Japan's economic future depends on Tokyo becoming talent magnet

Populations of China, India — even Middle East — may give those economies leg up

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From left: Claude Smadja, Yoshiko Sakurai, Koji Omi and Thomas Pedersen discussed what Japan has to do to reverse the "Japan drift." Their brain-storming session took place May 30 in Tokyo. Later during the event, Bill Emmott, a renowned economist and author, said the world is about to experience a new wave of intense competition among China, India and Japan. He also said that because of India's emergence, Asia will not be dominated by China.

How can Japan sustain its economic growth in the face of increasing competition from emerging countries like China and India? Participants in this year's "Roundtable Japan" discussed this and other themes when they met May 30-31 in Tokyo.

As they exchanged views on the U.S. subprime crisis, soaring resource and food prices, and other pressing issues, attendees also realized anew the problems pertaining to the global economy that are likely beyond the control of governments and central banks.

The annual international conference kicked off with a keynote speech by Bill Emmott, a consultant and former editor of The Economist magazine of London. He is also the author of a recent book, "Rivals: How the Power Struggle Between China, India and Japan Will Shape Our Next Decade." Emmott predicted that the world is about to witness intensified competition between the three countries. He also said India's emergence will keep China from dominating Asia.

As Emmott sees it, China, India and Japan will vie with each other, thereby helping to expedite the region's economic integration.

Petrodollars

Over the past decade, discussions regarding Asian economic integration have undergone a sea change. At first, many pundits argued that the main impetus to integration would be Japan's strengthened relations with Southeast Asia. Enter China, which on the back of its fast-rising economic clout, at one time seemed to have seized the coveted leadership role with which to propel the region's economic integration. But that, too, was short-lived as India began asserting its presence.

Now, Middle Eastern economies, with Dubai at the center, are teeming with activity as they tap into their vaults of petrodollars. This is moving Asian growth westward.

Apparently with the fast and impressive rise of China and India in mind, Oki Matsumoto, CEO of online brokerage Monex Inc. and a powerful debater, said that before long, countries' economies will come to grow in proportion to the size of their populations.

In making the prediction, Matsumoto drew attendees' attention to how information technology has transformed the world. With IT conveniently available, even people in emerging countries can obtain vast pools of industrial-world knowledge with the click of a mouse. This phenomenon, Matsumoto said, has enabled up-and-coming members of the global community to swiftly catch up with their industrialized peers.

If it is true that all countries have equal opportunities to achieve economic development, the upshot would be that the more populous a country is, the greater scale its economy would attain. Japan, with a shrinking population of about 126 million, then, could find itself drowning in a sea of countries and regions with massive populations. China comes in at 1.3 billion, and India at 1.1 billion. Southeast Asia has 583 million people, and the Middle East more than 315 million.

Core creators

But would this indeed be the case? Look at the U.K., which, despite its relatively small population of more than 60 million, is enjoying prosperity thanks to the growth of surrounding regions. While the scale of the U.K. economy is smaller than that of the Eurozone, London is a force to be reckoned with, and its role as the financial hub of Europe is helping the U.K. maintain a pace of economic growth that eclipses that of continental Europe. London's breadth as an international financial center now overwhelms that of New York.

So what about Tokyo? Can it become the financial center of Asia? Answering this question, Richard Georgi, managing partner of real estate investment firm Grove International Partners LLC, said that if Tokyo aspires to obtain this status, it has to become a talent magnet — a city in which talented professionals from around Asia wish to live and work.

A more attractive Tokyo would draw people from other countries, people who would bring money and ideas with them. In fact, as an international financial center, London draws its strength from the people who come from continental Europe. It can be said that those who adore London form the very foundation of its prosperity.

With respect to the importance of human resources, another attendee, Taichi Sakaiya, an author and former minister of economic planning, used the concept of "core creator" to explain the key link between human resources and economic development. As he described the concept, a group of 100 core creators — think of them as entrepreneurs — would be sufficient to spawn economic growth and job opportunities.

He reasons that 100 core creators would enlist 1,000 people who would build support industries for the new businesses. Those support industries would then generate some 10,000 jobs in related industries. Further, a total of 100,000 jobs would need to be filled to maintain the urban infrastructure so that the aforementioned people would be able to work comfortably.

The importance of attracting core creators notwithstanding, Sakaiya said he regrets that Japan is not doing enough. "There is a scramble going on among the world's nations as they all try to hire the talented core creators," he said. "But has Japan even entered the race? How many names of famed Chinese architects, musicians and painters do Japanese know, for example?"

"Roundtable Japan," an annual forum to discuss Japan's agendas and seek their solutions, takes place in early summer in Tokyo. It is co-sponsored by consultancies Smadja & Associates Inc. and Forma Corp., with Nikkei Inc. among its supporters. This year's event, the fourth in a series, drew scores of experts in their fields. They were invited from within and outside Japan.

Globalizing economy now dictating its own terms

Some of the participants at "Roundtable Japan" expressed wariness over what they perceive to be strains appearing in global governance.

Their worries come as the world's economy goes through sweeping changes. China, India and other emerging countries now claim greater weight in global economic activity than they used to. Meanwhile, the impact of the subprime crisis as well as that of soaring prices of crude oil and other natural resources were able to reach the four corners of the world in the blink of an eye.

With these developments very much in mind, a question from the floor was posed to discussion participants: "Do central banks still have the degree of control over the real economy that they once did, and what do you make of the situation?"

The questioner apparently asked his question from the following line of reasoning: Enormous amounts of money now move across borders. Until about a year ago, a lot of that money was pouring into subprime loan-related financial products. Now a lot of it is ending up in commodity markets, driving up prices of crude oil, grains and other resources. Indeed, the finance world is tossing about the real economy.

The investment economy even seems to be feeding on itself. Derivatives, whose value are based on the value of other financial instruments, are now common. Central banks, which control a country's money supply and try to affect the real economy via interest rate manipulations and monetary adjustments, are running into brick walls.

Many experts concur with the assessment that "the world regime no longer matches reality." But none have come up with an explicit idea as to how to deal with the situation. It may be that neither industrialized countries nor emerging nations can rein in today's globalized economy, which does not readily bow to interference of states or central banks.

This year's Group of Eight summit, which was held in Hokkaido in early July — about a month after the "Roundtable Japan" conference — demonstrated how international governance is trying to match the mutations of the global economy. The G-8 leaders also used the occasion to get together with their counterparts from emerging economies like China, India, Brazil and South Africa.

Not that it did any good. The world's markets — currency, stock, crude oil and others — completely ignored the results of the summit. The only thing to which the markets had a sharp reaction was Iran's test-firing of missiles, announced July 10, the day after the three-day summit. The incident, it appeared, dramatized the worries that "Roundtable Japan" participants pondered during their discussions.

—H.M.