

1 Collapse and Transformation

The rapid advance of globalization, which began at the end of the twentieth century, continues to dramatically change the world in which we live. While fostering democracy and the expansion of markets, globalization is also causing the collapse and transformation of the twentieth century system.

Both Akihiko Tanaka and Nobuo Noda interpret this phenomenon as the weakening of the nation state and define it as the advent of a new “Middle Ages” in the twenty-first century. Tanaka states that the world in the twenty-first century will experience the waning of the nation state and the rise of competing actors, such as corporations and nongovernmental organizations (NGOs). At the same time, liberal democracy will stand out and endure as “the ideology”—from among the various ideologies of the twentieth century, including socialism and fascism—as Christianity did in Europe during the Middle Ages.

While Tanaka foresees the recurrence of the Middle Ages because of the abiding nature of American values and order, Noda rather sees a Huntington-type “clash of civilizations”

with the arrival of an “imperial” era.¹ Referring to Jean-Marie Guéhenno’s *End of the Nation State*, Noda states the following:

With the development of borderless-ness, the state, the very concept of which is inseparable from its borders, will inevitably decline. Over time, the world will become a collection of networks that have nothing to do with territory. Guéhenno goes on to predict that the political institutions suitable for these conditions will be vague “empires without emperors.”²

Noda predicts the resurgence of a Chinese empire alongside the United States, Russia, and Central Europe (a European empire centered around Germany). In this context, he says that Japan “must solidify a wide-reaching order to assure its position.”³ Certainly, “middle aging” due to globalization, as Tanaka and Noda suggest, is possible. However, I do not think there will be a definitive ideology in the twenty-first century, as proposed by Tanaka. As explained later, this is because the forces of economic liberalism and democracy lead in completely opposite directions. Although these forces were reconciled in the post–World War II period by the social democratic welfare policy of the state, in the rapid flow of globalization this compromise is about to collapse. Noda’s prediction of the formation of small regional empires, as opposed to states, which have various ethnic values in common, seems to be a possibility. One wonders if the momentum of the trends toward erosion of borders and the expansion of markets will continue at the current rate and if the state will indeed fade away.

Comparison with Globalization under *Pax Britannica*

The current trend of globalization is similar to that of globalization during 1870 to 1913 under *Pax Britannica*. The two waves of globalization, which are a century apart, are not exactly the same, however; if the first is “classical globalization,” then the latter could be called “neoclassical globalization.” John Maynard Keynes, in his 1920 book *The Economic Consequences of the Peace*, looked back on this classical period with nostalgia:

1. Samuel Huntington, “The Clash of Civilizations?” *Foreign Affairs*, vol. 7, no. 3 (1993), pp. 22–49.

2. Nobuo Noda, *Nijussēki o dō Miruka* (Tokyo: Bunshun Shinsho, 1994), p. 125 (my translation).

3. Noda, *Nijussēki o dō Miruka*, p. 219 (my translation).

What an extraordinary episode in the economic progress of man that age was which came to an end in August, 1914! . . . The inhabitant of London could order by telephone, sipping his morning tea in bed, the various products of the whole earth, in such quantity as he might see fit, and reasonably expect their early delivery upon his doorstep; he could at the same moment and by the same means adventure his wealth in the natural resources and new enterprises of any quarter of the world, and share, without exertion or even trouble, in their prospective fruits and advantages; or he could decide to couple the security of his fortunes with the good faith of the townspeople of any substantial municipality in any continent that fancy or information might recommend.⁴

During that time, the United Kingdom's 8 to 9 percent average current account surplus was used mainly to invest in public and corporate bonds that recycled money to the New World. It is thought that the direct investment and securities investment by the United Kingdom in the 1910s was as high as 180 percent of GDP. This far outweighs the net overseas assets of the current largest creditor nation, Japan (60 percent of GDP in 1998) and of the current largest debtor nation, the United States (68 percent of GDP in 1998). During this time, not only the United Kingdom but also European nations such as France and Germany invested heavily in the United States, Canada, Argentina, Australia, and other countries. Although the real GDP growth rate of the United Kingdom from 1870 to 1913 is estimated to have been less than 2 percent, that of countries like the United States and Canada was over 4 percent. By the beginning of the twentieth century, Argentina had already joined the developed nations by achieving 6.4 percent average growth.

As is the case now, the rapid development of transportation and communications technology supported globalization at that time. The rapid progress in the development of railroads, shipping, and automobiles, along with the telephone and telegraph, greatly affected economic activity.

World War I, however, brought a sudden end to this era of globalization. The world entered a period of depression and protectionism. Keynes pointed out the weakness of globalization, which at that time was seen as

4. John Maynard Keynes, *The Economic Consequences of the Peace* (New York: Harcourt, Brace and Howe, 1920), p. 11.

inevitable.⁵ What we must consider now is whether these historical lessons are relevant to the current wave of globalization.

In 1997 the progress of capital liberalization, which was driven by both the information technology (IT) revolution and globalization, plunged East Asia into economic turmoil. By the fall of 1998 it had involved Wall Street, pushing events to the brink of a global capital crisis. Fortunately, the successful financial policies of the United States, combined with the global increase in IT-related infrastructure investment, temporarily avoided a massive crisis.

During the crisis of 1998 George Soros in his book entitled *The Crisis of Global Capitalism* forecast the same fate for the current wave of extreme globalization, specifically market fundamentalism, as that of the globalization period from 1870 to 1913. "Financial markets are inherently unstable and there are social needs that cannot be met by giving market forces free rein," the author states. "It is market fundamentalism that has rendered the global capitalist system unsound and unsustainable."⁶ While Soros is not saying that globalization itself will lead to collapse, he is saying the fundamentalist paradigm that relies too much on the market will inevitably collapse.

Dani Rodrik suggests that an undeniable contradiction exists between democracy and a completely free market.⁷ To coexist, the global market must be supported by the state through public policy. As noted earlier, from the end of World War II through the 1980s, many governments around the world implemented social welfare policies that prevented the actualization of this contradiction. However, the rapid technological innovation and the accompanying structural reforms of the 1980s and 1990s are now bringing the contradiction between the global market and democracy to the surface.

We should, therefore, consider whether the rapid progress of globalization in the current era is different in nature from that under *Pax Britannica*. Although unmistakable points of similarity can be found, it is also clear that the prior globalization based on industrialization and modernization

5. Keynes, *Economic Consequences of the Peace*.

6. George Soros, *The Crisis of Global Capitalism: Open Society Endangered* (New York: Public Affairs, 1998), p. xx.

7. Dani Rodrik, "The Debate over Globalization: How to Move Forward by Looking Backward," paper presented at the conference on "The Future of World Trading System," Institute of International Economics, Washington, 1998.

is very different from the current globalization based on the information revolution, growth of the service sector, and postmodernism.

The Birth of Network Globalization

In his recent book, Francis Fukuyama describes the beginning of the era of *The Great Disruption*:

Over the past half-century, the United States and other economically advanced countries have gradually made the shift into what has been called an “information society,” the “information age,” or the “post-industrial era.” Futurist Alvin Toffler has labeled this transition the “Third Wave,” suggesting that it will ultimately be as consequential as the two previous waves in human history: from hunter-gatherer to agricultural societies and then from agricultural to industrial ones.

This shift consists of a number of related elements. In the economy, services increasingly displace manufacturing as a source of wealth. Instead of working in a steel mill or automobile factory, the typical worker in an information society has a job in a bank, software firm, restaurant, university, or social service agency. The role of information and intelligence, embodied in both people and increasingly smart machines, becomes pervasive, and mental labor tends to replace physical labor. Production is globalized as inexpensive information technology makes it increasingly easy to move information across national borders, and rapid communications by television, radio, fax, and e-mail erodes the boundaries of long-established cultural communities.⁸

Although greater ease of transportation and communication also played an important role in the nineteenth century process of globalization, this time, the revolutionary technological advances, such as major increases in the power of the computer and the Internet, have made it possible for people to communicate at almost no cost to the individual. Thomas Friedman, in his book *The Lexus and the Olive Tree*, writes about his 79-year-old mother playing bridge over the Internet with three Frenchmen in 1998:

8. Francis Fukuyama, *The Great Disruption: Human Nature and the Reconstitution of Social Order* (Touchstone, Simon and Schuster, 1999), p. 3.

There are some things about this new era of globalization that we've seen before (but which are much more intense now), some things that we've never seen before and some things that are so new we don't even understand them yet. For all these reasons, I would sum up the differences between the two eras of globalization this way: If the first era of globalization shrank the world from a size "large" to a size "medium," this era of globalization is shrinking the world from a size "medium" to a size "small."⁹

The Differences from the Past

As typified by Friedman's mother, globalization currently is a network-type structure in which the masses can participate. Those who participated in the globalization that took place from the nineteenth century through the beginning of the twentieth century were essentially the elite. Furthermore, the process of globalization itself was imposed from above by the hegemonic United Kingdom. It was not something in which the New World railroad workers, for example, were involved. The structure at that time could be called *hierarchical* globalization, while the current structure could be differentiated as *network* globalization.

Another characteristic of network globalization is that the participation in financial and currency markets has expanded from a segment of society made up of financial institutions and wealthy individual investors to one that also includes universities, foundations, and individuals, among other players. This broadening of participants in the market also includes not only developed nations and particular nations that are the recipients of investment, but also most countries, with the exception of the poorest. In the 1990s particularly, financial and currency transactions were liberalized in developing nations, and what was previously *current-account* globalization is now becoming *capital-account* globalization. This network globalization has gradually begun to alter, and in some cases destroy, the modern systems and institutions of the era of industrialization, first in the United States, then in the rest of the world, primarily in other developed countries. On this issue, Francis Fukuyama said:

Certainly many of the benefits of an information society are clear, but have all of its consequences necessarily been so positive? People asso-

9. Thomas Friedman, *The Lexus and the Olive Tree* (HarperCollins, 2000), p. xix.

ciate the information age with the advent of the Internet in the 1990s, but the shift away from the Industrial era started more than a generation earlier with the de-industrialization of the Rust Belt in the United States and comparable moves away from manufacturing in other industrialized countries. This period, from roughly the mid-1960s to the early 1990s, was also marked by seriously deteriorating social conditions in most of the industrialized world. Crime and social disorder began to rise, making inner-city areas of the wealthiest societies on earth almost uninhabitable. The decline of kinship as a social institution, which has been going on for more than two hundred years, accelerated sharply in the last half of the twentieth century. Fertility in most European countries and Japan fell to such low levels that these societies will depopulate themselves in the next century, absent substantial immigration; marriages and births became fewer; divorce soared; and out-of-wedlock childbearing came to affect one out of every three children born in the United States and over half of all children in Scandinavia. Finally, trust and confidence in institutions went into a deep, forty-year decline. A majority of people in the United States and Europe expressed confidence in their governments and fellow citizens during the late 1950s; only a small minority did so by the early 1990s. The nature of people's involvement with one another changed as well. Although there is no evidence that people associated with each other less, their mutual ties tended to be less permanent, less engaged, and with smaller groups of people. These changes were dramatic, they occurred over a wide range of similar countries, and they all appeared at roughly the same period in history. As such, they constituted a Great Disruption in the social values that prevailed in the industrial age society of the mid-twentieth century.¹⁰

Network globalization's effect on interpersonal relationships as well as on social structure has led to the destruction of the old order. At this point, the nature of the new system and its values are not clear; nor is it known how the contradiction between the global market and democracy, mentioned by Rodrik, will be resolved.

It has become more and more difficult for Europe and Japan to continue along the social welfare track, because of globalization. Although the social democratic parties in Europe have started down a third path combining

10. Fukuyama, *The Great Disruption*, pp. 4–5.

global markets with welfare in a new way, no one can predict what kind of society this “third path” will lead to.

The European Union as the Third Path

Jacques Attali concedes the dominance of market principles and democracy under the new globalization. While rejecting its universality, he foresees a new third path in the liberal European Union’s acceptance of multilateralism.

With the end of Communism, progressive universalism has collapsed. In other words, Europe’s last imperial attempt to push “one set of laws” on the world, which promised a bright future to those who tried to implement it, has ended in failure. Already in Europe, there are only the two values left—market principles and democracy. It is true that, according to many, market principles and democracy are still a universal “set of laws.” However, these two values cannot fulfill humanity’s dreams of universality, eternity, and a path to utopia that are implied by the “set of laws. Because market principles and democracy are based on something temporary and fluctuating, their foundation is weak. They cannot attain the justice or timelessness that humans need to exist because both of them reject eternity and memory, while emphasizing the moment and forgetting. In other words, neither market principles nor democracy can create a “set of laws” that should be applied worldwide, nor can they guarantee a future.¹¹

In this way, Attali rejects market principles and democracy as universal values and offers the unification of Europe as the cause for European nations.

In the near future, the U.S. media and the Asian economy might well become the world’s two greatest powers. Compared with that, “pluralist Europe,” which is characterized by intellect, will perhaps be able to attain the position of third most powerful. As the third global power, the countries of Europe might be able to return to a state of full employment and to restrain and resolve conflicts around the world. In this respect, Europe should be viewed as pluralist rather

11. Jacques Attali, *Europamirai no Sentaku*, trans. Hisanori Isomura (Tokyo: Harashobō, 1995), pp. 207–08 (my translation).

than unified and, consequently, should strive to be a place where many peoples coexist rather than a place of imposed unification. The fact that many things exist in a single place is an important trump card for Europe.¹²

While zigzagging and backtracking along the path envisioned by Attali, the dream of union is being realized in Europe. The important point here is that, while achieving the goal of integration, the countries of Europe are also achieving gradual expansion of their markets and democratization of their systems. This structural reform was needed to bring about the third path. Much of European structural reform consisted of the introduction of competition through the market, which was a type of Americanization. In other words, Europe accepted and effectuated the Americanization of its economy for the cause of European unification and in order to become the counterbalance to the power of the United States. It never was, however, extreme Americanization or market expansion, because it was a policy for the purpose of maintaining the identities, histories, and cultures of the various countries and regions of pluralist Europe. They are, thus, creating a new unified Europe that is well suited to the new network globalization.¹³

About two years ago at a dinner party, I debated with Jean Lemierre, the President of the European Bank for Reconstruction and Development (EBRD), the reasons for Japan's inability to drastically reform a system which, though successful in the past, had begun to break down. In the course of that debate and the ensuing discussion of the policies Japan and Asia should implement to resolve the situation, Lemierre perceptively said: "Sakakibara, the answer is clear. Europe and France had a clear cause for structural reform. It was the unification of Europe. There is no cause for Japan. Without a cause, it is difficult to impose reforms that are going to be painful to many citizens."

Asian Regional Cooperation and Japanese Structural Reform

As if to follow European movement toward unification, the United States announced that by 2005 there would be an American free trade area

12. *Ibid.*

13. In a way, it is a grand experiment to attempt to resolve the contradiction pointed out by Rodrik between the market and democracy. To put it in Noda's terms, it may be the rebirth of a type of empire, rather than Attali's "third power," where Europe would be a counterbalance to U.S. power, potentially dividing the world into two camps.

comprising thirty-four countries. Since the establishment of a European empire, an American empire is now being built in the North and South American continents. Along these lines, even in Asia, which is far behind in regional integration, there is a mounting interest in regional cooperation. Although the Chiang Mai Initiative of May 2000 and ASEAN-plus-Three (Association of Southeast Asian Nations) are manifestations of this interest, the regional cooperation movement is still in the early stages.¹⁴ The fundamental problems of how to handle relations with the United States and how to respond as a region to network globalization have not yet been fully resolved. It is not yet clear if Asian regional cooperation or regional union is going to become “the cause” for Japan and Asia as European unification was for Europe. In the case of Japan and other Asian countries, structural reform has not always resulted in internally driven change, even though it is perhaps the most important issue. In Thailand and South Korea, for instance, structural reform was, for the most part, imposed by the International Monetary Fund (IMF) and the United States, resulting in very strong opposition from the citizens of those countries. In Japan, structural reform is still just a vague concept. Much of it is only an expression of dissatisfaction against the old regime.

In Japan a sense of purpose and a vision of the future, rather than simple market expansion or Americanization, is an absolute necessity for internally motivated structural reform to take place. Just as European revival was Europe’s dream following a long period of suffering, after ten or more years of enduring the “Japanese disease,” Japan could begin to view revival as a goal. Yet, compared to Japan’s goal of catching up with the developed world through modernization in the hundred years since the Meiji Restoration, revival seems too limited and short term as a goal. Even if European style unification were to be impossible for Japan and Asia, Japan still should pursue structural reform in order to maintain its prominent position in Asia and as the third major power in the world, after the United States and Europe.

Implementation of structural reform from within, however, has the serious tendency to stall because of competing vested interests. In order to endure the pain of reform, it is important for Japan to have a firm sense of identity as a nation and as a part of a region through culture and history.

14. The ASEAN member countries are Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam. The “plus-Three” countries are China, Japan, and South Korea.

Furthermore, structural reform that is externally imposed is likely to generate a backlash, such as anti-Americanism and anti-globalization.

The issue of Asian regional cooperation or unification is discussed later in this book, keeping in mind that internally motivated structural reform is a precondition. The next chapter reviews Japan's modern system since the Meiji Era, focusing specifically on structurally reforming Japanese-style capitalism, a process which was finally completed after World War II. This structural reform neither flatters capitalism nor Americanization. Once again, the intention of structural reform is to maintain, and develop in the context of the world's new environment of internationalism, the pluralism of Japan and the rest of Asia, including each country's cultural identity.