

東アジアの協調的発展  
～その展望と課題～

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**Cooperative Development of East Asia**  
– Hopes and Challenges –



公益財団法人 国際通貨研究所  
Institute for International Monetary Affairs

**I I M A**

Institute for International Monetary Affairs

## はじめに

日頃より、国際通貨研究所の活動にご理解、ご支援賜りましてありがとうございます。おかげさまで、弊研究所も今年で設立20周年を迎えることが出来ました。この記念すべき年に開催する国際金融シンポジウムは、いつもと少し趣向を変え、「東アジアの協調的発展～その展望と課題」と題して日本、中国、韓国の三国の経済発展や経済協調をテーマとして選びました。

東アジアを代表する日本、中国、韓国は、隣国ゆえに様々な摩擦を抱えながらも、長きにわたる歴史を共有してきました。そこに西洋文明とは一線画した文化や価値観があることはゆるぎない事実です。経済規模や政治力の面からもアジアの先導役となるべきこの3か国が、いかに協調しながら、アジアそして世界の発展に貢献して行くべきか。中国・韓国から経験豊富な知識人をお招きし、幅広いテーマで議論いたしました。本稿は、同シンポジウムにおける各パネリストのスピーチおよびパネル・ディスカッションでの議論を記録にまとめたものです。ご関心のある皆様方の今後のご考察への一助になれば幸いです。

2016年6月

公益財団法人 国際通貨研究所

## Preface

Thanks to your warm understanding and continuous support to our activities at the Institute of International Monetary Affairs, we are celebrating this year the 20th anniversary of our institute's establishment. Taking a chance of this memorable year, we held our 25th International Financial Symposium on the East Asia, focusing on somewhat different aspect from previous years. The title is "Cooperative Development of East Asia - Hopes and Challenges"

China, Japan and Korea have had many kinds of frictions amongst each other all the more because of being closely located to each other. The three countries, however, have shared a long history. They have cultures and values which are totally different from those of the west. But how can these three countries, co-operate as leaders in Asia in terms of their economic scale and political powers, to contribute to the development of Asia as well as of the world? We invited two well experienced and intellectual persons from China and Korea to discuss a wide range of themes related to this.

We sincerely hope this record of the symposium will help give you much inspiration in your business and academic considerations.

June 2016

Institute for International Monetary Affairs

## パネリストの略歴／Profiles



**程永華**

中華人民共和國大使館 特命全權大使

**Cheng Yonghua**

Ambassador of the People's Republic of China to Japan

中華人民共和國外交部に入省後、1977年、中華人民共和國駐日本国大使館のアタッシェとして来日。1983年に中国へ戻り、外交部アジア局に勤務。その後、二回の駐日大使館での勤務（1989～92年と1996～00年）と外交部アジア局での勤務を経て、2003年中華人民共和國駐日本国大使館公使として来日。マレーシアと大韓民国の特命全權大使として勤務の後、2010年より中華人民共和國駐日本国特命全權大使。

After joining the Ministry of Foreign Affairs of the People's Republic of China, **Mr. Cheng Yonghua** came to Japan as an Attaché of the Embassy of the People's Republic of China to Japan in 1977. Afterwards, including two assignments at the Embassy of the People's Republic of China to Japan (1989 to 1992 and 1996 to 2000) and several assignments at the Department of Asian Affairs Ministry of Foreign Affairs, he came to Japan in 2003 as the Minister, Embassy of the People's Republic of China to Japan. After being the Ambassador Extraordinary and Plenipotentiary of the People's Republic of China to Malaysia and Korea, he has been the Ambassador Extraordinary and Plenipotentiary of the People's Republic of China to Japan since 2010.



**司空壹**

世界經濟研究院 院長（元韓国財務大臣）

**Il SaKong**

Chairman, Institute for Global Economics  
(Former Minister of Finance of South Korea)

1993年よりソウルの世界經濟研究院（民間非営利団体）の創業者及び院長。財務大臣（1987-88）、大統領府經濟首席秘書官（1983-87）、國際經濟貿易担当大使（2000-02）、大統領經濟担当特別顧問（2008-09）、國家競爭力大統領審議會會長（2008-09）、2010年G20ソウル・サミット大統領諮問委員會委員長（2009-11）など政府要職を歴任。その他、國際通貨基金（IMF）特別顧問（1989-98）、韓国國際貿易會會長を歴任。

**Dr. Il SaKong** is the founder and Chairman of the Institute for Global Economics, a private non-profit research institute in Seoul since 1993. He served in the government of the Republic of Korea as Minister of Finance (1987-88), Senior Secretary to the President for Economic Affairs (1983-87), Ambassador for International Economy and Trade (2000-02), Special Economic Adviser to the President (2008-09), Chairman of the Presidential Council on National Competitiveness (2008-09), and Chairman of the Presidential Committee for the G20 Summit (2009-11). He also served as Special Consultant to the International Monetary Fund (1989-98) and Chairman of the Korea International Trade Association (2009-12).

(アルファベット順／In the alphabetical order)



**行天 豊雄**  
国際通貨研究所 理事長

**Toyoo Gyohten**  
President,  
Institute for International Monetary Affairs

1955年東京大学卒業後、大蔵省（現財務省）に入省、国際機関出向、銀行・国際金融局等を経て1986年財務官。1990年プリンストン大学およびハーバード大学客員教授を務め、92年東京銀行会長に就任。1995年より国際通貨研究所理事長。

**Mr. Gyohten** graduated from the University of Tokyo in 1955 and joined the Ministry of Finance. Serving in a variety of bureaus including Banking and International Finance, and at international organizations, he became Vice Minister of Finance for International Affairs in 1986. He taught at Princeton University and Harvard University before he was named Chairman of the Bank of Tokyo Ltd. in 1992. Since 1995 he has been president of the IIMA.



**倉内 宗夫**  
国際通貨研究所 専務理事

**Muneo Kurauchi**  
Managing Director,  
Institute for International Monetary Affairs

1978年慶應義塾大学卒業後、東京銀行（現三菱東京UFJ銀行）入行。国際プロジェクト部、ニューヨーク勤務などを経て、常務執行役員名古屋営業本部長、専務執行役員国際部門副部門長などを歴任。2014年7月より国際通貨研究所専務理事。

**Mr. Kurauchi** joined the Bank of Tokyo (presently the Bank of Tokyo-Mitsubishi UFJ, Ltd.) in 1978. He took up many important posts including Deputy Chief Executive of Global Business Unit of the BTMU as Senior Managing Executive Officer. Since July 2014, he has been Managing Director of the IIMA.

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本シンポジウムは主に日本語で行われました。英語版は日本語での記録を当研究所で翻訳したものです。

The English version is based on the transcript of the speeches and discussions which were mainly conducted in Japanese.

英語版

English Version

Occasional Paper No.32

The 25th International Financial Symposium

# Cooperative Development of East Asia

- Hopes and Challenges -

February 25, 2016 Keidanren Kaikan



Institute for International Monetary Affairs

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## 1. Opening remarks

### Muneo Kurauchi, Managing Director, IIMA

It is our great pleasure to have you at our symposium today. The Institute for International Monetary Affairs celebrated its 20th anniversary of its establishment last December, and we would like to reiterate our thanks to you for your continuous supports and encouragements given during these years, and reconfirm our determination to make further efforts as a think-tank that fully exerts its expertise in the international financial matters.



Today's symposium is titled as "Cooperative Development of East Asia- Hopes and Challenges". Leaving the details of the main theme to the panelists on the stage, let me briefly review our activities of the past 20 years summarizing the big waves of time together with our activities, and put out some of the challenges for the future.

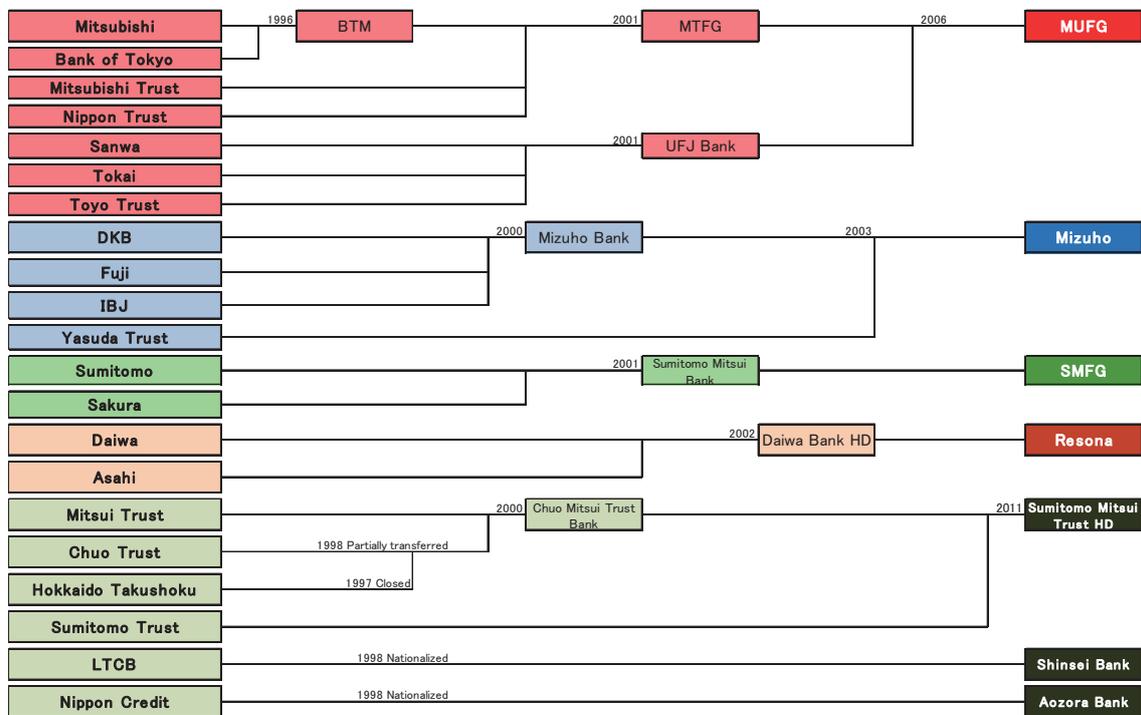
#### 1. Establishment of the IIMA in 1995

The Institute for International Monetary Affairs was founded in December 1995. The direct catalyst was the merger of the Bank of Tokyo and the Mitsubishi Bank. This think-tank was born by taking over the research function of the Bank of Tokyo which had been a specialized institution deeply involved in international transactions.



## 2. Consolidation of Japanese banks

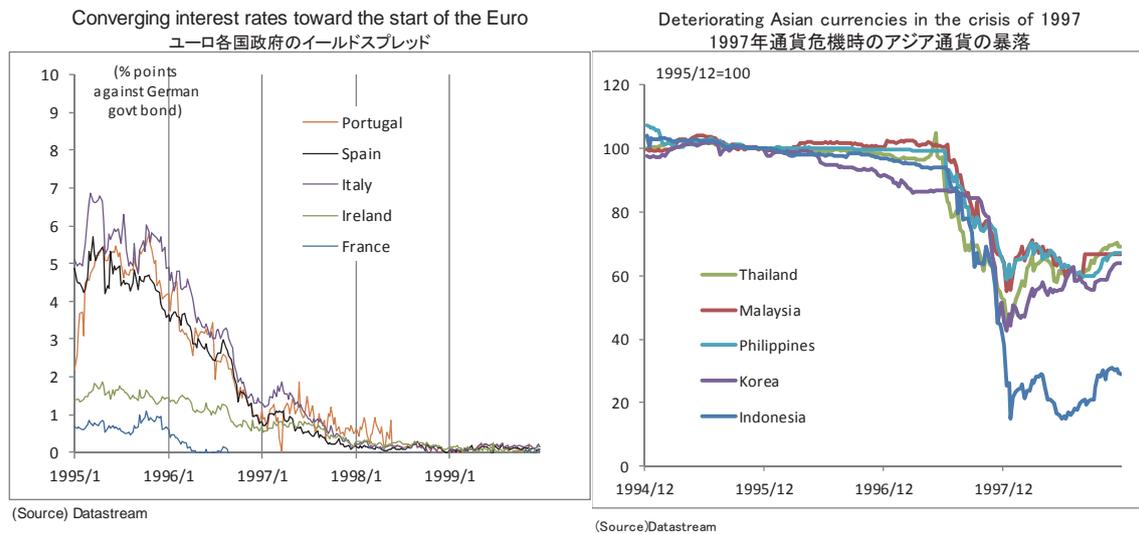
In those days, the merger of the two banks was evaluated as an ideal combination that complemented each other. But looking back what followed the event, the birth of a new bank was only the beginning of a severe consolidation process that the Japanese banks experienced in the following years. Affected by the burst of the real estate bubbles in the first half of 1990s, several of major securities houses and banks went bankrupt in 1997 and the Resolution and Collection Corporation was established in 1999 to deal with their non-performing loans. Almost without exception, major banks in Japan faced a struggle for survival affected by the wave of consolidation and mergers. As a result, the number of banks was reduced from 21 in 1996 to 7 banking groups in 2006.



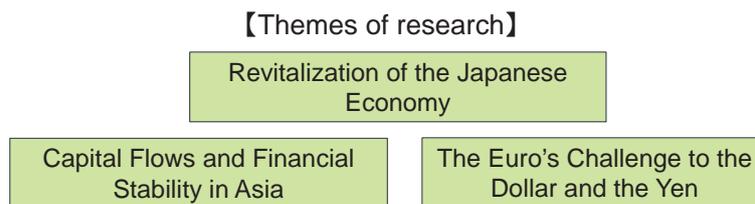
## 3. Prelude to the euro and the Asian currency crisis

Around that time in 1990s, there were two developments in overseas. One was the economic conversion of European countries ahead of the birth of the euro, and the other was an outbreak of the Asian currency crisis. The introduction of a common currency was an historic experiment in Europe and while having concerns that economic rationality might pose a substantial difficulty ahead, we observed with much respect the strong will of the Europeans that went on promoting the project. On the other

hand, the Asian currency crisis was an unexpected sudden chaos. Since it was in 1993, only 4 years before the crisis, that the economic development model of the Asian countries had been praised by the World Bank as an “economic miracle”, the outbreak of a crisis was a great shock not only to the private sectors but policy makers in many Asian countries including Japan.



In the initial days of our institution, we expected that our major activities would be focused around the matters relating to the euro, but soon we were confronted with a variety of issues ranging from Japan’s financial revitalization to Asian currency crisis. Our themes of research in this period included “Economic and Financial Revitalization of Japan”, “Towards Financial Stability in Asia”, “The Euro-New Currency that Challenges the Dollar and the Yen”, etc.



#### 4. Progress in Financial Cooperation in Asia

Following the currency crisis, the focus of the time shifted to the financial cooperation in Asia. While struggling with a domestic financial crisis by itself, the Japanese government played, as a nation less affected by the currency crisis, a leading role in building a network of regional financial cooperation. Around that time there was a much-talked rumor about China that following the currencies in the ASEAN and the NIEs, the Renminbi would be the next target of the currency crisis. However,

China managed to maintain its exchange rates, contributing to the financial stability in Asia. Korea boldly advanced its economic and financial reforms after the crisis and it realized a V-shaped recovery of the economy in 1999.

There was a good progress in the regional cooperation. In 2001 CMI (Chang Mai Initiative) was established to help stabilize the exchange rates in Asia. In 2010, the CMI was enhanced into much strengthened framework of CMIM. Also as a framework of long-term credits in the region, the ABMI (Asian Bond Markets Initiative) was agreed in 2003. The AMRO (ASEAN+3 Macro Research Office) started in 2011 as an institution with a surveillance function for financial stability in Asia.

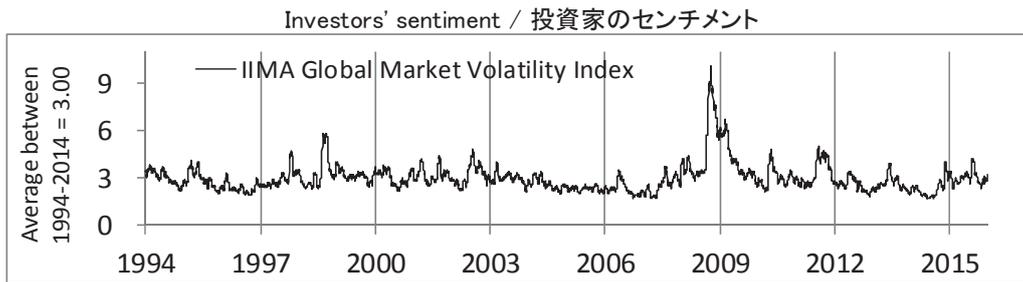
Year	Achievement
2000	<b>Chang Mai Initiative (CMI)</b>
2001	Association of Credit Rating Agencies in Asia(ACRAA)
2003	<b>Asia Bond Markets Initiative (ABMI)</b>
2004	Asia Bond Online
2010	<b>CMI Multilateralization (CMIM)</b>
2011	<b>ASEAN + 3 Macroeconomic Research Office (AMRO)</b>
2013	Credit Guarantee and Investment Facility(CGIF)

The IIMA participated in the preparatory research works of these regional cooperation initiatives. The themes of these days included “the Internationalization of the Yen”, “Asian Common Monetary Unit”, “How to Enhance Rating Capacity in Asia”, etc. and in many projects we provided indirect support to the cooperative efforts of the governmental level.

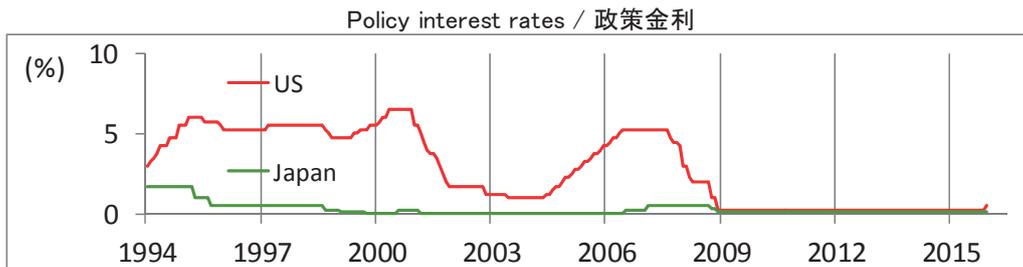
## 5. Global Financial Crisis

Asia has learned a lot from the currency crisis in the 1990s and it seems that it has maintained a relatively sound status in its external debt management. On a global level, however, there had been a repeated cycle of overheating investment with debt accumulation and sharp declines of investment. This culminated in the global financial crisis that struck the US and Europe in 2008. The crisis developed into the “biggest crisis that happened once in a century”, and the GDP growth rate of the world economy fell to zero in 2009.

If the depth of the crisis was that of “once in a century”, so were of unprecedented scale the measures taken to address the crisis. It included an extraordinarily-loose monetary policy taken by major advanced countries.



(Source) IIMA, IIMA-Global Market Volatility Index



## 6. Issues raised after the Crisis

Since the crisis started from the US and Europe, the heartlands that were leading the market economy, the crisis led the people around the world to have many fundamental doubts, say, “Is the dollar continuing to be a reliable key currency?”, or “Is the euro really contributing to the financial stability in Europe?” and further say, “Have we been correct in believing in the market economy in the first place?”

Naturally, there emerge new schemes or new leading powers, while doubts against the existing values prevail. The new central player is China. The Renminbi, China’s currency, is gradually increasing its presence as a trade settlement currency with the neighboring countries, and financial assets used in currency swaps or held in the offshore centers. One of the major steps of progress was a decision on its inclusion in the currency basket of the SDR, and another was the foundation of the Asian Infrastructure Investment Bank (AIIB). Although there are some conflicting views in Japan and the US on the rise of China, the decision on the SDR and the start of the AIIB are undeniable facts.

The IIMA has dealt with the various questions and issues that came up after the crisis. As I touched at the beginning, the issues relating to the crisis and the recovery from it were repeatedly taken up from various perspectives as a theme of our annual symposium for the eight successive years. They include such topics as “Optimal International Monetary Regime beyond the Crisis”, “Paths to Restore Confidence in the

Global Economy”, and “Is the World Really Ready for the Normalization of the US Monetary Policy?”

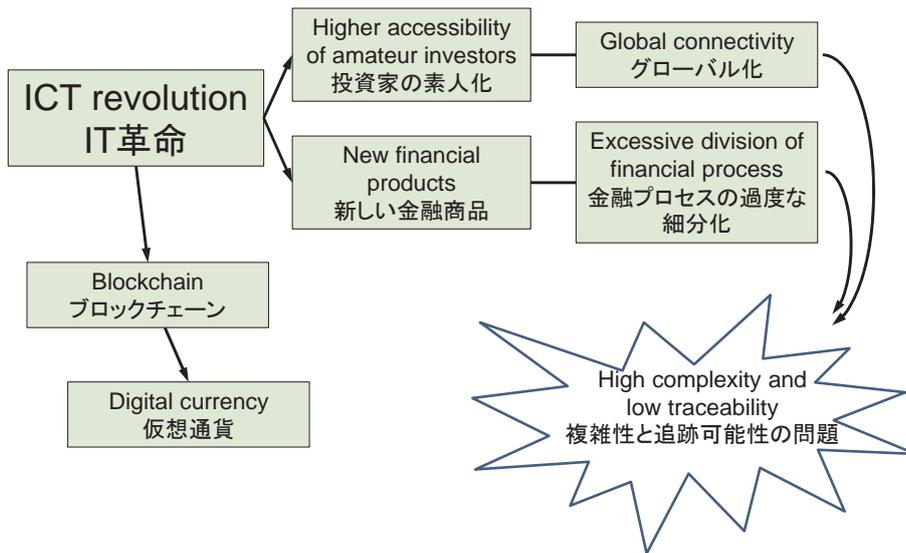
## **7. IT Revolution**

Alongside the repeated credit cycle accompanied with bubbles and bursts, it is also a noteworthy fact in the past 20 years that the new growth mechanism and new leading players have been steadily come into the world.

One is the IT revolution. Since the middle of 1990s, the world had seen a dramatic development in the information-communication technology, often referred to as New Economy. It prompted so-to-speak the most extensive progress in the production process since the industrial revolution. The financial industry also experienced it. The flow of money was freely divided and repackaged to develop a new financial product. Investors had very easier access to new financial products, and it has become possible that they just sit at a computer and make investment even in financial products of remote countries by a simple click of a mouse. The financial connectivity has been very much increased.

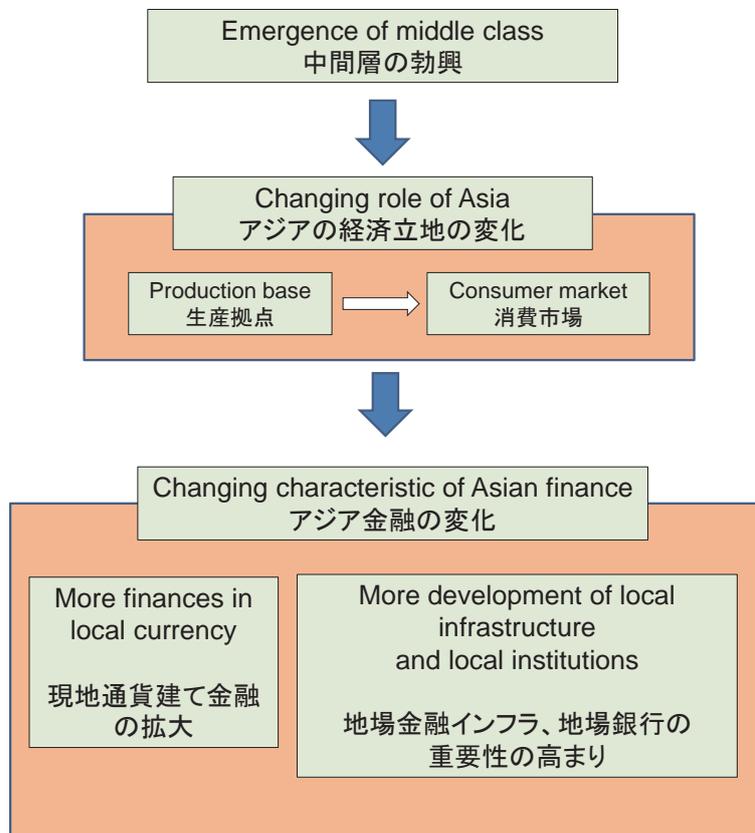
The division of the financial process and the popularization of investment, however, have also increased the complexity of the process and uncertainty of causal traceability, and triggered a panic among the investors once a problem occurred. Currently there has been a deep reflection over this aspect of the IT revolution.

On the other hand, there are new products such as blockchains and virtual currencies based on them, although there is no clear horizon for them. As they are also symbolized by such word as “fintech”, they are the big products of the IT revolution, and involving the new participants also from outside the financial world, the financial revolution of the 21st century has now been starting its big movements towards birth.



### 8. Rise of Middle Class in Asia

Another leading player for growth is the middle class in Asia. After the turn of the 21st century, the emergence of this new leader of the world economy has brought a big change in Asia. The condition of Asia's economic location has changed from a production center to a consumer market.



This change has brought a big transformation of financial structure in Asia. When the main activities of business lie in exports, the leading currency in finance is the dollar. When the business moves to local sales, however, the local currency takes over the role of a central player. When the sales are invoiced in local currency, the loans are also made in local currency. And when loans in local currency increase, a network of branch offices needs to be established to collect deposits. Local banks come into the center of the banking system with an increased importance in the local financial infrastructures.

Both IT and middle class represent a steadily changing process regardless of the credit cycle. We have addressed the themes of this line of changes by reports on “The Development of Regional Finance and the Role of Each Asian Country”, “Strengthening the Payment Systems in Asia”, “Research on Local Banking Systems in Asian Countries” “Bit Coins”, etc.

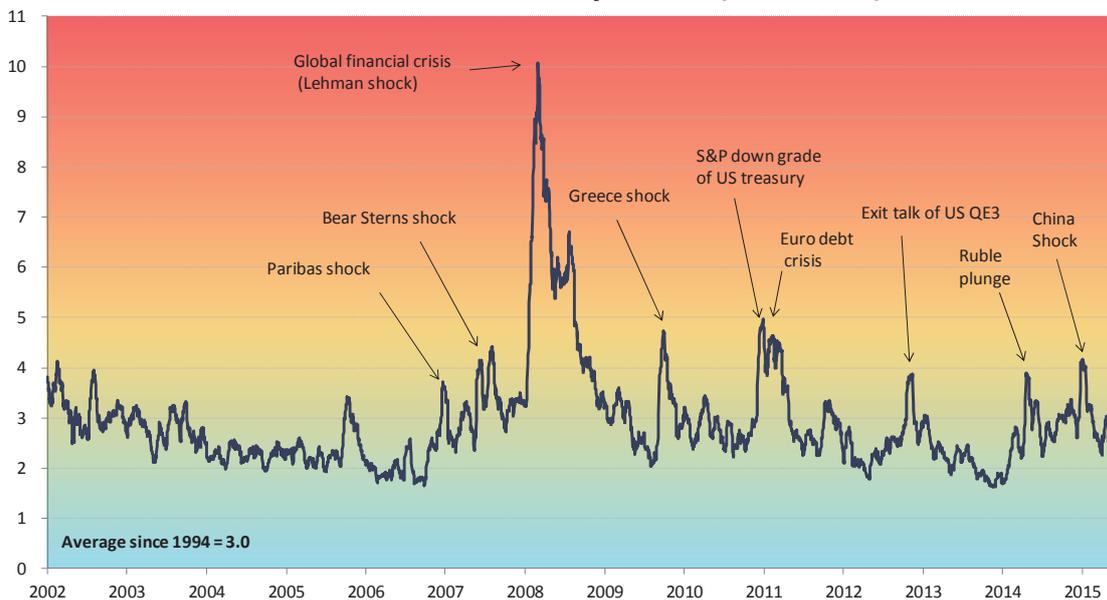
## **9. IIMA-GMVI**

Those were really very hectic 20 years and we have experienced a lot and learned a lot. Unfortunately, however, the current market environment is far from being satisfactory despite the lessons learnt.

The IIMA developed a composite volatility index incorporating foreign exchanges, bonds, and stocks of the major 22 countries and started to publish its daily index in 2013. The recent movements of the index, while repeating moderate fluctuations between peaks and troughs, suggest a gradual deterioration of the investors’ sentiments. It looks like an eve of the Lehman crisis. Probably the market is worried about the debt overhang accumulated in the developing countries during the days of extraordinarily low interest rates in the advanced countries. How to dispose of this overhang is exactly a global challenge to us all.

Our institute is determined to keep watching these indices to issue timely warnings to the market. At the same time we are willing to provide fora to the parties concerned of individual countries where they can have an authentic dialogue, and to disseminate the relevant information backed by careful and in-depth studies for that purpose. We would appreciate your continued support and encouragement.

## IIMA Global Market Volatility Index (2016/2/1)



(Source) Chicago Board Options Exchange, FRB, Thomson Reuters

As above I tried to review our achievements in the past 20 years. Looking back at the symposiums in that context, it is notable that all the themes taken up in the past 8 years addressed the responses to the global financial crisis of 2008.

And all the while, it never left our mind that the three neighboring countries in East Asia, China, Korea and Japan should establish stronger base of trust in order to promote the further development of the world economy and that someday we should have a symposium addressing that theme. I am so glad that at last our dream came true today.

Now I would like to ask Mr. Gyohten on the stage to proceed the program.

## 2. Keynote Speech

### Toyoo Gyohten, President, Institute for International Monetary Affairs

Thank you very much for all of you to have participated in such a great number in today's symposium commemorating IIMA's 20th anniversary of its inception. As you know, this is our 25<sup>th</sup> symposium. In the past symposia we invited panelists from all around the world, including Europe and the US, to discuss mainly global issues. But this time on our 20<sup>th</sup> anniversary we decided to especially focus on East Asia, so we have chosen the theme and the panelists as we have today.



Fortunately, as was introduced earlier, we could have a participation of so much distinguished panelists from China and Korea and we are very pleased to welcome them today.

I was born in 1931, in the year when the Manchurian Incident erupted. From that year till the defeat of Japan in the World War II in 1945, the one war after another continued for as long as 15 years. In this period of 15 years, very deep scars were left on all over Asia. It is 70 years this year since the war ended at last in 1945. Although this 70 years' history has been a very eventful period, I think it was also a period filled with not only difficulties but also with great hopes to many countries

Let's have a look at Japan, for instance. Japan started the reconstruction from the ruins and ashes in many cities and towns devastated by the bombing, shattered with a loss of one third of GDP. However, we made efforts to recover from this situation, and stood at the top of the geese formation development in Asia to emerge as one of the biggest economies in the world.

Then South Korea followed. Overcoming the very hard trials of division of the country into South and North and the Korean War, South Korea achieved such a rapid development as often referred to as "Miracles of Han River" and entered the ranks of advanced countries. And next came China. Since the foundation of new China in 1949, China overcame various domestic conflicts and especially since 1980s it has made a

miraculous development under the reform and open door policy to become the second largest economy in the world now.

Looking back at the development of these three countries, I think there had been two common features among them, although there had been big differences as well. One is the existence of strong aspiration of people for the economic development and improvement of standard of living which was widely shared among the whole nations. From this environment, many entrepreneurs with a great deal of efforts and creativity were produced.

Another important key factor is that in the background of their success, I think, there existed a very efficient public sector with excellent leadership that encouraged and effectively induced the people's power toward the development of the entire nation. It was the economic development model that can be called so to speak a state capitalism which enabled high development by adeptly combining the pursuit of private interest of the people with the pursuit of national interest. This state capitalism model proved to be very effective in reinforcing domestic savings and promoted growth through investment and exports and in that sense we three countries can be said to have been exemplary students of this model.

However, this model, when pursued too long, will develop systemic fatigue. Years of regulation will give birth to vested interests which will become a hotbed to corruption and bribery. Also the national economy and society will lose the self-purification mechanism, an ability to always to correct oneself, or the power to innovate. And domestic consumption will begin to slump and the growth impetus of the economy will be weakened. This means that state capitalism has a limited useful life beyond which various harmful side effects begin to appear. Therefore nations will need to make adjustment to the model and undertake necessary structural reforms for that purpose.

When we takes this case in the Japanese context, in the 1950s and 60s under the Bretton Woods regime the Japanese economy experienced extremely rapid growth and the plan to double the income also succeeded in the 1960s. But coming in the 1970s the Bretton Woods regime collapsed and also the oil crises erupted and oil prices which remained very cheap until then began to skyrocket. Because of these two developments, unfortunately, Japan's high growth model suffered a big hit. The industrial model up to then had relied on the exports of specific industrial products and

it became difficult to sustain the model. However, looking back, despite the big blows in the 1970s, Japan's manufacturing industries continued various streamlining and rationalization efforts in order to sustain its international competitiveness and they did them with substantial success. As a result the imbalances in the international balance of payments of the huge US trade deficits and the huge Japanese trade surpluses were not resolved. After all, in the 1980s, as you remember, this situation led to the international currency adjustments touched off by the famous Plaza accord among others, meaning the strengthening of the Japanese yen.

Back then the Japanese government tried to counter this development with two measures. One was the domestic policies to expand domestic demand in order to reduce the trade surplus, through macroeconomic policies of fiscal and monetary measures including massive monetary easing. Another policy was externally oriented one, which encouraged the increased direct investment to overseas, especially in Asia. With hindsight, the expansion of Japanese direct investment in Asia that developed from the latter half of the 1980s largely contributed to the promotion of industrialization of Asia at large.

Unfortunately, however, the macroeconomic policies taken domestically were not accompanied by the sufficient structural reforms that were needed. Therefore from the latter half of the 1980s an enormous asset bubble was formed in Japan, which burst naturally at the start of 1990s. The bubble was very large, therefore the impact of the bursting of this bubble was also very large. Specifically speaking Japanese household and corporate balance sheets deteriorated to a very significant level. In addition to this, the policies taken to counter the emergence and collapse of the bubble were not appropriately addressed, that is, the Japanese government was belated in tightening monetary policy against the emergence of bubble and it was belated again in easing monetary policy after the bubble burst. Unfortunately these inadequate policies, led the Japanese economy to 20 years of stagnation through the 1990s and 2000s.

At long last in 2013 the current administration led by Prime Minister Mr. Abe came into being. In order to emerge from this protracted stagnation efforts were initiated with the so called Abenomics to achieve revitalization of the Japanese economy and we are now faced with crucial phase where the success or failure of this policy is actually evaluated. Actually in the latter part of 1980s when we had an appreciation of the yen and were faced with the economic bubble, fortunately or unfortunately I was Vice

Minister of Finance for International Affairs. I really don't know whether I was lucky or unlucky for this, but back then as is already known, international arena that international economic policy and financial and monetary policy were discussed was in the context of so called G5, consisting of the US, UK, Germany France and Japan, and later in G7 after G5 was enlarged to include Italy and Canada forming G7. In those days Japan was the only Asian country included in these groups. Given large trade surplus and also the strong Japanese yen thanks to this, Japan did have expanded its financial capability extraordinarily in the international playground and Japan was looked at in that perspective. As I look back these periods, the US and European countries looked at Japan with some sense of jealousy and also some level of worries, the mixture of the two. Japan at that time was unhappy in thinking that Japan's capability was not adequately assessed in a community of G7 on the one hand, but the Japanese on the other hand did not have enough awareness that we were expected to fulfill responsible roles of as one of the economic powers. Japan unconsciously did have this sort of ambivalent feeling.

As I said before, Japan was the only Asian country represented in these international fora, but there was no feeding mechanism that would let Japan play an active role in these global scenes as a representative of Asia. Even when I attended the G5 or G7 group's meetings, I was not conscious that I was the member representing Asia nor did we have a mechanism to have Japan represent entire Asia. What I did was to make a visit to major Asian countries upon returning whenever G5 or G7 meetings took place. Chairman Il Sakong was the finance minister of Korea and I remember visiting him only to talk about the sort of discussions that had been taken in G5 or G7 meetings. Those were the extent of a representation made by Japan as a member of Asia. But thinking back of G5 or G7 in those years, there were certain good and meaningful things. These meetings were attended by the persons representing the countries that had some impact on the world economy and they had informal but very candid discussions in repeatedly held meetings. That created the sense of trust among participants. This was something genuinely beneficial. I feel that even today.

Such was the situation in Japan since the 1970s. In the case of Korea, the financial system had a serious debacle from the Asian financial crisis of 1997 and Korea was forced to experience very hard structural reforms on a very stringent condition under

the severe control by the IMF. China also achieved a rapid development since 1990s and it even faced various distortions caused by the super rapid economic growth. As a result, efforts were initiated under the current Xi Jinping administration to conduct reforms towards a so-called “new normal” that aims at harmony and moderate prosperity.

Although the conditions vary in the three countries, I think there have been certain lessons and reflections that are common to all of these three countries in a process that facilitated the adjustment of the state capitalism in them. From my limited experience in this regard, or at least from the viewpoint of government administration, the most important thing is for a government to have a good communication with the market. It is because to make adjustment of state capitalism is to have a wider and deeper engagement of the market itself. The authorities are required to have an accurate grasp of the market as much as possible on what the market is seeking at the moment and which way it wants to move or what sort of power the market has, and so on. At the same time, the authorities should work together with the market by conveying their policy intentions as accurately as possible for which the authorities are also required to keep high transparency. In other words, it can be said that it largely depends on how far a trustful relationship and sufficient communications can be constructed between the authorities and the market.

When we look at the world economy in the days after the end of the World War II, the global trade and investment expanded as a whole under the Bretton Woods regime. It lasted for about a quarter of a century and the level of living standards was improved on the world wide as a result of the great technological advancement that took place during this period. In the 1990s we saw a disintegration of the Soviet Union accompanied by the end of the cold war, and it created then a kind of feeling of assurance that the Anglo-Saxon type of democracy and market economy had become a common paradigm of the world. The famous words of Francis Fukushima’s “the end of the history” also began to be heard around that time.

As the 20<sup>th</sup> century approached to the end, the world economy experienced an almost cataclysmic, very important three changes. The first one is, needless to say, a revolutionary development of information and communication technology (ICT), bringing a historic change in economic, societal, political, military and all other sorts of arenas that completely transformed the paradigm previously maintained. This

cataclysmic change brought by ICT is in fact still going on even today, and its impact is likely to increase even further in the future.

The second cataclysmic change is the rapid expansion of the role of finance in the economy. Needless to say, at the backdrop of this change, there were very big international imbalances accompanied by global excess of liquidity due to the very accommodative monetary policies in major countries. In addition, various new financial products including derivatives and securitized products were created by the advancement of financial engineering. Furthermore, not only financial products but also players and market itself have gone through fundamental changes. The numbers of players in the market have increased, the market itself has changed from the traditional floor brokering to the virtual market where transactions are made on the screen. As a result, the role of finance in the economy enormously expanded.

The third change is, as was referred to by Mr. Kurauchi earlier, the shift of gravity of the economic power from the West to Asia, especially to China.

These new changes that emerged in the 21<sup>st</sup> century have naturally given birth to a different type of new crisis, erupting one after another, as is shown by the Asian crisis in the last years of the 20<sup>th</sup> century (1997,98), the IT crisis of 2001 and the Lehman Brothers crisis of 2008, for instance.

Looking from the Asian standpoint, the Asian crisis of 1997 and 1998 may be said to have reflected our somewhat bloated attitude as a result of the very successful rapid growth of Asia in the previous years. Encouraged by a strong pressure from the western countries, Asian countries liberalized the short term capital flows despite the fact that their domestic financial infrastructure was not firm enough for capital movement. This triggered the Asian crisis. There were many lessons to learn from the Asian crisis. Especially regarding the financial system, it proved that it was dangerous to wholly rely on the financial system in the West, and as a result there emerged various forms of self-assisted development in the Asian region after the Asian crisis. As Mr. Kurauchi mentioned earlier, various moves for cooperation have emerged including, Chiang Mai Initiative Multilateralization, the Asian Bond Market Initiative and the AMRO which was established in Singapore two weeks ago as a new international institution. Frankly speaking, however, although there are many initiatives for regional integration and cooperation in Asia, none of them is a decisive

process yet as compared, for instance, with the progress of financial integration and cooperation in the EU.

What are the reasons behind? One reason will be the great diversity of the Asian countries as compared to Europe. But at the same time, one of the big reasons is that the relationship among the three countries, China, Korea and Japan, which should play a central role in Asia, has not been stabilized. Already our three countries have had a history of very close contact and mutual exchange extending for more than two thousand years. In that sense, we are quite close neighbors unprecedented in the world. This is something to be specifically mentioned. Yet, each of the three countries experienced a historic turbulence from the end of 19<sup>th</sup> century to the beginning of the 20<sup>th</sup> century. Qin dynasty in China, Joseon dynasty in Korea, and Tokugawa Shogunate in Japan, all of them collapsed and lost power around that time. Among the three, Japan was the only country that resisted the pressure of imperialism of the West, achieving its modernization and becoming one of the global powers. In that point of time, Japan was an excellent student in Asia. But as a consequence, Japan itself turned into an imperialistic power and started to invade Asian neighbors and controlled them with military power. In hindsight, Japan did choose a very stupid and unlawful path.

The consequence was as you see the defeat in the war in 1945. I think the most important thing for us Japanese now is to calmly and humbly understand our own history. On that understanding we can really face Asian neighbors with mutual respect and with a sense of affection and respect. Of course we should not forget that calm and humble understanding of one's own history is important and necessary not only for the Japanese but also to the all countries in the world. Needless to say, the instability of the trilateral relationship has risen not just from the past but it also stems from the reality we are facing now, including issues of territory and interests or roles to be played in the future. It is also important for all of us to understand that the sort of instability we see in the trilateral relationship may not be resolved overnight.

But at the same time, keeping this trilateral relationship in the positive vein through mutual efforts of the three is vital for not only three countries but also for the whole Asia and for the entire world. Frankly speaking, I think the mutual relationship in the past 70 years is much better than the relationship in the pre-1945 years and we are now basically in the positive direction. In reality the three countries do have a very huge common stake in many different issues. Not to mention the regional security

issues centering on North Korea, we have in common demographic issues, environmental issues, social security issues, or resource availability and so on. Those are issues and problems all three countries are required to make urgent efforts.

Therefore it goes without saying that we China, Japan and Korea must cooperate in addressing these current issues. Through such process of mutual cooperation we need to establish a firm basis of relationship of trust. And a firm basis in even a limited area enables us to cooperate on broader and longer term issues

Lastly, I would like to add some personal words. My personal engagement with Asia began in 1966 when the Asian Development Bank was established in Manila, the Philippines. I was involved in the establishment of ADB as a special assistant to the first president of ADB. At that time we didn't have an office building of the bank and rented a room space in a building of an insurance company in Manila. Seven staffs were recruited from various Asian countries and initiated the work to manage the Bank. We called ourselves "Seven Samurais", and were determined to conduct the work of ADB on the two enunciated principles.

The first one was that the Asian Development Bank should not be just an aid-giving organization but it should be a bank, which means it is important to maintain credibility. Also it was important that we must precisely evaluate the economic rationality of the project in a screening process. Therefore, as I remember, it took more than a year before the first loan project of the Asian Development Bank was actually initiated. It was the highway project to connect Seoul and Incheon in Korea.

The second principle was that the Asian Development Bank should be a general practitioner like family doctor for the Asian countries. A family doctor knows very well the status of health of each member of a family and if a baby has a high fever at night, the doctor will instantly make a house call to examine the baby. So ADB should play the role of such a family doctor who is very close to individual countries. We endeavored to work on these two principles and it has been 50 years since the establishment of ADB. I have visited so many parts of Asia and could make so many friends. It has been such a magnificent and dear experience for me that I have lived in Asia in this particular period.

### 3. Cooperative Development of the East Asia and Roles of China Cheng Yonghua, Ambassador of the People's Republic of China to Japan

Good afternoon, distinguished guests, delegates, ladies and gentlemen

When I got an invitation to this symposium from Mr. Gyohten and heard about the purpose of it, I instantly responded that I would be glad to be a panelist with him. For Mr. Gyohten has been one of the most distinguished leading figures of Japan on fiscal and monetary matters and a well experienced veteran whom I have respected for a long time and I thought I would learn a lot from talking with him. I am also very much honored to sit next to Dr. Il Sakong today. Dr. Sakong had taken very kind care of me when I was an ambassador to Korea, since it was the time when Korea acted as the chair of G20 Summit and he was playing a role of coordinator. So I had a chance to really get to know him very well.



I personally have a great interest in today's theme, "Cooperative Development of East Asia, Hopes and Challenges". As was introduced by Mr. Gyohten, before I was assigned to the ambassador to Japan, I had experienced the ambassadors to Korea and before that to Malaysia. So from the personal experience of the past several years, I have a special in what would be the future of East Asia from now on.

I happened to be the first student from China after the normalization of the diplomatic ties between Japan and China and as soon as I graduated from a private university I was assigned to the Chinese Embassy in Japan as a diplomat. Actually I had been sent to Japan from the start to be trained as a diplomat.

In the year when I joined the embassy, the then Japanese Prime Minister Fukuda visited Asian countries and launched so-called Fukuda Doctrine in which he announced three principles of Japanese diplomacy to Asia. I remember that to study and analyze the doctrine was my first assignment in the embassy. It was very interesting for me to learn about the cooperation between Japan and Asia. Since that time, many countries have declared their ideas for the cooperation in Asia. Although there are some

differences in nuance, I think all of the ideas show more or less the same directions and purposes.

Currently, China sets out friendship, sincerity, mutual benefit and inclusiveness as a diplomatic philosophy with neighboring countries. In other words, China is going to promote peace, stability and development in the Asian region treating neighbor countries with goodwill as a partner.

Now let me talk a bit about my thoughts on the future cooperation in East Asia.

First, about the situation in East Asian region. One of the characteristics of East Asia is that it has a long history of civilization which is comparable to the ones in Europe and Middle East. This region holds a large population with quite high density of population in the world. Another characteristic is that different ethnic groups with different religions and different languages are coexisting in the region. They have built the East Asian cultures living in coexistence with each other, although in sometimes of the modern era the region had a sad and dark period of history with twists and turns. After the World War II, each country began to pursue its course for social development and in the 1960s Japan experienced rapid economic growth, then in the 1970s Korea had a high growth period which was referred to “Miracle of Han River”.

China experienced a Great Cultural Revolution, which actually was a domestic upheaval in spite of the word “great revolution”, but it managed to control the chaos to initiate reform and opening-door policies at the end of 1978. China made a policy shift to economic development in the 1980s, with a result of achieving more rapid growth in the 90s. Thus the East Asian region has emerged as the most notable region in the world with rapid economic growth, strong dynamism and great potentiality.

However, the world have since been faced with many difficulties in the economic and financial fronts, and after experiencing a great adjustment process, each country is now in the process of managing to promote new development through structural reforms. Not only in the global economy as a whole but also in the Asian region, we are facing many challenges toward economic development. Within the region, for example, we have local conflicts and regional critical issues, while in the international community we have terrorism, refugee problems, natural hazards, and other new threats such as Zika virus originating in South America and SARS that had once broken out in Asia.

In such complicated environment, the East Asian region has solved the challenges one after another. Although it experienced an Asian currency crisis in the past, the East Asian region has maintained a relatively smooth growth trend. This is based on the peace and stability. It is also the result of priority policies that individual countries have given to the economic development and improvement of people's living standard.

Secondly, China hopes to pull the development of East Asia by disseminating the benefit of its own development to the neighboring countries. China has become the second largest economy in the world. Therefore it recognizes that to maintain a stable development of the Chinese economy will be a great contribution to the world. Last year when the world economy and trade generally experienced a slowdown, the Chinese economy maintained a growth rate of 6.9%, contributing to the world growth by more than 25% points. In China, the 13<sup>th</sup> Five Year Plan starts in 2016 and during the coming five years China is planning to further promote structural reforms and structural adjustments while maintaining the five major targets of "innovation, cooperation, the environment, opening up, and sharing." China is trying to double 2010 GDP and per capita income by 2020 and achieve various targets set to build a "moderately prosperous society"

China cannot develop by China alone. China is so deeply involved in the world economy. In order to develop and prosper together with the countries in the region, China is now actively promoting One Belt One Road Initiative (OBOR) that covers the whole Eurasia Continent. OBOR is not a geopolitical strategy but it is rather an initiative for development and cooperation. Its purpose is to promote orderly and free movement of economic factors with highly effective allocation of resources among the Eurasian countries, promote deeper integration of markets, to realize policy coordination among the economies along the road, to protect global free trading system and open world economy. By promoting mutual docking of development strategies of the countries along the road, and building a framework for regional cooperation that is open, inclusive, balanced and sharing the interest, China hopes to promote economic prosperity and regional cooperation among these countries, while promoting the exchanges of different civilizations and fostering the world peace and development by learning from each other.

Thirdly, China places great importance on the regional cooperation in East Asia and supports the realization of its economic integration. In the past 20 years, Asia has

achieved a great outcome in its integration and cooperation based on the cooperation among the ASEAN 10 countries and China, Korea and Japan. Chiang Mai Initiative Multilateralization Treaty was agreed and AMRO was established. AMRO was formally ranked up to a formal international organization from a governmental organization of ASEAN+3 Macroeconomic Research Office.

Realization of East Asia Economic Integration by 2020 is considered to be the most important target in the region. The ASEAN countries had already declared the establishment of the ASEAN Economic Community at the end of last year. This is the first sub-region in Asia that has realized an economic integration. In the Northeast Asia region, China and Korea formally signed on the free trade agreement last June. China-Japan-Korea free trade zone initiative is also under negotiation.

China is actively promoting the regional cooperation in East Asia. In order to push forward the process of East Asia economic integration, Prime Minister Lee Keqiang proposed East Asian countries to jointly formulate a Blueprint for East Asia Economic Community when he attended the ASEAN+3 summit meeting held last November. China wishes to consult with Japan, Korea and the ASEAN countries to draw up the blueprint and jointly make a plan to achieve a shared objective. Of course China is willing to expand an open and cooperative relationship beyond the framework of 13 countries of the ASEAN+3 or just 3 countries of China, Korea, and Japan.

China supports to combine the cooperative structures in East Asia and in the Asia-Pacific region, and will welcome them if the countries outside East Asia, like the US, Australia and India, will join the cooperation in East Asia. The negotiations for RCEP (Regional Comprehensive Economic Partnership) which is participated by the ASEAN and 6 dialogue countries aim to reach an agreement in 2016. The RCEP, when established, will become the most vibrant free trade area with the largest coverage of population in the world with the most diversified members.

China takes an open and inclusive attitude toward TPP (Trans Pacific Partnership) which was signed by 12 countries including the US and Japan. China hopes that TPP and RCEP will have the mutual compatibility and they will help promote collectively the process toward the realization of Asia-Pacific Free Trade Area by which we can build an open economic framework in Asia and Pacific to add a new driving force for a sound development of the global economy.

Fourthly, China wishes that the cooperation among China, Japan and Korea will lead and push the cooperation in East Asia. In the East Asia cooperation, ASEAN can be likened to a driver, which plays a leading role to take initiatives in many ways. However, three countries of China, Japan and Korea that are major economies in East Asia should have a bigger responsibility and make more efforts. These three countries account for more than two thirds of the aggregate economic power of Asia, constituting three pillars of the Asian economic prosperity, an important cornerstone for the global economic growth. Therefore, the cooperation among these three countries are indispensable for an economic cooperation whether it is in the framework of ASEAN+3 and RCEP or for the construction of North East Asia economic cooperation and Asia-Pacific Free Trade Area.

From that perspective, it was a very welcome development that a summit meeting of three countries was held at the end of last year for the first time in three years. This means that the cooperation among the three countries returned on the right track. Currently the recovery of the world economy is very weak and emerging economies are facing downward pressures. Amidst the future of the Asian economy gathering the world attention, China, Japan and Korea should make concerted efforts to promote a stable growth of East Asia, and eventually of the whole Asia, by fostering further development of each economy through a deepening cooperation among them. For that purpose, I think the following points should be taken into account.

The first point is that it is important to acknowledge the historical problems correctly to make a real reconciliation by learning from the history in a future oriented spirit, and building on that to enhance the mutual trust politically. We have had legacy of many historic problems among the three countries. Especially we should correctly recognize the history after the modern history, and we need to appropriately respond to it to achieve a genuine reconciliation so that the unhappy history will never be repeated.

The second point is to implement steadfastly the investment agreements among the three countries to accelerate free trade negotiations, so that we can reach a comprehensive, well-balanced, and high level agreement at an early stage.

The third point is to promote cooperation in the areas of infrastructure improvement, construction machinery, construction materials and electricity while exerting full potential in each strong comparative advantage to establish a new brand of mutual

cooperation among the three countries.

The fourth point is, by promoting the exchange and docking of development strategies based on innovation, it is important to explore the ways of strengthening our cooperation in such areas as joint research and development of mobile internet, cloud computing, and analysis of big data.

Energy conservation and environment protection have big business opportunities. The three countries should enhance cooperation in new energy industry and environment protection area, thus strengthening the capability to prevent environmental pollution and address these issues.

Lastly, it is important to further expand people-to-people exchange in various segments of society to raise the level of cooperation among people and cultures. In 2014, for the first time the mutual visits by peoples by three countries topped gross of 20 million, achieving the target earlier than originally planned. At the trilateral summit held last year, a new target was set to increase the flow of visitors to 30 million by 2020. According to Chinese statistics, people to people exchanges among the three countries exceeded 23 million in 2015, with exchange of around 10 million between China and Korea, 7.5 million between China and Japan and 6 million between Japan and Korea. So we are making a steady progress to achieve the target of people-to-people exchange of 30 million. If we can make further progress in expanding such exchanges, they will surely raise the chance to further promote exchange and cooperation in the cultural, economic and other areas.

Thank you very much for your attention.

#### **4. The Role of G20, the Future of China-Japan-Korea**

##### **II Sakong, Chairman, Institute for Global Economics (Former Minister of Finance of South Korea)**

Good afternoon, ladies and gentlemen. It is indeed a great privilege for me to participate in this symposium commemorating the 20th anniversary of the IIMA under the outstanding leadership of Toyoo Gyohten, a good friend of mine for many years. As Mr. Kurauchi presented, the IIMA had a very successful 20 years and I must congratulate Mr. Gyohten and the IIMA for that. Thank you very much inviting me along with Ambassador Cheng who is one of outstanding diplomats in China and the foreign affairs experts.



I will focus on two topics: “The G20 Summit” and “The future of our three neighboring nations - Japan, China and Korea”. However, since we have students and young leaders among our audience, I would like to begin with a lighter subject which is my exposure to the outside world and my international experiences which became the most valuable foundation of my life and professional career.

I spent nearly ten years altogether in the United States and in the United Kingdom. I studied at UCLA for 5 years to get the master’s and PhD. Degree. Then as a professor I taught at New York University and also at Sheffield University in the UK for a year. When I went to UCLA in 1964, Korea was one of the poorest countries in the world. It’s income per capita was only around 100 US dollars. I chose UCLA just because they were generous enough to give me a tuition-fee waiver scholarship which was 300 dollars per semester, a big money for a poor Korean student. Anyway, I wanted to go abroad, to find out the outside world and study.

I learned a great deal about economics and economic policies gained highly valuable professional insights by going to UCLA after graduating from Seoul National University and. However, those ten years investment in myself also widened my international perspective in understanding world affairs and enriched my future personal life. It was the most rewarding thing I had done in my life. I emphasize this point for our next generation leaders who are here today.

In this era of deep globalization and integration, understanding others, let alone immediate neighbors, is more critical than ever before. Therefore, it is important for everyone to widen international perspectives in finding solutions to personal, societal, national and global issues. Needless to say, education for the next generation in this regard is critical. The responsibility rests with the parent generation and current leadership for necessary educational reforms. All the countries in the world today, particularly in this age of so-called “The Fourth Industrial Revolution”, need a major educational reform. We have to have lifelong learning, training, and retraining. Otherwise we just cannot catch up with the rapid changes in technology. For the young generation, the three countries should have common degree programs as the Ambassador mentioned. As for student exchange programs and other people-to-people exchange programs, we should make conscious effort so that young generations and young potential future leaders will understand others better. Without having international perspective, you just cannot do as well as others who do have international perspective in this integrated and deeply globalized world.

Travelling can be very useful, but living abroad for an extended period will be invaluable in understanding, working and cooperating with others. To make foreign friends (I did make many Japanese friends in the US and the UK. At that time, there weren't many students from mainland China but I had a few Chinese friends from Taiwan and some from Hong Kong.) and established networks will be very useful for future personal and professional life.

Let me now turn to more serious subjects, first the G20. The discussion of the G20 at this symposium is not only relevant but critically important for two reasons.

First, the global economy needs even closer international policy cooperation among major countries since the global economy is under ever heightened uncertainties and turbulences. The G20 as a new global economic governance, albeit informal or self-designated governance, has to play a central role towards the global financial stability and sustainable and balanced growth. I just read this morning's Financial Times that the IMF urged the G20 to take what is called a “bold action” for exactly the same reasons I just mentioned.

The second reason why the discussion in the G20 here at this moment is important is because China is the chair and host of this year's G20. In fact, tomorrow, the G20

finance ministers and central bank governors will meet in Shanghai. But I must say that I have been quite disappointed by the G20 achievements so far. Unfortunately, it is becoming irrelevant and becoming another photo session, gathering with well-prepared declarations and then forget about it as soon as leaders go back home. The important thing is that the G20 is not a “one-time event” but a “process”. I would like to emphasize this to my Chinese friends. In fact, I was invited to Beijing last year and emphasized the fact. What that means is before leaders meet in November, at the finance ministers’ level, deputy ministers’ level, sherpa’s level, central bank governors’ level, and deputy governors’ level, sufficient works should be done, so that they come up with some policy options which will be presented to the leaders at the summit meeting and then the leaders will choose among options. Without this process of preparation, what they will end up with is just rhetoric.

As the G20 doesn’t have its own analytical and professional capabilities, what it has to do is to work closely with the IMF, World Bank, OECD, and other multilateral institutions, which we did when we (Korea) prepared for G20. I travelled extensively and worked very closely with them. I visited Japan, US, China and almost all other G20 countries. You have to have all this groundwork, but in my view during the last few years, as it has not been done enough, they ended up with the declarations that are not fully implemented. In fact, again this morning’s Financial Times quoted that the IMF is criticizing the G20 for not living up to the commitment which was made in 2014. At the 2014 G20 Summit, the G20 leaders agreed to increase GDP growth by at least 2 percentage points by 2018. But, based on the IMF calculation, G20 countries did not live up to this commitment. It reported if you add all them up it only amounts to 0.8 %. So this is the reason why I keep emphasizing the fact that it is a “process”, not just a “one-time event”.

In that regard, I’m quite disappointed because at this very moment the G20 is the only forum where international economic cooperation can be achieved. The G7 is not enough because they exclude many emerging countries including China, India, Brazil and Korea and so forth, which the G7 leaders had accepted. So, the G20 was agreed in Pittsburgh in 2009 to be what the G20 leaders called “premier forum” for international economic cooperation. So the G20 should live up to this leader’s earlier commitment and earlier decision, but not enough has been done yet. For the G20, just being a collection of wish-lists like targets and goals is not enough. Instead, implementable, deliverable, agreed upon policy options are necessary for the G20’s success. It should

be reemphasized that G20 can be important as a process rather than an event.

So, it is my sincere hope that China as the G20 leadership will be able to reinvigorate the G20 summit process, and in doing so it should work closely with others in further institutionalizing the process. In other words, the G20 needs its own governance to be strengthened. It is necessary for the G20 to keep its continuity and consistency by keeping its institutional memory.

The G20 needs its own institution build up, but not necessarily to build a huge secretarial organization. It already has what is called “troika”. I have suggested many times before that you can institutionalize “troika” further, so that you can keep the continuity and consistency of the G20 process.

What I have suggested to the Chinese G20 authorities was: “please have stock taking of all earlier G20 agreements to see what have been implemented and what have not.” And then, I think it is worthwhile for China presenting to the leaders at the G20 to show that more efforts are necessary to implement what was previously agreed. I think China as a chair country should put that on the agenda, make some agreement among the G20 leaders, and take appropriate measures will be critical for the G20’s future. By strengthening the G20 process, the world economy will benefit.

I also suggested to Chinese authorities that they try not to spread too thinly and just concentrate on a few critical items. Otherwise, it will become just a department store of agendas and you will end up with implementing not much.

After the Lehman Brothers bankruptcy in September 2008, the G7 leaders thought that the G20 is more legitimate, representative, and creditable than the existing G7. So, they decided to have the G20, but its momentum has weakened.

It is critical for the whole global community to have the G20 reinvigorated. Currently, the global financial markets, the emerging world in particular, are in a volatile situation and the turbulence can spread all over the world. ○ That’s why I emphasized that the G20 is the only forum where this matter can be discussed and find some cooperative solutions. Maybe during Q&A if you have further questions, I’ll be more than glad to do so.

Next, let me share a few candid remarks on the subject of the future of our three neighboring nations. First of all, people and political leaders in particularly of our three nations should feel rather sorry and perhaps ashamed of the fact that even after more than 70 years since the end of the World War II, we are still bogged down with the negative historical legacy of the past. We should learn from the experiences of Europe and make common efforts to grow out of the unpleasant legacy in a mature way. As Mr. Gyohten suggested and I am sure we all agree that in this regard Japan should lead the effort. Of course, China and Korea should do its own part, too.

Unless we overcome, grow out of this unfortunate past legacy, it would be almost futile to talk about all the promising projects and hopes. There are so many things which can be mutually beneficial, for example, environment protection areas, energy conservation areas, financial collaboration, and three country FTA. The FTA negotiation is being continued, but because of the political reality, it's not moving fast enough. Unless we overcome this negative past historical legacy, we just cannot achieve much. We all have to make efforts and show the outside world that this region is matured enough to grow out of the past.

As you know, the Europeans had a more bitter past and negative legacies, but now they are together and have been making various common efforts. It is critical for the three countries to have special efforts for mutual trust building as a prerequisite for common efforts. Otherwise, all the potentially constructive and mutually beneficial and special projects can't be easily implemented.

In the meantime, personally I would like to see Japan eventually join the China initiated AIIB as Korea did. I thought from the very beginning that we all should have joined. At the same time, I would like to see Korea and China, also as Ambassador mentioned, join the TPP. We three countries should work closely in the ASEAN+3 process and other multilateral forums.

Our three countries' summit was first held in 2008, by borrowing the ASEAN umbrella, so to speak. During the last few years, it was suspended due to political realities. But was resumed last year, which took place in Seoul.

Fortunately, so far, thanks to market forces three countries have been integrating rather fast. But with government's insitutional supports, our three countries will

further accelerate the trend.

Without getting into the details, I would like to see the CMIM to eventually evolve into a region-wide monetary fund. If not “Asian Monetary Fund”, let’s call it something else, but make it a regional monetary fund.

However, the mode of operation should be consistent with existing international multilateral institutions, don’t try to make the institution as a rival to existing multilateral institutions like the IMF. In that respect, the AIIB, too, should not aim to be a rival to the World Bank or the ADB, but work together with them as a complementary institution. As long as we have the mode of operation consistent with existing multilateral institutions, there is no reason why the US or anyone else should oppose the idea of having a regional monetary facility, which will help not only our own region but the rest of the world. So, let’s prepare a road map towards that end. Again, in this endeavor we three countries, in particular, which account for more than 90% of the GDP of total ASEAN+3, should work together closely.

Let me stop here. Thank you very much for your attention.

## 5. Panel Discussion

**MC:** We shall start the panel discussion. Mr. Gyohten, please.

**Gyohten:** Now I would like to start a panel discussion among us three panelists to exchange our views on several agendas. We have so many topics we would like to discuss today, but as the time is limited, I would focus on three to four.

The first topic I would like to propose as moderator is the diversity as a unique feature of Asia. This feature has been already pointed out in our previous discussions, and I quite agree with that assertion. At the same time, however, there is a fairly strong argument in Asia that Asia has its own unique sense of values. The argument was heard among the Asian people especially in the period of the 1980s to 90s when the Asian economy expanded so rapidly as to be called an Asian Miracle, saying that Asia has a unique attribute and advantage that are never seen in other regions of the world. Similarly, when the financial systems in the United States and Europe were severely hit after the Lehman Brothers financial crisis, there were arguments that while the financial systems in the US and Europe became quite fragile, the Asian system had maintained strength because Asia had unique Asian values or disciplines. I was wondering; “Is it true? Does Asia really have strength that no other regions have? What does it actually mean and how can it be described?” This is a very interesting theme to discuss. On the one hand there is an argument to emphasize the Asian sense of values which is commonly shared, but on the other hand, many countries sometimes assert their own unique sense of values different from other Asian countries. As for Japan, we often talk about the strength and values that only Japan has. As for China, we often hear the words like socialism with Chinese uniqueness or capital market with Chinese characteristics. I have been wondering how to marshal this seemingly conflicting way of thinking. This is a very good opportunity to hear from Ambassador Cheng and Chairman Sakong the views on whether they see any Asian values in Asia and if so what they are like. First Ambassador Cheng, could you give us any of your views?

**Cheng:** As I have said about Asia earlier, we have a lot of ethnic groups and diversified religions and cultures. This diversity, I think, is surely the Asian value, one of the unique characteristics of Asian civilization. I have been often asked, “You have lived in Japan for so long and what are the key points that should be kept in mind when

Chinese and Japanese people get along? In Japanese there is a phrase *dobun-doshu* (同文同種), that is, when the same (linguistic) characters are used, people belong to the similar ethnic group and easily understand each other. This phrase is usually interpreted favorably in a good meaning, but when the Chinese and Japanese people get along with each other based on face value of the phrase, often they have misunderstandings. This is also the case with Koreans. We have the same kind of face, wear same kind of cloths--- actually the Chinese people used to wear the communist uniform in the former days ---, so we tend to presume we have the same way of thinking. But when we start to talk about specifics, our way of thinking seems to differ. When you have seen the Chinese people shopping at Ginza, you may wonder why they were making a fuss in such a loud voice. But standing on the viewpoint that Chinese, Japanese and Koreans are different nationals of different nations with different cultures, you will have an impression of “we are rather close each other” instead of “we are different”.

Actually we have many things in common. One of them is the Confucianism or the teachings of Confucius which has spread widely especially in East Asia I think the Confucianism is not religion but a kind of culture which constitutes a common value of East Asia. The Confucianism respects, first of all, the spirit of “*wa* (和), or harmony” that leads to harmony among people and peace. And based on another principle of “polite attitude”, we try to treat everyone as equal. I would like to see the Asian countries to pursue the realization of development of each country or the regional prosperity based on the values of the Confucianism while capitalizing on the strength of each country.

Also China, Japan and Korea have another common feature. That is Chinese characters or Kanji. At the Northeast Asia Wise men’s meeting (NATF), three top leaders of Mr. Yasuo Fukuda, former Prime Minister of Japan, Mr. Zeng Peiyan, former Deputy Premier of China, and Mr. Lee Hong Koo, ex-Prime Minister of Korea representing each country guided an academic group to study the way to communize the Chinese characters among the three countries. As a result, at the meeting held last November, a book was launched on 808 Commonly Used Chinese Characters. If these characters are commonly used, they will help people understand road signs, which will further promote the people-to-people exchanges as well as cultural exchanges among China, Japan and Korea. I will stop here for now.

**Gyohten:** Thank you, Ambassador Cheng. Sakong, do you have any views on this?

**SaKong:** Well, I always understood when people, particularly Western friends and scholars, talk about the Asian value, usually they meant actually the North East Asian value which is based on the Confucius way of thinking. Particularly, I thought they put a high value on education and hard-working. And then, at the turn of the last century, famous Max Weber in Germany wrote and argued that China's Confucius tradition will be obstacle to its modernization. Then in 1960's and 70's after Japan and Korea and so-called "four tigers" came along, and then people say "Aye!, this is the Asian value which made these countries grow faster than others."

And the late Lee Kuan Yew of Singapore again talked about the Asian value. When he talked about the Asian value or Prime Minister Mahathir's "Look East" policy for example, they all took up this high valued education and hard work which they thought facilitated the miraculous economic growth and prosperity.

The reason Max Weber argued that the Confucius value will not be good for the modernization and capitalism, is, I suppose, because the Confucius tradition of looking down on commerce, business and technicians, and so forth is not good for their economy. As I wrote in my book published at the Harvard University Press in the 1980s, the Confucius culture is not a causal factor for economic development, but it can be a facilitating factor. If you have a right policy, then the Confucius culture and value can contribute positively towards economic progress.

I think that we three countries at least have been benefiting a great deal from the value. Of course, when you say the "Asian Value" is difficult to find out exactly what you mean since it is a rather complicated concept. However, if we interpret it narrowly, we three countries share a common Asian value and so we already have a common cultural and valuable foundation for closer collaboration or cooperation.

By the way, I am a member of those "Thirty People", ten from each country from Japan (Fukuda former-prime minster leading), Korea (Lee Hong-koo leading) and China. And, we have adopted 808 Chinese characters which will commonly be taught at the schools. So, we have so many things in common and cultural heritage. I think when we talk about the East Asian value, I focus more on this North East "Asian Value" which puts particularly high value on education and hardworking. Education in this

era of so-called “knowledge-based economy” is the most important ingredient for nations’ prosperity, and we three countries have that. We three countries can further excel others in the future.

**Gyohten:** It is true that the three countries of us are very eager on education, but at the same time, on a higher level of education, including universities and graduate schools, I have some concern that the Asian method of education or Asian way of running schools has been losing its international competitiveness especially in recent years. In fact, it is mostly the universities in the US and Europe that are ranked higher in the world reputation and as a matter of fact many of the younger people choose those universities in the Western countries when asked which university they wish to go. I don’t deny that the Asian universities do have a strong fever for education itself based on the Confucian tradition, but I have an impression that they have not come up yet to have a clear view or belief about what sort of education they should give and how. At the same time, the common Chinese characters (or Kanji) which Ambassador Cheng referred to earlier are quite interesting and significant enough but looking at the reality of Kanji in China, very simplified characters are currently used there and therefore very few of the ordinary Japanese might instantly understand the simplified characters. In the case of Korea too, more and more Hangul characters have been used in everyday life instead of Kanji. When we had been to Korea in the old days, we could mostly read and understand the signs of shops because they were expressed in Kanji, but recently the knowledge of Kanji is almost useless in Korea.

I think we should change such a situation once more to encourage the common usage of Kanji, but it seems to me that in the present circumstances the three countries have not come up to have such willingness or passion to do that. What do you see the situation?

**Cheng:** I understand that the simplification of Chinese characters had a big progress in 1956 and 1962. A draft of the third simplification plan was revealed in 1979, but the draft caused a nationwide big booning especially from teachers and after all it was withdrawn a year later. It was considered that a further simplification of letters did not have an additional benefit. So the currently used simplified characters were those introduced in 1956 and 1962. The historical development of Kanji since the ancient times shows that there has been a natural and gradual process of simplification before it comes to the present status.

Looking into the Kanji education in Korea, I learned that the education on them in schools was abolished in the 1970s, but while I was staying in Korea as the ambassador I remember I read a news that said that 19 ex-prime ministers sent a letter in their joint names to the then president Lee Myung-bak proposing to reintroduce the education of Kanji in the schools in Korea. It is my understanding that since then the dialogues began to be gradually promoted among the three nations on how to make Kanji mutually understandable.

**Gyohten:** Il, go ahead.

**SaKong:** Actually many leaders, including myself, advocate teaching at least basic Chinese characters. That was reflected in of the suggestion of the eminent persons' group. If we have 808 characters, we will have some road signs in common and our communication will be facilitated very much. In addition to the 808 characters, in our middle school level Chinese characters on selected basis are already taught and many people now argue Chinese characters should be taught along with Korean and other languages at school. But, even in Korean kindergartens, kids are learning English only, not Chinese and Japanese.

**Gyohten:** That's right. I think that is one of the problems. On the one hand there is an initiative to use Kanji as a common character but in reality English has now become a global language. How should the people in Asia address this conflicting problem? This closely relates to the issue of education that you just have mentioned. The reason why the higher education is almost monopolized by the Anglo-Saxon countries is closely related to the fact that English has such a privilege after all. I think this is a big challenge we are going to face in the time to come.

Another topic I would like to take up is China. This may be an issue for China itself but China has achieved such a rapid development that it has now taken a position to compete the world's biggest in economic and military power. Against a backdrop of that power, as Ambassador Cheng has mentioned earlier, China now faces a need to take a leading role in the Asian region or in the global scene and I think it is a natural way of things for China to do so.

In that case, however, is China willing to play that role with a clear guiding spirit of leadership? I would like to hear your views on this. For looking back at the history,

the UK dominated the world as a leading country in some period of the 19th century and they had at least shown explicitly their philosophy as a leader, in such words as nobles oblige or the rule of law. In the 20th century when the United States of America took a leader's place, they had always advocated democracy, freedom, or human rights as their philosophy to follow as a leader. And now, if China is determined to take a leading role especially in Asia in the time to come, do they have any ideas equivalent to those in the past and if they do, what will it be like? I would like to invite Ambassador Cheng to speak about this first.

**Cheng:** That is a very big theme. Although China became the second largest economy in 2010 in terms of GDP, it has recognized from the start of reform and door-opening policies the fact that China cannot promote the development of the economy and the state all by itself. For that reason, it has been considering about its relationship with Asia, especially East Asia or with the world. Recognizing the increased responsibility of China in recent years accompanied by the expansion of national power, China has been appealing, since 6 years ago when I was assigned as the ambassador to Japan, four principles of "peace, development, cooperation and win-win relationship" as a concept for world development and prosperity. Actually China has been implementing the principles bit by bit in many situations and promoting the diplomacy based on the idea that we develop hand in hand while maintaining friendly ties, not on the hierarchical relationship where one country takes a leadership to control others. Of course each region has its own characteristics in terms of security affairs and China for itself has set a concept that it aims to pursue comprehensive, cooperative and sustainable security policy. It may sound similar to the teachings of Confucian as I said before, but it is our wish to have a shared development in mutual harmony and with a peaceful spirit. It is China's wish to embody them little by little in such initiatives as One Belt One Road or New Silk Roads by land and by sea, and establishment of AIIB, to develop jointly with the countries involved while fulfilling our own responsibilities.

**Gyohten:** Il, can you share with us some view from Korea on this issue?

**SaKong:** Based on purchasing power parity Chinese economy already surpassed that of the US in 2014, and based on nominal exchange rate according to many specialists estimate China will surpass the US in next seven or ten years' time. Therefore, the existing international economic order and governance should reflect the fact that China's changing position and economic power constellation. I am saying this is

because I would like to see China to also assume responsible global leadership in sharing the burden of the provision of public goods. Certainly, the provision of public goods involves costs.

Immediately after the World War II the US took that leadership and established so called “GATT/ Breton Woods” system and also the US had “Marshall Plan” for Europe. Such a plan was made for Japan also. The US paid a lot of own costs for providing public goods the world needed for financial stability and the free trade environment.

I just hope as the US relative economic strength is much declined while the China’s economic power has been increasing, the world looks for Chinese leadership in providing global public goods. China is not just an ordinary country competing with others, but should bear the responsibility of being the leading economy in the world. That is not only good for the rest of the world, but is good for China as well.

Now back to the issue of the AIIB. From the very beginning, I argued that the AIIB should never aim to be a rival of the existing World Bank or ADB, but it should be supplementary and complementary organization. I would like to see Japan join in the future.

I would like to see China become a more responsible global leader and commensurate with the position in the area of trade, finance, and so forth.

**Gyohten:** Thank you very much. In the long run, sustainable world peace and development will be entirely dependent on to what extent the common values are shared as basis for them. In that sense, we should not deny the possibility that the Confucian values, for instance, may be well accepted even in the Western society. Diligence, hard work and importance of education are not monopoly of Asia but they are the values commonly shared in the world. In the world of daily life, however, they are not just a matter of culture and we may not be able to simply pursue these common values together as they are often influenced by the current political or economic systems. Any way, it is no doubt a very unfortunate thing if the world would be broken apart by the crash of civilizations, and therefore we have to continuously try to promote cultural flows and people-to-people exchanges and mutual understanding to avoid such a misfortune.

I wish we could keep talking about this matter to the end of the time, but we have a time constraint so let me move to the next topic.

As had been mentioned before, the economic power of Asia, measured by the scale of ASEAN+3, for instance, is now larger than that of the US and the EU. In that sense, the ASEAN+3 can be said to be the biggest economic entity in the world. Until now, the region has had a very specific economic structure.

For the region has produced various kinds of machine parts and semi-processed products in various stages, which are transferred to other countries within the region to make further processing, and finally assembled mainly in China to be shipped to the US and Europe as final products. Thus the process constitutes a kind of a big supply chain. This has been very successful in the region and it was a major reason that supported the high economic expansion of the whole region.

Looking ahead, however, the region's growth potential will be forced to decline to lower rate than in the past due to the aging of the society to begin with, followed by environmental problems and resource constraint, among others. Actually we are beginning to see it.

We have had a high growth up to now, but it is only Japan and Korea and Singapore that have per capita income higher than 20,000 dollars. Looking at the situation of the region 10 years or 20 years ahead, if East Asia wishes to join the group of advanced high income countries, it will have to continue to achieve a substantially high growth for some significant period of time. In such a case, the present structure of supply chain that is completed within the regions will not be sustainable as it is now. In fact, the Chinese economy is no longer a simple assembling factory and moving to a highly sophisticated manufacturing, while its consumption market is expanding rapidly.

It may be the time that East Asia as a whole have a new economic structure based on the concept that pursues "what should be best made where and who are the final buyers." And this is a question to you. What kind of growth model do you see to be pursued in each of your country? In the case of China, we are tentatively seeing the vision of its future economic structure that is built on the reforms under the Xi Jinping administration, but what will be the future growth model in the case of Korea? What do you see about it, II?.

**SaKong:** The first point is that the trade model based on “vertical” division of labor has to be changed. It does not mean that intra-regional trade will necessarily decline, because what the region need is “horizontal” division of labor. Previously, intermediate goods were provided to China and China assembled them and exported somewhere else. But we three countries should trade final products or something of the same level. We have to have divisional labor, not just in “vertical” way but more in “horizontal” way. If we do find those ways, then I think the market will find new sources of trade among our three countries.

Second point is in the service area. Because of burgeoning middle class and rapid urbanization, China has a increased demand for service which requires substantial foreign direct investment from Japan and Korea let along from other countries. Our FTA should, in this regard, move on more to services oriented. In this way, we can facilitate more trade flows among our three countries. Thus we can find new sources of growth.

As far as Korea is concerned, Korea also reached a particular stage where you have to shift gears to seek for a new source of growth. The Korean problem today is that, as Japan went through in the past, Korea’s economic growth potential is decreasing too fast. Currently, it is estimated that the growth potential is only somewhere around 3.0% to 3.5%, due to aging and shortening working hours, not robust investment and not rapidly increasing productivity.

For a few years I’ve been advocating that if we deregulate in service sectors, for example, we could generate so many new jobs, high valued jobs in particular. But, for social and political reasons, we still have so many regulations and interventions that block investments. I personally believe that if we implement right policies, Korea can increase its growth potential by 1.5% point in five years’ time span. This will be difficult, but it can be done. The question whether Prime Minster Abe will appropriately shoot the third arrow to realize “Abenomics” will depend on structural adjustments. In Korea’s case the deregulation of service sectors is most important.

In terms of labor side, you must be surprised to know that our female labor market participation rate in Korea is even 5 % lower in Japan and much lower than the OECD average. The Korean female workforce is one of the most highly educated workforces in the world, but it is so underutilized. It may take time but there is a great room of

improvement.

Another thing we talked about is the education reform and aging population. In this rapidly changing technological environment, people need lifelong learning, continuous training and retraining. That's why the university system has to be changed. The reform should be done at the government level, educational system level and the corporate level. Then, the huge underutilized labor force can be utilized. Immigration is totally a different political and social issue. Putting it aside, there is female labor resource and aging population for better utilization.

Capital is also a subject for better utilization. If you provide a better business environment in this globalized world, global companies will come to Korea.

**Gyohten:** Thank you, Il. I really wish the structural reforms in each of our countries will succeed. I am afraid the time is running out but lastly I would like to have your comments on the final topic. That is on the future of the Korean Peninsula. We Japanese are very much concerned about the nuclear development in North Korea. When the leader Mr. Kim Jong-un succeeded Mr. Kim Jong-il, we hoped that this young leader might bring in more friendly and globalized views on international rules and laws, but his inauguration has not vindicated our hopes and it almost shattered our optimistic hopes. Since this is a very rare opportunity for us to have eminent representatives from China and Korea, I would like to have a short and precise remark of your views on the future of North Korea and the Korean Peninsula. Do you think we can be comfortable or should we be very much jeopardized?

**Gyohten:** Ambassador Cheng?

**Cheng:** North Korea proclaims that it is going to simultaneously promote the development of nuclear weapons and the economic development. However, China firmly maintains a clear stance against any developments of nuclear weapons and has delivered the message to North Korea. We instantly summoned the ambassador of North Korea to China and made a protest against the nuclear bomb test on January 6 and missile test, or to be more correct, a satellite launching using a technology of missile on February 7. As these are apparently the actions against the resolutions by the UN Security Council as well as breaking the international rules, North Korea should pay the costs of its own and stop the development of nuclear weapons and missiles. China

is responsibly continuing talks in the UNSC. Recent news suggests that there has been a substantial progress and we may expect an adoption of resolution shortly.

One of the China's firm stances is that there should be no nuclear weapons in the Korean Peninsula. The second one is that the related issues should be resolved in a peaceful way, in other words, there should be no wars. The third one is that China's security interests should not be impaired. I think the most comprehensive documents related to nuclear weapons in the past would be the 9.19 joint statement of the Six-Party Talks held in 2005. The statement clarified the way how the issue should be resolved in the future, but the talks have stopped since. As a result, North Korea has made three nuclear weapon tests until now. Currently China is urging that the six countries come back to the starting line in the statement to stop the development of nuclear weapons, while transforming the ceasefire agreement in the Korean Peninsula to a peace agreement that will enable the Peninsula to secure peace and stability.

**Gyohten:** Thank you very much, Ambassador Cheng. Il, your comments, please.

**SaKong:** I happen to live a little bit closer to North Korea than you two, but that's all. Maybe the government has information but I don't have any more information than you do, because I read from foreign press and Korean newspapers. The geographical proximity does not allow us to have more information from the North, so we just don't know much about North Korea.

The only thing we know is that the country is under very young and volatile leadership. We are very much concerned as others.

But, I think China has still the largest leverage over North Korea than anybody else, because North Korea's over 90% trade relies on China. And China is the main provider of crude oil and energy.

Of course, I know North Korea is not under a tight reign of the Chinese leadership, but still China has the strongest leverage. It is fortunate that China is working with the global community to do something about North Korea. I hope that the endeavor will be effective enough and the global community should work closely to prevent North Korea's very dangerous nuclear game.

**Gyohten:** Thank you very much, panel members. I would conclude the panel

discussion session and would like to express appreciation to them. Next we would entertain the questions from the floor.



## 6. Q&A Session with Audience

**Kurauchi:** We received a lot of questions from the floor. I would like to pick up some and ask each panelist on behalf of questioners. The first question is to Ambassador Cheng. China is promoting the internationalization of the renminbi and there are some achievements. It seems, however, that market participants are a little frustrated because of less frequent communication of the central bank with market compared with other major central banks. Would you give us a comment on this issue? How the communication of a central bank should be when its currency is becoming a major international currency and how the communication of the government should be with international community when the country is becoming a major player in the world economy?

**Cheng:** As the national power and economic size of China expands, its role in the international community and financial market increased greatly. China recognizes that with the adoption of RMB in the SDR basket, more smooth communication with the market has been required. There are various opinions about the RMB exchange rates, but China is encouraging the formation of exchange rates based on the market mechanism while decreasing the government restrictions and interventions as much as possible, just as it gradually transformed itself to a socialist market economy from the planned economy. Since last year, the exchange rates of the RMB against the US dollar had some fluctuations. Although the US presidential candidates criticize in many ways, the RMB has been appreciating a little in terms of the basket of major world currencies, rather than in comparison with the dollar only. China does not set it a political objective to intentionally depreciate the RMB. Actually Prime Minister Li Keqiang talked over the phone with the IMF Managing Director Madam Lagarde January this year, saying that China is going to make efforts to further strengthen the communications with the market as a part of its reform measures to improve exchange rate mechanism and issue signals or message that will benefit the world economy.

**Kurauchi:** Thank you very much. Next question is to Mr Sakong. You mentioned that G20 is losing its actual meaning but becoming a superficial gathering of international community. How can we activate the G20? How can G20 regain the original purpose? Japan happens to be the chair of the G7 this year. China is the chair of the G20 this year and you are an experienced leader of international community who led the successful G20 in Seoul 2010. How can Japan and China cooperate in

order to make success in G7 and G20 respectively? Do you have any advice?

**SaKong:** I was involved from the first G20 meeting held in Washington DC in November 2008 as a President's Special Economic Advisor. So, I know from the very beginning what has been happening.

The G20's major problem today is that no country is really taking ownership of assuming leadership. For example when you have the G7, as there are just 7 countries, it's comfortable to talk each other. But if you have 20, it is difficult to have a consensus since there are so divergent opinions and views. The adjustment process is very difficult unless there is a very committed leadership forthcoming from the G20 countries, particularly the chair country and together with what is called "troika". "Troika" means previous chair country and current chair country and next country working together. This "troika" works together and comes up with agreed upon agenda. That is, not just setting the agenda but try to get a consensus on the agenda, so that G20 leaders can commit to the issue. That takes tremendous efforts.

But let me explain my personal experience. Although I'm from Korea, which is not a super power, I can say that it is feasible for even Korea to play a strong leadership role if strongly committed, Actually, I came to Japan a number of times as a president's special envoy. At that time I met with Prime Minister Aso, and then the central bank governor, and minister of finance. In China, at that time, Deputy Prime Minister Wang Qi Shan was in charge of the G20. I met in the US White House with Lawrence Summers whom I know for many years. In the course of one year of preparation I met with him six times. I worked very closely with President Sarkozy's top diplomatic advisor, Jean-David Levitte, who was in charge of the G20 operation at the President's Office and John Cunliffe of the UK under Prime Minister Gordon Brown very closely. We were constantly on telephone and then we had long video conferences sometimes for over an hour.

To do this kind of efforts, particular for the young generation, it is very important to have mutual trust at the personal level. If you have to talk with other country's leaders, you have to be trusted and you have to be recognized your integrity and the professional competence. Then they will talk and will trust you. And the most important thing is then they will give you valuable information.

It is not that difficult because you talk with likeminded sherpas and likeminded ministers. You will circulate emails and say that you would like to put that certain topic on the agenda. Some of the counterparts will say “OK, this is good idea”. You put these names together and circulate it again and then it becomes an agenda. Many people think this is impossible, but it can be done.

But the thing at this point is nobody is taking strong leadership role in the G20. That’s why I really like to see China taking the necessary leadership role.. Then this G20 can do something. From now to November, you have almost nine months. If you work hard, then at the next G20 much can be accomplished.

**Kurauchi:** Ambassador Cheng, would you please be sure to bring Mr. Sakong’s advice to Beijing to make the G20 in Beijing successful. The world economy has a bumpy start with a plenty of worries and uncertainties from the very beginning of the year. We want to see a convincing outcome the G20 leaders which hopefully clears away such worries. The Chinese leadership is indispensable.

The last question is to Mr. Gyohten. There are two questions. One is what do you say to Asia Infrastructure Investment Bank (AIIB) from a viewpoint that you are one of the founding members of the Asian Development Bank (ADB). Any advice how to manage the AIIB?

The other question is if we need the second Plaza Accord. 2016 is becoming a busy year for international financial circle. We expect the renminbi to become a composite of the Special Drawing Right (SDR). The policy interest rate of the US is expected to rise while those of the euro and the yen became negative. Should we now reach an agreement in international currency politics? Should the G7 invite China for this agreement? If so, what should be agreed?

**Gyohten:** As I said earlier, against the backdrop of current national power, China is trying to take its own initiative and leadership in the world of finance and economy to build a new international organization which they want to manage and operate on their own initiative. I think it is a clear indication of the will of the Chinese government. Asian countries and European nations have recognized the significance of the new economic system and have become the founding members of the bank. In that sense, I believe the AIIB can help to address the shortfall in infrastructure centered on Asia and

it's important for the AIIB to play the role properly.

Whether Japan should participate in it or not is a matter the government determines and I should not intervene in it, but the issue of the AIIB is one of the events that represent the dynamic shift of the world's power balance and we should accept that dynamism as an assumption for the Japanese response. This totally depends on how the Japanese government judges that phenomenon.

On the suggestion that we should hold another international conference like the Plaza Accord, frankly speaking, we don't have any international consensus on what is the issue we are facing now. Is there any common problem relating to the exchange rate? No. In the days of Plaza Accord, there was an internationally common consensus that the dollar was overvalued and we needed to do something about this. Japan was the US counterpart that ran the largest trade surplus, and there was no discord that the undervalued yen should be revalued from the international point of view. In fact Japan actively participated in the Plaza Accord discussion and accepted the appreciation of the yen.

Currently, on the other hand, it seems no one knows what should be discussed at all. It is true that currently the dollar has been highly overvalued and every country should cooperate to lower the value of the dollar, but this means that countries other than the US should revalue their own currency. Then, who will take that role and responsibility? Present global balance of payments situation suggest that there is no big surplus country as we once saw in the days of Plaza Accord. Even Japan is now experiencing a trade deficit. It is no way for Japan to revalue the yen" and the same is with the RMB as Ambassador Cheng has just mentioned. We don't have any common agendas or concerns on the currency issue, although we talk a lot about it.

Also on the growth problem, we all wish to make a reasonable growth and all of us have agreed that we take domestic monetary policy to stimulate the growth and make whatever efforts we can do domestically on our own positions. Therefore, no one will find it necessary to request the US or other major countries to change the direction of their monetary policies.

I think currently we are not in the situation where we need to get together to discuss exchange rates or monetary policies and reach some kind of conclusion. For the

moment I think there is neither a need to have a second Plaza Accord conference nor we are in such an environment to need it.

**Kurauchi:** Thank you very much. Listening to the discussions of the panelists, it is my impression that today's discussions demonstrated how much chaotic the things are in the present world. We have still many more questions but the time is running out so I would like to conclude the Q&A session here. Thank you very much for your attention and cooperation. (Clappings)



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