability. A new tax policy to promote further accumulation of income tax rates or a labor policy to strongly promote human resource development programs to reduce a mismatch between demand and supply of labor would be common agendas in this regard. The benchmarking exercise of these policies for income equality and job creation in this region would provide a policy lesson for the rest of the world.
- 3) On the question of global warming, a challenge to the world to set up a realistic target for reduction of CO<sub>2</sub> emissions by 2020 and a peer review system to achieve it, and a formula to promote technology and capital transfer into the developing nations for a smooth process to meet the target are very important agenda items. Adoption of the rules on these issues in this region would bring us more robust and reliable solutions.
- 4) Human security is an important element of what global governance is expected to achieve. In particular, regional cooperation for disaster relief and the stable operation of nuclear power stations would be the main issues for discussion. The possible adoption of rules on common qualifications for medical doctors for life-saving in a disaster or a training program for risk management of disasters or common safety standards for nuclear power stations including the disposal of nuclear waste, etc. in the region could contribute to global rules for addressing these challenges.

The Asia-Pacific region consists of a wide variety of countries with widely differing economic development, culture, religion and historical backgrounds and it would be very difficult for the countries in this region to share a common national political interest such as a common value for military defense, which is a significant contrast with the EU.

However, I would like to reiterate the importance of the agenda-setting function of such a regional initiative as the above-mentioned for the EU. Adoption of rules on the basis of a common national interest would be the best contribution to global governance. Even though a regional initiative stays with only an informal discussion for agenda-setting for the regional economy and politics, it would still be very useful for the world to find a chart to proceed in the roaring waters where we would otherwise be lost. An exploratory informal discussion could unexpectedly discover an important agenda issue that could dominate future global negotiations in the coming decades for pursuing specific rules, as is shown in the EU and OECD (a Europe-oriented international economists' organization), which firstly found an agenda of trade and environment in the 1980s and then this issue dominated trade negotiators' minds all over the world in the following decades. This is an important role for like-minded neighbors in the region to stimulate an awareness of a specific issue

## Variety of regional FTAs in the Asian Pacific area



in this age of paradigm shift, as mentioned at the beginning.

It is also to be pointed out that such an exploratory discussion should be done in an interdisciplinary group, since today's challenges consist of both politics and economics in the sense that economic prosperity and stability cannot be achieved without political stability, including the question of military security. I believe the above agenda-setting, a mixture of economic and political questions, in the APEC region would be relevant to handle global challenges.

### Role of Japan

Japan has a great responsibility in conducting leadership in this regional initiative, as one of the largest economies in the Asia-Pacific region. Japan also has the potential to contribute to this initiative. Firstly, Japan has a long tradition of pursuing the best mix of market capitalism and social policy. In particular, during the period of the 1960s and '70s when Japan enjoyed remarkably high economic growth, while market competition was intensive and instrumental in having achieved economic efficiency, a social equity policy was successful in realizing the most equal income distribution among the developed nations. Thus Japan achieved growth and stability at the same time. Though the inequality of income distribution is currently expanding in Japan due to a significant increase in part-time employees, equality of income distribution is still considered one of the primary targets of its economic policy. Thus, Japan has great potential to pursue a new economy featuring the reconciliation of market capitalism with social equity, one of the important paradigm shifts the world now faces.

Secondly, Japan is a leading country in having reconciled economic prosperity with environmental concerns and Japanese

environmental technology is considered one of the best in the world. Thus, it can greatly contribute to modification of the global environmental constraint that is one of the most serious global challenges, building up to a paradigm shift now.

Lastly, the earthquake on March 11 and the nuclear accident at Fukushima Dai-ichi power station have made it essential for Japan to achieve a path of sustainable economic growth in terms of energy and environment that should be a model for the rest of the world facing the same risks of nuclear power. We have to achieve a stable and job-creating growth path without heavily depending on nuclear power, while simultaneously meeting global environmental concerns through reduction of CO<sub>2</sub> emissions.

Without appropriate management of energy policy including development of renewable energy sources, and with fiscal debt possibly increasing due to the increased demand for a budget to restore and rebuild local areas in Japan that were devastated by the tsunami and earthquake, Japan would not be able to provide such leadership.

It is also important for Japan to be actively engaged in international communication on the agenda-setting in the paradigm shift. Not only the government but also the private sector should participate in regional and global discussions more actively and make their views on the new world facing a paradigm shift internationally known. Japan should host as many international conferences as possible and send as many representatives as possible to every international forum organized overseas for presentation of their views in this regard.

It is a good idea for *Japan SPOTLIGHT* to host a conference for its worldwide readers, in particular those in the Asia-Pacific area, to discuss possible new agendas in this drastically changing world, to find hope in the chartless sea exposed to storms of uncertainty. **JS**