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VIEWPOINT

A Decade into the Twenty-first Century

Time certainly flies. Here we are already in February, a month into the new year and halfway through the winter. It is a season when I enjoy glimpsing snow-covered Mount Fuji from the window of my commuter train. And here we are already 10 years into the twenty-first century. What a tumultuous decade it has been—with the 9/11 terror attacks, the war in Iraq, the SARS outbreak, avian and swine influenza, the Lehman shock, . . .

Probably the prime examples of faster-than-expected change so far this century are China's rise and the progress in information and communications technology. We have reached the point where no discussion of the world economy is complete without mention of China, and in the view of the risk consultants of the Eurasia Group, US-China relations are the biggest area of potential risk in the year ahead. In fact, this bilateral relationship is sure to be a focal point not just this year but throughout the coming decade.

In this age of rising uncertainty, people look for guidance from forecasts. Reading the future is crucial for both governments and businesses as they formulate strategies and lay plans for crisis management. Royal Dutch Shell's energy scenarios are quite well known, and various government organs in Western countries publish their own outlooks. Just recently I came across two interesting ones—the scenarios published by the US National Intelligence Council and National Oceanic and Atmospheric Administration. Both contained much food for thought.

I have also been following with interest the series in the daily *Asahi Shimbun* that started on January 22, consisting of follow-ups on the predictions that experts made at the beginning of the century concerning the scientific and technological advances that would be made by 2010. The stories so far have dealt with the fields of the life sciences; robotics; earth, space, and the physical sciences; and information and industrial technology. Overall, the forecasts seem to have been surprisingly accurate.

On January 26 the Japanese government submitted a statement to the Secretariat of the UN Framework Convention on Climate Change declaring Japan's willingness to reduce its greenhouse gas emissions by 25% from the 1990 level by 2020, "premised on the establishment of a fair and effective international framework in which all major economies participate and on agreement by those economies on ambitious targets." The year 2020 may seem a long way off, but it will be here sooner than we think. How will the structure of the global economy change between now and then? What further progress will be achieved in environmental and energy-saving technologies? Uncertainties abound, but the issues involved in coming up with a post–Kyoto Protocol framework to deal with climate change are an encapsulation of the issues today's world faces. And one thing that we can be sure of is that the decade ahead will bring totally unexpected new developments that will amaze us.

Looking further ahead, I find it endlessly fascinating to imagine how the human race will be living at the end of the twenty-first century. Medical science will doubtless continue to advance, and human life spans will doubtless continue to grow longer—but not long enough, I fear, for me to witness the end of the century myself.

■ ***Akio Okawara, February 5, 2010***

ON OTHER PAGES

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.

Uzbekistan: Oasis of opportunities for foreign investment

Uzbekistan is a country with a very long history. It has well-preserved relics from the time when it lay at the heart of the Timurid Empire, serving as the main educational and trade center on the Silk Road—the trade route between East and West. Some of its cities, such as Samarkand, Bukhara, and Khiva, have been inscribed by UNESCO on the World Heritage list and thrill the imagination of the West as symbols of Oriental beauty and mystery.

Today, the political and economic situation in Uzbekistan is relatively stable. Uzbekistan is one of the countries that the world financial crisis has not affected directly. The government is placing importance on modernization and technological upgrading of basic industries. The key strategic direction is to conduct rapid modernization and promote the technical and technological upgrading of basic enterprises from 2009 to 2014. The state program includes 327 investment projects worth $42.5 billion, including $20 billion in investment from abroad.

In the first nine months of 2009, Uzbekistan's gross domestic product increased by 8% from a year earlier, and the volume of investment increased by 28.3%, while industrial and agricultural production grew by 9.1% and 3.3%, respectively.

Uzbekistan's largest investment partner is South Korea. The total volume of investment by South Korea in Uzbekistan has exceeded $2 billion. Although Japan is behind in this respect, it is nevertheless considered one of the country's strategic partners. The Japanese government has extended $2 billion in development assistance credits. And in 2009 the Japan-Uzbekistan Agreement for the Liberalization, Promotion, and Protection of Investment came into force, providing legal protection for Japanese investors.

In 2009 Uzbekistan also created a free industrial economic zone in the city of Navoi, the country's industrial center, providing broad tax incentives for foreign investors. This free zone is designed to promote a wide range of high-tech and internationally competitive production methods, using modern equipment and technological lines.

Although Uzbekistan has chosen a strategic approach to modernization and diversification of its economy, there are many tasks lying ahead, notably in the area of infrastructure modification. Nevertheless, today Uzbekistan is truly becoming a land of great opportunities for foreign investors—our market is open to anyone who wants to invest and profit from the further development of this oasis country.

■ ***Sabirov Iskandar, Tashkent***

Pakistan: Continuing Confusion

The administration of Pakistan's President Asif Ali Zardari, inaugurated in September 2008, has been having a rough time governing. The National Reconciliation Ordinance, under which the president and others were free from prosecution for past corruption, expired last November, and in December the Supreme Court ruled it unconstitutional; these recent developments have been shaking the administration's stability. The president is immune from prosecution under the constitution, but there is a possibility that Zardari's eligibility at the time of the presidential election will be challenged, and depending on developments in the cases against cabinet ministers, there are fears that the administration's leadership and implementation capabilities may be sapped. Public support for the president has plummeted.

While the political situation remains unsettled, the biggest domestic issue for Pakistan is improvement of the security situation. Tensions with India, which became heightened in the wake of the simultaneous multiple terrorist attacks in Mumbai in November 2008, have relaxed. But military operations against armed Taliban forces in the northwest have been continuing since April last year. A major cleanup operation against the Taliban forces in South Waziristan, where they are seen as having a stronghold, was launched last October. But the chances are great that the operation will be difficult and prolonged.

Pakistan has been receiving international support in the fight against terror. The administration of US President Barack Obama last September secured passage of legislation providing a total of $7.5 billion in aid to Pakistan. In April last year Japan pledged to provide up to $1 billion in assistance over the coming two years, and under the "new strategy to counter the threat of terrorism" that it announced in November, the government expressed its intention of implementing this aid promptly.

The situation in Pakistan is extremely harsh, and we cannot be sure what may lie ahead. But it is a big country, with an area twice the size of Japan and a hard-working population of 170 million people. If only its political and security situations can be stabilized and proper policies implemented, it is certainly possible that this country will achieve substantial economic growth in the future.

■ ***Shunichi Katagiri, Karachi***

Dubai: Hopes for a recovery

Dubai had been achieving a growth rate of close to 10% a year ever since 2003, powered largely by real estate development, but with practically no petroleum resources, it was hit harder than its oil-producing neighbors by the waves from the 2008 Lehman shock. Construction work was halted on some projects, but work on other projects continued, and on September 9 last year a section of the emirate's new subway went into operation—one sign that the economy was on a path toward recovery. But then, at the end of November, the government announced that it was seeking to delay repayments on some $59 billion borrowed by state-controlled companies—news that rocked financial markets around the world.

The repayment of $4.1 billion of Islamic bonds due from one of the companies, Dubai World, on December 14 was made with help from the government of Abu Dhabi. But Dubai World is said to have more than $20 billion in debts to be repaid within the next three years, and observers are closely watching the progress in talks with creditors.

In the wake of the financial crisis, considerable numbers of Westerners and South Asians who had been working in Dubai have reportedly returned home, but the emirate continues to serve as a major Middle Eastern hub: Passenger volume at Dubai International Airport was up by more than 10% last year, with some 40 million people using it during the course of the year. And the shock from the request for delayed debt repayment has been alleviated by the government's move to clarify the scope of the debt in question.

On January 4 this year a grand ceremony was held in Dubai to mark the completion of the 828-meter Burj Khalifa skyscraper. Following the Lehman shock many in Japan tended to view the emirate as being on the verge of collapse, but in fact some companies have been making regular profits. Lacking natural resources, Dubai achieved rapid growth through investment in such fields as finance, logistics, tourism, and real estate, and—provided the prospects for debt repayment by some state-affiliated firms can be clarified—the flow of funds from the West is likely to resume.

■ ***Masao Nakamura, Dubai***

Kitakyushu, Japan: Aiming to be the "world capital of sustainable development"

Kitakyushu is the second-largest city on the island of Kyushu, topped only by Fukuoka. It is an industrial city, with a major concentration of automobile manufacturing. Its advantageous location at the western end of Japan's Pacific coastal belt and relatively close to China and South Korea allows it to serve as the junction between Japan's manufacturing belt and the rest of Asia, and it has two international logistics facilities: Hibiki Container Terminal, the biggest domestic terminal of its kind on the Sea of Japan coast, and Kitakyushu Airport, a 24-hour facility that opened in 2006. Making use of these advantages, the city has been constructing an advanced model as an integrated base in Asia not just for ordinary logistics but also for collection and transport aimed at the reuse and recycling of manufactured goods and finished products.

The Hibikinada district facing the Sea of Japan includes a concentration of recycling industries and wind power generation facilities, and the municipal government has launched the Kitakyushu Ecotown Program, aiming to lead in the building of a recycling-oriented society. Through this program Kitakyushu has contributed to other countries based on the experience and technologies that have been accumulated in overcoming pollution, and it has also hosted many trainees from other countries seeking to learn environment-related technologies. In July 2008 the Japanese government designated Kitakyushu as an Eco-Model City. In May of the same year, the mayors of Kitakyushu and the Chinese city of Tianjin signed a memorandum on cooperation in the field of recycling; then, following the testing of resource recycling with assured traceability, in December last year a private-sector traceability certification organ was established, and efforts have begun aimed at establishment of an international resource loop in which composite plastic wastes from Japan will be recycled in China. Companies from the two cities are also moving ahead with cooperation in the area of automobile recycling.

In addition, last December the city concluded an agreement with Nissan Motors to promote the spread of electric vehicles. Through efforts of this sort, Kitakyushu is working toward achievement of its proclaimed goal—to be the "world capital of sustainable development."

■ ***Hidetoshi Tomiyasu, Kitakyushu***

WORLD OPINION

China's outward investment grows along with the inward flow

On January 15 China's Ministry of Commerce announced that the country's outflow of foreign direct investment (excluding the financial sector) came to $43.3 billion in 2009, up 6.5% from the previous year. Meanwhile, the inflow of nonfinancial FDI into China slipped 2.6% to $90.0 billion, reflecting the impact of the global financial crisis.

Ever since it stepped up its reform and open-door policies in 1992, China has succeeded in attracting a growing volume of direct investment from abroad, using its low labor costs and huge domestic market as drawing cards. The volume of inward FDI, which amounted to just $11.0 billion in 1992, grew more than eightfold over the 17 years through 2009.

Meanwhile, since 2006 China has been actively investing overseas. In 1992 total outward FDI was $4.0 billion, but the amount has been surging since 2006, when it reached $17.6 billion, followed by figures of $24.8 billion in 2007 and $41.9 billion in 2008—a pace of growth topping 40% a year. The modest increase of 6.5% in the total figure for 2009 may be attributed to the falling through of the planned $19.5 billion acquisition of the shares of Rio Tinto, an Anglo-Australian mining giant, by Chinalco (Aluminum Corporation of China).

As of the end of 2009, China had foreign currency reserves of $2,399.2 billion, up 23.3% from a year before. Using this huge and growing store of funds just to buy US securities is definitely risky, and so diversification is an urgent task. The China Investment Corporation, a sovereign wealth fund established in 2007, has been undertaking FDI, and the government is encouraging domestic firms to develop international operations, using acquisitions as the main tool. The objective of this outward FDI is to acquire advanced technologies, sales networks, and energy and mineral resources.

As of the end of 2008, 8,500 Chinese enterprises had established 12,000 subsidiaries in 174 countries or regions around the world; they had invested a cumulative sum of $184.0 billion in these operations. China's outward FDI activities are sure to continue around the world, and Japan is bound to be among the targets.

■ *Yutaka Kitamura, January 28, 2010*

Planned division of Andhra Pradesh rocks India

On December 9, India's Home Minister Palaniappan Chidambaram announced the government's intention of initiating procedures aimed at dividing the southeastern state of Andhra Pradesh into two and establishing Telangana as a separate state. Similar demands for the creation of new states have been heard in other parts of India, and the minister's announcement was followed by more vocal calls for such moves.

In protest against the proposal, 130 of the 175 members of the state's Legislative Assembly submitted their resignations. On January 20 and 21, the pro-Telangana camp orchestrated a general strike in Hyderabad, the state's capital, which is India's sixth-largest city and is located within the Telangana region. University students in favor of the move clashed violently with police, and the Joint Action Committee of the pro-Telangana camp called on residents to stop paying their taxes and utility bills.

In the view of one US-based think tank, it will probably take at least a year before there is any significant progress toward formation of a separate state of Telangana. And if the Congress Party decides to establish a "states reorganization commission" to consider this and similar proposals affecting other states, the process could take years. The timing of the next general election at the national level, which is to be held by 2014, may be a factor shaping the party's decision on how to proceed. Hyderabad is a hub for biotechnology, pharmaceutical, and information-technology sectors, and it has some of India's best universities and research institutes. So nobody wants to put the city at risk.

An article in the *Financial Times* on December 18 noted, "Unlike most other bifurcation claims, the battle over Telangana is about wealth, not language or ethnic divisions, nor dramatic differences in geography," observing that a key factor has been the large-scale investment in the Telangana region by wealthy people from the coastal Andhra region since the 1990s.

On February 3 the Indian government established an expert committee to consider this issue. The authority of the committee is not clear, but it can be expected to take a period ranging from several months to several years in order to reconcile the various conflicting interests and move to create the new state. There is thus likely to be further unrest in the period to come.

■ ***Kanji Ishitsuka, February 3, 2010***

ECONOMIC TRENDS

The Japanese economy has been picking up thanks to the strength of exports to China and other Asian countries and to the effect of stimulus measures, such as the “eco-point” incentives for energy-efficient appliances and “eco car” tax breaks for fuel-efficient autos. According to the trade statistics released by the Ministry of Finance on January 27, exports in December topped the year-earlier level for the first time in 15 months, rising 12.1%. US-bound exports were down 7.6%, marking the 28th straight month of year-on-year declines, but those to China surged by 42.8%, largely powered by growth in shipments of chemical products and electronic parts, including semiconductors. And exports to Asia as a whole rose for the second straight month, advancing by 31.2%. Exports to the European Union grew for the first time in 17 months, albeit by a modest 1.4%, thanks mainly to increased shipments of automobiles. The margins of increase appear inflated because the comparison is with December 2008, when export levels were depressed in the wake of the Lehman shock, but the upward trend is real, and the external-demand-led recovery is likely to continue, with exports to other Asian countries serving as the engine.

In the United States, figures released by the Department of Commerce on January 29 showed gross domestic product in October–December to be up 5.7% in real, annualized terms from the previous quarter, a far stronger figure than had been expected. But as much as 3.4% of this consisted of inventory investment, reflecting the completion of a round of inventory trimming. Also, external demand, which had pulled down the growth rate in the previous quarter, made a positive contribution of 0.5% this time. Domestic final demand, excluding inventory outlays and external demand, grew at an annualized rate of only 1.7%, down from the 2.3% figure for the July–September quarter.

The euro area has seen a rise in sovereign risk among the so-called PIIGS—Portugal, Italy, Ireland, Greece, and Spain. These countries have high unemployment combined with twin deficits in their government finances and current account balances. By comparison with Japan, which continues to run a current account surplus, they face heavy pressure to tighten up their fiscal policy.

China’s real GDP growth rate for October–December came to 10.7% year on year, the first double-digit figure in six quarters. For 2009 as a whole the growth rate was 8.7%, meeting the government’s target of achieving growth of around 8%. Policy measures to stimulate consumption have helped domestic demand to show strong growth, and exports, which had been lagging, have also been showing signs of recovery. But inflationary pressure has been gradually building up alongside the rise in asset prices, reflecting the strength of consumer spending; the consumer price index for December was up 1.9% from a year before.

In January the International Monetary Fund issued a revision of its October 2009 World Economic Outlook, upgrading its forecast for growth of the global economy in 2010 by 0.8 percentage points to 3.9%. The IMF sees the expansion continuing in 2011, with the growth rate reaching 4.3%, a level close to that before the Lehman shock. It forecasts ongoing sluggishness in most of the advanced economies, where growth rates are expected to remain slower than in the past because of the lingering effects of the financial crisis, but it sees strong domestic-demand-led expansions continuing in most of the emerging and developing economies, helped by large-scale stimulus measures.

■ ***Soichi Okuda and Ayako Tanabe, February 3, 2010***

The IMF’s World Economic Outlook , January 2010

(annual growth, %)

	2008	2009	2010	2011
World	3.0	–0.8	3.9	4.3
Advanced economies	0.5	–3.2	2.1	2.4
Japan	–1.2	–5.3	1.7	2.2
United States	0.4	–2.5	2.7	2.4
Euro area	0.6	–3.9	1.0	1.6
Britain	0.5	–4.8	1.3	2.7
Other	1.7	–1.3	3.3	3.6
Asian NIEs	1.7	–1.2	4.8	4.7
Emerging and developing economies	6.1	2.1	6.0	6.3
Developing Asia	7.9	6.5	8.4	8.4
China	9.6	8.7	10.0	9.7
India	7.3	5.6	7.7	7.8
ASEAN-5	4.7	1.3	4.7	5.3
Africa	5.2	1.9	4.3	5.3
Central and eastern Europe	3.1	–4.3	2.0	3.7
Commonwealth of Independent States	5.5	–7.5	3.8	4.0
Russia	5.6	–9.0	3.6	3.4
Middle East	5.3	2.2	4.5	4.8
Western Hemisphere	4.2	–2.3	3.7	3.8
Brazil	5.1	–0.4	4.7	3.7

Source: International Monetary Fund, World Economic Outlook, January 2010.
Notes: Figures for 2009 are estimates and figures for 2010 and 2011 are projections. The assumed price of oil based on future markets (simple average of the prices of U.K. Brent, Dubai, and West Texas Intermediate crude oil) is $62.0 a barrel in 2009, $76.0 in 2010, and $82.0 in 2011.

INDUSTRY TOPICS

Touchscreens: A market poised for explosive growth?

Touchscreens have become an indispensable element of our everyday lives in recent years. They are a standard part of the automated teller machines at banks and the ticket vending machines at train stations, and we also find them on our copiers, fax machines, and other office equipment. Now they seem to be poised for another burst of growth thanks to advances in the fields of mobile phones and personal computers.

The mobile phone market is undergoing a transformation with the emergence of the iPhone and other "smartphones." By using touchscreens, makers of these devices have eliminated the need for physical keys, which allows them to offer larger displays. In addition, the touchscreens make it possible for users to operate the devices more intuitively. Thanks to these advantages, smartphones have been attracting new users at a rapid clip ever since they came out. As they offer a dramatic advance in the usability of today's increasingly complex, multifunction mobile handsets, these phones are likely to draw growing numbers of users on a global scale in the period ahead.

In the PC field, meanwhile, the arrival of Windows 7, the new operating system that went on sale last October, is serving as a major impetus for the spread of touchscreens. The key point is the "multitouch" technology that is also used on smartphones. In the case of traditional touchscreens, information input is limited to touching particular spots one at a time. With multitouch, by contrast, a user can, for example, shrink a window on the screen by "grabbing" it with the thumb and forefinger and squeezing the two together or enlarge it by grabbing it and spreading thumb and forefinger apart. It allows an extremely intuitive sort of manipulation.

The population of PC users has continued to grow, including increasing numbers of seniors, and it is becoming difficult for ordinary users to master all the ever-more complex and advanced functions that computers offer. It has thus become increasingly important to provide them with ways of using their PCs intuitively without having to wade through a thick manual. In this context, it seems quite possible that PCs equipped with multitouch-capable touchscreen displays will spread at an explosive rate from now on.

That is not to say that everybody is optimistic about the future of the touchscreen market. Some people point out that multitouch is still a very young technology and suggest that demand may turn flat once the first round of early adopters have made their purchases. And there are questions about how far demand is likely to spread beyond the fields of smartphones and PCs.

The key to the expansion of the market for touchscreens may well lie in the area of software development. It seems likely that the crucial question will be whether developers can achieve advances in creating user-friendly interfaces that will allow ordinary people to tap the functionality of devices intuitively without having to check a manual for detailed instructions on how to perform particular operations.

Will the touchscreen industry enjoy explosive growth in the near future, as many hope? Or will it end up marking time, as some fear? The answer may depend on how successful software and product development teams are in their efforts to come out with devices that will appeal to consumers as soon as they are launched. Initial reactions are likely to have a major impact on subsequent results.

■ ***Eiki Tagami, February 2, 2010***

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