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Short Curriculum Vitae) Naoaki Okabe

Graduated from the School of Political Science and Economics, Waseda University in 1969. Joined the *Nihon Keizai Shimbun* that same year, and after serving in roles such as reporter in the economics section held successive posts as a correspondent in Brussels, head of the New York branch office, executive director of the editorial board, special executive director, and columnist. Has held his current post since 2012. His major works have included *A Leaderless World*, *A Primer to the Japanese Economy*, and *Reciprocity: The Political Dynamics of the Yen and Dollar*.

A Leaderless World and Japan's Choices

The world is currently approaching a great interregnum that could fittingly be called a "leaderless world." The "American age" that became clearly apparent due to the end of the Cold War has reached its conclusion, and the historical power shift away from the developed countries of Japan, the United States, and Europe to newly emerging countries has taken a dark turn. The United States, which is at risk of defaulting, has lost its leadership abilities, and there are fears that the euro crisis will once again push Europe into a period of stagnation. With the Chinese economy as well, which sustained the global economy following the financial crisis precipitated by the collapse of Lehman Brothers, the limitations of state capitalism have come into view amidst the slowdown in its growth and social unrest. Throughout all of this, the role of Japan, which has been given new life by Abenomics, has rapidly risen in importance. Japan's strategy for turning the Asia-Pacific region into a prosperous region that is free of tension is being tested.

Linked Crises

The world that came about after the end of the Cold War could be said to be the era of the Western developed countries, such as the United States and Europe, that were triumphant in the Cold War. The American age became clear due to the collapse of the Soviet Union. The unification of East and West Germany via the collapse of the Berlin Wall produced the single currency of the euro in Europe and ushered in the "greater Europe age." This could be said to have been an internal challenge within the Western alliance to the American age.

On the other hand, the Japanese economy, which had determinedly carried on with economic development under the Cold War construct, had run aground. It suffered a financial crisis in an interlinked manner with the Asian currency crisis, and inept policies also helped to push it into a prolonged period of deflation. So during the American age and the greater European age, Japan continued to wander alone through a "lost era."

It was the financial crisis from the fall of 2008 that decisively altered this state of affairs. This crisis, which could be described as the failure of financial capitalism run amok, altered the structure of the global economy down to its very foundations. The financial crisis that originated in the United States propagated out globally, but the most serious repercussion was the euro crisis. This exposed the contradiction of the euro in that even though the EU has a single currency and only one monetary policy it has separate fiscal policies and financial administration. This sparked a chain-reaction of monetary crises and financial crises in the Southern European countries within the euro zone, while also exacerbating unemployment.

It was China and other newly emerging countries that supported the global economy during this crisis. The axis of the global economy has shifted from West to East and from developed countries to newly emerging countries. Former US Treasury Secretary Lawrence Summers has pointed out that this major historical turning point will surpass the end of the Cold War in importance.

However, cracks have also begun to appear in the newly emerging countries that served as the saviors from the global economic crisis. The moment that the United States began seeking a way out from its ultra-monetary easing, outflows of capital from India, Brazil, and other newly emerging countries accelerated. China, which continued to experience double-digit growth, has also been forced to accept a slowdown in its growth to "medium to high speed" growth (according to Premier Li Keqiang). The gap between the rich and poor is widening, and the limitations of both the one-party rule of the Communist Party and the state capitalism led by state-run businesses have started to become apparent.

One thing that has become clear throughout the chain of crises is that there is no longer a leader like the United States once was to be found anywhere. Many are concerned that this great interregnum period will invoke new crises.

The United States Has Stepped Down as the "World's Policeman"

President Obama of the United States has declared that, "the US is not the world's policeman." He refrained from a military intervention in Syria, which had used chemical weapons. Some take the view that this has given the impression that the United States lacks any leadership capabilities. Yet due to the failures of the Iraq War and the unproductive intervention in Afghanistan, the American people have indicated their aversion to acting as the world's policeman. To this extent, President Obama's choice could rather be said to be reflective of a "clever America."

It was its failure in the Iraq War and the fact that it caused the global financial crisis precipitated by the collapse of Lehman Brothers that originated within its borders that caused the United States' leadership capabilities to decline. The Obama administration has been striving to revamp the US' tarnished credibility, but if it took the plunge into intervening in Syria this would most likely cast the world deeper into turmoil. In this sense President Obama's choice can be considered a pragmatic choice for this leaderless world.

Of course, the chaos in Congress concerning raising the United States' debt ceiling that resulted in the risk of a default posed an enormous problem. The dysfunction of its divided Congress has been reminiscent of Japanese politics up to this point, with the fact that the leadership of the Republican Party has been unable to keep the influence of the ultraconservative Tea Party in check being a major cause of this. President Obama's healthcare insurance reforms served as the backdrop for this, and this Obamacare—which aspires towards universal health insurance coverage—is a reform that could be described as a historical turning point for the United States. It was probably unavoidable that it would produce some manner of friction.

If the United States were to go into default it would deal blows to China and Japan, which hold vast sums of US debt, and could potentially plunge the global economy into chaos once more. The problem does not lie with US debt in and of itself, but rather it lies with the US political system in that the debt ceiling is determined through the consent of Congress. This is correctable.

One point that must not be overlooked is the fact that throughout this confusion the US economy is being strengthened in a structural sense by the shale gas revolution. Not only will this reduce its dependence on the Middle East and change its current account balance for the better, but it will also alter its cost structure and usher in a revival of its manufacturing industry. Even though this will not restore the US economy to its former overwhelming stature, it can be considered a way of maintaining its underlying strength.

The question is: Will the United States turn inward now that it has stepped down as the world's policeman, or will it work to rebalance itself towards being a "Pacific nation" (according to President Obama)? This will serve to drastically alter the layout of the world.

Can the Euro Crisis Lead to Reunification?

At the time of its initial creation the euro—which was born out of the unification of East and West Germany via the conclusion of the Cold War—was wreathed in "euro-phoria" (a sense of euphoria created by the euro), but now its structural faults have been laid bare and it is facing a crisis. The irony is that the euro—which was created in order to enfold a strong Germany within Europe—has produced a Germany that is the sole victor as a result of the crisis.

The unification of East and West Germany aroused nightmares of the restoration of a strong Germany, and a sense of crisis spread throughout France and the other European countries. The compromises made by Chancellor Kohl, who went so far as to dispense with the strongest currency of the mark, were designed to allay the concerns of President Mitterrand of France and the other European leaders. Germany chose a "Germany within Europe" over "Germany's Europe."

However, the euro crisis has given rise to unforeseen outcomes. Countries such as Greece, Portugal, Ireland, Spain, and Italy have fallen into a series of monetary crises and financial crises, and are hurting from a rise in unemployment. On the other hand, Germany has leveraged the inexpensive euro to become one of the world's largest major exporters, and has substantially improved its employment. Even though Germany has received the greatest allotment of dividends from the euro as a result of European integration, there are strong calls there among its people to hold back from providing aid to the Southern European countries that are in crisis.

Whether or not the sole victor of Germany can set financial adjustment in the euro zone in motion or not will hold the key to restoring the euro. A mentality has been spreading within Europe, primarily centered around President Hollande of France, which seeks a policy reversal from German-style devotion to austerity towards an emphasis on growth strategies. The question is to what extent the coalition government of Chancellor Merkel in Germany will comply with this.

Moves towards reunification have been growing stronger in the euro zone ever since the crisis. A banking union that would centralize financial administration under the ECB and standardize a deposit insurance system has been moving towards becoming a reality. There has also been increased debate over financial integration that would include the issuance of joint euro debt and the creation of a ministry of finance for the euro. This will test whether or not Europe can go beyond sharing sovereignty and take steps towards centralizing sovereignty.

Of course, the after-effects of the euro crisis will last for several years into the future. The European Central Bank (ECB) has been strengthening its monetary easing and providing support, but the economies of the euro zone as a whole are likely largely unable to extricate themselves from stagnation. That said, however, the euro zone will not collapse. The United Kingdom is planning a national referendum that will ask whether or not it should remain within the EU, but the consistent view among British intellectuals and pundits is that it would be inconceivable for their country to break away from the EU. The EU will continue with its moderate expansion, primarily centered around the Balkan countries.

"*Fluctuat nec mergitur*" (it is tossed by the waves but does not sink) is the fundamental principle of the EU. Following the war, the EU has continued to steadily tread a path towards integration even as it has made repeated twists, turns, and detours. This crisis will also most likely bring about reintegration.

Does State Capitalism Have a Future?

Cracks have begun to show in the Chinese economy, which has achieved rapid development. It cannot avoid a slowdown in growth from its double-digit rate of growth, just like the Japanese economy experienced in the 1970s. The question being raised is how it will cope with overinvestment. How will it dispose of the bad debt seen in its shadow banking sector, even as it pushes forward with financial reforms? This will be no easy task, judging from Japan's experiences.

President Xi Jinping is seen as having at long last taken hold of the administration's ability to get things done through measures like dealing with corruption, but the issue is one of how he will promote reforms while keeping in check the hunger for growth in rural areas.

The economic policies of Premier Li Keqiang (Liconomics) have set forth an emphasis on reform, with the privatization of state-run enterprises being their central theme.

However, converting away from the state-run capitalism that has underpinned China's economic development toward a market-based capitalism will not be easy. This will test whether it is able to surmount significant discord with vested interests to push forward with reforms.

At some point the Chinese economy will be faced with population reductions as a result of the one-child policy. The increasing severity of environmental problems such as the air pollution in Beijing could also potentially serve as a bottleneck to growth. The divide between the rich and poor is so severe that it is almost unbelievable for a socialist state which, when coupled with the permeation of its Internet society, has increased the potential to bring about social unrest.

While it is enthusiastically pursuing a global strategy to acquire resources, it has gotten off to a conspicuously late start with its global market strategy in the Asia-Pacific region. Even as it is expressing its interest in the Trans-Pacific Partnership (TPP) being spearheaded by Japan and the United States, it does not appear as if it will be able to take part while it still adheres to its state capitalism. The "middle income trap," whereby countries fail to acquire an international competitive edge through their technological strength, is a concern that is commonly shared among newly emerging countries.

Having said that, the fact of the matter is that the Chinese economy is in a superior position relative to other newly emerging countries that are being faced with outflows of capital. Even though its growth is slowing, its "medium to high speed growth" in the 7% range is still relatively high.

While it lacks the chest-thumping vigor to contribute to the global economy (as Premier Wen Jiabao claimed) following the financial crisis caused by the collapse of Lehman Brothers, there is no mistaking the fact that Chinese-style state capitalism will continue to occupy a major position in the global economy, for better or for worse.

Japan's Increased Role: Serving as a Bridge for the Asia-Pacific Region

Japan's stature is rising fast in a world where no leader is to be found when one looks around, whereas its presence had only just recently been fading during its lost era.

One thing that astonished me when I took part in the Davos meeting of the World Economic Forum several years back was that the title of the Japan session was "Forgotten Japan." It was sparsely attended, and since the presenters were all Japanese people it was naturally carried out in Japanese. The summer Davos meeting held in Dalian in September 2013 was completely different, as an animated debate unfolded in an enormous assembly hall there on the theme of Abenomics.

The appearance of the administration of Shinzo Abe unmistakably elevated Japan's stature in the world. Initially there were warnings that Abenomics could potentially touch off a currency war, but now there are mounting hopes that it will revive Japan's economy. This is all the more true especially now that the world has become a "leaderless world" in which each country around the world is beset by its own problems.

The important question is what sort of role will Japan play in this leaderless world? Nuclear development in North Korea and China's incursions into ocean areas are fanning the flames of tension throughout East Asia, while the Senkaku Islands issue is one in which Japan cannot give up an inch. Having said that, it is odd that because of this issue there has been a cooling down in economic exchange and Japan-China summit meetings are no longer being held.

The only option is to seek out a path for surmounting the Senkaku issue and restoring Japan-China relations. This is what the United States, which is Japan's ally, is after. That momentum has emerged between Japan and China to work on economic exchange is a development that should be warmly welcomed.

The possibility of ushering in a normalization due to cold political relations but warm economic relations, or a separation of politics and economics, can be achieved. Restoring Japan-China economic relations holds the key to the success of the growth strategy of Abenomics, while Liconomics will also be influenced by investments by Japanese companies in China. In this sense the interdependence between the Japanese and Chinese economies runs deep.

Japan must serve as a bridge for the Asia-Pacific region, which is one of the world's growth centers, and to conclude the TPP and the Regional Comprehensive Economic Partnership (RCEP) that Japan, China, and South Korea will join. This is not a confrontational construct in which the US-led TPP is facing off against the Chinese-led RCEP, but rather a fusion of both of them. This is a strategy for growth in the Asia-Pacific region, as well as a strategy for peace. Japan truly occupies a pivotal role in this, and it must not let this opportunity slip through its fingers. This is the historical mission required of Japan in a leaderless world.