

## IIMA International Financial Symposium

25 February, 2016

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

東アジアの協調的発展 ~その展望と課題~

#### Opening Remarks

開会の挨拶

It is our great pleasure to have you at our symposium today. The Institute for International Monetary Affairs celebrated its 20<sup>th</sup> 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. .

#### Slide 1 : Title Theme

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.

#### Slide 2 : 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.

#### Slide 3 : 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.

#### Slide 4

As a result, the number of banks was reduced from 21 in 1996 to 7 banking groups in 2006.

#### Slide 5 : 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.

#### Slide 6

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.

#### Slide 7 : 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.

#### Slide 8

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.

#### Slide 9 : 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.

#### Slide 10 : 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?

#### Slide 11 : Emerging New International order after the Crisis

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.

#### Slide 12

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?"

#### Slide 13: 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 21<sup>st</sup> century has now been starting its big movements towards birth.

#### Slide 14 : Rise of Middle Class in Asia

Another leading player for growth is the middle class in Asia. After the turn of the 21<sup>st</sup> 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.

#### Slide 15 : Transformation of Finance in Asia

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.

#### Slide 16

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.

#### Slide 17 : 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 counties. 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.

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.