Japan and Korea in Globalization and Its Backlash: Challenges and Prospects[*]

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Today my topic will be the economic performance of Japan and Korea in globalization and the backlash against globalization in those nations. My basic conclusion is that Korea seems to be doing much better in handling the backlash due to various structural features. Now, there are small booms that have benchmarked Korea's performance. Historically, this is a very new kind of trend. In fact, at one point I wrote a piece for Korean newspapers saying that I am quite sure the time will come when Japan starts focusing on, and learning from, Korea's performance in the global system.

My outline will be as follows: I would like to point out three realities in globalization that are sometimes ignored due to emotional, political, and/or social reasons. One is that the growth structures have changed drastically. The second issue is that—because the global economy has undergone significant change—the patterns or the strategies of economic growth and industrialization seem to have changed a lot—especially for Japan and Korea—because we are the first generation of industrializing countries in Asia. We are based on GATT-type foundations instead of the WTO. The third issue is the Korea-Japan FTA. It has never been successful, but the reality is that the Korean and Japanese markets are already merged in many respects. So the FTA talks are just to institutionalize and confirm that the two markets are integrated. These three realities are very different when compared to the time before the collapse of Lehman Brothers. Secondly, I would like to talk about the impact of globalization's backlash in the context of comparing Japan and Korea. Finally, I will try to extract some implications from my logic on regionalism in a competitive framework.

In the post-crisis global economy many uncertainties remain in mature economies. At the moment, market sentiment is very optimistic—and naturally so—because many countries have been spending incredible amounts of money to boost their economies. But there are still discussions about how to exit from this situation with soft landings. This is especially true for Japan and the United States because their budgetary deficits are huge. Also, there is a European Union crisis stemming from Greece. Many people are now saying that the BRIC countries (Brazil, Russia, India, and China) are going to move the global economy forward. Yet, in closely examining their structures it is clear that they have fragile foundations and fragile national sectors. Swinging liquidity, a shortage of credit, or too much credit are difficult situations that those countries have to deal with. Again, closely related to exit issues, there are big issues between China and the United States in terms of rebalancing their distorted and imbalanced structures. Also, the financial crisis appears to be somewhat contained at this time but the speed of adjustment by the real economy—the manufacturing and service sectors—has been very slow. In that sense, there is still a lot of risk, especially due to the rise of protectionism. If the world solely depends on the big, energy-consuming emerging powers for the future sustainability of the global economy, there are clearly some resource

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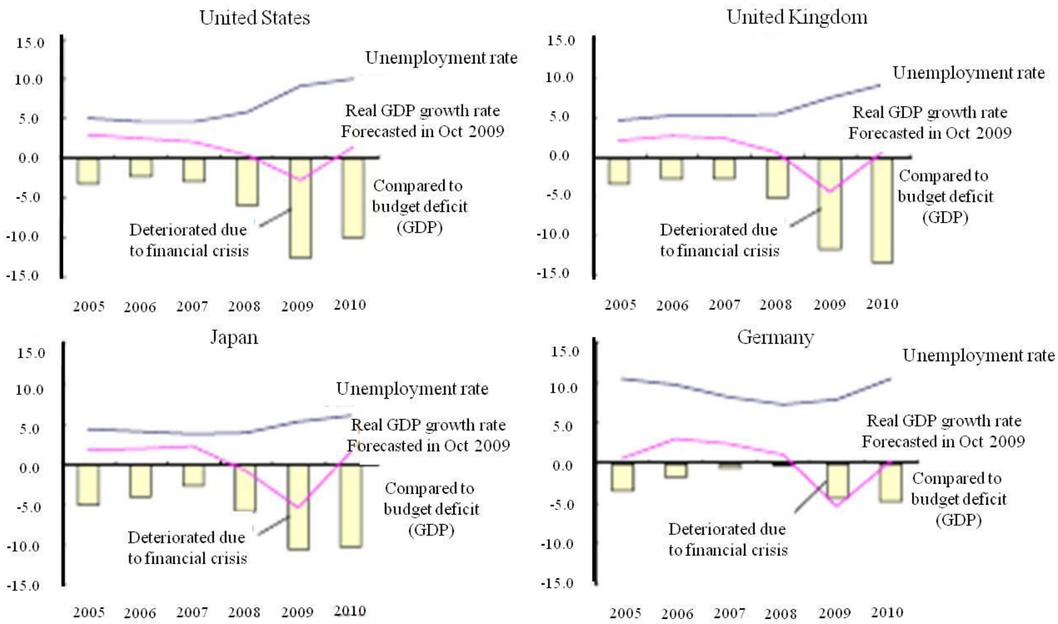
sustainability issues on the global level. Even though the world is in the midst of historic changes, the systems that govern these changes are very uncertain. The WTO is very stagnant, COP15—the Copenhagen climate change conference that took place in 2009 and dealt with environment issues—essentially failed, and whether the G-20 can replace the G-7 remains uncertain. We are all living in a world of uncertainty.

<Figure 1>

Need for Exit Policy in Mature Markets



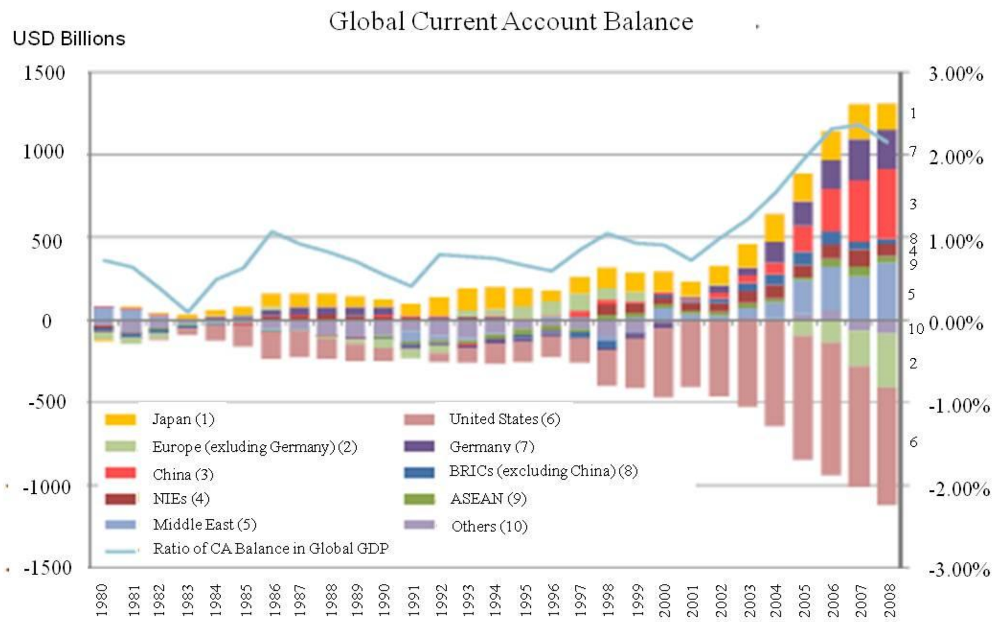
Looking at Figure 1, it shows the budgetary deficits of the United States, Japan, England, and Germany. The deficits of the United States and Japan both exceed 10 percent of GDP, which is very serious. England is even more severe. Germany is getting much better, but still all of the mature economies are suffering from huge budgetary deficits along with high unemployment rates.

Basically, the United States was the only country recording huge current account deficits while Asia was financing it. The capital flow from the United States to the Asia-Pacific has been increasing since the start of the present crisis. On the other hand, the flow of money from the Asia-Pacific to the United States has been declining.

While China has been very strategic, Japan has been in a slightly different position. Even though Japan is worried about the future of the U.S. dollar, politically it cannot really move against it. The U.S. dollar continues to maintain the position of key currency and China still invests in the U.S. dollar. Because so much money is coming back to the Asian-Pacific—especially to the emerging markets—China has decided to maintain the stability of the Chinese yuan. Due to this, China has been suffering from too much liquidity and that has pushed up the property market, seen in Figure 2. In particular, Shenzhen—which neighbors Hong Kong—has been extremely volatile, as illustrated by the dotted line. Moreover, the fluctuations became very large following the international shock.

<Figure 2>

<Figure 3>



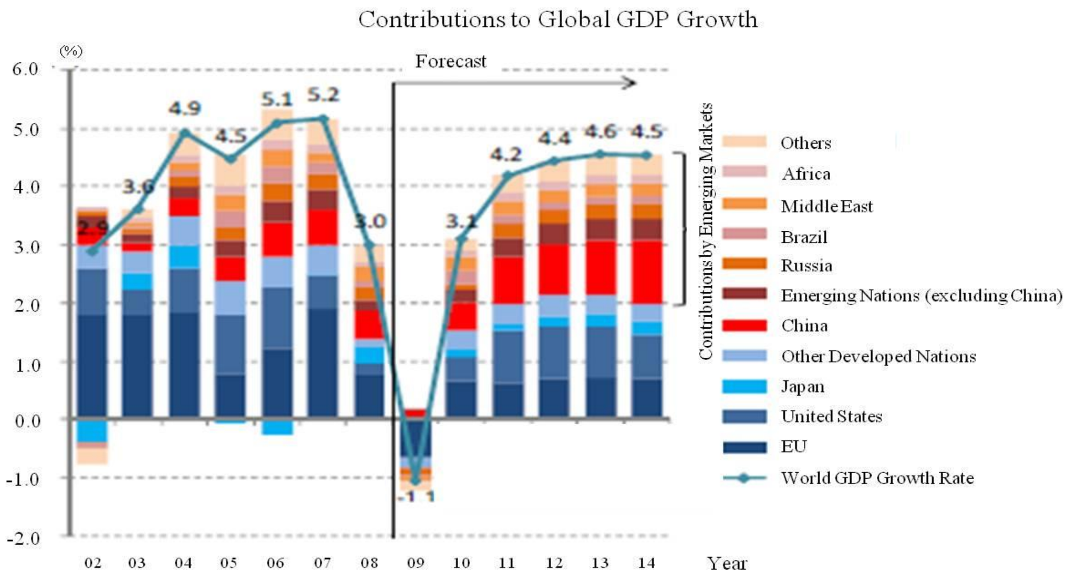
Source: IMF World Economic Outlook 2009 Oct.

So we are in the process of correcting the global imbalances. However, Figure 3 shows that the United States is still recording a large deficit while the other countries are trying to finance it. China has been emerging quite rapidly to finance the U.S. debt. That is why the media likes the idea of G-2.

Mature economies have all of the problems. Growth is expected to rely heavily on emerging markets like Brazil, Russia, India, China, and Middle Eastern countries (see

Figure 4). Before the crisis emerging markets only contributed about 30% of global economic growth. Now, more than 50% of growth is being driven by the relatively large emerging markets.

<Figure 4>



Source: IMF World Economic Outlook October 2009

The growth structure of emerging markets is very important. This is a crucial factor when comparing the performances of Korea and Japan. I think many Japanese have already started to realize it, but the leading Korean firms—the big four or five—are responding quite well to the environment in emerging markets for various reasons.

The structures of big countries with large populations, like China and India, share some similar characteristics. First, mass consumption in these countries is very different from Japan and Korea, which are very homogeneous. China and India are children of globalization, and market demands vary tremendously from old economies to new economies. New economies still need infrastructure and very simple consumer goods, but they also need very sophisticated services. They need everything from low-tech to high-tech products, as well as goods and services. Also, the way that these new economies sustain consistent incomes is very different from the way Korea and Japan sustained theirs in the past. They have greatly benefited from global fragmentation and the agglomeration of industries. From the Korean media, I sometimes feel that people still try to think about economies on a national basis, using comparative advantage and Heckscher-Ohlin-type ideas learned at university. The real structure of economies is now very different, so attracting foreign direct investment (FDI) and having huge industrial agglomerations can be successful. Therefore, the very basic measurements—like GDPs for examples—are not as important because economies are now more region-based rather than nation-based. This means a lot.

Emerging markets are clearly not textbook cases. The market segmentations are very unique. First, the populations of these emerging markets are expanding. Demographically they are very young, especially in India and Brazil. The rapid rate of urbanization is another recent phenomenon of globalization. China is a good example of this. Its economy is very much dominated by big cities and surrounding economic blocks. People continue to move from rural areas to the cities. One of the positives of this is—because all of China's service functions are concentrated in the cities— the poor workers coming from rural areas earn more disposable income to spend on goods and services than if they were to live in more rural areas. Of course, if they are living in a city they benefit from the relatively sophisticated financial services which allow them to borrow. Also, their demand for goods is stimulated by sophisticated marketing and advertising.

Digitalization is another feature of globalization. I do not need to express this in detail because Korea, being an IT society, is well aware of its effects. Emerging market consumers have received a wide range of benefits from technology. Their information base is largely composed of the Internet and mobile phones instead of TVs as in the past. These consumers know quite a bit about fashionable products, and that is why they try to consume the most fashionable, most high-end products. Even those who cannot afford these products try to follow the trends.

So, the growth structures in emerging markets are quite different from when Japan and Korea were developing. Emerging markets are bringing many new consumers to the market, and these new consumers are very diverse—even within a single country—due to the tremendous variation in infrastructure, geography, family size, and lifestyle. Moreover, there is class segmentation due to the income gap, which is significantly larger than in years past. For marketing, understanding segmentation in the large emerging markets is quite important. Information is already globalized, making consumers more responsive to manufacturers via mobile phone, blogs, and social networking sites like Twitter. The economies are very different from those of the past. For example, economies of scale still apply because these new markets are large, but the scope is also very important. These new consumers are very demanding, so cost performance is a crucial factor to be successful in these emerging economies. Customer satisfaction is very important because IT-type consumers are incredibly responsive.

The reason I am stressing these differences is because Korean firms seem to be much better tailored to these consumers than Japanese firms. Korean firms are segmented and well-managed in terms of marketing, brand image, and customer satisfaction. I think Korean firms have, at times, benefited from the painful experiences of the so-called "IMF Crisis." Firms must either satisfy the consumers or they must get out of the market. Korean firms learned this very basic principle while Japanese firms never faced this sort of painful experience. Japanese firms very much depend on the domestic market simply because the Japanese market used to be number two in the world, and that is their weakness. This is why they have not been able to catch up to the Korean firms in terms of acquiring market share in the emerging markets.

The second—and more fundamental—point is the fact that the industrialization model has been rapidly changing. While there is still some discussion about comparative advantage, and some nationalistic Korean media still criticizes the trade deficit with Japan, I believe these ideas are still bounded by a kind of nation-based framework. However, it is no longer the nations but the industrial networks across borders that will decide competitiveness. At times, the nation as a whole does not mean a lot. If we look at the East Asian growth model we see many different features—especially in terms of their institutions. The first generation industrializers like Japan, Korea, and Taiwan are essentially based on nation-states and national economies. That is why local entrepreneurship has been emphasized. There has been heavy government intervention through so-called “industrial policy.” In technology, skill building is quite an important issue, and to support long-term skill building industrial capital—raised through the banking sector—was needed in the economies of East Asia.

The second generation of industrializers in the region came through ASEAN—countries like Malaysia and Thailand. These nations are not purely sticking to local entrepreneurship; they are also attempting to attract high levels of FDI. The local entrepreneurs, because they have local advantages such as political vested interests, can concentrate more on the resource-based businesses. And naturally, because they are quite dominated by the Chinese capitalists, the second generation’s capital tends to be more for trade and commercial capital.

Now, we have third generation countries like China, India, and Brazil. They are very different even from the second generation because the global economy has become very integrated. In this model there is no distinction between outward and inward FDI. In our times, developing countries usually tried to attract FDI while maturing their local enterprises. Then later, if competitively successful, the developing countries would open their local markets to other countries and then begin to invest abroad. Now we are seeing these third generation countries do both at the same time. Chinese firms are very active in M&A activities because they have accumulated such a large foreign reserve, and at the same time the Chinese economy remains very much dependent on FDI. Recently, the Chinese government seems to be more interested in the industrial policies of the past. Officials are now saying things like, “Well, in the past we accepted so much FDI that much of our economy is now dependent on foreign multinationals. We now need to push up our local firms.” This is quite different from the first and second generations. Also, because things are quite globalized, and IT infrastructure is well-established, third generation countries are following a very different type of economic development. Finance is now very much globalized so they do not have to support their local entrepreneurship with domestic savings like the first generation had to. So, third generation industrialization is very different from the first and second.

The factors determining competitiveness have changed substantially. In the past everyone was told that developing countries should do X, Y, and Z so that they could prepare for sustainable growth. Now, it is most important to coordinate FDI and other outside managerial resources. The second change is the speed of decision-making. Speed is crucial in a globalized economy because people are competing against each other. Also, management of a diverse workforce is critically important because there are so many talented people coming from different countries. Risk is always important and always there. If risk is mismanaged the effects greatly impact the emerging economies. Now, some new type of government/private sector relationship is needed to adapt to the global changes. That is why I say that new corporations in both Japan and Korea are very much needed.

Considering these factors, I would again say that Korea is performing better than Japan because Korea was forced to realize—due to the financial crisis in 1997— that the global economy has undergone major changes. Also, the speed of decision-making is much faster in Korea than in Japan thanks to the Korean-style ownership of firms. The success of Samsung, for example, is widely recognized to be the result of Chairman Lee Kun-Hee's leadership. When Korea was in the midst of the IMF Crisis, the Korean people heavily criticized the family business for ruining the national economy, but now Korea benefits from these structures. Japanese companies—split by ownership and management—will have a difficult time catching up in their current state. Taking responsibility for major decisions is also important. Japanese firms are very bureaucratic and no one is ever willing to take responsibility, leaving serious decisions up in the air. That is why Japanese firms react so slowly.

The second factor is the management of diversity. One of the big problems in Japan is what I call "Number 2 Economy" syndrome. When in Japan one never feels to be failing or lagging behind because the economy is huge. Unfortunately, Japan always records a current account surplus and the IMF has never had to intervene in the Japanese economy. So the Japanese do not realize that the world is diversifying without them. They need to adapt to the current situation of managing diversity, especially in terms of human capital.

It is very interesting that Korean firms, at times, have domestic problems with labor unions and the like, but are doing relatively well outside of Korea. Technically, this is partly due to the fact that Korean managers speak English—and other languages—much better than Japanese managers. Also, Korean firms have accepted global diversity by scouting international talent from all over the world. In terms of human capital, I think that Samsung is far more globalized than the major Japanese firms like Sony and Toshiba.

I understand that much of the old style "Korea Inc." remains in government, but still the way Korea Inc. has been doing business these days is far more sophisticated than before. Now, to sell a nuclear plant or a bullet train the government has to be dealt with. Of course, in this environment sales pitches by the politicians are very important. Also, the Korean presidential system has proven itself beneficial. President Lee—an experienced businessman—seems to be quite aggressive about these international deals. Japan cannot catch up in this regard either. So those are the major structural reasons for Japan lagging Korea in the global economy.

Although they share common foundations, the situations of the Japanese and Korean economies are very different. For Japan, the global crisis started with the real economy rather than the financial sector. Of course, Japan is still the largest capital exporter to the global economy because China is controlling its foreign exchange and capital export. The shock in Japan's financial sector came after the Lehman Brothers bankruptcy and the deterioration of overseas assets. Japan, of course, invested in everything. Domestically, many Japanese were too optimistic because the issue of non-performing loans had already been solved. That is very different from the United States and Europe because so-called "lost 15 years" in Japan ended with Koizumi. Japan seemed to be in good shape—especially in banking. So, many people thought that Japan would emerge much better than Europe or the United States. That is why the Japanese yen appreciated. It was almost the only relatively risk-free international currency.

However, Japan is suffering in the real sector because of the appreciation of the yen. Suffering in the real sector began with a rapid, historic fall in exports to mature markets. The response by leading Japanese firms to the appreciation of the yen—and to losing ground to Chinese and Korean firms—was to invest heavily in R&D and focus on high-end, technology-intensive sectors. Japanese managers thought that, because their firm's products were expensive, the United States and Europe would be the only potential markets. That is why the Japanese economy is so dependent on the bubble consumers in the United States. Toyota serves as a good example of this. It enormously accelerated its production in the United States and it is the reason why Toyota responded so late to changes in the market.

Another place where Korea suffered little and Japan suffered immensely was in intermediate goods like machinery. In Korea's case, if demand for final goods rapidly decreases, it can adjust the inventory by cutting imports. Japan, on the other hand, is exporting both final goods to the mature market as well as providing intermediate goods to major Asian countries. In the crisis, both sides of exports were struggling in Japan. In other words, Japan was the final anchor in the shrinkage of global demand.

Another issue was the quick decrease in consumption in Japan. The Japanese economy started to suffer from a deflationary spiral. Japan is very dependent on the domestic market, depending on exports only one-fourth as much as Korea. The domestic market continues to shrink and that, of course, will put pressure on the profits of Japanese firms. In terms of employment, major Japanese firms have been radically adjusting employment in a similar fashion to what happened in Korea during the IMF Crisis. That is another reason why domestic consumption has not picked up—people fear the possibility of becoming unemployed and worry about their retirement.

Lastly, there have been major changes in Japanese politics after 55 years. These changes can be likened to the crash of the Soviet Union. The current decision-making process in the government is very chaotic because the Liberal Democratic Party (LDP) system was so entrenched. Japan is still probing for exits to get out of its current situation, but no one knows which direction to take.

Korea—from my observation—is almost destined to suffer from the roller coaster of financial crises. The crisis in Korea started with its currency, as many people worried about the expanded property investment in Korea, which is reported to be related to the sub-prime loans in the United States. Also, foreign banks and investors were present. Because global capital is huge relative to domestic financial assets, Korea is greatly influenced by the inflow and outflow of capital. In Korea, crises seem to come mainly from the financial sector and not the real sector. In Korea's real sector, energy efficiency is still much worse than in Japan. So, hikes in the prices of energy and resources always put pressure on Korea's economy. Also, Korea initially suffered from falling exports, but it has recovered quite rapidly thanks to the swift response of large firms to the emerging markets. The dark side of this is that the large firms are doing fine, but the small firms remain in a fragile state. Thanks to the massive adjustments a decade ago, the impact on employment seems quite minor in Korea compared to Japan. Yet, the labor market in Korea has been quite stagnant. The market has been trying to become more flexible, but growth without employment has been a feature of the Korean economy since the first financial crisis. That is the main reason that the impact on employment seems minor. The government has always been desperate to aid the economy. This is especially true as Korea faces a rising government debt and an aging society, which will begin to place downward pressure on the Korean economy.

If we compare Japan and Korea in terms of global change, there is a crucial difference. Korea has committed itself to following the global economy while Japan is plagued with its Number 2 Economy syndrome. That is, the Japanese government has never been very serious about FTAs and firms continue to stick to the domestic market.

Simply put, Japan is not ready for globalization. After the crisis began, the Japanese yen nominally appreciated and firms rushed into high value-added goods and hi-tech R&D. Korea was different with its depreciated currency and its export drive to emerging markets.

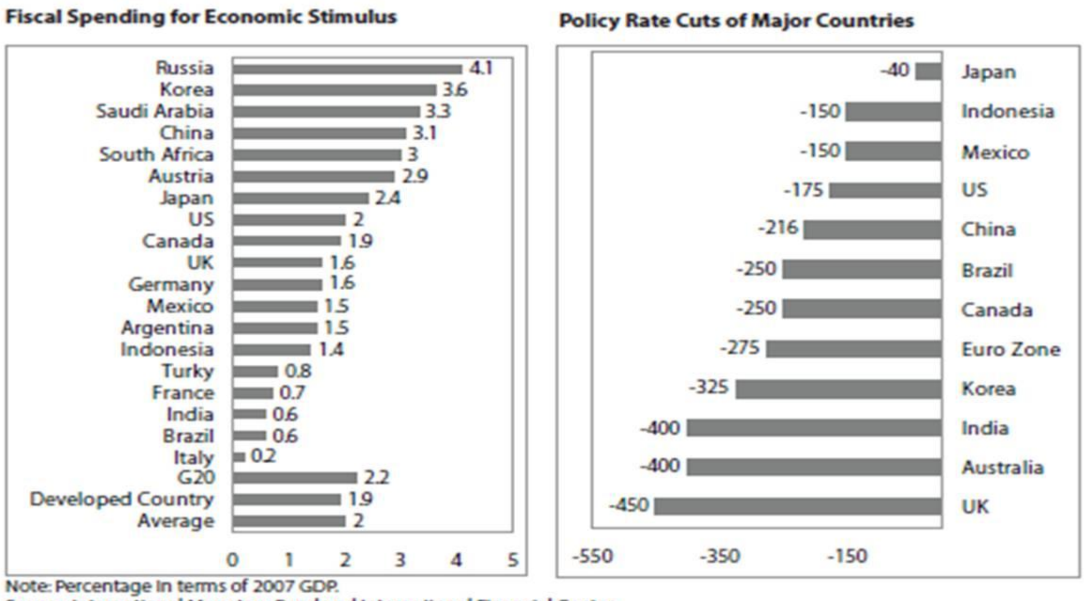
With regards to the international financial order, Japan has the largest amount of financial assets, but it is a follower in constructing the architecture of the financial system. Japan remains calm and responsive. On the other hand, Korea seems to be much more aggressive. It is chairing the G-20 Summit in November, and it will be able to represent the voices of the smaller, open economies.

Japan has always been praised as being the most energy efficient and as the country with the highest resource-saving productions. But sometimes the Japanese even criticize themselves about this. A good analogy of this is Yuna Kim and Mao Asada. Yuna Kim represents a globalized model. She was trained in Canada, and her performance fits into the newly established rules. That is why—by not taking too much risk—she could perform much better than Mao Asada. Mao Asada represents a very different character. A Russian coach trained her, and these days the Russian style has become out-dated. This is why Mao Asada is sticking to the triple axle, a technically difficult, very risky jump. Mao Asada and her coach still think that as an athlete she should perform the most difficult routine in order to get a gold medal. This is just like Japanese firms. They stick to technology to get an edge on their competition because most Japanese managers in technology firms are engineers. They are taking a huge risk by spending so much money on R&D. The Korean firm models are like Yuna Kim. They do not spend nearly as much on R&D. They wait to see if there is a huge market for a product and then if there is, they rush into the market and make huge profits. Korea has a market strategy with middle technology and that seems far more feasible than the strategies put forth by Japanese firms.

The rapid recovery of the Korean economy is very obviously supported by the massive spending of the government. Figure 5 shows fiscal spending for economic stimulus packages.

<Figure 5>

Policy Response to the Crisis

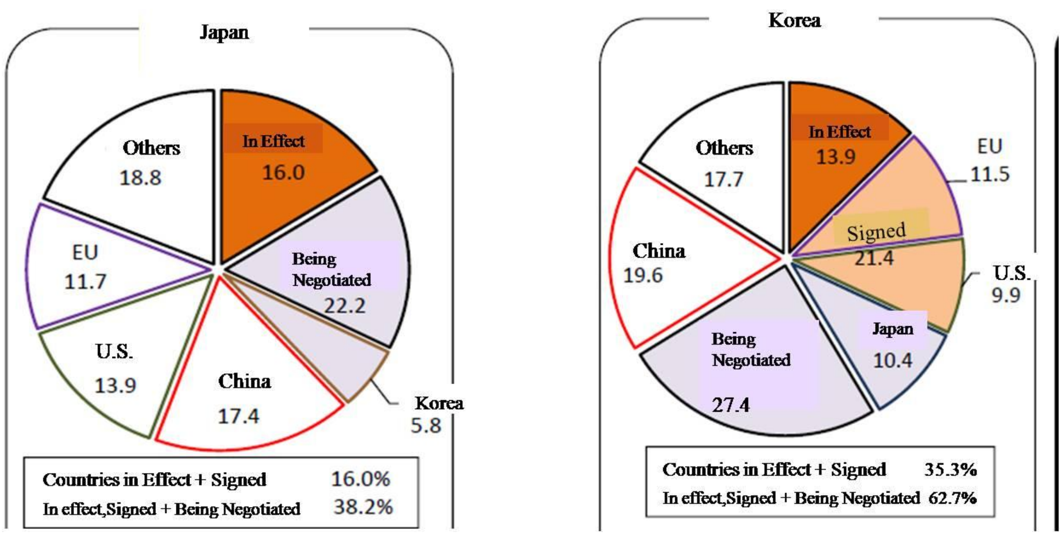


Note: Percentage in terms of 2007 GDP.
Source: International Monetary Fund and International Financial Center.

Korea is second only to Russia in total fiscal spending for economic stimulus with 3.6% of GDP. Japan is far lower with around 2.4% of GDP. Also, when talking about interest rate cuts, Japan was the lowest because its interest rates were already around zero percent. Again, Korea was in a much better position because it was able to drop its interest rates during the crisis.

<Figure 6>

FTA Srategies of Japan and Korea



Japan still thinks of itself as a big power, which is a serious problem. Figure 6 compares the percentage of exports that are covered, or will be covered, by FTAs that have been signed, or are being negotiated, by the two nations.

As the graph shows, if Korea ratifies all of its pacts—including one with Japan which is currently being negotiated—62.7% of its exports will be covered by FTAs. I think that this is the right direction for Korea's economy. Yet, Japan has been quite slow about negotiating FTAs and this is because of the domestic agricultural sector. This has been a major issue for the LDP and even for the new Democratic Party. With the ratification of Korea's FTAs, Japan will not be able to catch up to Korea's speed in agricultural liberalization. As I said, Korea is putting a lot of effort into catching up with the present third generation of industrializers while Japan stays with the model of the first generation. The illusion that high technology means power is common among policymakers. On the other hand, Korea still worries about its trade deficit with Japan. Many people still believe that Korea needs to catch up to Japan and solve the trade deficit. These ideas are wrong and outdated.

Korea's leading firms have clear priorities with segmentation and concentration in markets while Japanese firms do not have clear priorities. From the government to leading firms, no one can easily get out of this *Baramaki* situation. (Literally translated as "rose strewing", *baramaki* is similar to pork-barreling, where the government spends heavily on public works to win votes.) It is difficult in Japan to cut out something or to concentrate on one thing. This is why the speed is very slow in Japan and the results are never clear. Korean firms benefit from their speedy decision making process, partially thanks to family-business structures.

<Figure 7>

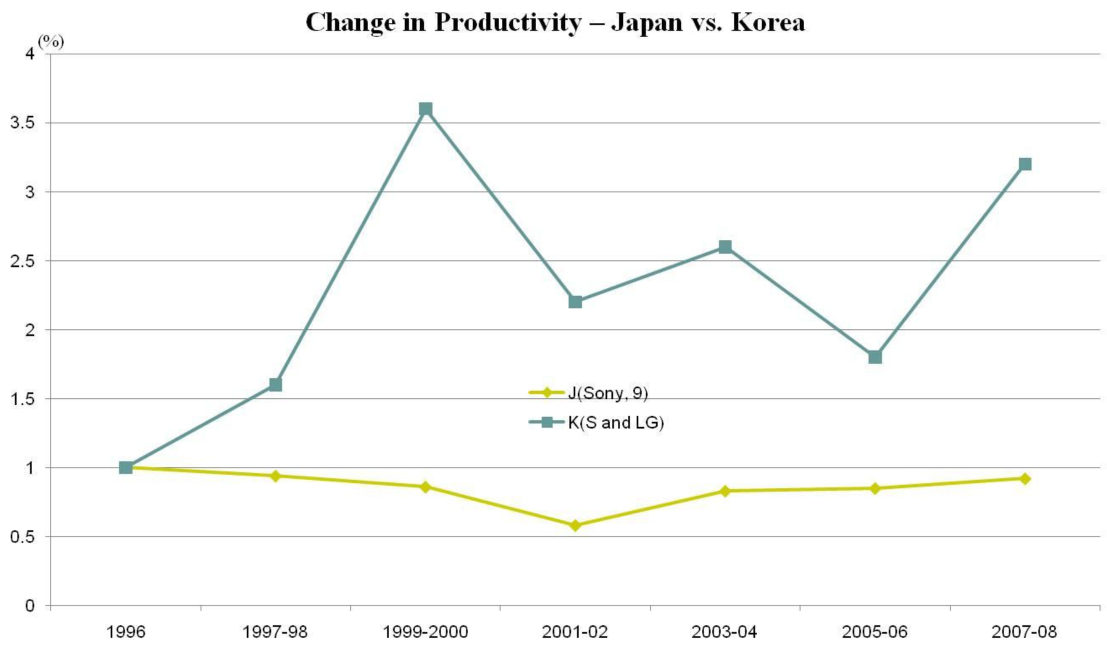


Figure 7 compares Japan and Korea in terms of productivity change. The upper line, marked with squares, represents Samsung and LG and the lower line, marked with diamonds, consists of Sony and nine other Japanese electronics firms.

As Figure 7 shows, Japan has been very flat, but Korea's productivity change has risen quite rapidly since 1996. Table 1 supports this, showing Korea's major products, and their market share, which has been steadily increasing. The global market shares in DRAM, mobile phones, automobiles, and TVs have all gone up tremendously since 2005.

Table 1

Global Market Share of Korea's Major Products

(Unit: %)

	2005	2006	2007	2008	2009
DRAM	47.3	44.8	49.0	49.6	61.0
Mobile Phone	19.4	18.1	20.7	24.5	30.6
Automobile	4.3	4.5	4.8	5.1	7.3
Shipbuilding	35.6	35.2	35.6	33.8	34.4
TV	19.6	24.3	28.2	33.7	36.1

Note: 1. Figures for 2009 are estimates by Samsung Economic Research Institute
2. For Automobile, figures are market share for U.S. 2009 figures based on January through October
Source: Korea Automobile Manufacturers Association and the Korea Shipbuilders' Association

Finally, I would like to add that the Japanese and Korean markets are already integrated in some sense. Even though Korean firms are outperforming Japanese firms, the macroeconomic structures between the two have not changed a lot. Still Japan is providing a lot of capital and intermediate goods to Korean exporters. Many people criticize it, but I think that is the reason why leading Korean firms have been able to gain huge profits—they do not invest in unproductive sectors. Japan cannot stop it because of the *Baramaki* and the emphasis on having a harmonious society. When Korea's firms were performing significantly poorer than Japanese firms, Korea could claim that it had not yet caught up to Japan. But now, things have changed significantly. Japan is no longer dominating, and Korea is a strong competitor.

Since the Lee Myung-Bak administration took office, Korea has become very vulnerable to the fluctuation of currencies. Countries have to take currency stabilization seriously, but it is not an easy challenge. In terms of employment, Japan and Korea need to make more of an effort in upgrading the service sector instead of the manufacturing sector because the manufacturing sector is already globalized. The service sector is the only sector that has room for improving productivity, which will, in turn, increase job employment in things like tourism, culture, education, finance, and logistics. In these service industries geography is important because Japan and Korea are eternal neighbors. Therefore, the movement of people is natural between the two.

To conclude, Korea outperforms Japan for several reasons. First, Korea is more competitive in emerging markets and in the globalization model. In some sense, Korea and Japan are in the middle of a seesaw game. Japan has scattered all of its precious managerial resources into R&D without prudent analysis. It is a big risk. Also, heavily investing in R&D, which does not directly help profits, puts more budgetary constraints on other departments like marketing.

Also, Japan is providing very talented people to the whole world—and especially to Korea due to the similarity of the industrial structures of the two nations. I have noticed that Samsung has been greatly aided by hiring Japan's recently laid off workers.

Korea is the opposite. Product development is based on the customer. Also, Korean firms—with their intensive marketing and advertising in emerging markets—have been successful. Korean firms are sometimes very venturous about mass production and that can lead to profit gains, better patents, and better human resources.

Japanese small and medium-sized firms specializing in high quality intermediate goods at cheap prices are contributing to Korea's great success. Because the two nations have different priorities, I think Korea's foundation for growth has now become very well established due to the failed response by Japanese firms. Japan is laid back about the economic power paradigm, its FTA negotiations are moving very slowly, and its anti-globalization emotions are driving the vested political interests of the politicians. I am very pessimistic about Japan's response to globalization and optimistic about Korea's response.

Of course, Korea screamed about globalization too during the Roh Moo-Hyun administration. Now, Korea's political cycle seems to be very different from Japan's. Also, Korea's political vested interest in the domestic market, except for real estate, is much smaller and less established than Japan's. Japan needs a more consistent and comprehensive globalization strategy, and it needs a stronger sense of urgency. Korea probably needs a risk averse benchmarking target, and Japan can no longer be reliable. It needs to stand on its own feet by taking more risks. After all, if there is no investment into original products and others' inventions are just followed, a poor image might be established. Being a small country, Korea also needs an anchoring market, an institutional mechanism to balance against the instability that can be brought on by globalization

Japan and Korea actually have a good combination of interests which could provide the foundation to establish a new partnership. Deep market integration can be a good rationale, starting from finance standardization, and the mutual recognition of the importance of human capital because we are both confronting the issue of aging populations. Because the model has changed, industrial accumulation is very important. From Kyushu to the Ulsan area, the automobile industry cluster is the biggest in the world. If Japan and Korea work together, I think the accumulative effect will prove successful. The two nations will likely have to alter their values regarding productivity-based growth and job creation as both are affected by global competition. So the strategy should be to optimize the commonalities between the two nations and to keep in mind the fact that Japan and Korea are eternal neighbors.

The conclusion of today's talk is rooted in three realities. First, the world is a multi-polarizing world with the emerging markets. Japan and Korea have to adapt to this reality. Second, a new industrial paradigm has emerged. Third, Japan and Korea are moving in a seesaw motion with their markets already quite integrated. Korea outperforms Japan in the first and second realities and this is partially due to the third reality—the seesaw. Considering these points, Japan-Korea integration should be revised based on their common agendas in areas like finance, the environment, and logistics. The crucial framework to start with is that Japan should realize that it is not a superpower anymore, and Korea needs to understand that regionalism will complement globalism.

Q&A

Q I am the Brazilain ambassador to Korea and am probably only person here from a developing economy. To me, you are all from advanced countries. Dr. Fukagawa, you, made a very comprehensive exposition but you did not mention one aspect of the world economy, agriculture. I am a simple man, not an economist. The term economy comes from the Greek word *ekos* which means house. In the house you have to eat and I do not understand how you can discuss the world economy without eating. You have been talking about competitiveness and advances in technology. What are people going to eat? The population is growing but the food is not. I am not Malthusian, but I am worried about that. Then you talk about protectionism. Japan, Korea, and Asia at large cannot stand for protectionism. They want to sell TVs, computers, and cell phones, but they are very protectionist about agricultural products. They do not want to import food like rice and beef. I think that economics nowadays is a little bit distorted and the theories of capital, labor, and markets are products of the 18th century. This is very old. If you are talking about globalization, you have to consider everything. Tomorrow you will not be able to eat microchips; you will need corn, wheat, and soybeans. I suppose everyone here is from industry, not agriculture. So, what are we talking about? We are forgetting the fundamentals. We have to eat and we have to drink. All the water and food are in the third world. You cannot, sell microchips and not import food because civilization might destroy itself through the process.

A Food is the most basic and probably the last thing that anyone wants to give up. Most Asian countries—including China if you look at it on a per capita basis—are resource poor countries and know the importance of agriculture. At the same time, we are very worried about the future of our food because of that. That is why many Korean and Japanese firms have invested heavily into Brazil and other agriculturally resource rich countries like some of the former Soviet Union countries.

One of the most fashionable recent businesses in Japan is the water business because Japan is worried about the sustainability of water resources. This is also why Japan is investing so much into environmental technologies. I think that Asian countries have room to cooperate with the big emerging markets that have rich natural resources to make our environment more sustainable. I think that Japan is, at least, heading in that direction. Japan is being criticized by European countries for tuna fishing, but recently Japan has found new ways to cultivate tuna to help sustain that resource. Again R&D is really important and can aid in this process. So there is reason to be optimistic about the wisdom of mankind.

Q My question is not directly related to today's topic. Since Prime Minister Hatoyama came to office some anti-American policies have been passed. One reason for this might come from his family history. His grandfather was a Prime Minister as well and served in the Diet at the end of WWII. Around that time his grandfather wrote a column labeling General MacArthur a war criminal. Subsequently, he was banned from participating in politics because of column, and possibly this sparked his anti-American sentiment. My guess is that Prime Minister Hatoyama's background influences his political and economic policies. Would you mind sharing your opinion on this matter?

A Prime Minister Yukio Hatoyama family history is certainly interesting, but he is trying to balance Japan's relationship with the United States and Japan's relationship with the rest of the world. Because former Prime Minister Koizumi was strongly committed to the U.S.-Japan alliance, Hatoyama has been consistently rejecting U.S. policies. He has also been promoting the Asian community and shaking hands with neighbors. At the same time, he is an idealist, not a realist. His family translated a very famous book about European integration, and he himself seems very attracted to this type of integration idea. With the economic gloom in Japan, the business community appears to be supporting his Asia-focused attitude. Bureaucrats are probably threatened by their Korean counterparts' attention to FTAs, so they are supporting Hatoyama's ideas as well. The idea of having an East Asian community is a mixture of the interests of the business community, the bureaucrats, and Hatoyama's family.

As for Toyota, I think many Japanese feel that it is being used as a scapegoat for the deteriorating relationship between the United States and Japan. Also, American politicians have been aggressive about playing up the failures of Toyota. It is true that Toyota made a big mistake by responding so slowly. That said, it is also interesting that the irritated U.S. security lobbyists have exacerbated what has been going on with Toyota. The issues involving Toyota and the U.S.-Japan alliance seem to have become synchronized in some sense.

Q Will globalization be easier for some countries and more difficult for others? How about Korea and Japan?

A Yes, because a country like Singapore has an open economy, the globalization process will be easiest. Singapore has much to gain and little to loose in the process. Korea is also moving in this direction by investing handsomely in English education. This has already proven helpful. On the other hand, the language barrier still exists in Japan. Furthermore, as I discussed in my presentation, Japan's belief that it is the second largest economy is debilitating for its economy. It needs to adapt and follow global trends.

Q You already mentioned that Korea and Japan are already integrated in many respects, but I believe that integration is not that well established between companies. Although I believe that Japanese firms consider Chinese companies a threat, we hear talk on the news about M&As between Japanese and Chinese firms. Would you elaborate on this point? Also, in your opinion, why do you think Korean companies do not acquire Japanese or Chinese companies?

A Especially among the older generation there are negative feelings when Chinese firms try to take over Japanese firms through mergers and acquisitions. Generally though, business transactions with China do not provoke emotional responses like candlelight vigils. People do not pay too much attention to the ownership and controlling managers of a company as long as employment is maintained. So if there is no massive restructuring or a large number of redundancies made, Japanese society does not frown on M&A activities by foreign companies.

The reason why there are not that many cases of M&As with Korean firms is because it belongs to the first generation of industrialization. We have negative feelings about M&A activities. Chinese firms have money, but besides a few cases—like the takeover of IBM personal computers—they have not been very successful so far. In terms of Korea and Japan, frankly speaking, we are very closed societies. Even though Korea might be desperate, and is leading Chinese firms in terms of diversity management, the decision-making process is very inward looking. Also, using non-Korean people and different managerial resources are difficult for both parties.

China is, in some sense, different from Japan and Korea partially because it easily adapted to M&A activities. China has been influenced by the current globalization period. It learned about capitalism in a 21st century context while Japan and Korea learned about capitalism in a 20th or 19th century context. That is why China seems fairly easy going about M&A. Japan and Korea are conservative not only about accepting M&As but also acquiring other companies. I think that the historical background is a crucial difference.