

Growingly Inward-looking Major Countries and the Lack of International Governance

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As the new year 2011 has started, I am wondering how the international energy landscape will evolve this year. From the perspective of international politics and world economy that are fundamental factors for considering energy and environmental problems, I would like to present a viewpoint for looking at the future.

Since late last year, we have seen bright signs in the world economy, particularly in the United States. Stock prices in New York market have risen, based on growing expectations that the U.S. economy could avoid any double-dip recession, thanks partly to the extension of Bush tax cuts. On January 5, the Dow Jones Industrial Average soared to 11,723, the highest level since late August 2008 before the September 2008 Lehman Shock. In this context, the world economy has made a good start this year.

When looking at the future, however, we cannot necessarily warrant any optimism. European sovereign risks have still been lingering as we have seen emerging causes of concern including Portuguese government bond yield hikes (price falls). While seeing bright signs such as a stock market upsurge, the United States is still plagued with structural problems including the continuously high unemployment rate, a housing price slump and nonperforming loans. As little room is left for fiscal expansion in Japan and other industrial countries, economic recovery must depend on quantitative monetary easing and export expansion. It cannot be called an autonomous recovery. Quantitative easing has allowed excess liquidity to flow into China, India and other emerging markets, leading to concerns over inflation, asset price hikes and other overheating fears that have made economic management difficult. Globally growing excess liquidity has also gone into commodity markets, bringing about price hikes for crude oil, metal, food and other resources, which are feared to affect the world economy.

Under this situation, we may have to pay attention to the possibility that major countries might have had conflicts of interest over these difficult economic problems and tend to pursue their respective interests in a narrow-sighted manner. These countries' attitude of giving preference to their own respective economies, industries and exports could lead to a race to devalue their respective currencies, as well as protectionist policies and excessive capital regulations. The history of the Great Depression indicates how seriously the world economy would be affected if these excessive policies were to get out of control.

However, a matter of concern regarding the year 2011 may be that the year represents a run-up to key elections or government changes in major countries in 2012.

Presidential elections will come in the United States, Russia and South Korea in 2012. U.S. President Barack Obama will seek reelection and the "tandem" leadership between Russian President Dmitry Medvedev and Prime Minister Vladimir Putin will also seek a new president, while a new president will emerge in South Korea as well to replace Lee Myung-bak. These election results would be worthy of attention. In China, the present leadership led by President Hu Jintao and Premier Wen Jiabao will be replaced by a new leadership including Xi Jinping. Under the present world situation, different from a case where the maintenance of the status quo is the best choice in the absence of imminent challenges in the environment surrounding each major country, politicians may be required to demonstrate their strong leadership in defending their respective economies. This means that politicians may put forward economic, industrial and trade policies to be supported by its citizens or voters or may attempt to stimulate nationalism. Major countries may thus grow more inward-looking ahead of key domestic political events.

If major countries grow more inward-looking, various frictions or disputes may surface in the world economy and international politics. Under normal circumstances, international governance system is expected to function to coordinate major countries' interests and develop their cooperative arrangements in response to global problems. With the present international relations featuring a relative decline in U.S. power, industrial countries' weakening influences and growth of emerging countries, however, the G7, G20 and G2 frameworks and even the United Nations can no longer perform effective governance functions. While major countries grow more inward-looking and give top priority to their national interests, the world lacks international coordination functions. This may work as a viewpoint for analyzing the present international situation.

What implications would the lack of international governance have for the international energy situation? As far as energy is concerned, one implication may be that international energy markets may grow even more unstable. Financial challenges, geopolitical problems and other potential risk factors could be coupled with the pursuit of national interests and nationalism to increase market tensions. The pursuit of national interests by inward-looking countries in a situation with the lack of global governance cannot be a factor to stabilize the global energy markets. Coordination of interests regarding global warming and other global environment problems may grow even more difficult. No optimism can be warranted with regard to discussions and preparations toward the 17th Conference of Parties to the U.N. Framework Convention on Climate Change, known as COP 17. International politics and economic conditions are thus growing even more uncertain and difficult for the two major challenges of energy security and global warming.

The international political and economic situations, including the international energy landscape, can be said to be very severe for Japan. Thus we will be required to plan and implement foreign, energy security and economic policies based on timely. Accurate and objective analysis on the world situation.

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