Publisher's Note

Season of Discontent

"Black cat or white cat, it is a good cat as long as the cat catches mice" — Deng Xiaoping

By Kazumasa Kusaka

In my previous note, I reflected on the political outcome of voters' views on globalization. Incumbent leaders in the United Kingdom and the United States were weak in the referendum and election in integrating fully the views of the majority of voters on globalization into their policy commitments. Now, we have a season of discontent with current politics. The process of Brexit in the UK has just begun and in the US the new administration has just started to deliver some campaign promises as actual policy measures.

In this note, I try to reflect on the causes and background of anti-globalization sentiment. One of the reasons why the anti-globalization movement has expanded from demonstrations by limited activist groups to being reflected in voting by the general public is the visualization of the income and asset disparity problem.

Historically the disparity issue was between advanced countries and emerging countries. But there is data to show that the growth rate of emerging countries far eclipses that of advanced countries, except during the Asian economic crises of 1997, leading to the economic truth of shrinking disparities. Also, within a country, between cities and rural areas the labor force moved from low-productivity farming areas to high-productivity industrial areas in the initial stage, and then afterwards industrial parks started moving out of cities in search of workers and newly tailored infrastructure. It is foreign direct investment (FDI) that has created this dynamism, embodying capital, technology and management skills. The state-of-the-art technology and human resources that are well trained there then flow out of the foreign-owned companies to local domestic enterprises. We can find good examples of this in the East Asian and ASEAN economies where Japanese FDI is directed.

What does this imply? Should this FDI diminish, the economy would lose the engine that pulls the train and when subsequent domestic investment also shrinks, technology transfer and dissemination stop. In other words, the consequences of the Lehman Shock and the subsequent European financial crisis are that regardless of ample money available at low cost, investment in the real economy is staggering, though as a stopgap measure public investment, especially in infrastructure, has been promoted. This stagnation of investment has resulted in a cooped-up feeling across many countries.

When the sustainable movement of labor from low-productivity sectors discontinues because of the stagnation of investment both in green-field investments and renovation of old factories, it triggers social problems. Labor union contracts protect old workers to remain on the payroll, while younger entry workers remain unemployed in existing workplaces and find few new industries emerging. The younger generation loses the opportunity to improve its skills and increasingly older workers trapped in failing factories find abrupt reallocation to unfamiliar areas or training to learn new skills difficult. How should we address this lack of investment in order to raise growth potential? This is the top priority agenda for "growth strategy" in Japan, the US and the European Union.

In addition, emerging questions for the future are whether technological innovation will continue, whether the new wave of the Fourth Industrial Revolution will come, whether the deployment of AI will crowd ordinary people out of the workplace, and whether income and asset distribution will become even more lopsided because of the technology divide.

This income and asset disparity within a country is a phenomenon now socially and politically recognized, and it is the stagnation of the economy which visibly exposes this discrepancy to the eyes of the general public. Poor economic performance also damages the government sector. While fiscal sustainability is vital, shrinking welfare budgets and institutional arrangements will have a disproportionate effect in directly hitting the weak. Though fiscal health may be preserved, social sustainability will be damaged and the basis of longer-term economic success will not be recovered.

The last time countries faced this level of economic difficulty was during the 1970s' oil crisis when rates of inflation and unemployment doubled without economic growth. Should the gap between the expectations of the public and what governments actually deliver become out of control, incumbent leaders would be blamed. There is no single national economic policy or energy and environment policy that is effective in coping with these challenges. That was a lesson learned that led to the creation of the G5, and later the G7. A government's ammunition is limited in the fight against market forces, so governments have to coordinate policies to be effective.

"Black or white, it is a good cat as long as the cat catches mice," Deng Xiaoping told Communist Party members in 1962, in saying that it does not matter whether investment is foreign or domestic as long as it helps the Chinese economy to grow. Despite the rhetoric of anti-globalization, globalization still seems to be a good cat to catch mice.

Prime Minister Shinzo Abe has pointed out that Japanese business is the biggest foreign investor in the US and has helpd to create 800,000 local jobs. It is a politically sound objective to aim for a strong country. The question is how to translate the aim into actual policy measures to enhance the wealth and industry of the country. One effective way is to listen to the voices of business people, the main players in the market, regardless of nationality, because they basically share the same values and business language. Another is to have policy dialogues between governments to learn lessons from previous successes and failures.

Like the revised informal motto of Princeton University — "In the Nation's Service and the Service of Humanity" — we have to grasp the global picture and cooperate to be effective.

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