

World Focus

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VIEWPOINT

Democracy in the Twenty-first Century

Here we are in June already, and the temperature in Tokyo is rising, making our commutes feel stickier. Meanwhile, the quadrennial World Cup soccer tournament will soon kick off in South Africa, with the feverish competition continuing for a month starting June 11.

The big news in Japan at the moment is the resignation of Prime Minister Yukio Hatoyama. He is the fourth Japanese leader in a row to step down after a year or less in power. Needless to say, this sort of shakiness in the government has a major impact on the economy, which is now depending on policy measures to power the recovery from the Lehman shock. I believe no other major country has experienced such a rapid turnover at the top. This calls into question the shape of Japan's national governance, and it is liable to aggravate the lack of public trust in the political system.

Japan is not the only country where mistrust of politics is on the rise. Changes are occurring even in the United States and Britain, the representative practitioners of two-party politics. In the United States, dissatisfaction with both the Democratic and Republican parties has been fueling the rise of a third force, the so-called tea party movement,

which advocates small government, lower taxes, and reduction of the budget deficit. In Britain, meanwhile, the recent general election produced the first coalition government in 70 years. The last one was the government of national unity during World War II, headed by Winston Churchill from 1940 to 1945.

Churchill famously remarked, "It has been said that democracy is the worst form of government except all those other forms that have been tried from time to time." The word *democracy* is from the Greek *demos* (people) and *kratia* (rule). And the idea of government representing the will of the people is a legacy of ancient Greece. Contemporary democracy is conducted principally through elected representatives, and political parties are commonly the instruments through which the popular will is aggregated and reflected in politics. But now, with the rapid progress of globalization and the dramatic social changes that are leading to greater diversity of opinion, it has become difficult for the established parties to keep up with the changing situation and adequately represent people's wishes; this has contributed to growth in the ranks of independent voters. In the recent election in Britain, the Liberal Democrats won 23%

of the popular vote, but they ended up with fewer than 9% of the seats in Parliament. This discrepancy has led to calls for electoral reform. Though the details of the situation differ from country to country, there is a common need to establish a set of arrangements better suited to the circumstances of the twenty-first century.

The global economy has been greatly shaken by the euro crisis, but the situation in Greece, whose debt problems set it off, seems to have been stabilized for the time being thanks to help from the International Monetary Fund and the European Union. The support, however, is conditioned on the implementation of harsh austerity measures. Will the Greek people, whose forebears created democracy in ancient times, have the wisdom required to cope with this situation under their contemporary democratic government? The answer will have a major bearing on the future of the entire euro zone.

■ Akio Okawara, June 4, 2010

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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.

Turkey: On the rise in a key location

Istanbul has been designated this year's European Capital of Culture. A variety of related campaigns and events have been entertaining the city's residents and also tourists, of whom more than 27 million visit every year. In addition, this year has been designated Japan Year 2010 in Turkey, and various bilateral exchanges are being conducted.

Since US President Barack Obama's visit in April last year, Turkey has been actively pursuing a "zero problems" foreign policy, attracting attention from around the world with its declared intention of extending this diplomatic drive across all of Eurasia. Russia's President Dmitri Medvedev visited in mid-May, and the two countries reportedly concluded an agreement under which Russia will build a nuclear power plant in Turkey. Even more recently, acting in its capacity as a nonpermanent member of the United Nations Security Council, it joined with Brazil in undertaking a major initiative in connection with Iran's nuclear program, reaching an agreement under which Iran's stock of low-enriched uranium would be transported to Turkey. Meanwhile, it has been engaging in lively exchanges of visits by heads of state and government with its neighbors in the Middle East, the Balkans, and the Caucasus.

The Turkish economy has been

recovering at a rapid clip. The growth rate for 2009 was a negative 4.7%, but the figure for the final quarter of the year was a positive 6.0%, and the rate for January–March 2010 is expected to top the 10% mark, with a rate of over 5% predicted for this year as a whole. Turkey's government is now in the hands of the Justice and Development Party (AKP), an Islamic party, and buoyed by this successful economic performance, it has been increasing its clout and emerging as a new center of the Islamic world.

In *The Next 100 Years: A Forecast for the 21st Century*, George Friedman suggests that Turkey, given its geopolitically important position in the middle of Eurasia, will become the hub of regional trade and emerge as the hegemon in its region by the mid-2040s. The country's recent performance makes even this bold prediction seem realistic.

■ *Teruo Tachi, Istanbul*

Colombia: Investors attracted by improved domestic order

The administration of Colombia's President Alvaro Uribe, in power since 2002, has been working to restore domestic peace; thanks to these efforts, the antigovernment guerrilla force calling itself the Revolutionary Armed Forces of Colombia (FARC) has been reduced to less than half of its former scale, and the numbers of terrorist bombings, kidnappings, murders, and other vicious crimes has been declining year by year.

Ever since his inauguration, President Uribe has been striving to improve Colombia's economy by re-

storing public order so as to improve the investment environment and attract foreign investors. Foreign investment in the first half of the past decade totaled about \$2 billion a year, but in 2008 it topped \$10 billion, a record high, and though the figure dipped in 2009 because of the global downturn, this year it is progressing at a pace that will outstrip the 2008 record. The bulk of the investment is in natural resources, notably crude oil and coal. Production of crude oil, supported by both foreign investment and vigorous outlays by the national oil company, is expected to reach 750,000 barrels a day.

The election for a successor to President Uribe is being conducted this May and June. The leading candidates have indicated that they will carry on with the policies of the Uribe administration or reform them constructively; thus, the inauguration of a new president in August will probably not change the situation greatly. Colombia has been maturing politically, and it has achieved a fair degree of economic and social stability. The country is thus a suitable target for foreign investment.

One problem that Colombia faces is its relationship with neighboring Venezuela. Last year Venezuela's anti-American President Hugo Chávez was enraged by Colombia's agreement with the United States to allow US forces to use seven of its airports, and trade between the two countries has come to a virtual halt. This is a serious concern, inasmuch as Venezuela has traditionally been second only to the United States as a destination for Colombia's exports.

■ *Shuichi Koyano, Bogotá*

Will Canada's oil sands save the United States?

Canada has the world's second-largest reserves of crude oil, topped only by Saudi Arabia. This is because oil sands are included in the measurement. "Oil sands," as the term indicates, consist basically of sand that includes a significant amount of oil, but in appearance and smell they are like the asphalt used to pave roads.

When people think of Canada, they tend to have visions of a country with beautiful mountains and lakes. Oil sands, however, cannot be called beautiful by any stretch of the imagination, and developing them inevitably causes environmental problems, on top of which it is a costly undertaking. But the recent rise in the price of crude oil has made this tarry substance the target of much attention.

The United States depends on imports for roughly half the crude oil it consumes. Over the past decade 60%–70% of these imports have come from five countries: Canada, Mexico, Saudi Arabia, Venezuela, and Nigeria. Canada was the top source in 2009, accounting for 21% of total imports, and half of this supply was from oil sands. The Obama administration is aiming to reduce America's dependence on foreign oil, but about 30% of the country's current production of oil is in the Gulf of Mexico, and the massive BP oil spill there may have a major impact on US energy policy. A report published by IHS Cambridge Energy Research Associates suggests that Canadian oil sands will account for 20%–36% of US oil imports by 2030.

Meanwhile, the development of oil sands is continuing to increase Canada's emissions of greenhouse gases, and this was one reason for

its decision to withdraw from the Kyoto Protocol in 2007. Now both the federal government and provincial governments are coming out with various measures to combat global warming, and private-sector businesses are getting into the act with efforts to develop relevant technologies, aiming to tap the country's oil sands in a more environment-friendly manner.

■ *Yasushi Tago, Calgary*

Chubu, Japan: Forests and mountains

Japan's Chubu region consists of four prefectures with lively manufacturing sectors: Aichi, Gifu, Mie, and Shizuoka, but it also boasts a 70% ratio of forests to total area, higher than the national average of 60%.

Late last year the national government came out with a plan for the revival of the domestic forestry industry, setting a target of 50% self-sufficiency in lumber in 10 years' time. This revival plan cites the maximum use of timber as a key agenda item, calling for the tapping of resources becoming available from forests planted after World War II, as well as for the ongoing use of forests' multiple functions, including their roles in the recharging of water sources, mountain conservation and flood control, and the preservation of biodiversity.

Organizations around the country, including local government bodies and nonprofits, are undertaking a broad range of initiatives relating to forests. The Chubu region is no exception. For example, the city of Toyota in Aichi Prefecture, where Toyota Motors has its headquarters, has taken to calling itself a "forested city"; following its 2005 merger with neighboring municipalities, it now covers an area of 92,000 hectares, of which 63,000 hectares, or 68% of

the total, is forests. The city considers its forests to be an important foundation for the lives of its citizens, and it is working to develop them as disaster-resistant woodlands serving as a source of an abundant supply of water. As part of this effort, the municipal government is operating what it calls the Toyota Forest School, aiming to familiarize as many citizens as possible with the city's forests and forestry industry.

Sumitomo Corporation has been holding meetings with the Ministry of the Environment and others concerning forest revival, and it is now preparing to embark on a "Forest (Forestry) Revival Project" together with the Gifu Prefecture federation of forestry cooperatives and others. The forestry cooperatives are finding it difficult to manage the forests alone, and nowadays they are doing only limited thinning, mainly on a subsidized basis, with the result that the unattended state of the forests has become a major problem. We intend to introduce new initiatives conducted by private-sector corporations, such as drawing up watershed blueprints and medium-term production plans based on scientific resource management methods and enhancement of timber production efficiency through moves like the introduction of Toyota production methods in forestry.

■ *Yuji Toda, Nagoya*

WORLD OPINION

Ordos City: A mirage rising in the Chinese desert?

The city of Ordos is located on the outer edge of the Gobi Desert 170 kilometers southwest of Hohhot, the capital of China's Inner Mongolia Autonomous Region. It has 1.5 million residents, just 6% of Inner Mongolia's total population, but it accounts for more than 20% of the gross regional product (GRP), and it has been contributing greatly to the region's economic growth. Furthermore, its per capita GRP is higher even than Shanghai's. So the "Ordos miracle" has been attracting attention from all across China.

The GRP of Ordos in 2009 came to 216.1 billion yuan, or about ¥2.9 trillion, and per capita GRP was 134,361 yuan, or about \$20,000. If its economy continues to grow at its current pace, it is expected to top Hong Kong (\$30,000 per capita) within the next five years. In 1978, when China launched its reform and open-door policies, the city's GRP was just 346 million yuan. So the scale of its economy has ballooned by a multiple of 625 between then and 2009, and the per capita figure has surged 391-fold.

This astonishing growth has been made possible by the city's underground resources. It has confirmed reserves of 167.6 billion tons of coal, one-sixth of the national total, and 800 billion cubic meters of natural gas, one-third of the national total, along with 6.5 billion tons of rare earths. The surge in the prices of these underground resources has turned Ordos from a poor rustic community into an affluent city.

The municipal government is

working to attract businesses and develop industries of various sorts to wean the local economy from its dependence on underground resources, and it is now building the Kangbashi New District in the suburbs, covering an area of 32 square kilometers and costing 5 billion yuan (approximately ¥67.5 billion). Six landmark edifices have already been completed, and the municipal government has transferred its offices there. Plans call for the new district to house some 1 million people, but at present it only has 28,600 residents, and the new blocks of condominiums that have been completed one after another are standing empty, causing some to nickname the district a ghost town. Ordos means "palaces" in the Mongolian language; it remains to be seen if and when the Kangbashi New District will live up to this name.

■ *Yutaka Kitamura, May 31, 2010*

The EU seeks expanded access to Latin America

On May 18 and 19 Spain hosted the European Union–Latin America and Caribbean Summit, the sixth in a series of such gatherings held since 1999. The summit was the occasion for the signing of an EU–Colombia–Peru Multi-party Trade Agreement and an EU–Central America Association Agreement, along with approval of lending from the EU for infrastructure development and the establishment of a European Union–Latin America and Caribbean (EU–LAC) Foundation; it was also decided to resume negotiations aimed at conclusion of an EU–Mercosur free trade agreement, which had been on hold since 2004

because of differences over the treatment of the agricultural sector.

When EU started talks with the Mercosur trade block (Argentina, Brazil, Paraguay, and Uruguay), the economies of Latin America were in a downturn, while the EU was enjoying a sustained expansion. Now, though, the tables have turned. As the *Economist* noted on May 13, "Although Europe is still Latin America's biggest aid donor and foreign investor, its trade with the region has grown much more slowly than China's over the past decade. Moreover, the global balance of power is starting to shift to countries like Brazil."

The Mercosur countries have strong agricultural sectors, producing 35% of the world's soybeans and ranking number two in global exports of corn (Argentina), and they hope a free trade pact with the EU will give them access to the huge European market for their farm products. The countries of the EU, meanwhile, are hoping for easier access to the emerging markets of countries like Brazil and Argentina, which are seen as having good growth prospects.

Within Europe, countries with large farming sectors, notably France and Poland, are opposed to an FTA with Mercosur, and there are concerns whether the EU, beset by the fiscal turmoil set off by the crisis in Greece, will be able to engage in trade talks. But an EU–Mercosur pact would give the EU access to all of the markets of Latin America with the exception of Bolivia, Ecuador, and Venezuela. To avoid falling behind the Chinese and other rivals, the EU should move toward prompt conclusion of this FTA.

■ *Yoichi Oizumi, May 31, 2010*

ECONOMIC TRENDS

The Japanese economy is continuing to experience a recovery that relies on external demand and government policy, supported by growth in exports reflecting upturns in economies overseas and by domestic consumer spending. According to figures released by the Cabinet Office on May 20, gross domestic product in January–March 2010 grew by 1.2% in real terms over the previous quarter, an annualized rate of 4.9%. It was the fourth straight quarter of expansion. External demand continued to power the expansion, contributing 0.7 percentage points to the growth rate; this reflected a 6.9% quarterly increase in exports. The breakdown of the GDP figures also showed that the effects of growth in external demand and policy stimulus are spreading to other parts of the economy: Capital investment was up 1.0%, increasing for the second quarter in a row, and residential investment was up 0.3%, rising for the first time in five quarters.

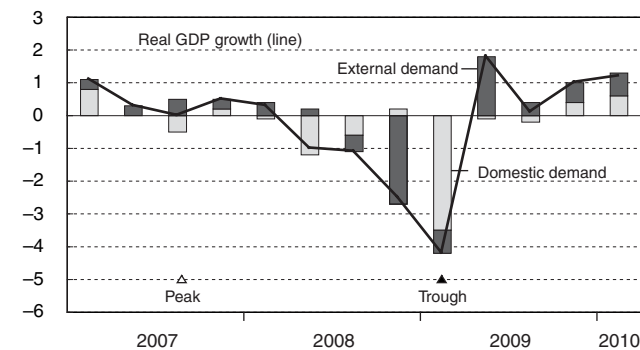
The economy of the United States has also kept up its expansion, with businesses progressing in their trimming of inventories and consumer spending holding firm. New car sales in April came to 11.21 million in annualized terms, topping 10 million for the seventh straight month. And the propensity to consume has been on the rise, as seen in the decline in the saving rate, which has not yet returned to its pre-Lehman-shock level but has dropped considerably from its post-shock high of 6.4%, reaching 3.6% as of April. Unemployment remains stuck in the vicinity of 10%, but total nonfarm employment has been increasing since January this year, and the worst seems to be over in terms of the job picture.

The euro area has recorded a gradual upturn, supported by policy measures and the recovery of exports, but it continues to show less growth momentum than other regions.

China continues to enjoy an expansion led by domestic demand. Consumer spending in particular has been accelerating, reflecting wage hikes and the effects of earlier stimulus measures. Auto sales in January–March were up 77.1% from a year before, and retail sales were up 17.9%. Expo 2010 Shanghai, which opened its gates in May, is also likely to give a boost to demand. The authorities can be expected to consider moving toward tightening of monetary policy by hiking the benchmark interest rate. Meanwhile, the government in May announced that it would reform the system of real estate taxes in stages, once again

Real GDP Growth, Japan

(%, quarter-on-quarter change)



Source: Cabinet Office.

showing its determination to avoid overheating in the real estate market.

India has also recorded ongoing growth. Real GDP was up 8.6% year on year in January–March, topping the 6.8% growth rate of the previous quarter. The pace of expansion in manufacturing accelerated to 16.3%, and agriculture returned to positive growth after a downturn resulting from inclement weather in the previous quarter. Both domestic and external demand seem to be holding up well—car sales grew by 31.9% from the previous year's level in April, while exports registered a 54.1% year-on-year advance in March. The government is forecasting real GDP growth of 8.5% for 2010/11 (April–March).

The economies of resource-exporting countries have been supported by the recovery of global demand for resources since the Lehman shock. Australia was the only advanced country to record positive growth in 2009, with a real GDP growth rate of 1.3%, and Brazil shifted to positive growth in year-on-year terms in October–December 2009. Canada and South Africa also returned to plus figures for GDP in January–March 2010 for the first time in four quarters and five quarters, respectively. In response to this positive performance, the authorities in some countries have been moving to tighten their monetary policy. Given the prominent role China plays as a buyer of resources from around the world, it seems likely that countries will adjust their monetary policy stances with a view not just to domestic conditions but also to the future course of tightening by the authorities in China.

■ Fumio Oi and Ayako Tanabe, June 3, 2010

INDUSTRY TOPICS

The “freemium” model: New territory for free business

These days we are seeing a broadening of the field of free business, meaning the provision of goods and services free of charge. One factor behind this development is the emergence of a new business model that goes beyond the traditional approaches to offering products and services for free.

Up to now there have been two principal models for free business. One was the provision of free samples of products like cosmetics in the hope that consumers would try them, like them, and come back to buy the product in question. The other was the model used by free papers and other media: These are offered to the public at no charge, and the providers make their money by including paid advertising from third parties.

The new model for free business is the “freemium” approach. The word *freemium* is a coinage made up by combining *free* and *premium*. For the most part the freemium model is applied to the provision of services over the Internet: The basic version of a product or service is provided free of charge, and a higher-value-added version is offered at a price. The income earned from sales of the value-added version to paying customers is used to cover the costs involved in creating and supplying the basic version to nonpaying users. One concrete example is the service of showing connections for travelers using public transportation: The basic information on when and where to change trains in order to get from one location to another is offered free of charge, but users must pay if they want supplementary information, such as the scheduling of earlier or later trains.

The freemium model has arisen thanks to the advances in digital technology, which have caused information-processing capability, memory capacity, and communication bandwidth to increase tremendously, pushing down the cost of copying and distributing digital content in large volumes to the point where it is negligible. This is a business model that exists only on the Internet; in the world of physical business it is difficult or impossible to achieve such low costs, and so the model is simply not practical.

In the world of the Internet, further advances in digital technology can be expected to lead to further expansion in the use of the freemium model. At the same time, however, given such factors as the relatively low cost of entry, sooner or later the market may be overflowing with free content, with the result that just offering a product free of charge will not be enough to get people to use it unless it is especially attractive in some way. This will make it all the more necessary for businesses to grasp consumers’ needs accurately and develop and supply better products to meet these needs.

In the case of digital content that is good enough to attract consumers, the key questions will be how far to go with free supplies of the basic version, where to set the cutoff point, and how much to charge for the premium version. Coming up with the right answers will make the difference between success and failure under the freemium business model.

■ *Michiko Imuta, June 1, 2010*

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