

確かな未来に向けた成長への舵取り  
～喫緊の処方箋と長期的課題

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**Paving the way for a solid and promising  
Future**  
-Short term prescriptions and long term challenges



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

**IIMMA**

Institute for International Monetary Affairs

## はじめに

日本を初め、中国、韓国、米国、ロシアなど近隣の主要国で新たな首相、大統領、指導体制の下、2013年が始まりました。経済を見渡すと、米国では住宅市場に回復に兆しが見え始め、欧州は当面の問題国の資金繰りに道筋をつけ、中国の成長の期待値は下がったものの失速は回避され、アジア全体で景気上振れを予想する向きが増えました。日本では新政権の政治的安定性と経済政策に期待がかかり、ようやく薄日が差してきたかにみえます。

しかし、危機の後遺症が癒えるのは、あとは時間の問題と考えていいのでしょうか。各国が進める制度改革や構造改革は、危機の原因を正しくとらえているのでしょうか。そして、我々は危機が起きにくい強靱な経済を作ることができるのでしょうか。

このような問題意識に立ち、公益財団法人国際通貨研究所は、「確かな未来に向けた成長への舵取り～喫緊の処方箋と長期的課題」と題する国際金融シンポジウムを開催致しました。本シンポジウムでは、国内外から著名な専門家をお招きし、グローバルな視点で先進国、新興国、日本の進めるべき政策、果たすべき役割について幅広く議論していただきました。

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。

2013年7月  
公益財団法人 国際通貨研究所

## Preface

The year 2013 has started with new governments or administrations in major countries in Asia and Pacific region, including China, Korea, the United States, Russia and Japan itself. On the economic front, a sign of recovery has emerged in the housing market of the United States. Europe has found a little breathing space to manage the immediate finance for the debt-stricken countries. In China, severe economic stall seems to have been averted, which has been encouraging more economists to upgrade their economic outlook for the Asian region as a whole. In Japan, expectations for the new government are rising for its ensuring political stability and stimulative economic policies.

There remain, however, some uncertainties. Is it just a matter of time before the aftereffects of the crises can be fully healed? Have the countries correctly identified the causes of the crises and are their regulatory and structural reforms addressing appropriately to the points? Can we now finally start to make a non-crisis world?

To address these questions, the Institute for International Monetary Affairs (IIMA) held a symposium titled “Paving the Way for a Solid and Promising Future – Short term prescriptions and long term challenges” at Tokyo Kaikan in Tokyo on March 4, 2013. A number of prominent experts joined our symposium panel to share their views and opinions on these globally challenging issues.

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

July 2013  
Institute for International Monetary Affairs

## パネリストの略歴／Profiles



**ヤコブ・ファンク・キルケガード**  
ピーターソン研究所 上級研究員

**Jacob Funk Kirkegaard**  
Senior Research fellow,  
Peterson Institute

デンマークのオーフス大学、NYのコロンビア大学等を卒業。デンマーク防衛省、国連イラク勤務のほか、民間の金融機関等での勤務の後、2002年にピーターソン研究所に入る。現在はNYをベースとするローダム・グループのシニア・アソシエイトも兼務。*Transatlantic Economic Challenges in an Era of Growing Multipolarity* (2012) (共編)のほか、著書多数。

Mr. Kirkegaard is a graduate of the University of Aarhus in Denmark; and Columbia University in NY. He joined the Institute in 2002. He is also a senior associate at the Rhodium Group, a New York-based research firm. Before joining the Institute, he worked with the Danish Ministry of Defense, the United Nations in Iraq, and in the private financial sector. He is coeditor of *Transatlantic Economic Challenges in an Era of Growing Multipolarity* (2012).



**中尾 武彦**  
財務省 財務官

**Takehiko Nakao**  
Vice Minister of Finance for International Affairs,  
Ministry of Finance

1978年東京大学卒業後、大蔵省（現財務省）に入省、94-97年のIMF出向、2005-07年の駐米大使館公使勤務を含め、主税、証券、主計、国際金融局等で要職を歴任。09年7月国際局長、11年7月より財務官。カリフォルニア大学バークレー校で経営学修士号取得。

After graduating from the Tokyo University in 1978 (BA Economics), Mr. Nakao joined the Ministry of Finance and served in a variety of bureaus such as Tax, Securities, Budget, International Finance, before taking the present post of Vice Minister of Finance for International Affairs in 2011. He also worked for the IMF from 1994 to 97, and served as Minister at the Embassy of Japan in Washington, D.C. from 2005 to 07. He obtained MBA from University of California at Berkeley.



**サイモン・テイ**  
シンガポール国際問題研究所 所長

**Simon Tay**  
Chairman,  
Singapore Institute of International Affairs

1986年シンガポール国立大学、1993年ハーバード・ロースクール卒業。環境庁委員長をはじめ、各種の公務を歴任。現在シンガポール国際問題研究所所長を務めるとともに、シンガポール国立大学で国際法を教える。

Mr. Simon SC Tay is a public intellectual as well as private advisor to major corporations and policy-makers. He is concurrently Chairman of the Singapore Institute of International Affairs and Associate Professor, teaching international law at the National University of Singapore (NUS). He graduated from the NUS in 1986 and from Harvard Law School in 1993 and served in many public positions for Singapore, including as Chairman of the National Environment Agency.



**ジャン=クロード・トリシェ**

欧州中央銀行 前総裁

**Jean-Claude Trichet**

Ex President,  
European Central Bank

パリ大学、国立行政院その他を卒業後、経済省、国庫省をはじめ多くの公的機関のポストを歴任。1993年フランス銀行総裁に任命され、2003年から2011年まで欧州中央銀行総裁を務めた。現在はG30委員長、フランス銀行名誉総裁を務める。

Mr. Jean-Claude Trichet is a graduate of the Université de Paris (in economics) and of the ENA. He was assigned to various posts at many governmental agencies including Ministry of Finance and Treasury Department. He was appointed as Governor of the Banque de France in 1993 and later served as President of the European Central Bank from 2003 to 2011. Currently he is the Chairman of the G30 and an Honorary Governor of the Banque de France.

(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 of 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。

He graduated from Tokyo University in 1955 and joined the Ministry of Finance. Serving in a variety of bureaus including Banking and International Finance, and at international organizations, he was Vice Minister of Finance for International Affairs in 1986. After retiring from the MOF he taught at Princeton and Harvard Universities in 1990 and was assigned as Chairman of the Bank of Tokyo Ltd. in 1992. Since 1995 he has been president of the IIMA.



**渡辺 喜宏**  
国際通貨研究所 専務理事

**Yoshihiro Watanabe**  
Managing Director,  
Institute of International Monetary Affairs

1970年東京大学卒業後、東京銀行入行、多くの海外勤務を歴任。2005年三菱UFJフィナンシャルグループ専務取締役を経て、08年国際通貨研究所専務理事。日印経済委員会常設委員会委員長を務め、APEC Business Advisory Committee (ABAC) の日本委員でもある。

After graduating from the University of Tokyo in 1970, he joined the Bank of Tokyo and served for many overseas businesses. He was Senior Managing Director of Mitsubishi UFJ Financial Group in 2005. He took the present position in 2008 and now also chairs at the Standing Committee of Japan-India Business Cooperation Committee and is a member for Japan of the APEC Business Advisory Committee (ABAC).

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本シンポジウムは主に英語で行われました。日本語版は英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 English.

英語版

English Version

Occasional Paper No.25

The 22nd International Financial Symposium

Paving the way for a solid and promising  
Future

- Short term prescriptions and long term challenges

March 4, 2013 Tokyo Kaikan



Institute for International Monetary Affairs

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## 1. Opening remarks

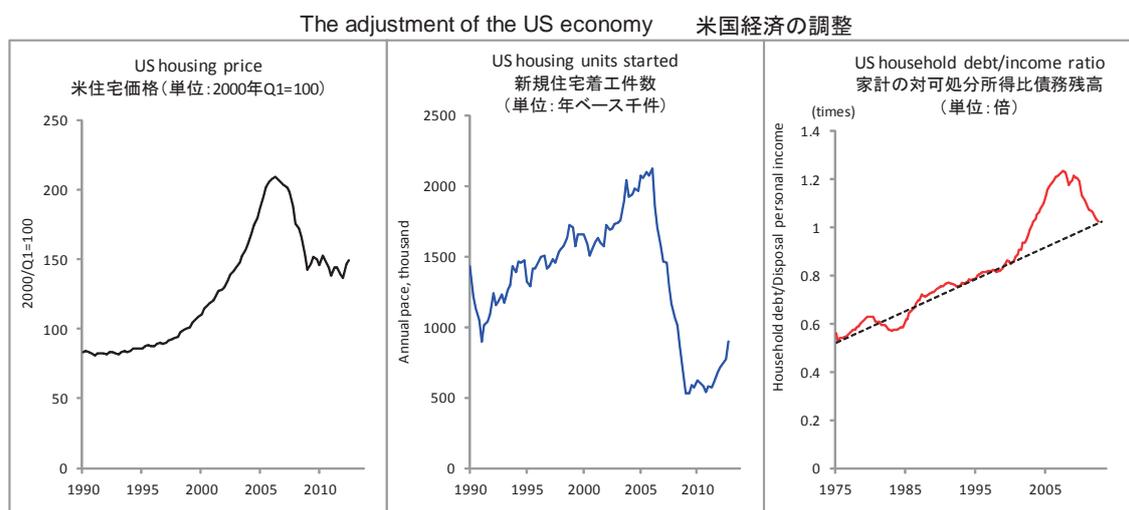
**Yoshihiro Watanabe, Managing Director, IIMA**

Distinguished panelists and audience, good afternoon! Thank you for joining our International Financial Symposium. Today, we are going to discuss the topic, “Paving the way for a solid and promising future” with “--Short term prescriptions and long term challenges.” Before we let our speakers deliver their speeches, may I present briefly, where the world economy is, by providing some charts of facts?



The economic sentiment has improved in Japan since the end of last year. People are expecting, or hoping, that the economic policies of Prime Minister Abe have somehow a power to end this decade long deflation. His bold stance for monetary easing is so far affecting over people's expectation on the foreign exchange market and stock market. The exchange rate of the yen has already fallen by more than 20% from its historical peak in 2011 and the Nikkei index has jumped by more than 30% from the lowest point of 2012.

### United States

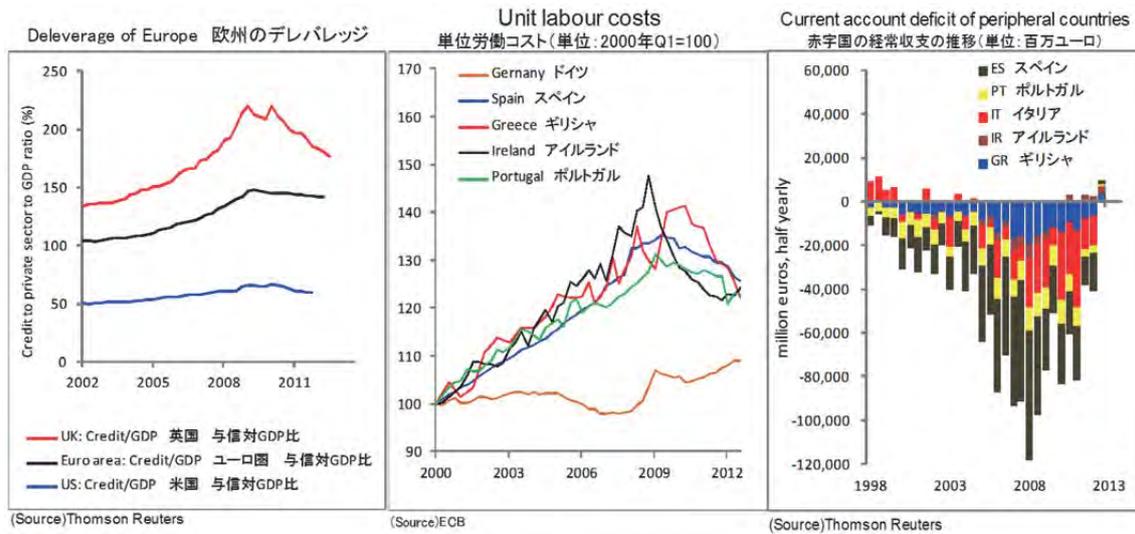


Improvement of market sentiments is not happening only in Japan. In the United States, a drastic fall of housing prices seems to have reached its bottom. The number of new house construction shows a sharp rebound. The excessive household debt compared to the income has been also reduced and now more or less on a fair level in line with a

long term trend.

Because the hangover of housing market booms and excess leverage of the household sector were the core problems of the current US economy, the recent improvement of these issues provides a solid ground of optimism.

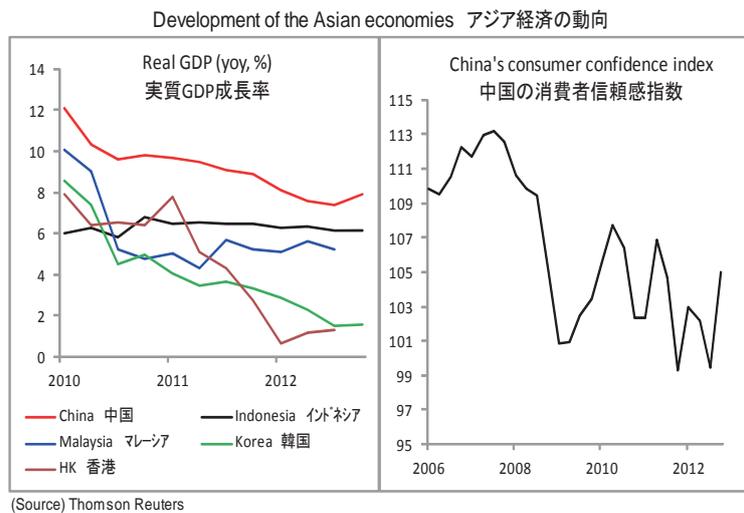
## Europe



In Europe, recently the result of the Italian parliamentary elections has given rise to a renewed concern for the European crisis and the markets showed a negative rebound. We should continue to observe the developments. But it is also true that since the ECB committed its bold stance of unconventional measures, there continues improvement of sentiments in sovereign bond markets. Although the direct contributor is the central bank, there seems wide range of improvement of fundamentals, too. Excess leverage of entire Europe is fading, though there are still serious concerns for the quality of assets of financial institutions. Excessive hike of unit labour costs in peripheral countries have drastically fallen and the gap between Germany has narrowed to some extent. These developments are expected to contribute to the improvement of their competitiveness. As a consequence, macroeconomic imbalance within the Euro zone is also being adjusted. Current account deficits of the peripheral countries are shrinking remarkably.

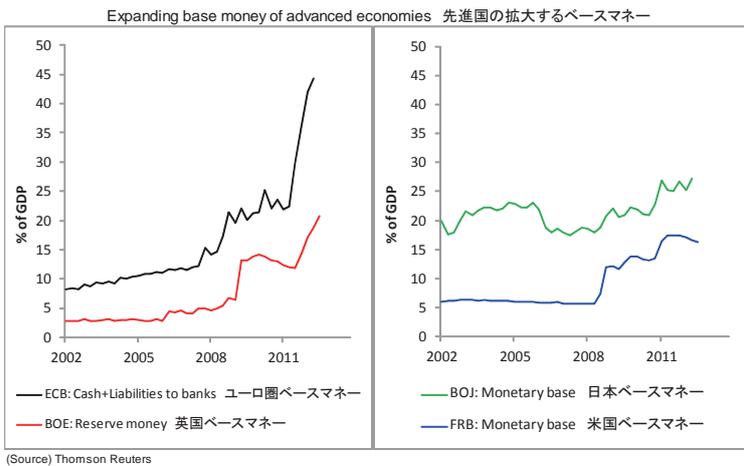
## Asia

The slowdown of the Asian economic growth last year seems to have ended in the fourth quarter. It was an intended slowdown starting with monetary tightening in 2010-2011 to avoid inflation. Now the headline inflation has successfully cooled down, and simultaneously, the real economies seem to keep up with the momentum of growth.



## Central banks efforts in advanced economies

However, there are some reasons that we should not be too optimistic. The improvements of the advanced economies are not yet self-sustaining. It is not purely a commercial driven recovery. Behind the screen, there are maximum supports of central banks.



The size of central banks' assets is ballooning to three to five times bigger than ordinary times. The latest outstanding achievement of those central banks is the ECB's so called "Bazooka." They provided the market with financial safety nets, such as LTRO (Long term refinancing operations) and OMT (Outright Monetary Transactions). They expand themselves to normalize the functions of interbank markets and government bond markets.

## And its side effects in emerging economies

While these central banks' activities are indispensable in advanced economies, emerging economies have a concern because of that. The US and Europe have geared up

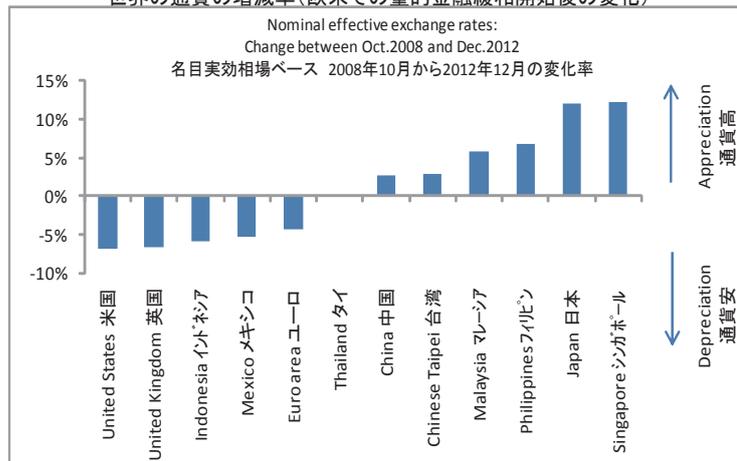
the monetary easing at the top level. And Japan is likely to join the two. Almost 50% of the world economy takes monetary easing in full tension. This conduct of the advanced economies has been already reflected on the market development in emerging economies.

Since the Lehman shock, the foreign exchange rates of the Asian currencies have risen by 10% in an extreme case, while the rates of US dollar, euro and pound have fallen by about 5%.

In real estate markets, the Asian property prices are rising while those of the US and Europe are still in a process of adjustment. Of course the strong demand of Asian properties reflects the rise of purchasing power of the local middle class and the expectation of economic growth. But rapid price hike of those markets should be watched cautiously because we know from our experiences that extra loose monetary policies somewhere have given rise to property bubbles in other places of the world.

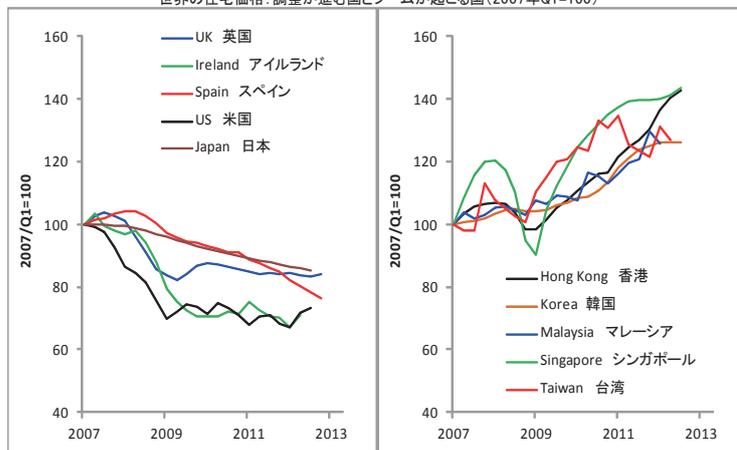
### Rises and falls of world currencies

since monetary easing in the United States and Europe  
世界の通貨の増減率(欧米での量的金融緩和開始後の変化)



(Source) BIS

World housing prices: Adjustments in some countries and booms in others  
世界の住宅価格: 調整が進む国とブームが起こる国(2007年Q1=100)



(Source) Thomson Reuters

### Long term challenges

In addition to such difficult problems deriving from the global financial crisis, each economy or region has its own long term challenges.

The common key word of those long term challenges is “Structural reforms” to

adjust economy,

- for more income equality,
- for more appropriate burden sharing of ageing society,
- for more innovative businesses and productive industries.

Not only economical issues but there might be more geo-political tensions of food, water, rare resources security and environmental safety. Also there are questions that are difficult to answer.

- Can we now forget about the Lehman shock and not to be afraid of any fat tail events to damage recovery?

- Can Japan end the deflation? How can Japan find solution for the unsustainable public debts problem?

- How can the new energy in the US change the world?

- Can Euro area draw a future resolving the North-South issue?

- How can Asia keep its high growth rate without falling into the middle income trap?

- Will regional collaboration build a possible framework avoiding conflicts by historical legacy and power shift in the Asia Pacific region?

- On the financial front, are the rising strains of severe financial regulations such as capital adequacy ratio and financial transaction tax impairing a solid recovery of real economies?

Fortunately we have powerful panelists here for these issues.

I will stop here and hand over the discussions to them. Please enjoy the symposium.

Thank you.

## 2. Opening of Panel Discussion

### Toyoo Gyoten, President, IIMA

Everybody tries to sound optimistic. However, everybody knows he has to put in a caveat against his optimism.

Already six years have passed since the collapse of sub-prime loan market, yet we have not reached the point where we can declare la victoire finale over the crisis.

Why it takes so long?

The reason is that all economics are burdened with, on top of the immediate damages caused by the crisis, their homemade problems which cannot be solved by simply raising the level of global economic activity.

The crisis started as a financial crisis. Then it spread worldwide through the channel of financial and trade globalization.

The two common and the most serious damage inflicted upon the world economy were credit crunch and collapse of demand, although the severity and the mix of damage differed significantly from one country to another.

In the US and Europe the credit crunch almost triggered a collapse of financial system, while in Asia the collapse of demand was a more scary blow.

What is noteworthy is that all countries, in the process of dealing with the crisis management, had to cope with structural and long-term challenges of their own economic-political-social problems.

In the US it was the issue of the consumption-led growth model which has intricate linkages with unique feature of financial capitalism, housing market and labor market, and the political schism on the role of public sector.

In Euro-zone the first explosion was triggered by fiscal binge and asset bubble, but they were embedded in the inherent problems of Euro-system, i.e. lagging fiscal and



regulatory integration, and the intra-regional disparity.

In Japan, the crisis caused a severe damage by way of the collapse of external demand. The recovery was hindered by desperate fiscal situation, demographic deterioration and deeply entrenched deflationary psychology.

In Asia, the damage of the crisis was not fatal except the collapse of export market and the drying up of trade finance.

Yet, in the aftermath of the crisis, Asians discovered themselves in a growing inconsistency between its mighty physical economy and the lack of maturation and sophistication of its soft-power.

ASEAN, Japan and Korea are located at the Western rim of the American Pan-Pacific sphere and the eastern rim of the Chinese Eurasian sphere. We need a plenty of brain power for survival.

I think I should stop here, because although it is a very interesting subject, the purpose of this symposium is to learn wisdoms from the panelists.

As you see in front of you, a truly powerful group of panelists is with us today. Starting from my left, Messieurs Jean-Claude Trichet is the former Governor of the European Central Bank. He is now Chairman of the Group of Thirty. Next to Mr. Trichet is Mr. Jacob Funk Kirkegaard from Peterson Research Group in Washington. He is also a senior associate at the Rhodium Group. Next to Mr. Kirkegaard is Mr. Simon Tay, Chairman of the Singapore Institute of International Affairs. To the far left, we have Mr. Takehiko Nakao, Vice Minister of Finance for International Affairs for Japanese Ministry of Finance.

I would like to ask each panelist, to first make a 10-15 minutes presentation, starting from Mr. Trichet. After a short coffee break, I will organize a discussing session by posing questions to the panelists. So, Mr. Trichet, s'il vous plait.

### **3. Economic and Monetary Union Long Term Challenges**

#### **Jean-Claude Trichet, Ex President, European Central Bank**

Thank you, Toyoo. It is a great pleasure to be here and I am grateful to be invited to this panel.

Since mid 2007, the advanced economies have, as you said, experienced extraordinary demanding and difficult times. We have experienced a succession of shocks that were unseen in the industrialized countries since World War II. I remain convinced that the post Lehman Brothers unfolding of events was potentially even more critical than those which triggered the 1929 crisis. Had the central banks and the public authorities not embarked immediately on prompt and decisive actions, I believe that we would have experienced not only a great recession but a very deep and rapidly unfolding great depression.



It is in this context of the gravest crisis of the advanced economies since World War II that I would like to concentrate on the European issues, and, more particularly, on the Euro area issues.

Good governance requires that both individual Member States and the institutions of the EU fulfill their responsibilities.

We have observed the functioning of the Euro area for 13, 14 years. As all advanced economies, we have experienced the shock of the crisis over the last five, six years. It is time now to draw lessons from these first years.

The acronym EMU means Economic and Monetary Union. So three letters E, M and U which means that we must have two Unions: a monetary union M U, and an economic Union E U.

I will not expand too much on the successes, I trust these are great successes of the Monetary Union. If you have any question, I will stand ready to explain in details why Monetary Union has been a great success. I will use my time to concentrate on the weaknesses of Economic Union.

I have to say there is a paradox here because it is not the Euro area as a whole, on a consolidated basis, which is presenting major weaknesses. As you know, the current account of the Euro area is balanced, or even in a surplus, the public debt outstanding as a proportion of GDP is well below the Japanese public debt outstanding and the yearly public finance deficit is well below the equivalent figures in the U.S., in Japan and in the U.K. Still several factors, in particular the absence of effective surveillance inside the Euro area, have created a large dispersion of situations between countries as regards fiscal soundness, competitiveness and therefore creditworthiness. The charts presented by Mr. Watanabe were very telling in this respect. This explains why some countries are considered by investors and savers as vulnerable.

The weaknesses of the Euro area economic governance can be summed up in six propositions:

- First, the Stability and Growth Pact designed to ensure sound fiscal policies in the Euro area has not been correctly implemented. Furthermore, in 2003 and 2004, the major countries, namely France, Italy and Germany, engaged in a dramatic move to weaken the Pact. The defense of the Commission, of the ECB and of the small and medium sized countries contributed to avoid the dismantling of the “letter” of the Pact, if I may say so. But the “spirit” of the Pact has been critically impacted.

- Second, at the start, the governance of the Euro area did not comprehend any serious monitoring and surveillance of competitiveness indicators and external imbalances within the Euro area.

This second weakness was, in my view, the major problem for the governance of the single currency area, perhaps even more important than the loose implementation of the Stability and Growth Pact. Because of this weakness, the EMU is just a single “nominal currency” area. The main challenge of any such area is how to preserve the existence of a single “real currency” area through a close monitoring of possible excessive deviations of national competitiveness.

- Third, the high correlation between the creditworthiness of the commercial banks of a particular country and the creditworthiness of the sovereign creates an additional vulnerability. This high correlation is associated with the fact that the backstop for the

banks is the sovereign and only the sovereign everywhere in the world, including in the Euro area. The crisis therefore triggered both a “virtuous circle” in the countries with a strong Treasury creditworthiness and a “vicious circle” in the countries with a bad Treasury credibility. This phenomenon amplified the turmoil of the Euro zone and that is why there are calls for creating an effective banking union at the level of the Euro Area as a whole to help decoupling the creditworthiness of the banks from the creditworthiness of the sovereign.

- Fourth, no crisis management tools had been envisaged at the start of the Euro. This might appear as a grave initial mistake with the benefit of the hindsight. But one has to recognize that there was actually no such a management tool anywhere in global finance at the time of the setting up of the Euro. This was particularly the case in the advanced economies. But it was easier to correct in centralized states or in full-fledged federations than in a grouping of 17 different democracies.

- Fifth, we have two other weaknesses that are not only the weakness of the Euro area but weakness at the level of the European Union as a whole, particularly the unsatisfactory completion of the single market in the area of goods and, more particularly, services. This weakness of the single market of the European Union as a whole -the 27- is particularly resented in the Euro area where it hampers the appropriate functioning of the competitive channel.

- And sixth, similarly, the slow and hesitant implementation of the structural reforms foreseen in the Lisbon agenda and in the 2020 programme which were, and are, committed at the level of the European Union as a whole, is also very significantly hampering the smooth functioning of the Euro area.

So these are the six weaknesses in the domain of economic and fiscal governance, and I think it is important to look at what has been done until now with the experience of the first 14 years of the EMU and with the experience of 5 years and a half of crisis to correct these weaknesses.

Firstly, speaking in front of a largely Japanese and non-European international audience I shall stress the fact that, contrary to common belief, that the Europeans have been decisive and bold in designing new tools, imagining new concepts and working out new rules. These new decisions have precisely been adopted to cope with

the weaknesses I have just mentioned. Furthermore, I have to say that the European Institutions are presently envisaging a number of the avenues for the medium term future that seems to me very promising. I will mention particularly the publication of the “Blue print for a deep and genuine economic and monetary union - Launching a European debate” published by the President of the Commission and the document published by Herman Van Rompuy and reported to the European Council in the name of the four presidents, entitled “Towards a genuine Economic and Monetary Union”.

But let me take again the six weaknesses to see what has been decided until now, and which judgment we can make on these decisions.

If I take the two first weaknesses, I would say they have been addressed through the concept of the “European semester” and the so-called “six packs” that have been already decided and the “two packs” that are to be decided in the days to come. They are reinforcing very significantly the Stability Growth Pact (SGP), which gives the Commission much more clout in case the governments would be inclined to be too lenient vis-à-vis loose fiscal policies. The same set of secondary legislations not only reinforce the SGP in creating again much more effective pact, but they also create the second pillar, a new framework for surveillance: the “Macroeconomic Imbalance Procedure (MIP)” which is designed to correct the second major weakness, namely the lack of surveillance of competitiveness developments and ensuing macroeconomic imbalances. Now we also have the “Treaty on Stability, Coordination and Governance” (TSCG), which is a new treaty and reinforces significantly the effectiveness of the SGP by introducing the budget rules in the national legislation. We call that treaty usually the “Fiscal Compact”. It also sets stones for a reinforced surveillance of all economic policies. So as you see, we have there a set of decisions that should not be under-assessed and are making governance in the Euro area very different from what it was at the beginning.

Regarding the third weakness, namely the absence of a banking union in the Euro area, again, as you know, important decisions have been taken and were just made at the end of last year. The Council supported the “Single Supervisory Mechanism” (SSM) which gives the ECB a key role and called for rapid implementation of a single rule book. The Council also calls for a Recovery and Resolution Directive and for a Deposit Guarantee Scheme Directive to be worked out during 2013. The very existence of the Single Supervisory Mechanism should normally permit the implementation of a very

important decision in principle taken previously by the Council, namely the possibility for the European Stability Mechanism to recapitalize banks directly, without necessarily going through the Treasury of the Country concerned.

Regarding, the fourth weakness, namely the absence of crisis management tool, as you know again, the European Stability Mechanism (ESM) has been progressively set up. It is, in my opinion, too modest in size and too complicated in its management because of its intergovernmental nature. But it is nevertheless remarkable that the seventeen European governments could agree on a crisis tool that goes beyond the Maastricht Treaty and the seventeen democracies could sign a new Treaty.

As regards the fifth and sixth weaknesses, namely the non completion of the single market and the insufficient implementation of structural reforms, several ways have been imagined to improve the situation. For instance the Treaty on Stability, Coordination and Governance calls, in its article 11, for systematic ex ante coordination of major economic policy reforms.

All taken into account, four reasons explain why the Euro area appears, in the eyes of the global investors, much more solid than before. The first reason is the decisions, already mentioned, taken to offset the six weaknesses. The second is the adjustment which is convincingly proceeding as Mr. Watanabe demonstrated. The third is the solemn confirmation by all member states that they were all determined to preserve the integrity of the Euro area. And the fourth is the decision of the Central Bank to stand ready to help restore a better transmission of the monetary policy within the Euro area provided appropriate economic and fiscal conditionality would be met.

That being said, it is not sufficient. To eliminate for the present period the “tail risk” of a significant change in the composition of the Euro area is very important but we must go much further if we want to preserve the deepening of the European Union. In a medium to long run perspective, we have to improve European institutions and I think that most of what would be necessary in this respect call for changes of Treaty. Such changes are not easy things to do. What I would insist on is the necessity to go further in the direction of an “economic and fiscal federation”. Several avenues have been envisaged and they have been mentioned in particular in the works of the European Commission and in the report presented by Herman Van Rompuy. In my opinion, a significant advance towards a federation should meet the following five requirements.

1. Being bold enough and powerful enough to suggest a big step forward - I said previously that the Euro Area needs a “quantum leap” towards a much more integrated economic governance, towards an economic and fiscal federation;
2. Being fully operational in exceptional cases, (a) in giving the various European institutions the kind of responsibilities they would have in a full fledged economic and fiscal federation and (b) in checking their capacity to meet their new responsibilities and exert convincingly their new powers;
3. Being fully democratic and therefore giving the ultimate decision-making power to the direct representatives of the European people, namely the European Parliament;
4. Meeting the subsidiarity principle, meaning being activated only in cases it would be absolutely necessary for the sake of the integrity of the Euro area as a whole;
5. And, last but not least, being effective in making sure that the kind of economic and financial destabilization experienced during the last years would be prevented in a convincing way.

I would suggest that instead of imposing fines on countries misbehaving, to the extent that fines are the sanctions presently designed under the Stability and Growth Pact and the Macroeconomic Imbalance Procedure, we should activate a new decision making process at the level of the European institutions. If a country appears unwilling or unable to take the necessary decisions, despite several recommendations – and by way of consequence – puts in danger the stability of the Euro area, the decision making process should be the following: the Commission, acting in that case as a kind of federal government, makes proposals (for instance increasing VAT, freezing expenses etc.), these proposals are examined by the “Council” (namely the Eurogroup), acting as the equivalent of an “upper Chamber”, a Senate, and finally decided, as a last resort, by the European Parliament acting as the lower Chamber. Such decision making processes should be activated only in very exceptional cases, respecting fully the principle of subsidiarity, the final decision would be made not by “technocrats” but by the Parliament, respecting fully the democratic principle, and the full process would be effective. I will insist on the importance of the last point about effectiveness, because what the Europeans have to do now is to be sure that the reinforced economic and fiscal governance works. Imposing fines on those who would fail repeatedly to meet the requirements of the SGP and the MIP would not at all be an effective way to eliminate

the systemic risk of destabilizing the Euro area.

So, instead of ineffective sanctions, an effective activation of an “economic and fiscal federation by exception” is the way I would suggest exploring. This is one of the avenues perhaps we could examine. I am pretty conscious it is bold, and pretty conscious it is not easy. It has to be assessed from the democratic standpoint and from all the criteria I have mentioned. But I trust it would be legitimate to examine such a concept.

Thank you very much for your attention.

#### 4. The US Economic Recovery and America's Longer-term Challenges Jacob Funk Kirkegaard, Senior Research Fellow, Peterson Institute

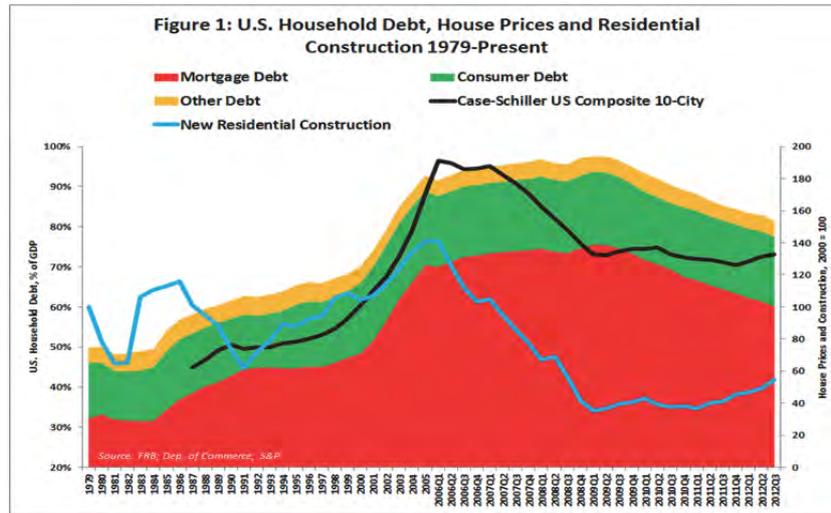
Thank you very much for first of all inviting me to come here. It is a great pleasure to come and talk to you. I think I will structure my remarks very quickly by talking about potential economic recovery in the United States, which, as Mr. Watanabe also said at the beginning, is certainly real but I have some significant caveats to it both with regards to the housing market and the short term fiscal outlook.



Then I want to turn to some of the longer term economic challenges that the United States is facing, which include issues of labor market and healthcare costs, followed by a little about the political situation in the United States. The reason I focus on this is that I would like to argue these longer term challenges that the US faces will really require governmental action. Although the Peterson Institute for International Economics which I come from is a bipartisan institution without political affiliations, I think it is fair to say that we believe that the longer term challenges of the US will not be met by smaller government, but will in fact require better government and therefore the political dysfunctionality that we now see is a very significant issue.

Regarding the real short term US economic recovery, comparing to other large industrialized countries, it is fair to say that it is not bad at all. The US has achieved about 2 % real economic growth on average since late 2009, has created on average about 175,000 jobs per month over this period and has made its unemployment rate down below 8 %. But I think it is important to throw in a couple of caveats here. This is a chart that shows household debts, house prices and residential construction. As Mr. Watanabe said at the beginning, there is a sentiment that housing is finally coming back in the US and in fact there is substantial room to grow. Housing new residential construction could double still before it reaches back at pre-crisis level of 2000. So there is still significant room for improvement.

## U.S. Household Debt, House Prices and Residential Construction 1979-Present



But I would also say that we shouldn't expect too much from this rebound in housing construction because the consolidated construction rebound is not going to have significant implications for US house prices. Despite the recovery of construction and sales, the prices would remain relatively subdued. This means we shouldn't expect broader economic, broader wealth effects throughout the US economy as a whole.

There are also issues surrounding what role public sector or the government can play in providing the financial support for real estate and housing market. Here I am thinking about the inevitable but postponed restructuring of the Funny Mae and Freddy Mac Institutions. So even if we see the economy at last picking up accompanied with a recovery of consumption, I think we need to be very careful in believing that we can just go back to the consumption led economic growth model again. I basically don't believe that was sustainable.

Then turning to the short term fiscal outlook, I am not going into the details of 'Sequester', but I will say that, messy as the process is, fiscal consolidation is actually occurring in the US. The deficit was down by 1.7% points last year and on a current row, including this 'Sequester,' we should expect it to fall another 1.7% points. The reason why things go like this in the US is that when you have a divided government in a political system like the US it tends to produce gridlock. We are essentially in the situation that we can only achieve fiscal consolidation by having a near disaster or as I call a 'cliff X'. It's only by putting a gun to our head that you can actually have an agreement in congress to do something. Now what that means is that in order to

achieve fiscal consolidation we have to do it by design in the most destructive way. Remember what the 'Sequester' itself symbolizes. It's essentially something that was legislated to be so terrible that you will never actually implement it.

Gridlock of the US fiscal consolidation is not only at the expense of short term growth but also the long term needs of the US. And it all comes down to the fact that dysfunctionality of the congress right now is such that decisions have only been possible at the very brink of disaster. This situation reminds me of the Euro area in the last couple of years. But in the US we are not talking about reorganizing monetary union. We are not talking about such a complicated matter but very mundane domestic fiscal decisions. It means that consolidation is being achieved in the least effective way possible and as I will come back to that later, at the expense of longer term spending priorities.

Now I want to switch to some other longer term challenges that the US is facing. I want to start with the labor market. 2% real economic growth of the last couple of years is not bad and 8% of unemployment is not particularly bad, either, compared to the euro area. But it is actually a significant underestimation of the true scale of the labor market situation in the US because the reality is that the crisis was much more profound than those headline unemployment figures suggest. I don't have the time to go into details, but it should be noted that employment rates and long term unemployment rate have been unprecedented throughout this crisis and remain at that level today. It is really important to understand that 8% of unemployment today or less than that doesn't reflect the true state of the US labor market.

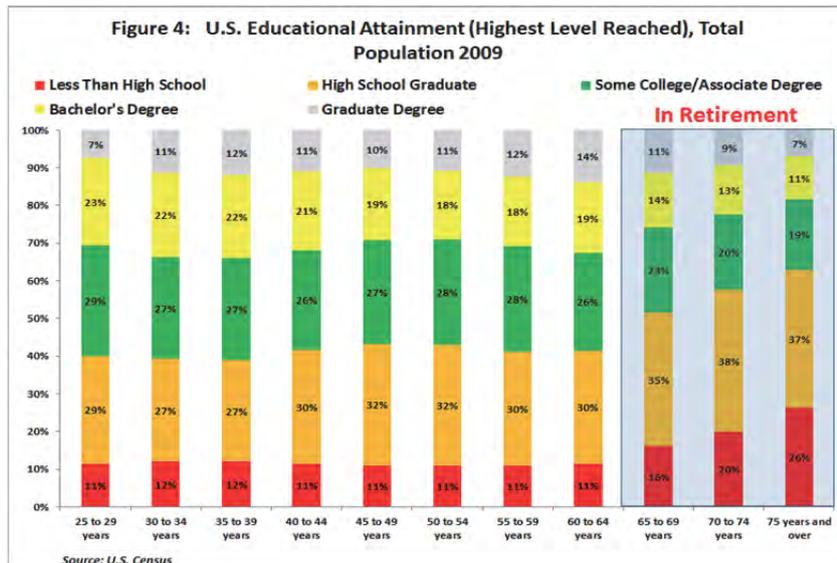
And it is also important to understand that this crisis in the US comes actually as a continuation of much longer term stagnation. In terms of labor force participation in the US we are back at the levels that were last seen in early 1980s. It was a period when female labor force participation has not yet peaked. The fact that the Federal Reserve has adopted the employment part as their mandate and placed it increasingly to the forefront shows me that there are real concerns about longer term effects of hysteresis effects as they are known.

I think it is also important to understand that contrary to Japan and certainly the EU area, it is not obvious that the US has a list of effective structural labor market reform to implement. It is not like in Japan where I would argue there are a lot of

things that the government could and should do to raise female labor force participation. Unlike in Europe where there is a long list of things that the governments should do, it is not clear that the US has any of those options available. So in that sense, inevitability of this slow down in labor market seems happening. This is something that has obviously significant implications for long term growth prospects of the US.

This is also important because apart from this quantitative issue there is also a qualitative issue facing in the US. This is the chart which tells you that quality of the US labor force is about to stagnate. It means that natural compositional improvement of labor force which you would expect by having ever better educated workers into the workforce is about to come to an end in the US.

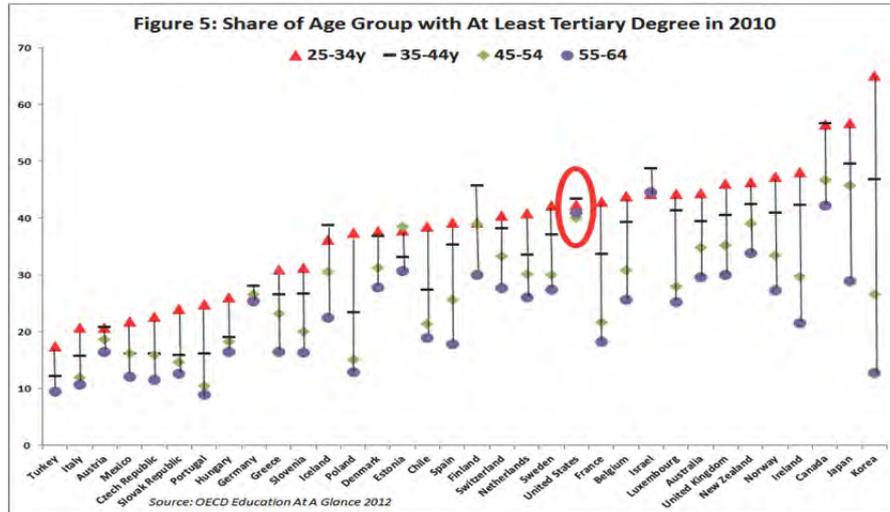
### U.S. Educational Attainment (High Level Reached), Total Population 2009



That isn't something that you can just change in the matter of time. Even the most successful educational reform won't change that. This is something that is going to happen irrespective of what happens and obviously does lead you to the effect of human capital on long term total fact productivity. This is a very worrying concern. Then at the same time from the prospective about the US relative to the rest of the world, what this chart tells you is not that the rest of the world has stopped getting any better educated but that the bigger the distance between the countries is, the bigger generation of improvement in education is. Here I am just taking the share of year or age cohorts that graduated from at least university. What you can see is that, unlike most other countries, the US is in fact in total stagnation. This means relative skill

abundance that earlier generations in the US enjoyed is about to come to an end. That of course means that where you have a qualitative decline, someone offset the generally perceived longer quantitative advantage that the US had, and again I would say that there is very little that ongoing governmental effect can actually do to deal with this.

Share of Age Group with At Least Tertiary Degree in 2010



Now turning very quickly to health care. The reason why health care is important is that, if you look at long term fiscal health of the US, nothing else matters. Social security is largely irrelevant. If you don't fix health care costs in the US, the country is going to go bankrupt. In the 2050 horizon, the US on a per capita basis spends about twice as much as everybody else. The US government actually spends more per capita than any other governments in the industrialized world. Even worse, this cost issue is largely unaddressed by the very necessary reforms of Obama-care. What Obama-care does is that it improves access to health care which I believe is morally necessary in the US but it doesn't deal very much with the health care cost issue.

Now I don't have the time to go into it but I will just say that the health care is a sector where you cannot let the market solve the efficient matching of demand and supply. Market driven solutions can never provide us with an outcome that is actually both effective and morally defensible.

Before ending my speech, let me talk again a little about the politics. I think I have been relatively bearish on the US in these remarks. There is no doubt that the US remains the most innovative economy in the world. It has a bunch of consumers

that like to be early adapters, it has a risk taking cooperate tradition and it has a big market. There is no reason the US shouldn't remain the most innovative economy in the world. But I really do think that the gridlock we are facing not only complicates the short term fiscal consolidation, but it also leaves all of these longer term issues unaddressed. This isn't, as I said in the beginning, something that smaller government can really deal with better. In Europe, without serious institutional reform of the Euro, the long term viability of integration in Europe should be in question. So is the United States. In the same way I would argue that without serious political reform in the US we shouldn't expect the country to be able to have significant economic growth going forward, which means we shouldn't expect to have the credibility and the leadership role globally that we have become accustomed to. Without political reform, the 1990s is a very very distant past indeed. Thank you.

## 5. An Asia-Centric Economy: Prospects and Challenges

**Simon Tay, Chairman, Singapore Institute of International Affairs**

Thank you Gyohten-san for inviting me. It is a pleasure and honor to be here. While the two speakers before me have spoken about European and American economies, you have asked me about Asia's economy. I think this is partly because I am from Singapore where the country is so small, it is not worth talking about our domestic economy.



Now I agree with some of the speakers that many people see some reason to be optimistic about the world economy more today than they were a year ago, or even since the end of 2008. Or perhaps more accurately, there are reasons to temper pessimism.

Across Asia, despite the global financial crisis, most countries are continuing growing, most of the time. And the growth is a region-wide phenomenon that includes not only the giant economies but also smaller countries like Bangladesh and Cambodia where once all things were disasters.

There are smaller signs of concern in some of the countries. In China, growth continues but more slowly and with increasing concerns about the unintended consequences such as property bubbles and bad loans. This combines with the changing attitudes of workers and citizens about low wages, land acquisition and inequalities. While growth remains and the leadership succession is going ahead, the level of concern about China has risen over the last two years.

The same is true of India. Growth rates have come down noticeably. This is not only due to the long-standing questions about infrastructure gaps. Corruption scandals and the lack of political will to reform bureaucratic and protectionist practices have hurt the Indian economy.

But I remain optimistic about Asia's rise that it should remain strong even in a world of downturn and doubts.

The circumstances of growth are changing economics and politics. The Intra-Asian

trade and regional investment is rising. Our interdependencies with the West remain considerable, and the slowdowns in European and American economies are affecting Asian exports. But precisely to offset these impacts, Asians today are seeking new consumers for their products within our own region.

This is leading to an Asian economy that is less dependent on Western final demand. An Asian middle class is emerging which, depending upon definitions, can constitute 500 million to over a billion people. The Asian Development Bank projects Asia-wide consumption to reach a US\$32 trillion by 2030, making up 43 per cent of worldwide consumption. As this middle class rises, companies may increasingly produce for Asians, rather than just in Asia.

This market-driven factor combines with political effort. Asians have deliberately been pursuing regionalism. And so the images in my powerpoint presentation show us how the ASEAN (the Association of Southeast Asian Nations) provides the stronger example of this commitment to create a more covered and connected Asian economy.

Within the ASEAN, it aims to create an ASEAN Community by 2015. This includes political-security and socio-cultural sectors, but the key is the economic integration. This is the most ambitious and advanced with the aim to create a single market and a regional production base which companies like Japanese multinationals can use. Such a market can compass over 600 million people.

Challenges of course remain and my prediction is that not all the goals will be met by the end 2015 deadline. However, it is realistic that the ASEAN will be more integrated than before, and efforts will continue even after 2015.

ASEAN is not a dig, but is also the hub of wider regional integration. Please look at the image of my Prime minister and then Chinese leader shaking hands and also the ASEAN plus three finance ministers gathering together. The group has a cooperation as you see in the picture for free trade agreements with all major Asian partners. In finance area, the Asian Macro-Economic Research Office (AMRO) has grown out from ASEAN and the Chiang Mai Initiative with Japan, China and Korea as a foundation to the financial stability for Asian economies with a multi-billion, multilateral system of swap guarantees.



These ASEAN-centered agreements are of course not the only efforts within Asia. China, Japan and Korea have agreed to start negotiations for a FTA to link between their very large economies. Negotiations will also start for the Regional Comprehensive Economic Partnership (RCEP) with the ambition that includes ASEAN, all of those three, India, Australia and New Zealand.

These economic agreements are not without political significance. The FTAs are signals of strategic intention, as much as economic schemes. ASEAN Summits have generated more substance and attention.

If we look back over the last 15 years since the Asian crisis, these developments involving summits and FTAs show an unprecedented effort to develop what we call “Asia alone” arrangements.

Some welcome this without reservation and they want the rise of Asia. Should I exclude the West and especially America? Further, as argued in my book, *Asia Alone: The Dangerous Post Crisis Divide from America* (2010, Wiley), I believe to exclude America or Europe would be hasty and potentially dangerous policy. While I believe in the development of Asia, it is my argument that our interdependence is needed for economics and especially for security.

The Obama administration has in many ways recognized the need and benefit of remaining engaged with Asia, despite the domestic priorities that Mr. Kirkegaard has mentioned, in trade and economics, their flagship is the Trans Pacific Partnership, which includes a number of Asian partners such as Singapore, Brunei, Malaysia, Vietnam, Australia and perhaps Japan.

More broadly, the Obama administration has strongly signaled a “pivot” or rebalancing towards Asia. Politically, the US president now engages in the East Asian Summit as well as in Summits with ASEAN. The slide shows President Obama is seen wearing Batik shirt and smiling. In the strategic and security realm too, the US has always been present and in these recent years more clearly shown its presence and position on issues such as the South China Sea, where the presence of the US is needed since four of ASEAN states have overlapping claims with China.



This American pivot has been welcome by many in Asia but has been the subject of suspicion and resentment by China. This is not only directly vis-à-vis US-China relations but also in situations where Chinese interests and claims differ from those of other Asians such as the Philippines, an American ally. China-Japan and China-ASEAN differences have emerged more strongly in the last year than for many years. Many in Beijing suspect an anti-Chinese coalition is emerging.

This politics is not the main subject here today. But I raise the issue in order that we can see some broader issues that concern economic growth.

First: Our economic interdependence and integration efforts conflict with political differences and distrust. It is not assured that economic interdependence can calm tensions when they arise, or soothe over strident and angry nationalism. Our economic Asia is at odds with our political Asia.

Second: Stability has been the bedrock for Asia’s economic development, and today, more than ever, this cannot be taken for granted.

Third: ASEAN has been at the center of Asian regionalism because it is not a threatening group and has earned a measure of trust to be neutral and fair amongst much larger powers. Yet this centrality of ASEAN, its neutrality, and in fact the group's very unity is now under pressure.

China is now the largest economy in the region and in many ways it is the center of the production networks. It is also an emerging source for out-bound assistance and investment. Yet today there is no acceptance by other Asians to have China at the political center of Asia. Nor has China shown of late sufficient empathy for the concerns of other Asians about Beijing's future ambitions.

These are the regional problems and complexities. Now I will turn to domestic factors. While our countries have not experienced an Asian equivalent of the Middle East uprisings, tensions within societies have become more visible in the past years.

These include political differences that lead to mass demonstrations and even violence in Thailand between the Yellow and Red Shirts. There are also many more public protests and strikes across the region. Even in Myanmar, so newly open to political reform and foreign investors, there are reports of workers striking for wages and better conditions. China, despite an authoritarian government, witnesses many protests over environmental pollution.

This is the part of the growth of the middle class in Asia: not just as consumers but also as citizens. Governments can and must adjust to bring both economic and political benefits. For example, Asia's rebalancing economy can also promote consumer spending. This will require policies to shift in favour of domestic consumption.

The old maxim that "Asia saves while the West spends" applies to governments as well as individuals. Maintaining high public savings has been deliberate government policy for many Asian countries, and some argue the philosophy is rooted in traditional Asian principles of frugality. However, after decades of locking away high savings, Asians may need to spend more, both in terms of public and consumer spending. Part of this spending can be directed to social safety nets and benefits for citizens.

There is now much more pressure on developing Asian countries to develop sustainably and with equity, and not to grow first and deal with the problems later.

There are also real questions about the resource envelope for Asian growth, with the strain on energy, water, air as well as the increase in material inputs. These economies have been driven by the economics of quantity and low cost. They may soon be facing limits to add more factors of production to fuel future growth. This leads many to fear that the present growth rates will taper off in the coming years, plateauing in the Middle Income trap.

I am not sure we can be like superman with briefcase and really fly. Because questions of efficiency and of productivity are only starting to surface in much of developing Asia, the need to drive economic growth instead based on knowledge, innovation and value creation is underappreciated, and has suffered from underinvestment.

The more advanced Asian economies such as Japan, Singapore, HK, and South Korea may show the path ahead, with both possibilities and pitfalls. Each of these has grown in the past through the easier phase of copying the more advanced economies. Each has in the past decade suffered downturns as they seek to find new engines for growth. One tactic has been to push production abroad to cheaper locations and invest across Asia and the world. Another has been to inject more people and intensify land use and value.

A third and perhaps key strategy is to build global champions based on innovation, knowledge, productivity, and value-creation – as do the still competitive sectors and leading companies in America and Europe. I hope it explains my picture of Samsung against Apple, I am sad to say I did not put Japanese electronics companies there. And I also put Harvard because I was teaching there and there were many Asian students more than ever but within our region we still don't have universities of that caliber as Harvard or others in America. So the point is that the Asian companies are able to compete for some periods but few have been able to maintain these qualities over a prolonged period.

Let me conclude. There are many reasons to believe and hope in Asia's rise, and many more people do hold that hope now than ever before. There are some who see that rise as "irresistible", that is fated to happen. They take the steep growth path of the past years and project them far into the future.

I myself hope for our region to prosper. But I do not see our economic development as being guaranteed.

If we want Asia to continue to grow, even as the world economy is less than positive, we will have to work even harder and, more importantly, work more cleverly than before. We need to integrate our region in terms of trust and cooperation, and we need to rebuild our societies on sustainable and equitable foundations.

Thank you.

## **6. The Abe Administration's Economic Policies and Their Implications**

### **Takehiko Nakao, Vice Minister of Finance for International Affairs, Ministry of Finance**

Thank you very much, Mr. Gyohten. This is the third consecutive time I have joined this seminar series. I feel very much at home here because Mr. Gyohten was my boss when I joined the Ministry of Finance in 1978. Also, Mr. Trichet was the Financial Deputy of the Treasury Department in 1993 when I supported Mr. Chino, then Vice Minister of Finance and later the president of the ADB, in preparing for the Tokyo Summit of the G7 countries. I was participating in the G7 Deputies' meeting held in Kyoto as a Deputy Director and, at that meeting we had Mr. Trichet from France, Mr. Draghi from Italy, Dr. Summers from the US, and Mr. Kohler, who became Managing Director of the IMF later, from Germany. I don't know, Mr. Trichet, whether you remember me or not but I remember you very well. It was such a memorable meeting to me.



Today, I would like to speak very briefly about the Japanese economy and if I have time also about some Asian issues.

More and more attention is being paid in abroad to the Japanese policies since the Abe Administration took office last December. I have joined some meetings, such as the OECD, G7 Deputies telephone conference calls and Hong Kong Asian Financial Forum, where the attention on the Japanese policies has been greater than on the euro or the US issues. Until last year, the Japanese policies were seen not so interesting and Japan had been regarded as a kind of dormant volcano. Until last summer, global interest was more focused on the stability or tail risk of the euro, then towards the end of the year, more on the "fiscal cliff" and other American issues. But now, what is happening or what is about to happen in Japan seems to have drawn such strong attention that I was given the privilege of being the first speaker at those meetings.

Overall, I think there is a very positive view about the new Japanese policies of the three arrows. The most prominent of the three for the time being is the bold monetary policies that set a more formal inflation target of 2%, a more aggressive asset purchase program, and the joint statement by the BOJ and the Government. All these show the

very strong commitment of the BOJ to ending deflation. This changing attitude of the central bank is a result of joint effort with the Government, which is exploring a flexible fiscal policy as well as a growth strategy for getting out of deflation.

These changes in Japan have interested foreigners, including an economist from the IMF, who recently said supportively that Japan can take even more aggressive measures than recently announced or discussed in terms of monetary policy. Of course there is some criticism, such as by Mr. Weidmann of the Bundesbank, who is very prudent about using expansive monetary policy by the central bank for any purpose. Such critics oppose setting a target for economic growth supported by an extensive monetary easing, bailing out the peripheral countries laden with debt burdens or supporting growth through monetization of the fiscal deficit. This is the philosophy of the Bundesbank. The Bundesbank was reportedly even against outright monetary transactions of the ECB which were so praised by the world community. Except for that case, I think Japanese monetary policy has been welcomed overall. Of course, we must be mindful that expansionary monetary policy is not always a panacea. It should be accompanied with other policies, like a growth strategy and fiscal soundness. And it takes time to see the effects coming to the surface. This is really a long-lasting process.

When I attended the OECD meeting, one OECD economist asked me about deflation: What is wrong with gradual, persistent deflation, gradual and very slight deflation over years? I told him that if he were to experience such long and persistent deflation, he would know what the problem with deflation is. One paper prepared for the meeting shows that if we apply the Taylor rule to Japan's monetary policy, the policy rate should be negative 2% or 3% in order to fill the deflation gap. However, we cannot lower the policy rate below zero. That is the real constraint in deflation. Apart from the matter of interest rates, deflation itself is bad enough. Imagine companies with continuously lower sales and workers with salaries lower than the previous year. And this keeps happening every year. It would have a tremendous negative impact on the economic sentiment. If you look at the GDP deflator instead of the CPI, you will know how weary Japan is of a shrinking economy. The CPI can pick up because of imported oil prices and other factors, so it would be better to look at the GDP deflator which measures the prices of domestic value added products. The deflator has been even more negative than the CPI for years, and this is really detrimental to the psychology of the people. That is what I explained to him. We should be very serious about ending deflation. In the regard, we can expect much from Mr. Kuroda's new policies.

The second point is a flexible fiscal policy. This administration worked out a new stimulus package in January, which included the central government expenditures equivalent to about 2% of GDP. Some might point out that this is very similar in terms of public works and tax reductions to what had been done in the 1990s. But we can explain that the recent stimulus package is more oriented to wiser spending, including rehabilitation of old infrastructures. We are very much aware of how we should make effective use of this budget. This is a very important difference.

But at the same time as the IMF always argues, the short-term stimulus needed for supporting economic activities should be accompanied by, or packaged together with, a longer-term credible fiscal consolidation plan. Of course we know this and we have renewed our commitment to it. We reaffirmed our previous commitment that we will halve the primary balance of the central and local governments together by 2015 as compared to fiscal year 2010, and have a budget surplus by fiscal year 2020. We are maintaining this commitment which was made in G20 meetings. But the point is how we can realize this. If it is just a plan with those targeted numbers, it is easy. But the more difficult part of it is how to implement it with individual measures. So we should make efforts to compile the substantive measures after this summer based on the discussions of the economic and fiscal advisory committees.

As Mr. Kirkegaard mentioned about the US economy, Japan also faces real challenges for long-term fiscal sustainability because of the current cost of pension and health care. We cannot continue to have a fiscal deficit of 10% of GDP merely by asking people to lend money to the government instead of really addressing the causes of the deficit. The deficits are not the result of the stimulus package, but they are the result of the current cost of our society. The public debt is now 240% of GDP in gross terms and 140% in net terms. Ever growing public debt is undoubtedly not sustainable, and we cannot let it grow further. We must face this problem seriously.

The third arrow is a growth strategy, which is a structural policy. This is a really difficult part because there are so many political dimensions in this. When we tackle this issue from one perspective, there can always be some objections from others. But unless we can promote growth potential by innovation and by raising total factor productivity, as Mr. Tay said, we cannot achieve a fiscal sustainability, nor a real growth. In that regard, efforts for labor market reform such as higher labor force participation

by women and the aged, more open trade policy, deregulation in some sectors, and even higher pay to stimulate consumption should be encouraged. Of course we should not forget policy support that encourages private sector to promote innovation.

I would like to touch upon the recently issued G7 and G20 statements because I had been deeply engaged in the preparatory discussions on exchange rate and monetary policy. In the G7 statement issued February 12th and also in the G20 statement of February 16th, one of the very important elements was about the exchange rate market. At the G7 meeting there had been a lot of discussions or disputes about the depreciation of the yen. But the G7 statement just reaffirmed its longstanding commitment of G7 countries regarding market-determined exchange rates and the negative impact of excessive volatility and disorderly movements. We reaffirmed that “our fiscal and monetary policies have been and will remain oriented towards meeting our respective domestic objectives.” This is a new element and a very important part of the statement, which acknowledged that fiscal and monetary policies, including those of Japan, have been oriented to domestic purposes.

In this regard, I would like to emphasize that the purpose of our easier monetary policy which was decided in January and clearly stated in the joint statement of the government and BOJ, is simply to get out of deflation. If it is oriented to domestic purposes like getting out of deflation, it should of course be welcomed instead of criticized, and even if a market-led consequence of our monetary policy were the depreciation of the yen, it should be permissible in the international community. In addition, the recent depreciation of the yen is basically reflecting fundamentals of the world economy, which has shown more signs of recovery in the US, as Mr. Kirkegaard mentioned, and also of more stability of European countries, as Mr. Trichet mentioned.

Regarding Europe, once there was what we call a tail risk. But today the OMT of the ECB and the establishment of the ESM, as well as more efforts towards true economic and monetary union like single supervision of banks and structural and fiscal reforms in peripheral countries have invited narrower yield spreads of peripheral countries' government bonds. Reflecting these developments, the euro's exchange rate vis-à-vis the dollar has also appreciated and stock prices of many countries rose, too.

Although there have been some hiccups after the Italian election, I think the global economy is overall more stable today. It is reflected in the foreign exchange market

where people are taking more risk-on mode. This has had a certain impact on the Japanese yen. It is true that the Japanese economy has been suffering from persistent trade deficits and even current accounts have been in deficits in some of the recent months. Of course there can be some effects from new monetary policies on them. But also important is a fundamental change of the global economy. I am aware that there have been some criticisms from abroad. Some countries do not like intervention, even if a verbal intervention. Some countries do not like easy monetary policy for whatever the reason. But we have explained the Japanese policies to other countries and I think our policies have been generally received favorably.

There are also some criticisms from emerging and developing countries arguing that quantitative easing and other monetary easing of the developed countries have negative spillover effects to those countries. When I attended the G20 meetings, however, I found there were rather more balanced arguments about it. Of course there can be some spillovers. It was for this reason that the statement mentioned that we should be mindful of a spillover to other countries. But we should watch what is actually happening and engage in a well-balanced discussion without being obsessed by one-sided concerns.

First, according to a recent report of the IMF, there have not been so much excessive inflows to emerging economies which would cause volatility in those markets. Second, because many emerging and developing countries are now suffering from deleveraging impact from developed economies, some increase of capital inflow can rather be welcomed. Third, if they face some real problems of volatility because of excessive and rapid inflow to those economies, they can now take some macro-prudential measures like the management of inflow of capital, which is more formally recognized by the IMF. And fourth, which is the most important, as one participant in the G20 meeting mentioned, if the advanced economies had ever not introduced quantitative easing and other monetary policies, the world economy could have been even worse. So it may well be that the advanced economies including the U.S., Europe, and Japan are rather requested to take, when necessary, such bold actions as monetary easing to avoid deflation, stimulate growth or support financial systems and stability. Those are my comments about the Japanese economy.

Very quickly about Asia. I basically agree with Mr. Tay on all fronts, and I especially think it is really important to pay attention to the consumption potential of

Asian countries as a whole. It is often emphasized that Asia is a production factory which is exporting a lot to Europe and to the US. But it is becoming more obvious that Asian growth is more and more dependent on the intra-regional demands. And this increase of the intra-regional demands is supported by a growing production capacity that includes the intra-regional production networks. Although we face some political problems in Asia, we should promote a sense of cooperation, especially in the economic and financial area. In this regard, the Ministry of Finance of Japan has been promoting financial cooperation within ASEAN+3, between China and Japan, and between Korea and Japan. I believe this is an indispensable stone to backstop very important cooperation or a sense of cooperation within this region. I will stop here. Thank you.

## 7. Panel Discussion

**Gyohten:** Thank you very much. What I will do is to try to organize sort of questions and answers session between myself and four panelists. I start from Monsieur Trichet.

I was really impressed by the achievements in Europe toward the integration and I am sure everybody in this room does admire really historic achievements made in Europe during the last 60 years or so. I was also encouraged to hear you saying that this momentum is moving toward the future and it is a forward-looking effort. I think that is very important because after all as you said the process of European integration is a long process, which means, the future generations of Europe will have to maintain this historic momentum.



My question is how are younger generations in Europe pursuing this European integration? Are they fully sharing the aspiration and sense of destiny toward integration just as their fathers and grandfathers did? Younger generations in Europe do not know wars; do not know the disaster of humanity which was inflicted upon them by the historic events. So I think it can be the case that European younger generations may not share the same kind of feeling with their fathers and grandfathers. If that is the case, can they go on sharing the experiences they have encountered during the last several years, such as economic hardships, unemployment and some conflicts in the national interests? My first question to you, Jean-Claude, is whether you can assure us that “Yes, future Europeans will be the same. There will be no faltering on this firm commitment.”

I have more questions, of more short term. Recently we hear a lot of news from Europe concerning the tightening of financial regulation. It is quite understandable after those experiences but things like introduction of financial transaction tax and efforts to cap the payment of bonus sound like American dry law. Are they really serious about those things? Because people outside of Europe, particularly in America or in elsewhere, they are concerned that seemingly excessive regulation may hurt the genuine dynamic of the industry. I'd like to get your frank view on those efforts for tighter regulation. Third, can we assume that the year 2013 will be the bottom of European recession? In other words, can we expect some recovery from next year?

These are three questions.

**Trichet:** Very easy questions! On the first question I would say you are absolutely right. The First and the Second World War are far away and young generation consider that it goes without saying that they are living in a continent which has established and preserved peace and stability over 68 years – 2/3 of a century –, a level of prosperity which is remarkable, and this is a given for the younger generation. On the other hand, they are much more Europeans by definition than their parents and grandparents because they are young and there is no border for them at all. They feel spontaneously as citizens of Europe and as citizens of their own country. I think this is also a phenomenon that we shouldn't underestimate in understanding what is the very fabric of this continent of Europe. I really trust that this historical endeavor to unite more and more that continent is something very strong. While we were experiencing in the advanced economies the worst crisis since World War II – which, by the way, could have been the worst since World War I –, everybody was expecting that of course Europe would overcome the circumstances. We proved that we were able to maintain the European concept, to be resilient, and to take a number of very important decisions. Decisions were not easy. They are not taken in a full-fledged political federation! In the case of Euro area, they are taken by 17 democracies with their own democratic decision making process and it is, of course, difficult to be sure that everything works. From that stand point what has been done is undoubtedly positive.

But of course no complacency is permitted. Work remains very hard and I would say history is not written. History depends on all of us, we Europeans, on our own commitment and determination. But let me say that it is the case in all advanced economy. We are experiencing a crisis of the advanced economy and I think all speakers mentioned that in the case of Europe it is with an additional dimension, which is the absolute necessity to improve economic and fiscal governance of Europe as a whole, at least of the Euro area as a whole, and that is of course something extremely important.

On your second question, I would say it is absolutely clear that our democracies cannot and will not accept that the financial sector could again be as fragile as it proved to be in the year 2007-2008. I don't think that our democracies will accept to put again the same enormous level of taxpayers risk on the table! Massively funding the financial sector about to collapse like a house of cards with public money is not

acceptable any more. So it is necessary to engage on reinforcing capital requirements and regulation of the financial sector. It has to be done through appropriate discussion at the global level because we have to maintain the level playing field all over the world. I would insist on the absolute necessity to preserve the global level playing field.

When I see a tendency to go back to national segmentation of the global financial sphere, I see the danger of a return to financial mercantilism. And the fact that very different decisions could be taken all over the world, creating a massive segmentation of global finance, seems to me extremely dangerous. It is not in line with the G20 strategy, not in line with the enlarged Basel committee concept and enlarged “GHOS” – governors and heads of supervision – council orientation. I would insist very much on this message. Again, preserving the level playing field seems to me absolutely essential.

Now on the financial transaction tax, I think that the Europeans are pushed in this direction because of the infuriation of the people in our democracies vis-à-vis the financial sector. I am not sure whether they have fully taken into account the fact that it would only transfer the financial transactions to other market places. I am not sure whether they have realized what will be the unintended consequence of this tax. On the cutting of bonuses I think it is a real issue. I would have preferred the financial sector to decide by itself the decisions that have been imposed or are likely to be imposed. After all we know that we have infuriation of our democracy vis-à-vis certain enormous packages of bonuses. It is something very serious for the sake of the stability and cohesion of our democracies. As you know, there is a consensus at the global level to consider this is something which is important. I would call for the highest level of responsibility from the part of the financial sector in this domain.

On your last question, I will only say again that “history is not written”. I have experienced myself so many euro projections – or global projections – that proved not to be very pertinent that I would certainly not embark myself in the forecasting business. But I would say what I am observing in Europe is that those countries that had to correct imbalances are progressively correcting their imbalances. Mr. Watanabe’s charts were extremely telling in this respect. You see previous massive current account deficits transforming into current account balance in those countries that were under stress. So correction is taking place and it paves the way for future growth. Because if you have a current account which is balanced, when you had, in the past, enormously unbalanced current account, then confidence is going back and confidence is

the ingredient which is the most important for Europe. From that stand point it seems to me that appropriate work is being done and I also trust that you have a few countries in Europe that have current account surplus that have some room for maneuvering to activate their domestic demand. I would recommend, first, to activate domestic private investment. Second, where possible, augment revenues of private sector employees. I will not recommend to engage on public finance deficit.



So I would say that I don't exclude at all that the response to your question would be "yes", and at the end of the second part of the year you will see some renewed economic dynamism. But again our economic history is not written, it depends on each of us and of course my working assumption is that every country and European institutions as a whole continue to do the hard work which is needed. No time for complacency!

**Gyohten:** Thank you very much, Jean-Claude. As usual, you are good at encouraging a hope.

Now Jacob, I have also three questions prepared for you. Your remarks about American political situation are a bit gloomier than I expected, to be frank. My Question No.1 is: What was the real choice made by American voters at the last election? Did they choose big government? Then, why can Republicans be so adamant as you described? Question No.2. You mentioned in your presentation that the game of chicken among American policy makers is not repudiated immediately by the market. I think you are right, but if that is the case, why should we make so much fuss about it? Question No.3. By observing the Lehman crisis and intractable gridlock

in the American political system, I believe our Chinese friends were all convinced that the theory of American decline is vindicated. I believe you say no and I would like to know why.

**Kirkegaard:** With respect to Question No.1, the outcome of the last election, I think the issue here is the seemingly inconclusive result of the election because everybody tries to claim a mandate, as is always the case. However, if we look at the popular will, there was a simplistic choice put before American voters of voting for President Obama and Democrats, thereby favoring relatively larger and more activist government, or of voting for Mitt Romney and Republicans, thereby you would get the opposite meaning, a smaller government and obviously lower taxes. In terms of the number of votes, the election result was fairly on a big government, namely the American people voted in favor of the vision expressed by President Obama and Democratic Party.

Here, I think it is important to understand why the Republican Party gained a majority in the election of the US House of Representatives despite the fact that they didn't gain a majority in popular votes in the number. The only reason that they gained a majority has to do with the peculiar way in which electoral districts for the House of Representatives are drawn. In this electoral cycle I would say it disproportionately favored the Republicans. I believe the popular vote was in favor of President Obama and Democrats but the US political system functioned in a way that didn't provide consistency and actually produced divided government despite the popular vote. Nonetheless, that is in fact one of the issues I believe is in need for political reform in the US. One of the issues that would be very high on my list in order to achieve better functioning or better governance in the US is to deal with what in the political jargon is called gerrymandering. It is in my opinion a bizarre situation where sitting elected officials get to choose the voters in every 10 years in the US. It is actually the inverse of democracy that the political leaders choose their voters, not the other way around.

Then turning to Question No. 2, with respect to why we should care about this chicken game even though the market ignored it and there was no massive increase in US interest rates. Today I would say that we should care about it because all the genuine structural problems facing the US, whether it is health care, or these labor market issues, or the way in which fiscal consolidation is being achieved, are being

either unaddressed or done in the most costly way. However, this doesn't mean up until now that the US is in a potential crisis. The US will still win the "ugly man contest" among the advanced economies for the foreseeable future. It will remain the biggest and most dynamic advanced economy in terms of large asset markets, and the US treasuries also will remain the global safe haven asset for the foreseeable future. By the foreseeable future I would say probably a generation, meaning 20-25 years. This is the period which you will need to have the best possible scenario for European integration. In anything less than that you will not have a full transition of all sovereign debts in Euro area transformed into Eurobonds, which means that it would not be a credible challenger to the US treasury market.

In that relation, RMB as a global safe haven asset is not a credible challenger to the US treasury market. Until the political uncertainties surrounding China are lifted, RMB can't be a global safe haven asset.

Therefore, the US treasuries in particular will remain the global safe haven asset mostly because of the lack of alternatives. But we should care about it because it is not an advantage for the US to be given more rope with which to hang itself because financial markets did not exert the kind of very effective pressure as have been asserted on the policy makers in Europe in the last couple of years. Being in Japan I cannot help but to say that the lack of financial market pressure on the JGB market is the reason or part of reasons why policy paralysis has persisted for so long in Japan. Unfortunately, we in the US are in a way the same situation.



Lastly, Question No.3, is American decline inevitable? No, I certainly do not believe it. But is American unilateralism in a unipolar world, the world of 1990s, gone absolutely? There is no doubt about that. The very essence of multipolar world as expressed by G20 and the like is inevitable and indeed very welcome. If one believes in a free market one knows that catch up is one of those things you would expect from that. So if we are faithful to our own values we, including US, should welcome this. But that doesn't mean that the US shouldn't be in a position to exert global leadership, in technological innovation, politically as well, although the US will not obviously be able to do so in the unilateral way it has straightly been able to do in the past.

**Gyohten:** Thank you Jacob. I would like to get Simon's Asian view on the same issue. I believe in the foreseeable future, as Jacob said, that China cannot replace the US as the hegemonic leader of the world and I believe China knows it very well. But at the same time we have to realize that China doesn't accept the hegemonic role of the US. That is the point. How in your view can we establish new global balance of power structure on the basis of equitable sharing of power and responsibilities? I think it is the key to the new order. What is your view on that, Simon? Also I would like to get your view on what ASEAN in particular and Japan can contribute to that.

I have another question. After the experience of this financial crisis, there are many Asian intellectuals, opinion leaders who argue that the Western values are dead, they proved vulnerable and future of the world cannot stay on them. They also argue that there should be more trust and belief in what they call Asian values or Asian ways. My question is what the Asian ways are and how different they are from Western values or Western ways whatever, Simon?

**Tay:** Let me start at the second part. Whenever I give the talk about the rise of Asia, I always have to say that I am not Mr. Kishore Mahbubani. Kishore, who is a good friend of mine, is one of those I would describe as a proponent of Asia's rise and Western decline school. In my opinion, despite its high growth rate, Asia is by no means a complete region, because it is unable to find its own engines of growth. So I tend to emphasize interdependence with the West and today I try to emphasize that we face economic interdependence, which sits alongside our political tensions. So honestly I don't believe Western values are dead. In fact in his recent book, Kishore now says that Western values are not dead, and argues Asians believe it more than Westerners now.

Please remember that we had argued the Asian values long time ago when I first met Gyohten-san. Then we had Asian crisis. Together with our currencies, Asian values were also devalued. So the first time we talked about Asian values, we described it as something confused and autocratic, which frankly failed the tests as the first crisis came into. So I would be cautious now. Although I am economically optimistic about Asia, I don't think we have come up with a clear model of values or governance.

That leads to your first question; can China provide such a model? Even the Chinese accept that their own domestic system must be reformed. So I think China can't replace the US. I agree with Gyohten-san. The Chinese know it. It depends who you talk to. China is no longer very monolithic. There's not very strong consensus on this issue. If you look at some of the things they are doing in the near abroad whether in the East China Sea or South China Sea, you see signs that their behavior has changed. Even if China will never be able to be a global hegemony, it will be much more assertive than it has been in the past. Even vis-à-vis the American naval presence here, even if they didn't want to globally challenge America, in their own seas or next to the coast they wish to have kind of ability to negate American presence. So I do see that on the security side, the ambition of some of the Chinese has grown dramatically.

And there are similar voices that suggest that America, its allies and friends including my own country, assign to want to sort of push China back. We have actually seen in both ASEAN relations with China and Japan's relationship with China much more negative signals over the last year and a half than ever before. The Philippines, for example, has had a naval standoff with China last year. It can never be a serious war because Philippines' navy has basically one ship. But now Philippines want to rearm and your country under the Abe Government has agreed to give some coast guard vessels. They also have legal challenge using the provision of UNCLOS (United Nations Convention on the Law of the Sea), so in the next few months you will see arbitration proceed against China over some of the claims even if China does not attend.

So we must see how China reacts to this sort of challenge by smaller neighbors. If their reaction is strong, they will probably use a lot of economic and other levers. They already have cut off tourists to the Philippines, and they have allowed Filipino bananas

to rot in the port. If China is very rough on the Philippines, it surely will affect the attitude some of us have. Not all of ASEAN agree with the Philippines, but nevertheless we are members of the group. And this of course is a great tension given the very real economic interdependence we have with China now.

I think Japan is also at a critical juncture in the relationships with China. I hesitate to speak of this in front of Japanese. But, combined with the change of leadership in China and uncertainty of who is fully in charge of China right now, it seems to me that next few months will be very important time. If they go wrong, it could create problems now and over even to middle term.

And last point, these are mainly security issues but they will have economic and other issues. For example I believe that the China-Japan-Korea FTA is very potentially important for the whole region. If FTA cannot proceed, it has difficulties over these countries and other issues. Similarly I believe in the area of finance about a year ago Japan and China announced potentially quite big arrangement between the Yen and the Yuan. But to my knowledge this has proved too ambitious and has stalled in the midst of controversies. I think that this economics and politics in Asia are really joined and the role of the US vis-à-vis China is another critical issue. Thank you.

**Gyohten:** Thank you Simon. Now I have to raise questions to Nakao-san. Considering your position now I am afraid any questions addressed to you could be very delicate. If you consider the questions are too delicate, just tell me so, I will think something else. My first question to you is, as you said probably in your presentation the so called Abenomics has been a remarkable success so far. My question is if that Abenomics continues to succeed and this publicly pledged 2% inflation target is achieved sometime, what would be the likely scenario of policy reversal from that point and how that reversal policy will affect the exchange rate of the yen? That is my first question.

As Simon said there has been greater enhancement of the Asian presence in the global economy, but in spite of that phenomenal ascendance, in financial transactions still very much of it is dominated by non Asian currencies, the dollars, the euros. Do you believe, as a responsible person in the Japanese external policy, that there will be a

room for greater role of regional currencies, particularly the yen and the RMB, not to replace but to catch up with those non Asian currencies which so far dominating the Asian financial scene?

My third question is, it is quite obvious that weak currency may help exporters but at the same time it may hurt importers and consumers. How do you evaluate the balance between these two things? Thank you. Can you respond to all of them?

**Nakao:** Well, I guess that you have provided very difficult questions to me because I was your subordinate when I joined the MOF but I'll try to make my best.

About the Abenomics, it has been successful so far. Sentiment has picked up and stock prices are picking up and there have been some corrections of exchange rate. And very notably the nominal interest rate of JGB 10 year bond has remained very subdued. If there is a higher expectation on inflation, if there is a higher risk premium for any expansionary monetary or fiscal policy, the nominal interest rate can jump up and it might have some problems on the balance sheet of banks and the fiscal expenditures. But so far it has been ok, and there is no risk premium. Of course we should address the problems of longer term fiscal sustainability and structural policies, which are really needed to promote growth while we have decreasing population especially in labor. So, those are the challenges.

About the exit or reversal policies, we should first go inside the door instead of worrying about the exit at this moment. There are a lot of talks about the exit policies from expansionary monetary policies in the FRB discussions and also in the BOJ. But what I think is important is to get out of deflation. Even if interest rate picks up after that, I don't know whether it has a direct impact on the exchange rate. Exchange rates are not influenced merely by the interest rate differentials. At this moment interest rate has been a little bit lower if you look at JGB 10-year bond and that of T-note has picked up a little. But it seems to me that more important elements for the recent adjustment of the exchange rate are the more fundamental strength of the global economy, stability in the euro and so on. I don't see it is so definitive whether future reversal of monetary policies can have direct impact on the exchange rate.



About the currencies of the Asian economy, of course as Mr. Kirkegaard mentioned, I think the dollar remains or will remain a single key international currency for a foreseeable future because it has a very liquid and deep asset market of Treasury bond, it is most reliable and, as he said, the situation of the US economy and politics is not bad as compared with other advanced countries. Among these economies, I think the US is still by far a very innovative and dynamic country. It always grows on strength from immigrants and also has the flexibility of policies and strength of financial sector. I think all these will support the dollar as a single international currency for a foreseeable future. So we have a lot of reserves in the dollar, and we trust the US dollar and US assets are very safe and reliable asset.

But at the same time it doesn't mean that we don't need to try to promote the usage of Asian currencies including the RMB and the yen in Asian market, because after the Lehman crisis we had a shortage of the liquidity of the dollar. Trade finance and investment finance were impeded because of shortage of the liquidity due to the trouble of the financial sector in the US. If the US financial system has a problem and cannot provide the liquidity of the dollar to the Asian region, we will suffer from it. In that regard it is important to try to promote the usage of the RMB or the yen, or the other currencies in this region both in trade and investment. That's why we are trying to promote regional cooperation and also as Mr. Tay said we started the financial cooperation between China and Japan. This is not to prevail over the dollar but to compliment the role of the dollar, since it is conducive to promoting stable and more dynamic growth of trade and investment in Asia, and our initiative is really understood well and welcomed by the US authorities. As Mr. Tay said, the US presence in Asia is

so important. We are interconnected each other, we need other regions for any purpose but especially the US role in this region is really important.

The third question, about merit and demerit of exchange appreciation or depreciation, or higher value of the yen or not, I don't want to make any comment about it from my position. It should be determined by the market, that's all. Thank you.

**Gyohten:** Thank you. We have just used up our assigned time. But before I make concluding remarks I wonder if any of you have any additional comments. Any comments from you, Jean-Claude?

**Trichet:** I would say that at the global level, we are facing the problem of the crisis in the advanced economies. Crisis that began in 2007-2008 – with the subprime market disruption and then the Lehman Brothers bankruptcy – were obviously caused by advanced economies. It has been said very eloquently that all advanced economies have their homework to do. I am a bit afraid that there is a tendency in all advanced economies such as Europe, US, UK and Japan to introduce “Beggars thy neighbor” policy, namely an attempt to demand aid to the detriment of other economies. This policy had been launched in the past crisis of 1929, but did not work. It made the situation worse. Therefore I would call for keeping in mind the superior interest of the global economy as a whole. We live in a global economy where there are both advanced and emerging economies. Let's try to move forward with a common concept of global economy, which G20 countries have responsibility for, and try not to launch “Beggars thy neighbor” policy. We should maintain a level playing field, and avoid a return to nationalistic attitude which would place all of us in a negative sum game instead of a positive one.

**Gyohten:** Thank you Jean-Claude. Jacob, could you give us your comments?

**Kirkegaard:** I would like to emphasize the fact that we have lived through the long and biggest crisis ever since the 1930s. During these six years, policy makers' efforts have been essentially concentrated on preventing the current crisis from turning into the second 1930s crisis. However, there are still a lot of challenges in our economy both domestically and globally. I think it is very dangerous for such issues to be left by the wayside. The reality is that, especially in the advanced economies, issues such as longer term structural problems, aging population and short-term climate change have been forced off from the agenda by the crisis, but have not gone away. I believe these

problems should not to be ignored. So while I agree with Nakao-san that talk of exit strategies at this point is certainly premature in terms of monetary policy, I think it is important to try to find the timing of exit from the full-scale crisis response which prevent us from refocusing on some of the issues that the global community has been facing before the wake of crisis. We should begin the exit strategy now.

**Gyohten:** Thank you. Simon?

**Tay:** May I say three things? Firstly, I believe in the post-crisis era, there is a possibility of an emergence of a new world where there are more equality between American, Europe and Asia, though the strength of US and Europe should not be forgotten. We have not yet found the certain way to run such a more equalized society effectively and efficiently. Secondly, the issues of structural reform which Mr. Kirkegaard and others have addressed are rising in Asia. China has many domestic issues, and so do smaller countries of Southeast Asia. We will be facing the issue of governance there. Thirdly, I would like to say that I am very glad to be back here, since the first invitation to the IIMA symposium which I received from Mr. Gyohten was postponed because of the triple tragedies Japan had suffered. I am delighted at the start of hopeful spring. This does not only mean the fine weather but also the new interest and attention towards Japan's domestic optimism and also perhaps some of its unusual politics. We should not watch just America and Europe. Asia should certainly not overlook Japan.

**Gyohten:** Thank you, Simon. Nakao-san?

**Nakao:** I would like to stress the importance of mutual understanding and cooperation between players in the international community because economies are now much more interacted and interlinked. Also for financial regulations, for instance, we should harmonize them because otherwise there can be some gaps and duplications of regulations among countries or arbitrated transactions through the use of difference in them. As for macro policies, it seems that they cannot be totally coordinated just like the days of the locomotive theory when Germany and Japan played a role of economic engine in the past. Currently the general consensus is that each country can contribute to the world economy by taking and implementing appropriate macro policies of their own. But still we are paying attention to spillovers to other countries and also learning lessons from other countries.

I don't think there can be a division of values between the East and the West. I think those ideas of market economy, human rights and democracy are not the monopoly of the West but they are the values of the whole human beings. Actually in the early sixteenth century Japan already had seen a free market called "Rakuichi-Rakuza", which led to a very high productivity in weapons production, and we also had democracy at some markets like Sakai (near Osaka). It is true that the Westerners have systematized these universal values and that helped the economic development of the West, but I don't think it is really true if they claim market economy and democracy as their creation.

Secondly I would like to give my opinion on Mr. Trichet's comments. Without doubt, there is no intention among policy makers of each country to wield the war of competitive devaluations or beggar thy neighbor policies. Many countries do pursue monetary easing policies, and as a consequence some currencies can be devalued. But they are not targeted toward a certain devaluation of currencies. They are rather intended to support growth, avoid or get out of the deflationary vicious circle, or to stabilize the financial system. Though sometimes the consequences may be currency devaluation, we shouldn't blame it. As I said earlier, this attempt of quantitative easing or other untraditional monetary easing are overall welcomed as measures that would contribute to strengthen not only the advanced economies but also the world economy that includes the emerging economies as well. Of course we must pay attention to a spillover, but I don't think we are fighting a wrong war in that regard.

**Gyohten:** Thank you. Having listened to all those extremely stimulating remarks by panelists, I have to confess that while all of us are trying hard to come out of the worst crisis in the postwar period, we also need to attempt to separate agenda. It is very clear that economies around the world have separate agendas of their own. It seems to me there is no room for a very simple coordination of our efforts because issues and players are both different. There are no same set of instruments we can adopt in dealing with all of these problems. So what we should or could do is to share the maximum amount of accurate information about other's situation and intentions. It is also important to fully appreciate other's situation and intentions. Therefore it is extremely important for all of us to structure our policy on the basis of knowledge of others. After all, even in this globalized world we have to fight our own battle. In this sense I hope this symposium will give us rich thought, idea and knowledge about how we should tide over this difficult period in the history. I wish you all good luck and let's continue to fight against any evils in the economy, society, and in the political scene, too.

So ladies and gentlemen, I think we have come to the end of our symposium. I would like to express my heartfelt thanks to all four panelists on the podium and also to the very valuable audiences. Of course I shouldn't forget to express my thanks to the expert job carried out by our simultaneous interpreters and also our master of ceremony. Thank you very much indeed and have a good day!

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