

The Need for the Right Response to Globalization

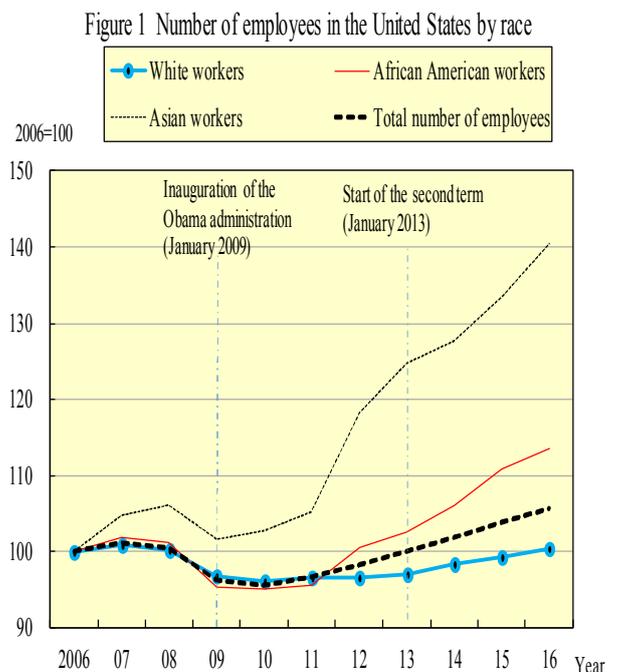
Britain has decided to leave the European Union in a referendum, while the United States has elected the Republican candidate Donald Trump as the next president. Both these events are viewed as surprises and also as victories of populism. However, both events are rather a natural consequence if they are seen as a move to undo the harm of the march of globalization. If that is true, Japan should focus on the same problem in its attempt to overcome deflation, which is also a product of the march of globalization.

Relationship between the Outcome of the U.S. Presidential Election and Globalization

In the United States, Donald Trump, the Republican presidential candidate, beat Hillary Clinton, his Democratic rival, to be elected as the 45th American president in November. Why has Trump been elected as president? I believe that the greatest factor behind his victory is that he focused on the discontent and anxiety over the future among white working-class people, who form the backbone of American society, and called for initiatives to address their problems.

While the true picture of the severe situation of white working-class Americans has not been reported with great accuracy, statistical data throws light on it. **Figure 1** shows changes in the number of employees by race in the past 10 years as published by the U.S. Bureau of Labor Statistics. Over the 10-year period, the total number of employees increased by 5.6% and the unemployment rate fell close to a level considered to represent the state of full employment. However, while Asian and African-American workers have enjoyed the benefits of the improvement, white workers have been left behind to suffer in a severe situation.

By race, the number of Asian workers, who are immigrants mainly from China and Southeast Asia and their descendants,



Source: U.S. Bureau of Labor Statistics

increased by as much as 40.6% over the 10-year period. Although the proportion of Asian workers in the total number of employees is only 6.4% at the moment, their increase raised the total number by 2.6% ($=40.6\% \times 6.4\%$). In other words, their increase accounted for around half of the increase in the total number. The number of African-American workers also rose 13.6% over the 10-year period. As their proportion is 12.4%, their increase raised the total number of employees by 1.7% ($=13.6\% \times 12.4\%$). However, the number of white workers, who account for an overwhelming majority, 81.2%, of the total, grew only 0.4%, which translates into an annual average increase of just 0.04%. Over the 10-year period, nominal U.S. GDP expanded by 33.2%. In other words, white workers have become around 30% poorer in relative terms.

The reason for the near total lack of growth in employment of white workers is that Asian and African-American workers have obtained more and more jobs as they have been willing to accept lower wages.

Moreover, **Figure 1** does not cover the entire American workforce. Hispanics, mainly immigrants from Latin America, accounted for 17% of the total U.S. population of 318 million people in 2014. While 20% or so of the Hispanics are presumed to be illegal immigrants from Latin American countries such as Mexico, Guatemala and Honduras, their exact number is unclear. Children born to illegal immigrants in the United States can obtain U.S. citizenship when they reach the legal adult age, but until then they cannot engage in legitimate jobs due to their illegal immigrant status, which means their jobs are not included in the employment statistics.

Even so, Hispanic illegal immigrants, who account for 3-4% of the overall population, engage in some work or other. As the population growth rate of immigrants over the past 10 years, at 22.9%, is far higher than the growth rate of the population excluding immigrants (7.6%), white workers, who are still a majority, are expected to become a minority force in the 2040s. It is no wonder that white workers have grown increasingly worried that unless this state of affairs is changed under the next government, their future may become more and more bleak. "Hispanics" broadly refers to people from countries with links to Spain and people who speak Spanish, rather than people of specific races.

The United States is a nation created by immigrants, so it has been generous in accepting immigrants. That is all the more reason why white workers have become increasingly worried over their future as they have been exposed to job competition not only with Asian and African-American workers but also with Hispanic workers who are statistically invisible.

White workers' worries are well reflected in Figure 2, which shows changes in the number of deaths per 100,000 people aged 45 to 54. The death rate of Hispanics is on a downtrend in the United States as it is in other countries. However, the number of deaths of white people increased as much as by around 10% between 1998 and 2014.

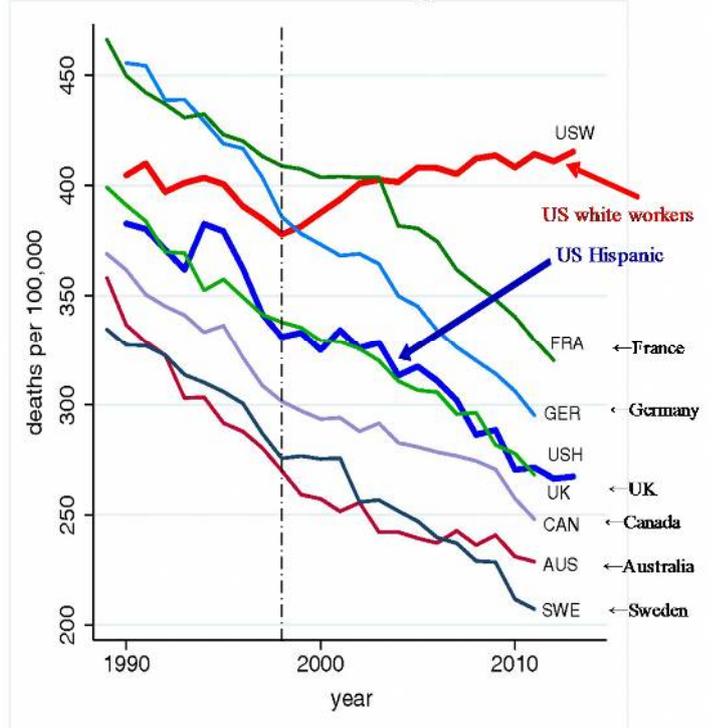
Moreover, as shown in Figure 3, the number of deaths from poisonings related to overdoses of opioid pain relievers has increased steeply in the case of white workers, and the numbers of suicide deaths and deaths from chronic liver problems due to alcohol overdrinking have also risen.

In short, more and more white workers are dying as they are left behind in the severe employment environment and abandon themselves to drug and alcohol addiction in despair. This is precisely harm from the march of globalization.

However, rather than trying to redress this situation, the Obama administration has pursued policies aggravating it. In 2012, the Obama administration announced a deportation amnesty for illegal immigrants who entered the United States when they were aged 15 or younger. In 2014, it announced a deportation amnesty for illegal immigrants who meet certain conditions such as having children who are U.S. citizens.

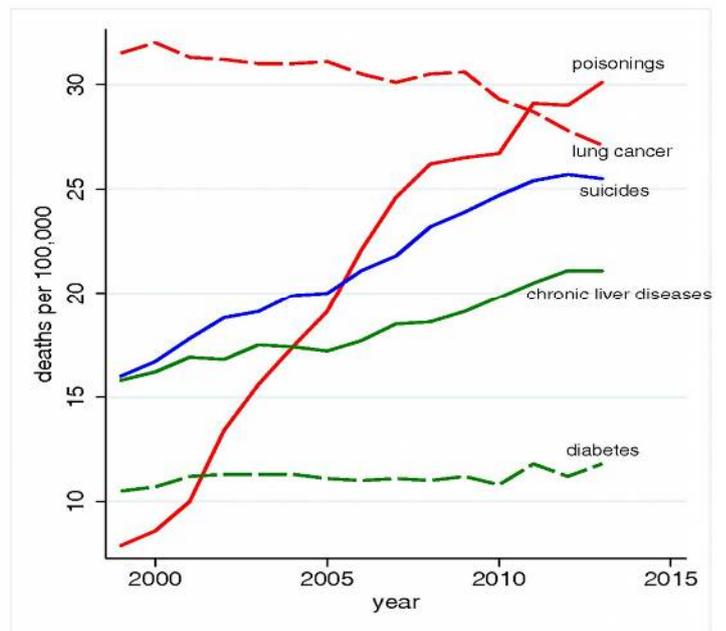
In contrast, candidate Trump made a campaign pledge to improve the

Figure 2 Differences in the death rates of white workers in the U.S. and other categories of workers



Source: Proceedings of the National Academy of Sciences (PNAS)

Figure 3 Death causes of white workers in the U.S.



Source: Proceedings of the National Academy of Sciences (PNAS)

situation of white workers and declared his resolve to make the American economy strong again. He used harsh words and went too far in some cases, drawing negative reactions from far and wide. Still, his proposed policies—deporting 11 million illegal immigrants living in the United States and building a “great wall” along the U.S.-Mexico border—are intended to directly address the immigration problem. He also made the following campaign pledges to stimulate the economy with support for struggling white workers in mind: providing tax exemption to people with annual income of less than 25,000 dollars (approx. 3.1 million yen), realizing a 35% tax reduction for the middle class, lowering the corporate tax rate from 35% to 15% in order to achieve economic growth of 4%, and making infrastructure investments totaling 1 trillion dollars over the next 10 years. Regardless of whether or not these policies are appropriate, there is no doubt that their focus is on the harm of “runaway globalization.”

Relationship between Britain’s Exit from the EU and Globalization

We cannot but say that the outcome of the referendum in June last year on whether or not Britain should exit the EU (Brexit) is also a response to the harm of globalization. Not only the British government but also many media organizations thought it unlikely from the perspective of economic rationality that the British people would opt for the Brexit. However, they voted for the Brexit, and now there is even a mention of the possibility that the EU will not survive.

In Britain, the harm of immigration has been pointed out for some time, with waves of immigrants coming from East European countries like the three Baltic countries and Poland in particular seen as a problem. As many immigrants from the Baltic countries—Estonia, Latvia and Lithuania—have turned out to be young people with a high level of professional expertise in such fields as medicine and law, the job situation of doctors and lawyers has become unstable.

However, as shown in [Figure 4](#), it is not that Britain has a particularly high proportion of immigrants in the total population compared with other developed countries. Germany has the highest proportion of immigrants, 9.3%, followed by Italy with 8.1% and the United States with 7.0%. It is rather difficult to use the immigrant problem alone as a reason for the outcome of the Brexit referendum.

Emmanuel Todd, a French historian and demographer who accurately predicted the British vote for Brexit as well as other events like the collapse of the Soviet Union, the Lehman Shock and the euro crisis, explains the greatest cause of the Brexit as follows in

a recent book, *Mondai wa Eikokudeha Nai, EU Nanoda—21 Seiki no Shin Kokka Ron* (The Problem is not Britain but the EU—A New Theory of Nations in the 21st Century) (Bunshun Bunko). Todd observes that Britain has been affected by globalization almost as much as the United States has been and points to the restoration of the sovereignty by the British parliament, rather than the immigration problem or other factors, as the primary motive for the vote for Brexit.

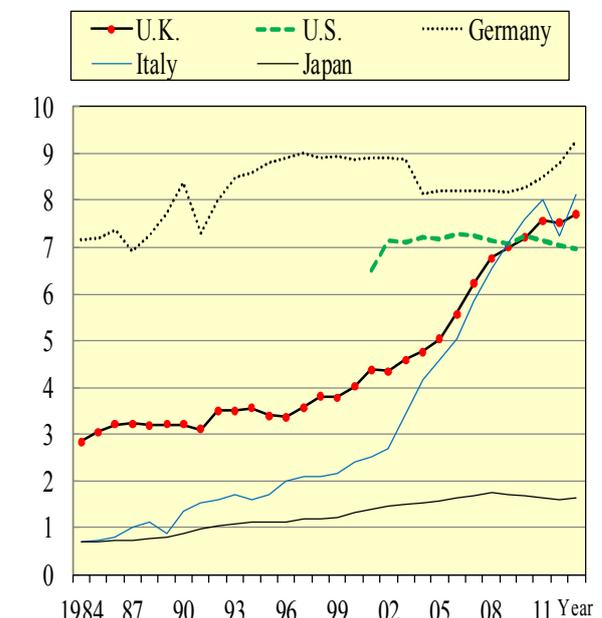
Britain has benefited from its membership in the EU in economic and human resource terms. However, the sovereignty of the British parliament, which the British people had cherished, was taken away by the EU. Regulations have been imposed with respect to even trivial matters

by the European Commission, where unelected politicians appointed from smaller countries like Luxembourg control the levers of power, and by the European Parliament. EU laws have precedence over laws enacted by the British parliament, while the European Court of Justice is superior to the British Supreme Court. As a result of the expansion of the EU membership, the EU bureaucracy has become bloated, resulting in an increase in the time needed for decision-making.

The British economy has been growing most steadily among the European economies, recording a higher pace of growth than the German economy in recent years. The annual real GDP growth rate over the past five years was 1.9% for Britain, 1.2% for Germany and 0.5% for France.

The British, a proud people, could not endure the fact that despite this situation, Germany's intentions carry weight in important policies of Europe as a whole, resulting in a German-centric policy management, according to Todd's argument. Todd also observes in the book that the only important fact among the succession of events that have occurred since the referendum outcome has become clear is that French President François Hollande and Italian Prime Minister Matteo Renzi rushed to Berlin to seek instructions and that this has revealed the reality—that Germany has the final say.

Figure 4 Proportions of immigrants in the total population (%)



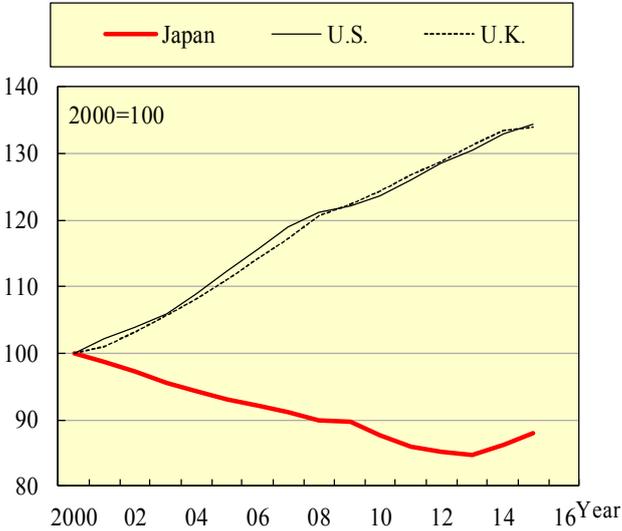
Source: OECD

Relationship between Japan’s Deflation and Globalization

In Japan, the effects of globalization have appeared in the form of deflation since 2000.

Figure 5 shows a comparison of price movements in Japan, the United States and Britain represented by indices with the level in 2000 as the base of 100. While prices in the United States and Britain have consistently been rising, prices in Japan have been trending downward. Japanese companies tried to increase sales volume and revenue by lowering prices because of weak demand in Japan and abroad, and they also reduced wages. As a result, workers became pessimistic about their future, so they could not help but curb consumption, causing Japan to be trapped in a negative circle in which demand, wages and prices continued to decline further.

Figure 5 Prices in Japan, the U.S. and Britain (GDP deflator)



Source: Cabinet office of Japan, U.S. FRB, U.K. Office for National Statistics

The deflation arose because it became impossible for Japan to absorb a rise in the cost of importing oil and other items by raising export prices because of the reduction of the Japanese economy’s capacity to create new demand due to the maturing of domestic demand.

The import price increase was caused by a rise in crude oil prices triggered by the acceleration of emerging countries’ economic growth that came amid the march of globalization (the crude oil price, which averaged 19.7 dollars/barrel in the 1990s, surged to 92.9 dollars/barrel in 2014). Japanese export prices no longer rose sufficiently because of a decline in export competitiveness. In particular, a sharp decline in the export price of electrical machinery, which had the largest share in overall Japanese exports, was the most significant factor (the export price of electrical machinery fell by as much as 57.3% between 2000 and the January-June period of 2016). China, Taiwan and South Korea have come to manufacture and export electrical machinery with commercial value comparable or superior to the value of Japanese machinery. Even so, Japanese companies have been reluctant to take on the challenge of exploring new markets (blue ocean strategy) and have remained stuck in price cut competition. The advance of globalization in terms of

both import and export is the real cause of Japan's economic stagnation and deflation.

If high-wage developed countries are to maintain their competitive advantage in a world of ongoing globalization, they must shift to an economic structure capable of exporting high-value-added products not available from other countries. However, the wrong perception has persisted that if monetary policy is fully eased and fiscal spending is stepped up, the economy will improve and inflationary expectations will grow, leading to a price rise. Japan's structural reform is failing to tackle the real problem. Although it is not wrong to pursue regulatory reform or agricultural reform, that will not strengthen Japan's competitiveness in the global market.

[The Need for the Right Response to Globalization](#)

Globalization has been driving the free movement of people, goods, money and information across the world. If it is successfully kept under control, globalization brings benefits to us. However, if it goes out of control, globalization causes problems where there are vulnerabilities or where there is not sufficient protection. The force of globalization tears through the fragile parts of the economy, just as the energy of magma deep underground breaks through the weak areas of the Earth's crust in a volcanic eruption.

What's important is to understand that the force of globalization cannot be stemmed or changed, identify the cause of globalization's problems and reinforce the points of vulnerability. In the case of the United States, it is essential to correctly understand that the harm of globalization has emerged in the form of the employment problem faced by white workers and address it under the new president. In the case of Britain, it would have been ideal to emphasize the importance of respecting the sovereignty of individual countries and get the EU to understand it and take corrective actions (however, now that Britain has opted for Brexit, all that can be done is to go ahead with the exit from the EU smoothly). As for Japan, it is important to share the understanding of the real cause of the deflation, strive to strengthen export competitiveness and reduce energy cost, and devote efforts to training and educating workers to acquire global business skills.

This year, the growth rate of the U.S. economy, which is currently around 2%, is likely to rise to 3 or 4% under the circumstances that were described above. The inflation rate may also rise, and the dollar may appreciate against the yen. Although that will have positive effects on stock prices and corporate earnings in Japan, we cannot afford to remain complacent. Sooner or later, the backlash will come. Moreover, the fundamental problem faced by Japan—the reduced competitiveness in the global market—will remain

unresolved.

Other countries have taken the first step in the race to reverse the harm of globalization. We Japanese must take action with a sense of crisis based on the realization that our country alone remains left behind on the starting line.

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