

World Focus

No. 36, March 2009

VIEWPOINT

Global Standards after the Crisis

Now that it is March, the days are getting noticeably longer. And, in another sign that spring is approaching, baseball is back. This year Japanese fans are excited about the second World Baseball Classic, hoping their national team will be able to repeat its victory in the first WBC, held in 2006. Another topic that has drawn considerable attention is the rules that have been adopted for this international tournament, particularly those concerning pitchers, such as the limits on pitches per game and the “rest equalization” rule limiting back-to-back use of the same pitcher.

Japanese athletes have had a number of bitter experiences with the application of international rules that differ from the ones under which they are used to performing, as in the case of judo, and with changes that strip Japanese competitors of previously enjoyed advantages, as in the case of ski jumping. The same can be said for economic competitions.

The global financial crisis set off by the US subprime meltdown is still raging, and the world is full of uncertainty. Many countries have responded with emergency moves to strengthen regulation of economic and financial activities, and people have been talking about the death of the US model of financial capital-

ism. But that does not mean market economies will disappear from the face of the earth. What we require is the construction and evolution of systems for such economies.

This makes it all the more important to establish proper rules to serve as global standards. To give one example, the capital adequacy requirements imposed by the Bank for International Settlements, which limit bank lending in various ways, are said to be contributing to the current global credit crunch. Another issue is accounting standards, such as the “mark to market” rule for asset assessment, seen as being a key factor underlying the current paranoia about financial institutions’ soundness. In this area, European standards have been taking hold internationally. In addition, it is essential that progress be achieved in the Doha round of multilateral trade negotiations to prevent the reemergence of protectionism, which could cause global economic contraction.

Western countries tend to be enthusiastic about drawing up rules. The Japanese, by contrast, are able to perform nimbly, both in sports and in economic activities, but tend to adapt themselves to the rules made by others. Also, there is a tendency for Japanese businesses to pay insuf-

ficient attention to global standards, pursuing improvement of their products with a narrow focus on sales in the large domestic market. The process of setting international rules is one that pits countries, corporations, and individuals against each other in a fierce fight to further their respective interests. In order to come out ahead, it is not enough to have technologies and ideas that are superior; one must make them appealing to others around the world.

Nobody wants the world economy to follow the law of the jungle. Nor can we be happy operating under rules in whose making we have had no part. Japan is a key player in Asia, which is now supporting the world with the dynamism of its emerging economies. As such, it behooves us not merely to sit back and follow the rules made by others but to step forward and play an active role with tenacity in international forums where the rules are made.

■ Akio Okawara, March 6, 2009

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GLOBAL NETWORK

This column presents selected topics and trends viewed from the perspective of members of the Sumitomo Corporation Group working on the front lines of its global business network.

China: Beijing thrives despite the financial crisis

Beijing, which hosted the Olympic Games last August, saw its gross domestic product for the year grow by 9% to 1,048.8 billion yuan. The city thus joined the “trillion-yuan club” among China’s provinces and direct-controlled municipalities. (One trillion yuan is equivalent to about ¥14 trillion or \$150 billion.)

Personal consumption accounts for some 40% of Beijing’s GDP, and thanks to the combination of the rising purchasing power of the city’s middle class and the consumption by affluent people visiting the capital from the provinces, up to now the city has been able to keep up its economic performance even in the face of the severe financial crisis. Retail sales in Beijing during the recent Lunar New Year holiday period set a new record high.

Investment in fixed assets accounts for another 40% of the municipal GDP. Some feared that investment would lose steam after the Olympics, but that has not happened. The figure for 2008 was down 3% from the previous year, reflecting the effects of the pollution-control measures implemented in advance of the Olympics and the macroeconomic restraints in force prior to the financial crisis, which held down construction work and infrastructure investment. This year these restraining factors are gone, and in addition to

the resumption of work on the subway and roadway networks, there will be urban improvement projects related to the sixtieth anniversary of the founding of the People’s Republic of China. Such factors can be expected to produce a pickup in investment during 2009.

Broken down by sector, tertiary industry now accounts for more than 70% of Beijing’s GDP. Thanks to its concentration of universities and the like, it has educational and science and technology services, along with communications, and industries creating cultural content, including art and software. These have helped the city to remain relatively unaffected by the financial crisis. Also, Beijing imports much more than it exports in terms of merchandise trade; in that respect its industrial structure is different from that of the coastal regions that have been powering China’s economy with their export-oriented manufacturing.

That is not to say that there are no problematic issues. Beijing’s economy naturally cannot be completely unaffected by the direct and indirect impact of the global-scale credit crunch. The municipal population has already reached about 17 million, and the city is liable to face turmoil if it fails to implement timely policies in such areas as the environment, employment, education, and medical care. Meanwhile, though the bubble-like surge in the real estate market has paused, prices remain at high levels, thereby restraining the expansion of real demand.

The trends in Beijing’s economy merit ongoing attention as an indicator of the prospects for the development of China as a whole.

■ *Shinji Nakano and Jianhui Huang, Beijing*

Oman: Half a step behind but progressing steadily

Early this year Oman hosted the nineteenth Arabian Gulf Cup soccer tournament, a biennial event that brings together teams from eight Gulf countries, and it emerged victorious, a result that put the country in the spotlight and produced great excitement among its people. But meanwhile, Oman has tended not to be very prominent in the economic arena; its position has been half a step behind Saudi Arabia and the United Arab Emirates. Over the past several years, though, the country has achieved growth of more than 5%, and its production of oil has been increasing. In addition, non-fuel exports have been growing rapidly; in January–October last year they were up 73.5% from a year earlier. And so far the impact of the global financial crisis has been fairly slight.

On the political front, Oman has been stable under the rule of Sultan Qaboos bin Said Al Said, on the throne since 1970. The country has pursued a flexible, omnidirectional foreign policy, building friendly ties with neighboring Iran while also maintaining good relations with Western countries and Israel.

Taking advantage of its location with a long coast outside the Strait of Hormuz on the Indian Ocean, Oman is now pushing ahead with a number of government-sponsored projects around the country. Sohar in the north is turning into a major industrial zone with plans for an independent water and power project and the start of operations at oil refinery and alumina refinery plants. Meanwhile, Salalah in the south is being developed as a free zone with a

large-scale port and one of the world's biggest PET (polyethylene terephthalate) resin and APET (amorphous PET) sheet plants already in operation. Centrally situated Duqm, formerly a fishing village, is now the site of plans for a port, dry dock, refinery, coal-fired power plant, and other construction.

Oman is not very richly endowed with oil or gas, so interest is focused on new energies, such as solar and wind power. The sultanate is also eager to develop its domestic labor force. It is to be hoped that Japan, with its high level of technological capabilities, can cooperate in these areas so as to contribute to Oman's further development.

■ *Takao Koyama, Muscat*

Vietnam: Internationalization vs. traditional society

Vietnam's history may be said to be a history of resistance against foreign forces. For centuries it was involved in a struggle with China, and from the 1800s through the 1950s the counterpart was France; then of course came the fierce war with the United States in the 1960s.

This history has left the Vietnamese with strong pride in their country's independence, and it also seems to have led to a stance of learning from other countries in order to increase their own country's strength. Sumitomo Corporation has been sponsoring a lecture series on management of the global corporation at the National Economics University in Hanoi, sending executives and employees from the company to speak at the lecture sessions, and the enthusiasm of participants to learn about Japanese management has been very much in evidence. In addition, the Vietnam-Japan Joint Initiative, which was launched in 2003 as a forum for bilateral discussion

aimed at improvement of the investment environment in Vietnam, has involved not just the governments of the two countries but also Japanese corporations, which have joined and used this forum to make concrete recommendations directly to the Vietnamese government.

To be sure, undertakings of this sort and international commitments, such as membership in the World Trade Organization, have not caused Vietnam's corporate behavior and systems to conform immediately to global standards. Part of the reason for this may lie in Vietnamese society. Half of Vietnam's labor force is in agriculture. Planting and harvesting rice are still done manually; this means that farmers require the cooperation of those around them, and so family ties and local community bonds continue to be important.

Most of Vietnam's major corporations belong to state-owned corporate groups, and the legal system is still in the process of being improved. For these reasons, it is not uncommon to encounter cases where the application or interpretation of legal provisions varies from one government office to another.

In the past Japan used *gaiatsu*, or external pressure, as a force to support the gradual process of opening markets and reforming society. The Vietnamese may be studying that part of the Japanese experience also.

■ *Toshiro Takayama, Hanoi*

Osaka, Japan: Redevelopment and recovery

Osaka long held the status of Japan's number-two city after Tokyo, but in recent years it has experienced a worrisome decline as the process of concentration in Tokyo has continued. A number of major Osaka-area corporations have moved their headquarters to Tokyo.

Now one of the main districts of

the city is getting a major facelift. This is the Umeda district, which encompasses Osaka Station, the biggest terminal of JR-West (West Japan Railway Co.), and the Umeda Station terminals of two major private railways. Some 2.5 million people pass through the district every day. A 24-hectare area north of Osaka Station, formerly the Umeda Freight Yard, is being targeted as the first-stage redevelopment site in a project scheduled to be completed by the end of 2012. This is being accompanied by a number of other major projects in the area, including department-store and office rebuilding and the construction of new edifices.

In other parts of the city, moves are underway to improve the railway system. Last October a new private railway line began running in the district where government and business offices are concentrated. And March 20 brings the opening of a new line in a major commercial district that will link two existing private railway lines and provide through service connecting Nara, Osaka, and Kobe. Work is also progressing on the city's expressway network, including the relinking of previously severed sections. This will make Osaka easier to navigate by car as well.

The Umeda district contains a concentration of many types of facilities and functions, and it is hoped that the renovation of this district will allow it to serve as the locomotive for restoring Osaka's economic status. And the municipal government is now undertaking a whole set of urban development projects, not just in Umeda but at various key points, aiming to connect these points organically in an urban plane that will revitalize the city's functions. One now feels a real sense that Osaka is heading for a comeback.

■ *Teruhisa Yamamoto, Osaka*

WORLD OPINION

Obama brings change to Washington

The start of a new administration in the United States is accompanied by the replacement of many federal political appointees and congressional staffers, the total number of whom is said to be as high as 6,000. One notable feature of the appointees so far this time is their overall youth. President Barack Obama himself is relatively young (47), but his chief speechwriter, for example, is a mere 27.

Liberal think tanks are a major source of human resources for the Obama administration. Their closeness to the new Democratic administration increases their clout, and the heightened chances that their proposals will be implemented helps them attract additional talent. The conservative-leaning think tanks, meanwhile, are feeling the combined effects of the Republicans' loss of power and the economic downturn.

Obama has promised to end the traditional way of doing politics in Washington, where special interests have long held sway. But we can be sure that, as the government moves to implement the massive economic stimulus that had been enacted—a package almost as big as Japan's entire general account budget—we will see many lobbyists pressed into service in pursuit of benefits for their corporate clients. Also, in a reversal of the deregulatory trend of the past eight years, the administration is certain to impose tighter controls on the financial sector and in the fields of the environment and energy, and it will probably have to outsource some of the additional work that this will entail. This raises the prospect

that those who have lost their government posts with the change of administration, along with young conservatives searching for jobs, may be able to find employment somewhere in the broad field of government-related work in Washington.

Nationally, the US real estate market is in the pits. But thanks to the inflow of people looking for jobs in the administration and think tanks, sales of homes in parts of Washington offering convenient access to government offices are actually up, albeit only slightly, from their year-earlier levels. And Washingtonians are looking forward to livelier times under the new president, who in many ways is the diametric opposite of his teetotaler, homebody, early-to-bed predecessor.

■ *Ryota Yoshimura, Washington, March 3, 2009*

Saudi King Abdullah sets a reform course

On February 14 King Abdullah bin Abdel-Aziz al-Saud of Saudi Arabia ordered the first reshuffling of the cabinet since his accession to the throne in 2005. The king appointed four new ministers and named three deputy ministers of education. In addition, he overhauled the judiciary and law-enforcement administration, including the Supreme Judicial Council and the religious police, replaced many members of the Consultative Council, and named a new governor of the central bank. A US risk-assessment firm judged the king's moves to indicate that he has reasserted control and shown his intention of implementing reform after an extended period of hesitation, during which the conservative Wahhabi forces wielded great influence

over the kingdom's institutions. In order to modernize the economy and create the 150,000 new jobs that the country needs every year, it is essential to reform both the educational system and the system of justice. King Abdullah is seen as having started to tackle this agenda.

Saudi Arabia espouses Wahhabism, the most conservative form of Islam, as its national creed. As a February 16 article in the *Financial Times* reported, Saudi judges hand down their rulings on the basis of their understanding of Islamic law, leaving no history of cases to serve as precedents; the trial proceedings are closed to the public, and judicial decisions are not published. The article noted that King Abdullah had addressed frustration with this state of affairs by firing the head of the Supreme Judicial Council, who had been opposing reforms and efforts to codify Islamic law. In addition, the king for the first time appointed an Islamic affairs minister who is not descended from the founder of Wahhabism.

Another move of note is the appointment of the first woman to hold a cabinet post as deputy minister of education for girls.

At the same time, however, there are concerns about the possible reaction. As the same US risk-assessment firm points out, the conservative Wahhabi leaders are liable to view the appointment of a woman to the cabinet as a threat to their influence, and it is possible that we will see a new phase in the struggle for power, pitting conservatives against reformists. This could heighten the infighting over the royal succession in the face of the declining health of the current heir, Crown Prince Sultan.

■ *Mikio Hayashi, February 28, 2009*

ECONOMIC TRENDS

The Japanese economy has started to show signs of being able to complete the current round of inventory adjustments as soon as April–June in some industries, such as automobiles and electronics, reflecting the effects of sharp production cuts, but there is still no movement toward recovery in either domestic or external demand.

According to preliminary data for October–December, gross domestic product contracted by 3.3% in real terms from the previous quarter, a 12.7% drop on an annualized basis. The pace of the decline was faster than expected, and the start of the new year has brought no indication that it is slowing. The Japan Center for Economic Research has estimated that real GDP shrunk by 1.0% in January, which would make the sixth straight month of contraction; in annualized terms it is close to the same pace as the sharp drop in October–December.

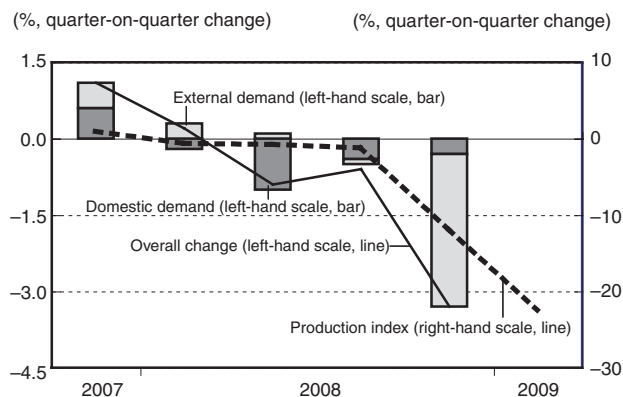
In fact, the index of industrial production for January (as released by the Ministry of Economy, Trade, and Industry on February 27) was down 10.0% from December, and calculations for the January–March quarter based on production forecasts suggest that the pace of decline from the previous quarter will be 22.5%, an even deeper plunge than the 12.0% drop recorded in October–December. Also, real exports, as calculated by the Bank of Japan, declined by 15.7% from the previous month in January, a larger drop than the minus 9.7% figure for December. Real imports contracted by 7.3% in January, but the overall results show that shrinking external demand is continuing to act as a major drag on GDP.

In the United States, uncertainty about future prospects has been growing. There is no end in sight to the deterioration in the real economy, and the financial sector has been hit by another round of instability, marked by talk of nationalization of major financial institutions.

On February 17 the American Recovery and Reinvestment Act of 2009 was signed into law; it is a massive economic stimulus package of \$787.2 billion, amounting to 5.7% of GDP. One quarter of the stimulus is due to be applied by this September and half by September 2010. Since the greater part of the demand-creation effect will not come until next year and thereafter, even this huge stimulus will do little to halt the current sharp decline in demand.

In China, the composite index of the Shanghai Stock Exchange has climbed 18% since the start of the year, becoming the only major stock price index to recover

Real GDP Growth, Japan



Sources: Cabinet Office; Ministry of Economy, Trade, and Industry; Sumitomo Shoji Research Institute.

Note: The figure for the first quarter of 2009 (end of graph) is the outlook.

to its level prior to last September's Lehman shock. The government has announced a two-year, 4-trillion-yuan stimulus package as part of its commitment to maintaining 8% annual growth; there are strong hopes that this, along with the relaxation of export controls, quantitative monetary easing, and moves to rein in the rise of the yuan, will lead to an upturn.

Members of the Association of Southeast Asian Nations have seen inflows of foreign investment start to decline again, and they are feeling a stronger sense of deceleration in their economies. ASEAN countries have become tied into international networks of production, particularly for products like automobiles and electronics, and the simultaneous global downturn has therefore hit them in the form of sharp drops in production and exports. Singapore and Thailand seem to be especially prone to impact from the US downturn, since a large share of their exports is in the form of electronic goods and other finished products for export to developed countries. Meanwhile, Indonesia, Malaysia, and the Philippines seem more likely to feel the effects of slower growth in China; these countries depend more on exports of producer goods and capital goods to China and other countries within the region. If in the period ahead China's economy picks up while the downturn in the United States drags on, we should accordingly be prepared to see differences in economic performance within ASEAN.

■ Soichi Okuda, March 5, 2009

INDUSTRY TOPICS

The great potential of “life log” businesses

There are already many businesses on the Internet that allow ready access to and use of logs—records of various types of activity, behavior, and other information. The best-known use of logs is the “recommend” function. At Amazon.com, the online retailer that pioneered the use of this function, logs of customers’ previous purchases and the history of their searches are used as the basis for effective recommendations, such as “Customers who bought this item also bought . . .” followed by displays of the additional products in question. This has led to increased sales.

Recently much attention has come to be focused in particular on what are called “life logs.” These are logs that record information of all sorts arising in the course of everyday life, storing it in the form of digital data. Mobile phone companies are now making active use of life-log information for business purposes. Mobile phones make it possible to gather life logs covering such areas as use of GPS (Global Positioning System) data, transactions using noncontact card readers, online sites accessed, and personal phonebooks. Analyzing the accumulated data makes it possible for the mobile phone operators and business partners to offer new services and to conduct marketing more effectively.

NTT DoCoMo, Japan’s biggest mobile phone company, launched a new service called “i-concier” last November (“concier” is a shortened form of “conciierge”). At present this service is fairly limited in scope: It allows mobile phone users to sign up on their own initiative and provide their own information, based on which they can receive transmissions of related information. For example, they can sign up to receive bulletins about the state of operations on train lines that they designate. In the future the plan is to extend this system,

using information about the user’s activities and interests, along with other information that has not been visible up to now, to offer services that will support the user’s everyday life in an optimal, timely manner. For example, if it becomes apparent that the user regularly buys a certain magazine every month, when he or she happens to pass in front of a bookstore i-concier will be able to send an alert in the form of a message saying something like “This month’s such-and-such magazine, which you always buy, was published today. Do you want to buy it now?” Before long, i-concier may also be able to notice that the user has been working overtime for a number of days and to send a message saying, “Would you like a relaxing massage?” along with a discount coupon for a nearby massage facility. In an age where people are drowning in a flood of information, this new system can be seen as representing a revolutionary new approach based on “push” rather than “pull” for the provision of relevant information services.

There are, however, some serious problems standing in the way of full-fledged introduction of life-log services. The biggest concern is that they will lead to the invasion of people’s privacy. A study group within the Ministry of Internal Affairs and Communications is now working on a new set of rules to be applied to these services; it is aiming to complete the process by this summer or so. If appropriate safeguards can be established, systems based on life logs have the potential to use information with unprecedented sophistication and create highly innovative services for users.

■ *Saeko Yamazu, March 2, 2009*

Sumitomo Shoji Research Institute, Inc.

1-8-11 Harumi, Chuo-ku, Tokyo 104-6136, Japan

Tel: +81-3-5166-3181 Fax: +81-3-5166-6201 E-mail: econo@sumitomocorp.co.jp

World Focus is a monthly publication of Sumitomo Shoji Research Institute, Inc., a member of the Sumitomo Corporation Group, with reports on economic and market trends in Japan and other countries around the world. *World Focus* is also available on the Internet (<http://www.sumitomocorp.co.jp/english/special/wf/>). If you have any questions or suggestions concerning this publication, please do not hesitate to contact us.

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