



A Post-Coronavirus World: “Change” Is Not “Beginning” but “Accelerating”: Overcoming Short-Termism

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The coronavirus outbreak is not transient, it is bringing about major changes to international relations, national economies, corporate business, social systems, and individuals' ways of life. Because of this, it is thought that the post-coronavirus world will enter a new stage as denoted by the new normal. However, if we view today and the future with a long-term perspective, we will notice that many of the changes that have taken place amid the coronavirus outbreak are not the “beginning” of change but rather an “acceleration” of a new major development that was already occurring before the outbreak. This appears to be especially true in Japan.



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Of course, there are new changes as well. Yet, there is also an aspect of issues from before the coronavirus outbreak coming to the fore because of the coronavirus crisis. We have issues that have been postponed for a long time. If we blame everything on COVID-19, then we won't be able to select balanced policies that are long-term and fundamental.

Firstly, I want to look at international relations. Two great powers, the United States and China, are locking horns over coronavirus issues. However, the US–China conflict had become apparent and was intensifying since before the coronavirus outbreak as the two countries were escalating their trade war. The United Kingdom's Brexit also came before the coronavirus outbreak. Likewise, excessive globalization as well as subsequent opposition and backlash were manifested in the 2008 Lehman shock. The same goes for a host of “divisive” phenomena, including growing inequality and spreading populism. There is no great power that holds on to its principles and assumes proper responsibility and it is said that international relations are dysfunctional, but this so-called “G-Zero world” is also something that has been in evidence since before the coronavirus outbreak.

As regards populism, an American organization has publicized a Developed World Populism Index. It shows that this index suddenly increased to the level of the 1930s Great Depression starting around two years ago.

There are worries about a political climate that prioritizes one's own country, but this too was not created by the coronavirus outbreak.

The appearance of “America First” as championed by President Donald J. Trump also predates the coronavirus crisis, since it appeared during the US presidential election in 2016 (inauguration in 2017). Similarly, the national referendum that set the course for Brexit in the UK happened in 2016.

The current pandemic is not something that can be effectively countered by the efforts of one country alone but absolutely requires international cooperation. Despite this, we see an ironic and unfortunate situation where the coronavirus outbreak is exacerbated by the lack of international cooperation and coordination. The necessary response is “international cooperation.”

Issues of inequality are clearly made more serious by the coronavirus outbreak. However, the publication of Thomas Piketty’s worldwide bestseller *Capital in the Twenty-First Century* was in 2013. Inequality has widened between states, regions, and domestic social groups during the coronavirus outbreak, so the international community has to act.

It has become more common for the coercive power of the “state” to be involved during the coronavirus outbreak. China, with its typically authoritarian and despotic system, has achieved some level of success in its thorough COVID-19 measures through coercive power, thus not only relinquishing its infamy as the ground zero of COVID-19 but also launching a diplomacy of claiming that Chinese authoritarianism and despotism is superior to American democracy while at the same time supporting other countries with their COVID-19 measures.

The heavy-handed policies of democratic countries are not likely to stay in place in the post-coronavirus world.

Sasaki Takeshi, former President of the University of Tokyo, makes the shocking argument about democracy that “Democracy is not forever.” What Sasaki is pointing out is concern about the current situation where democracy has suddenly become “election absolutism” that does not recognize the legitimacy of specialists and experts who have not received the baptism of election, thus creating this political short-termism.

Trump’s “America First” is nothing but “election (reelection) first” and the opposing Democratic Party likewise lacks any clear vision for the future of the United States and the international community, again amounting to “election first” behavior.

The conceptional starting point of “election absolutism” is winning elections so that thinking becomes no more long-term than “until the next election.”

Incidentally, if I am going to relate this to the Japanese issues to be discussed later, Japan has also become “election first.” This leads to policy implementation whose highest priority is winning elections. Even absolutely key and necessary policies will be postponed if the results will take several years to become noticeable and especially if they bring pain in the short run. The present situation is that so-called short-termism is rampant across the world and in Japan.

The Abe Shinzo administration that started in late December 2012 has already entered its eighth year, renewing the record for longest serving administration in Japanese constitutional history. A total of six national elections were held in this period. The Abe administration won

them all, exhibiting a policy stance of pursuing election-centered policies and then preparing for the next election as soon as one is won.

The Problem of Economy is “Level”

Let us take a look at trends in the global economy.

My conclusion is as follows. The global economy has entered a “great recession,” the concerted financial and fiscal policies of all countries are on a larger scale than ever before, and even if we hit a major bottom soon, the recovery process will be slow and a double bottom may occur. The various inequalities are unlikely to either increase or decrease. It will probably take many years to reach the peak level that we had before the coronavirus outbreak.

We shouldn’t make comparisons with the previous quarter or the previous year, but rather focus on the absolute levels of economic activities. Moreover, the world economy was in a global bubble economy state since before the coronavirus outbreak if we consider stock and real-estate prices, and that is something that gradually started in 2019. Moreover, as indicated by the appearance of “secular stagnation theory,” the global growth economy entered a transition period on a more structural level already in the 1990s. It was then that the coronavirus shock performed a surprise attack at a time of shaky international cooperation.

The Abnormal Swelling of Debt

Something that needs to be pointed out with regard to the global bubble economy is the global debt problem. It is that GDP stands for “Global Debt Problem” or “Gross Debt Product.” The latter is thoroughly discussed by the Czech economist Tomáš Sedláček in his *Economics of Good and Evil* (2011). He warns that “if we enter the next crisis as debt-burdened as we are now as a civilization, the next crisis, which may come in a generation or two, could be truly lethal,” but as a result of measures against the coronavirus crisis, global debt has swelled further and the excess debt problem will become a serious policy problem post-coronavirus.

According to the Institute of International Finance (IIF), world debt was a record-high 247 trillion dollars in 2019. Entering 2020, the United States and the European countries have suddenly stepped up fiscal expansion and monetary easing policy as an emergency response to the coronavirus recession. In Japan, the Bank of Japan was already injecting funds into the stock market via an exchange-traded fund (ETF) and is implementing “nontraditional” monetary ultra-easing by purchasing corporate bonds as well, but now Europe and North America are also “Japanizing.” Each country has lowered their policy interest rates and the Federal Reserve Board (FRB) has even announced that they will maintain a zero-interest-rate policy until 2020 (as of June 2020). Amid the coronavirus crisis, the “submergence of interest rates” and the “death of interest rates” is spreading globally. Behind the scenes is a swelling of debt. The balance sheets of central banks are looking extremely bad and questions are being raised about the sustainability of nontraditional financial policies.

The Chinese economy has also slowed and is likewise becoming more of a debt economy. Although the Chinese central government's ratio of debt to gross domestic product (GDP) is small compared to advanced countries, it is growing in the private sector and for local governments, so much that the total is said to exceed the peak of Japan's bubble economy. The heavily indebted post-coronavirus world economy will develop with much instability, uncertainty, and risk. Especially pressing is the debt problems of emerging countries. The debt risk is increasing, starting with Argentina which defaulted in March 2020.

The Limits of Japanese Problem Postponement and the Making of an Undeveloped Country in the Digital Economy Age

Let's look at the Japanese situation. First, one issue that was brought to light by the coronavirus crisis is that we are falling behind in digital transformation and IT use. In industry and businesses, IT-related departments have been the "winners" of the coronavirus outbreak, and there have also been growing gaps between countries in terms of IT use and application. Unfortunately, Japan has to be considered a loser, relatively speaking.

There are some shocking figures. The market capitalization of the five gigantic corporations known as "GAFAM" (Google, Amazon, Facebook, Apple, Microsoft) has exceeded the total of the 2,017 or so companies in the First Section of the Tokyo Stock Exchange (TSE) since the start of 2020. While the market capitalization of the First Section of the TSE has decreased by 4% in the last three years, those of Microsoft and Apple have instead gone up by 2.8 times and 2.1 times, respectively.

IT is not just a matter of IT-related companies. That is because IT is a social infrastructure taking us into the future.

IT use and application has become decisively important in the context of coronavirus issues. However, both IT and digital technologies were important also before the coronavirus outbreak. It was in 1998 that Japan faced a financial crisis caused by bad debt, but even before that in 1995, the so-called "first year of the web" had begun in the form of the rapid development of a digitizing economy and society. Because of Japan's adherence to manufacturing and things, which are our forte, initiatives to bring both things and services into the age of computerization and IoT-ization have been delayed. This delay was exposed by the coronavirus crisis.

According to the Swiss International Institute for Management Development (IMD), Japan ranks 23rd out of 63 countries and areas in the World Digital Competitiveness Ranking. In Asia, Japan has been left in the dust by South Korea, Taiwan, Singapore, and even China.

It is not only companies. The digitization of the government and administration is even further behind than the private sector, becoming an obstacle to the digitization of the economy and society. Electronic government is one of the pillars of the Abe administration's growth strategy, but there is a shocking fact also with regard to this.

It comes from a comparison of to what extent citizens are able to conduct procedures online among twenty members of the Organization for Economic Cooperation and Development

(OECD). The average percentage of citizens using the Internet is 60% for the whole OECD and about 90% for the Nordic countries. By contrast, it is only a few percent in Japan. We are last by a wide margin.

The government put together a supplementary government for the COVID-19 measures in April 2020, deciding to pay a relief payment of 100,000 yen to each and every citizen. Yet no payment has been made to me even though it is July. I think that about 50–60% of payments were made across Japan. Moreover, it was supposed to be possible to apply for this online, but more and more municipalities have stopped accepting digital applications due in part to inadequate systems in government offices.

A contrasting example is the US case, where the number of people infected with the coronavirus has increased more than in any other country. Oklahoma State, where offices almost collapsed due to the deluge of unemployment insurance claims, has collaborated with Google to introduce AI in the state call centers to process claims data, thereby increasing the number of cases handled in a week by a factor of 30. It is said that they took care of work that normally would have taken two years in just a few days.

We can't make excuses because of the coronavirus outbreak since there are so many problems that we have postponed since before the outbreak.

The Need to Debate “Exit” Policy and the Accelerated “Metabolism”

Firstly, although a problem common to all countries, a much more serious issue is the difficult question of how to tackle government debt, which has a GDP ratio of more than 200% and keeps growing, as well as the government's abnormal “exit” policy by which the Bank of Japan is essentially financing the government's fiscal deficit.

We also have the demographic problem of population aging and a decreasing birthrate as well as associate issues of pension system reform. There is the “2025” problem that has been discussed in connection with the pension system and fiscal reform. The year 2025 is when all 8.8 million or so baby boomers born after the Second World War will have become “latter-stage elderly” as they are “75 years or older.” The load on the pension system and public finances will become even heavier.

There is another “2025 issue.” According to the “Report on Digital Transformation (DX): Overcoming of ‘2025 Digital Cliff’ Involving IT Systems and Full-Fledged Development of Efforts for DX” put together by the Ministry of Economy, Trade and Industry in September 2018, companies' various forms of IT infrastructure will be worn out by that year and they will face an urgent need to address this as it coincides with the retirement of the technicians who maintain the infrastructure.

Japan is also falling behind when it comes to environmental issues. Of primary concern in terms of COVID-19 measures has been the development and securing of drugs to cure and prevent corona. In addition to emergency measures, it is essential to reform systems and

formulate policy for the long term after COVID-19. I already mentioned that it would take time for macroeconomic figures across the board to return to the activity level before COVID-19, but it is not only the total of the macroeconomics as its contents and structure will take on greater importance in the future. Japan's solution for the post-coronavirus world is not to return to erstwhile industrial and corporate structures. We absolutely need ideas that give rise to economic, industrial, and social structures that match the demands of the times, the changes of technological paradigms, and the changes of the demand structures of society and people. Many of the dozens of policies adopted since 1991 when the bubble economy burst have been prefaced by "comprehensive" or "complete," but they have been hasty makeshift policies for the short term and policies that recover former levels without changing the economic (demands) structures involved. Even in the case of corporate business models that have become obsolete and no longer suit the times, many of these policies have sought to establish life-support systems as emergency measures. As a result, companies whose roles have ended and ought to "retire" have been allowed to remain as "zombie companies." This has become an obstacle to the development of companies that operate healthily and are not in receipt of assistance.

The Notion of "Green Recovery"

The influence of the notion of green recovery or the promotion of starting up "green technology" companies that have technologies with environmental measures has become stronger in Europe amid the coronavirus outbreak. It could be said that a global value shift with regard to environmental issues happened after 2015 in the form of clear action and policies. In September of that year, the Sustainable Development Goals (SDGs) for 2030 were adopted at an international summit by not just developing countries but also advanced countries. Likewise, in December of that year, the "Paris Agreement" for curbing global warming was concluded at the Conference of the Parties (COP). The two also coincided with the principle of "pursuing corporate growth from environmental, social, and governance perspectives (ESG)" that had been launched since before.

Green recovery policies aim for new growth that firmly incorporates these values that have taken hold in the international community in future economic strategies. This is another example of developments created before the coronavirus outbreak that have been "accelerated" with the outbreak as a catalyst.

In the post-coronavirus world, it is likely that states, industries, and companies will lead the world through such "accelerated" measures.

Finally, I want to talk about the opposition to globalization, but I first want to say that no change has happened to the overall direction of globalization. In particular, Japan is one of the world's lowest ranking countries in terms of foreign direct investment as a percentage of GDP. Japan has fallen behind in terms of domestic economic and social globalization so much that we stand out in the world.

Moreover, there are those who argue that we should revise our over-reliance on China and return Japanese companies to Japan or shift our supply chains to other ASEAN countries, but of future importance is not only the production of things at low costs. I believe the key is securing global “value chains” that generate innovation while we gain new technologies and knowledge to suit this age of computerization and technological innovation. If so, we should not just move our supply chains to low-wage countries, but it is important to collaborate with companies in advanced countries like in Europe and North America as well.

In the end, the post-coronavirus world is not really the start of new change in a different direction for Japan, but it will likely be an age of “accelerated” change.

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