

Speech Script for
Global Financial Crisis, Risk Management, and Entrepreneurship:
Asia – Pacific Perspectives
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Good morning, ladies and gentlemen.

In this presentation, I would like to touch upon three topics:

First, some issues arising from the global economic recession triggered by the crisis.

Second, long- and medium-term issues related to structural changes in East Asia.

And third, East Asia's strategic responses and consequent business opportunities.

Let me begin with the first topic. The crisis and the recession have generated significant reactions against globalization. Protectionist and mercantilist sentiments are spreading, and trade volume is decreasing. Globalization is being criticized for increasing the gap between the rich and the poor. Dislocations from industrial restructuring as a result of globalization have been acute. These are serious issues we need to deal with.

But at the same time, we must also remember that East Asia has greatly benefited from free and open trade and investment. Poverty has decreased because of global economic growth. We can only continue to enjoy these benefits if we take a strong stand against protectionism and support East Asia's momentum to further open itself to free trade and investment. In order to do this, East Asian leaders must work together to bring the region back on the path to growth.

Many say that one of the causes of the current crisis was excessive "greed". In a sense, this is true. Financial institutions were severely undermined by excessive leverage and the opacity of financial products and transactions. Shadow banking took advantage of regulatory loopholes to escape the reach of

financial supervisors.

Policy makers have reacted, and now it seems that enhanced regulation is inevitable.

In East Asia, financial deregulation is still in its infancy. It is important that this process should be allowed to continue. In addition, neither should financial innovation be curtailed. It may be obvious to many of us, but we should not forget that banks have a special status due to the public utility nature of their activities, which are affected negatively by the pursuit of one-sided profit maximization. The management of financial institutions needs to recognize once again the public aspect of their operations and let this recognition penetrate down to the rank-and-file.

In addition to micro-level regulations, it is also necessary to discuss the enhancement of macro-level financial market monitoring. Macro-prudential systemic regulation and supervision must be designed to address systemic risks. In the process of reform, however, we need to keep in mind the side effects of introducing strict regulations while the economy is still in the process of recovery. In order to avoid adverse market developments, it is important to ensure the proper timing of introducing new regulations. This can be achieved through close coordination and dialogue with the private sector.

In the course of the recent crisis, there have been some discussions on how to create a more stable global currency system and enhance the monitoring of excessive capital flows. One of the things that have become clear is that the main stage for global capitalism is no longer dominated by the West, but is beginning to shift toward Asia. Today, Asia is emerging as a new growth engine, filling the gap left by weakening demand in America and Europe.

With Asia taking on this new role, the further development of its capital and currency markets has become an urgent task, to provide the efficient financial intermediation needed to facilitate the region's growth. Now, the time has come to seriously consider the development of an Asian global currency or currencies, which over the long term can complement the US dollar – at present, the only truly global reserve currency.

As everybody knows, discussions are being undertaken within APEC and

ABAC on the Chiang Mai Initiative Multilateralization, the Asian Bond Market Initiative, the development of infrastructure public-private partnership, and the strengthening of credit reporting systems. However, It is still too early to say whether these initiatives will be sufficient to maintain the supply of growth and risk money in Asia.

I would now like to comment on the second topic, which deals with the long and medium term issues arising from structural changes in East Asia.

Population growth, rapid urbanization, and environmental issues such as global warming, energy, food, and water security are now the major topics of discussion in global forums. Many are hoping that technological innovations in such fields as IT, robotics, nano-, bio- and fuel cell technology could provide solutions to help address these issues.

The UN “World Population Prospects 2008” and other publications predict that East Asia will soon face the prospect of a rapidly ageing population. Some countries in East Asia, notably Japan, Korea and Hong Kong, already have an ageing society and declining population. Other countries, like China and other major developing nations, are also faced with an ageing society, but continue to have sufficient population growth. The shape of the population distribution pyramid is now rapidly changing, with implications on future economic development.

The high rates of economic growth and savings that East Asia has enjoyed in the past have been determined by the shape of its population distribution pyramid. However, as societies age, the burden of social security increases and the excess savings – widely recognized as one of the reasons for the current global imbalance – will change over the medium and long term. As the fastest ageing society in the region, Japan is like a guinea pig in the laboratory that will indicate how the fiscal and economic situation would be affected by changes in the distribution of the population and generational changes. Needless to say, these issues are not only fiscal and economic in nature, but will also have political and social implications.

The third topic is East Asia’s strategic response and the business opportunities that are likely to emerge from this response.

So far, I have touched upon the financial crisis, the global recession and the shifting of the world's economic balance toward Asia. In addition to the fact that the US still continues to be a world leader, Asia will, for sure, play more important roles as the world becomes more multipolar.

The US will likely remain a young and vital economy as its population continues to grow. However, the crisis has led to a major deterioration of the balance sheets of US households and financial institutions. The current response to promote recovery seems to bring with it risks of prolonged recession and weak recovery. Damaged lending ability of banks and the growth of households' propensity to save will not be conducive to recovery of consumption. Empirically speaking, this kind of wound tends to be deep and it would require a long period of time to achieve recovery. In other words, we should not expect the US to be a source of export demand and economic growth for Asia for some time to come.

As a consequence, it is important to form an East Asian Community that can achieve rapid growth without relying on exports to the US. I have emphasized that it is now Asia's turn to contribute to the world economy. In order to do this, however, Asian nations must cooperate to build a deep and integrated financial market that can support sustained economic growth.

The best prescription for attracting investment and maintaining open markets in the face of strong protectionist pressure is "growth". One of the realities we face is the rapid pace of urbanization. Consequently, we need to develop urban infrastructure to meet the needs of the growing number of city dwellers.

"Green growth" and "inclusive growth" are important aspects of our concept of growth. Green growth is often referred to as sustainable growth and, as it has already been widely discussed, I am not going into its details today.

In contrast, not everybody is familiar with the concept of "inclusive growth." Providing assistance to people at the bottom of the economic pyramid is not good enough. The fruits generated from growth should also be extended to them. To be more specific, financial inclusion through micro-credit, micro-remittance and micro-insurance, among others, will help those people become productive members of the market economy and will broaden the base

for economic growth. Today, we see the importance of cultivating the soil to bring fruits of prosperity to micro-enterprises, which will benefit large segments of the population that have so far been excluded from the benefits of economic growth.

The ageing of the population will require rapid improvement of the social security system in East Asia. With their inherent weaknesses, pay-as-you-go social security structures will have to give way to some form of funded or subject-to taxation mechanisms. It is also important to construct solid and simple systems that are easy to maintain.

The growth of pension funds will promote capital market growth and contribute to the development of industrial infrastructure as an important source of medium and long-term funding. It is also important to realize that the development of health insurance and nursing insurance systems will encourage people to increase consumption.

There is a need to create social systems to encourage the participation of women and elderly people in the work force, considering the future decrease of production workers as a consequence of an ageing population. Creating a more comfortable environment for raising children is also very important.

An ageing society could be a source of new business opportunities, for example for the fund management and nursing care businesses. The value of human resources will increase, as will the need to increase individual productivity. Higher educational levels and wider availability of lifelong educational opportunities will become essential.

Education has been a key driver of economic development in Japan. To alleviate poverty in this region, junior education for all children in the East Asian region will need to be promoted. In addition, it is strongly recommended that governments continue enhancing and reviewing their conventional educational systems.

This concludes my presentation and I like to thank you for your attention.