

Last and First Decades

By Kojima Akira

High expectations were placed on the 20th century, which was touted early on as a century of peace and prosperity. But it turned out to be a century of mass killings through revolutions and wars and a century of environmental disruptions. The last decade of the 20th century saw the Cold War end, the crisis of Armageddon pass into history and mankind awake with a new determination to the need for global environmental protection. The new century will hopefully carry on the new trend and witness global stability and prosperity through technological development.

History never stops and seems to be picking up momentum. The revolutionary development of information technology (IT) is accelerating globalization, resulting in countries becoming increasingly interdependent.

Few precisely foresaw the dramatic global changes of the past decade. The first decade of the 21st century will be similarly unpredictable. Yet, it is certain that the changes will further accelerate. The stability of each country and of international relations will depend on whether human minds and social systems can adjust to such changes.

Many people in Japan argue that the last decade of the 20th century was a "lost decade" for the country, which remained mired in recession and pessimism. Japan's fate in the first decade of the 21st century will depend on whether the nation can face the challenge and implement required structural reform and system reform even at the sacrifice of immediate benefits and with pain. The future is not predetermined but decided by one's own volition.

Before examining issues at stake in the first decade of the 21st century, let us look back on what happened in the 20th century.

It was the best of times,
it was the worst of times,
it was the age of wisdom,
it was the age of foolishness,
it was the epoch of belief,
it was the epoch of incredulity,
it was the season of Light,
it was the season of Darkness,
it was the spring of hope,
it was the winter of despair,
we had everything before us,
we had nothing before us,
we were all going direct to Heaven,
we were all going direct the other way

This is the opening passage of *A Tale of Two Cities* by Charles Dickens. Dickens wrote this work in 1859 against the background of the French Revolution, impressed by *The French Revolution* written by Thomas Carlyle in 1837. He wrote as if he had foreseen what would happen in the 20th century.

The first half of the 20th century was characterized by the Russian Revolution and two world wars, and the latter half by the Cold War between the East and West.

Economically, the first half of the 20th century witnessed global confusion resulting from the Great Depression. The second half was marked by affluence brought about by phenomenal economic growth as well as by progress of environmental disruptions triggered by mass production and mass consumption.

The biggest loser in the 20th century was Russia as testified by the collapse of the Soviet Union in 1991. In a lecture sponsored by the *Nihon Keizai Shimbun* in 1993, Alexander Yakovlev, who, as chief advisor to then President Mikhail S. Gorbachev, pushed for the "Perestroika (conversion)" and "Glasnost (openness)" reform programs, said, convincingly, that judged by the severe eyes of history, Russia lost the whole 20th century. As the

moderator of that lecture meeting, I cannot forget the expression of agony Yakovlev showed.

Compared with Russia's loss of the whole century, Japan, which pessimistically regards the 1990s as a "lost decade," may be too indifferent to the outside world. The prolonged economic difficulties Japan now faces are attributed to the country's failure to introduce a recipe which carries some pains. Japan has not a cent of overseas debt. Rather, the country is still the largest creditor nation in the world. In addition, Japan has an excessive amount of monetary savings. Japan has various policy options to solve domestic problems, but shies away from using them.

On the other hand, the No.1 victor of the 20th century is presumably the United States. The U.S. established a new industrial society based on mass production in the early stages of the 20th century. The U.S. success was brought about by its full use of the achievements of the Industrial Revolution in Britain and other European countries in the form of the development of Ford cars, among others. Without becoming a battlefield, the country retained production capacity solely in the world during the two world wars, and emerged as an economic superpower after World War II, making the 20th century the "century for America." Though its economic strength was somehow sapped as it was trapped in the quagmire of the Vietnam War for some time, it restored the "strong America" in the 1990s. It now leads the world in the IT revolution and the Internet revolution, which are set to exert economic and social impacts in the 21st century rivaling the British-led industrial revolution in the 19th century.

Meanwhile, China returned to the center stage of the world late in the

20th century. It achieved phenomenal economic development in and after the 1980s and is expected to achieve accession to the World Trade Organization (WTO) at the outset of the 21st century.

Against the background of the country's rapid economic development, Beijing is confidently making its voice heard on the world stage with a high-handed diplomatic stance, raising international alarm about a "China peril." The new U.S. Republican administration under President George W. Bush will no doubt find relations with China one of the most challenging diplomatic tasks.

Relations with China will become a diplomatic challenge in the new century for Japan as well. There are increasing calls in Japan for curtailing its Official Development Assistance (ODA) for China at a time when Japan remains mired in prolonged economic stagnation. Some Japanese politicians, ruffled by Beijing's frequent criticisms of Japan, go out of their way to assert that China no longer needs ODA and Japan should stop providing it.

Concerned about the recent anti-Chinese mood in Japan, the Ministry of Foreign Affairs of Japan launched in July 2000 a working group to study the future direction of Japan's economic cooperation with China.

The group is headed by Miyazaki Isamu, former Director General of the Economic Planning Agency (now integrated into a Cabinet Office), and is made up of Gyotken Toyoo, President of the Institute for International Monetary Affairs and former Vice Minister of Finance for International Affairs; Tanaka Akihiko, Professor at the University of Tokyo; Chihaya Akira, President of Nippon Steel Corp.; Watari Sugiichiro, Chairman of the Japan-China Economic Association; Toyama Atsuko, Director of the National Museum of Western Art and former Ambassador to Turkey; and myself, among others.

The group presented in December 2000 a report which analyzed current Japanese domestic situations regarding ODA for China and recommended what Japan should do about ODA for

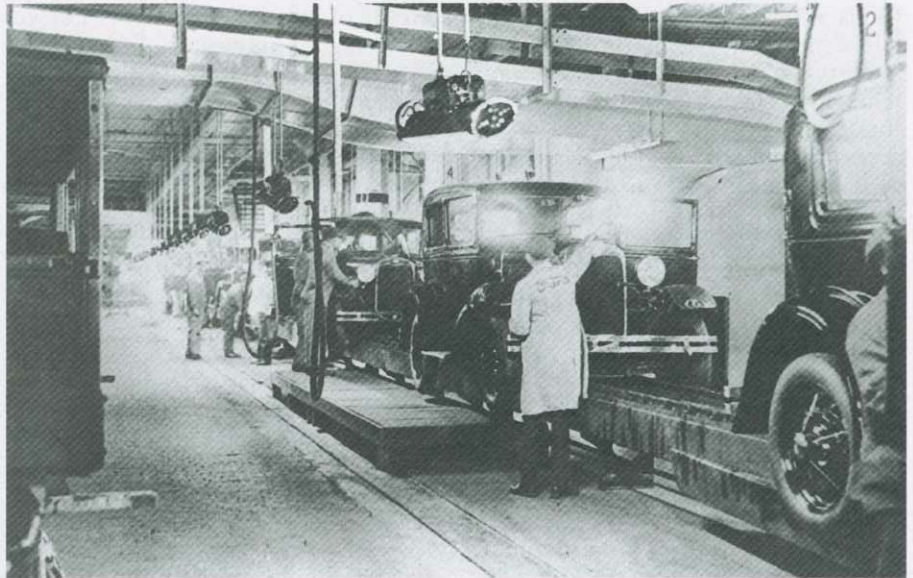


Photo : Mainichi Photo Bank

The U.S. success in the 20th century was brought about by its full use of the achievements of the Industrial Revolution in the form of the development of Ford cars

China. In its analysis of Japanese domestic situations, the report said: 1) heated arguments are under way in Japan on ODA as Japan remains mired in economic stagnation and plagued by snowballing financial deficits, 2) various criticisms about ODA for China are expressed by Japanese against the background of China's growing strength, 3) as an increasing amount of Japanese private money pours into China, China's expectations of and needs for Japan's ODA themselves are changing.

As for the future direction of Japan's ODA for China, the report outlined the following points:

- 1) Japan should offer ODA for China in a way that is acceptable to the Japanese people.
- 2) Japan should recommend China to do for itself what it can do.
- 3) Japan should warn China not to take actions which go against Japan's ODA principle, like using the Japanese money for purposes linked to China's military buildup.
- 4) Japan should focus its ODA for China on support for China's reform and liberalization, cooperation in settling environmental and other global

problems, promotion of mutual understanding with China, and support for non-governmental activities.

5) Japan should improve the transparency of its assistance to China.

The discussions on ODA for China themselves reflect the recent changes in both countries. China will fully come back to the center stage of the global community in the 21st century. But the question is how it will achieve the comeback.

In the long run of history, China, as a major power, has remained a potential or sometimes obvious threat to neighboring Asian countries. China could become too strong a country with a population of 1.2 billion. The country could possibly trigger political and economic upheavals in the process of reform and opening. It could become an international threat either way. Since China has a huge population, either its strength or its weakness as a huge nation could turn out to be a threat.

It goes without saying that confusion resulting from the latter scenario would be the worst case. Japan should continue its economic cooperation to China to avoid such a scenario. Whether

China will follow the former scenario will depend on whether it becomes a society based on the rule of law through its smooth participation in the international community such as its accession to the WTO. This is a matter of great concern both to China itself and the world as a whole.

When the U.S. was gripped by pessimism in the 1970s and 1980s, Washington considered Japan, which was boosting its international competitiveness, as its threat.

The year 1985 turned out to be a watershed in Japan-U.S. relations. That year witnessed various historically important events. Mikhail Gorbachev took over the leadership of the Soviet Union and began to pursue the "Perestroika" reform policy, which heralded the beginning of the end of the Cold War. The U.S. became a net debtor nation for the first time in 71 years. Japan overtook the United Kingdom and Germany as the world's largest creditor nation. Washington began to regard Japan as a bigger threat than the Soviet Union.

The threats to the U.S. posed by the Soviet Union and Japan were of an entirely different nature. The Soviet threat was of a military nature and deadly, and so concerned national security. The Japanese threat was only economic. Even so, there was a growing mood in the U.S. then that the Japanese economic threat was more serious than the Soviet military threat. Even the U.S. Senate, which is said to the chamber of common sense, unanimously adopted a resolution denouncing Japan's trade practices and economic management, even though Japan is a U.S. ally. It was the first time since the end of World War II that the U.S. had adopted a resolution blaming an allied country by name. Around that time, veteran journalist Theodore White contributed a long article to the *New York Times Magazine*, in what amounted to the forerunner of 'the "Japan threat" perception.' His central argument was that though the U.S. beat Japan on the battlefield during World War II, Japan has remained the victor in economic terms, suggesting that the

victor of World War II was not yet decided.

From about the late 1980s did Washington shake itself free from pessimism and turn its sense of crisis into reform efforts. President Ronald Reagan's initiatives for deregulation, corporate restructuring, and perception reform on individual levels got off to a good start and the results became obvious at the beginning of the 1990s. The year 1991 marked the start of America's restoration. The U.S. scored a resounding victory in the Gulf War and the collapse of the Soviet Union late that year marked an end to the Cold War with the triumph of the U.S. and its allies. The U.S. economy bottomed out the same year, which led to a historically long economic expansion. Incidentally, Japan's asset-inflated bubble economy collapsed the same year, plunging the nation into the longest recession in its history.

The immediate focal point in the global economy is whether the U.S. economy, which seems to be speeding up too much, can be decelerated for a soft landing. Also at issue is whether the so-called new economy is taking

hold. In my view, those who assert that the new economy has successfully dealt with the business cycles of capitalism are mistaken. The IT revolution is another point to be considered. Some argue that the IT revolution is a bubble phenomenon. It is true that some IT-related companies look fairly bubble-like. Yet the IT industry as a whole has remained unscathed and IT itself seems poised to exert a wide-ranging impact on the global economy just as the 18th century industrial revolution did. This is evidenced by the fact that IT has already permeated various industries, people's lives and even administration, and has changed the styles of politics and corporate management as well as lifestyle.

It can be said that the Internet era in the U.S. dawned in around 1996. How other countries catch up with the U.S. in the IT and the Internet race will be the focal point of the first decade of the 21st century. The so-called "digital divide" is certain to expand among countries and within countries as well. The gap threatens to become a serious destabilizing factor in the world and societies if left unattended. The first

Photo : REUTERS • SUN



The Soviet Union collapsed in 1991, and Yakovlev said Russia lost the entire 20th Century

challenge for the world in the new century will be the management and adjustment of the digital divide.

What does the 20th century mean for Japan, which regards the last decade as "the lost decade?" It is certain that the 20th century, taken as a whole, can be summarized as a period during which Japan successfully emerged on the global stage as a major economic power with the second largest gross domestic product (GDP) from a small island nation in the Far East.

Japan persistently pursued the goal of catching up with advanced Western economies since the Meiji Restoration of 1868 and did achieve it. In the 1970s, Japan overtook the U.S. in the production of crude steel and automobiles, thus attaining its goal of catching up with Western countries in production technology and production capacity. At this point, Japan remains far behind Western countries in terms of per capita GDP. But the Plaza Accord of 1985 led to a sharp rise in the yen's value and raised the average salary of Japanese workers to the highest level in the world on a dollar basis. At this stage, Japan's goal of catching up with Western countries was attained in income as well. Up to this point, Japanese systems and practices continued to function effectively both in government administration and in corporate management.

But Japan basked in the euphoria of the bubble economy in the latter half of the 1980s, and failed to respond to rapid changes in internal and external environments.

Among the rapid changes were: 1) domino-like globalization of the market economy accelerated by the end of the Cold War and the subsequent sharp rise in the number of countries producing industrial goods, which prompted the advent of an era of mega-competition, 2) the restoration of the U.S. economy and U.S. industries' competitiveness, 3) the progress of a shift in the paradigm of industrial technology, that is, a shift of focus from mass production-type industries producing standardized goods to information and knowledge-intensive industries operating on a

value-added basis, and 4) acceleration of the aging of the Japanese population at the fastest pace in the world.

Japan's economic success, viewed by the world as an economic miracle, represented its success in 20th century-type industrial technology, more specifically "Fordism"-type industries. Fordism describes a production system introduced by Henry Ford in the production of automobiles. Ford introduced belt-conveyors in production lines and simplified work processes, transforming automobiles, once luxury commodities for the rich, into downmarket products which are mass-produced and low-priced but of high quality on average. Japanese industries thoroughly studied Fordism, repeatedly improved the technology in its own way and finally led the world in Fordism production technology.

Japanese companies' success in Fordism was accompanied by their introduction of a unique Japanese-style corporate management system that included thorough training of workers, enhanced welfare of workers to create a sense of unity between employers and employees, a seniority-based wage scale, a bonus system and long-term employment.

But while Japan remained complacent about its success with Fordism, the Fordism management style was adopted by the low-wage emerging economies in Asia and other parts of the world, resulting in the erosion of Japan's competitiveness. People in the emerging economies still work long hours at low wages just as their Japanese peers used to do while Japan was trying to catch up with Western countries.

In a reversal of its global position, Japan is now being chased by the emerging economies just as Western countries formerly were by Japan. The advent of a full-scale IT revolution and other major changes in the paradigm of industrial technology are adding to changes in the environment surrounding Japan.

Another serious problem for Japan is the rapid aging of its population at a pace unprecedented in the world.

These changes are not a passing phenomenon. Japan must face up to this reality and seriously deal with it. Japan, however, remains trapped in what Peter Drucker referred to as "the paradox of success." In other words, Japan can hardly cast off a system which succeeded for a long time, even after finishing its role. This is partly out of habit but also due to the fact that vested interests are built into the system. Changing a system brings with it pain. Japan realizes in the abstract the need for adjusting to a new environment a system which played out its role. Yet, the country finds itself hesitant to eliminate the familiar system. The 1990s turned out to be a "lost decade" for Japan as the country postponed the adjustment.

Drucker believes that the aging of Japan's population offers a good chance for the country to become the pioneer in cultivating a new frontier in the technology and businesses for dealing with the aging society. He argues that Japan will have to seriously deal with the aging of its population at the fastest pace in the world. Its response to the needs of the aging society, in such fields as a new social system, industrial structure, technology, commodities and services, will become the model to be applied to countries which become aging societies after Japan.

The future of a nation is not predestined. Any nation can somehow choose its future direction on its own. The merits or demerits of a nation's systems must be judged in the context of the time of their implementation. The first decade of the 21st century will pass as fast as the last decade of the 20th century. We must be aware that history will never stop and continues to accelerate.

UJI

Kojima Akira is a Managing Director and Chief Editorialist of Nihon Keizai Shimbun (NIKKEI). He is a Chairship Professor at the Graduate School of Business & Commerce, Keio University, and is also a member of the Trilateral Commission, and the Council for Gender Equality Cabinet Office.