

Japan as a Bridge between the Developed and Newly Emerging Economies

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The nightmare of a return to the economic chaos of the 1930s has been averted for the time being, thanks to the concerted efforts of the international community. But the structural problems in the global economy that caused the crisis have yet to be resolved. At the third Group of 20 financial summit, there needs to be post-crisis coordination among the world's leaders on policies to prevent similar developments in the future. There is also an urgent need for a serious review of the global economic system, the unsuitability of which is becoming increasingly obvious in the light of recent shifts in the global balance of power, and the state of global governance.

The recent US-triggered financial crisis caused the first precipitous global economic downturn since World War II and brought about a dramatic shrinking of world trade. A year has now passed since the collapse of Lehman Brothers, a financial-market event that escalated into a full-blown crisis in the real economy. The Lehman collapse and the subprime loan fiasco that preceded it were merely symptoms of the crisis, though, and not its basic causes. Rather, the chief factors are to be found in the excessive consumption and imports by the United States and defects in the global economic system that allowed such global imbalances to continue for so long. Full-fledged debate on this issue is already taking shape, as China and France, among other countries, expressed their skepticism of the dollar-centered global economy by the time the second financial summit was held.

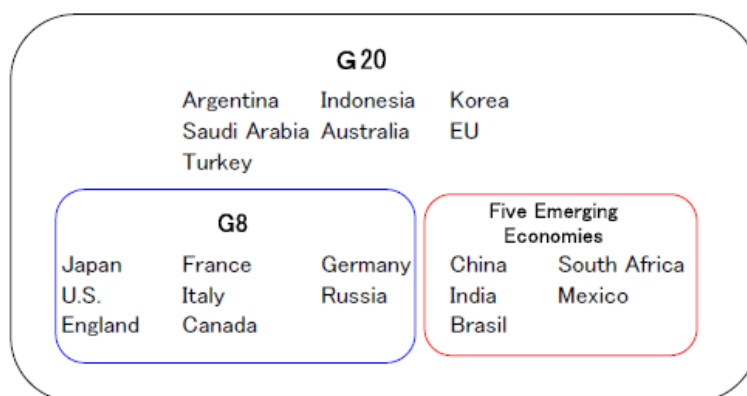
The same countries that have been criticizing the United States for its excessive consumption and imports, though, have also been the beneficiaries of this imbalance. The financial crisis demonstrates, more than anything, that the imbalance is no longer sustainable and that the global economic system that had been reliant on the US market for growth is in dire need of reform.

There have been many financial crises in recent years—the Black Monday crash that began in the United States in 1987, the Asian currency crisis in 1997 that eventually caused a major US hedge fund to collapse and Russia to default, and further back, the “Nixon shock” of 1971, when the United States abandoned the fixed exchange rate system based on the convertibility of the dollar to gold, effectively ending the Bretton Woods system of postwar international financial exchange. But none of these previous crises caused a breakdown in the

interbank and financial markets of the United States—the heart of global capitalism and the international market economy.

Ending the dollar's hegemony and the global imbalances associated with it will significantly affect the shape of global governance. Numerous other problems require an urgent response from an increasingly interdependent world, among them terrorism, the global environment, epidemics, poverty, and the securing of energy and natural resources.

How will the world respond to the growing list of serious problems? Isolated, concrete policy adjustments are important, but also essential will be a review of the decision-making process itself, that is, the kind of global economic system that will be put in place to deal with these issues.



The rise of China, India, and the other newly emerging economies has produced an irreversible shift in the balance of power in the global economy. The existing global economic system, built in the immediate postwar years premised on the overwhelming economic strength of the United States and the other developed economies, has become increasingly detached from reality.

The first summit meeting of the world's leading economies took place in 1975, during the height of the Cold War, to enable the West-bloc economies to stand up to the East while recovering from the shock of the oil crisis. This was before China and India reformed and opened up their economies; at the time they were not leading players in the world economy but merely poor countries with large populations. The global economy was steered by the Group of Seven industrialized democracies, led by the United States.

With the collapse of the Soviet Union and the end of the Cold War in 1991, the United States began behaving as the world's sole superpower, although its decline had been pointed out as far back as 1971. Talk about the "end of history" was, in essence, a eulogizing of America's triumph. It wound up tripping over its own success, though, by unilaterally launching wars in the Middle East.

The G7 (G8, following Russia's accession in 1998) has evolved over the years in keeping with changes in the global situation. Recently, nonmembers from among the newly emerging countries have been invited to participate under outreach formats, an indication that an increasing number of issues cannot be resolved by the G8 alone. This, though, is simply a makeshift measure in response to the changing balance of power.

It was in this context that the global financial crisis occurred. This prompted the creation of a G20, a format that counts newly emerging economies such as China, India, and Brazil as full members from the outset. It is uncertain whether the G20 will become a fully institutionalized forum after its third meeting, but its composition is a more accurate reflection of the global power shift.

Arguments have been made in some of the newly emerging nations that the G8 is obsolete. This is not to suggest that there is another country waiting in the wings to replace the United States as a global hegemon. The waning of the United States as a superpower is relative. Fareed Zakaria, author of *The Post-American World*, argues that the relative loss of power by the United States is due not to "the decline of America, but rather . . . the rise of everyone else."

The geopolitical and geo-economic world of the future will be multipolar—with the United States continuing to be one of perhaps three or four major poles. The country will have to come to terms with the reality of this emerging multipolarity and learn to listen to the views of others. The emerging countries are intoxicated with a sense of their own increasing power and presence, but they too will have to learn the responsibilities and roles of a major power. They should take advantage of existing global forums, including the G8 and G20, as part of this learning process.

Although China is very much aware of its status as an emerging power, it is still groping for an appropriate strategic role for itself in the world. It is to be hoped that China will continue to engage the global community on a wide range of levels and draw lessons from such experiences.

For Japan, the G7 was the first key international forum in which the country was among the founding members following World War II. Japan was an emerging

economy itself at the time, and learned its responsibilities and roles through its participation in the summits.

In this sense, Japan's experience makes it well placed to act as a bridge between the developed countries and the newly emerging economies. India is the world's biggest democracy. Cooperation between Japan and India has the potential to smooth the shift in global power and facilitate dialogue between divergent political systems.

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