

“Dynamic Asia: New Opportunities and Challenges”
Dr. Il SaKong
Chairman, Institute for Global Economics
Former Minister of Finance, Republic of Korea

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Good morning, ladies and gentlemen,

It is indeed a great privilege for me to be the keynote speaker at the Inter-Pacific Bar Association (IPBA)'s 23rd Annual Meeting.

Let me first of all thank Dr. Shin Young-moo, chair of the Seoul IPBA Conference and Mr. Lalit Bhasin, president of the IPBA for inviting me. I give public lectures and speeches for various audiences quite frequently. But it is a rare occasion for me to give a talk before a conference full of lawyers and lawyers only.

I know the demand for legal services and the economic activities are positively correlated. So what I would like to do this morning is to provide you with an overall picture of the Asian economy, some of major challenges and its outlook, so that it will help you figure out the future prospects for the legal services market in Asia.

Asia's Economic Re-emergence

According to an estimate of Angus Maddison, renowned economic historian, Asia's GDP accounted for nearly 60% of the world GDP in 1820. China's GDP alone was about 1/3 of the world's total.

However, as we all know well, with the Industrial Revolution of the 19th century, the West grew faster and consequently Asia's relative economic weight steadily declined. By 1950, Asia's share was down to well below 20%. Coming into the decade of 1950s, Asian economies, led by Japan and followed by Taiwan, Korea, Hong Kong and Singapore, started to grow fast. Recently, Vietnam and the Philippines have joined the force of Asian economic re-emergence. Needless to say, the most dramatic force of re-emergence originates from Asia's two giant economies, China and India.

Currently, Asia accounts for about 30% of the global GDP. With this increased economic weight, the Asian economy has been playing a critical role in supporting the global growth since the Lehman Brothers' bankruptcy in 2008 and the ensuing

advanced economies' devastating economic slump. It was the first time for the Asian economy to lead the global economy exiting from a severe global recession in the modern world's economic history.

In the midst of current European crisis, Asian developing economies led by China are still doing well, according to the IMF, posting an average growth of 6.6% as compared to 1.2% growth of advanced economies in 2012.

The Asia's re-emergence reminds the world of what appropriate development strategies and policy regimes can do to their economies. It also well illustrates the critical importance of sound economic and financial fundamentals for any economy in weathering through global economic crisis. As you know, a number of Asian economies had to go through the financial crisis in the late 1990s and it turned out that the crisis was a blessing in disguise for the crisis-stricken countries in the sense that they had to implement necessary structural adjustments which made their economic and financial fundamentals stronger and sounder.

With sounder economic and financial fundamentals, these countries were able to implement aggressive monetary and fiscal stimulus measures in weathering through the global economic slump and so contributing to the global economic recovery. Korea is a good example in this regard.

Challenges for Asia and Opportunities for the World

How about future? The ADB in its *Asia 2050* report foresees that Asia's growth momentum will likely be continued and Asia is expected to account for more than half of the global economy by 2050. In the meantime, Asia will certainly continue to be the most important engine of the global growth. The report predicts that Asia would contribute almost 60% of the global growth for 2010-2050 and 65% for 2040-2050.

Obviously, ADB's predictions must be based on the assumption that Asia will successfully face newly emerging challenges, both internal and external. Among others, the most urgent immediate challenge for Asia is how to implement its necessary domestic demand-led growth strategy shifted from the export-led outer-oriented strategy.

Broadly speaking, I suppose it can be said that the Asian re-emergence, especially in recent decades, was made possible by a tacit partnership between happy US consumers and the Asian workers with their States accommodating. The US consumers were happy to be stocked with plenty of goods they wanted at affordable prices, and the Asian workers were also happy to find jobs, albeit at relatively low wages to overcome their absolute poverty and improve their living standards.

It is needless to say that the seemingly convenient partnership between US consumers and Asian workers cannot be sustained for long for obvious reasons. In fact, the US households have been deleveraging their balance sheets by reducing their consumption demand for some time now.

At the same time, workers in emerging Asian economies are bound to demand higher real wages and a higher quality of life as their nations' development progresses. It is quite natural for any society to expect that once the acute problem of absolute poverty is solved, the relative poverty concern will become a critical social and political issue. As they overcome the misery of absolute poverty, so-called Hirschmanian "tunnel effect" is expected to set in.

In fact, one of the main focuses of China's 12th 5-year plan from 2011 to 2015 is placed on pro-consumption growth strategy which puts much emphasis on appropriate level of wages and strengthened social safety nets which would contribute to increasing domestic consumption by reducing household's precautionary savings motive.

It is important for all Asian emerging economies to put their national policy priority on dealing with inequalities and disparities through inclusive growth strategy for their sustainable growth. Accelerating globalization and the deepening knowledge-based economy together will make economic inequalities and disparities more acute and urgent sociopolitical issues in any society. Unless these issues are resolved in a proactive manner in Asian emerging economies, political repercussions may become serious enough to hinder their sustainable growth.

Let me now turn to vast opportunities to be provided by Asian economies' domestic rebalancing towards more consumption for the rest of the world.

The Asian economies, prominently China, have relatively low private consumption in their GDP. With rising income and bulging middle class consumers in Asia, which is estimated to exceed 2 billion by 2021 according to the Brookings Institution, the domestic demand-led Asian growth will certainly provide huge new markets for the rest of the world, especially services markets, e.g. distribution, logistics, transportation, communication, health care services, finance, education, and obviously legal services. According to a statistical source I found, the legal services market in Asia-Pacific is forecast to grow at 7.3% per annum during the period of 2011-16, while the annual growth rate was 5.3% during the period of 2007 and 2011. Considering the economic growth projection for the region, I thought the forecast seems quite reasonable.

It is worth noting the China's plan particularly emphasizes higher national services consumption. The Chinese authority foresees those service sectors as a new source of growth and important source of high value-added job creation. As you know, services sectors usually have relatively higher job creation capacities. So, taking job creation into account, most Asian economies need to open up and liberalize their services markets more actively. Korea is no exception to this recommendation.

What does the domestic demand-led growth mean to Asia's trade in the future? In short, Asia's trade will still grow but the Asian economies will end up relying more on intra-regional trade.

As of now, intra-regional trade in Asia is much lower than that in the NAFTA or the euro area although it has been accelerating in recent years. The Asian intra-regional trade so far has been based primarily on the vertically integrated production networks of the region. Specifically speaking, the vertically integrated production networks were to produce final products for exports to mostly industrialized nations, i.e. the US and the EU, mostly via China. But the pattern of future Asian trade will become more horizontal in nature as Asian economies' domestic demand increases. According to the latest IMF's World Economic Outlook, the ASEAN economies, for example, already have high exports of final consumer goods.

Asia's New Role in the Global Governance System

So far, the discussion has mostly been on the national policy agenda. However, Asia should be ready to exert its global leadership commensurate with its economic weight and influence. Most Asian nations up till now have been passive followers rather than active leaders in the global arena. But needless to say, with their growing economic prowess, they deserve enhanced representation and voices in multilateral forums. At the same time, Asians themselves need to take strong ownership in them.

It is important to recognize that no individual country or region alone can prosper in this highly integrated and globalized world. You know Greece has a population of 11 million and less than 2% of the Europe's GDP but it still affects the world. Even a domestic economic problem of such a small island country like Cyprus, with a population of 800,000 only, can become a global concern.

Consequently, close international economic coordination is more important than ever. However, in this no polar or a G-zero world, the global community level decision making, especially in the provision of global public goods, would be difficult, if not impossible. So, Asian nations should pro-actively participate in the global community level decision making process and exert its full potential leadership. This is an important challenge for Asia. In addition, they should make special efforts to provide

necessary public goods at the regional level to supplement global public goods.

Asia's Region-wide Cooperation and Policy Coordination

Let me now turn to the region-wide cooperation and policy coordination in Asia.

The Asian financial crisis of the late 1990s triggered regional initiatives for cooperation in East Asia. Only since the Asian financial crisis of the late 1990s, East Asia, Northeast Asia in particular, awakened to the necessity of a closer regional economic and financial cooperation.

In fact, the Chiang Mai Initiative, which is a network of bilateral swap arrangements among the ASEAN+3 countries, was first initiated in 2000. You know, leaders of the three Northeast Asian countries, China, Korea and Japan, for the first time started to meet at the time of the ASEAN+3 Summit from 1998. Due to the still lingering negative historical legacies, the heads of the three countries never had a summit meeting on their own. They needed the ASEAN umbrella to come together.

But they eventually agreed to have a regular three country summit outside the ASEAN+3 summit process in 2008. The Trilateral Cooperation Secretariat was established in September 2011. I would say it is a rather significant historical step forward for these three countries.

On May 14, 2012 in Beijing, leaders of the three countries at their summit took a number of historically significant actions geared toward accelerating the East Asian economic cooperation and thus integration. First of all, they signed a trilateral investment agreement which is the “first important legal document for the three neighboring countries”. In fact, the three countries’ economic integration rather rapidly achieved so far has been wholly “market-driven” without *de jure* actions at the three governments’ level.

The launch of three-country free trade negotiations was announced on November 20, 2012 only. If successfully concluded, albeit not expected to be comprehensive and rigorous enough and the negotiation process may be protracted, it would be the largest FTA only after the NAFTA and the EU as a free trade zone.

It is quite certain that with numerous new *de jure* integration initiatives, the Asian integration will further accelerate in coming years.

As previously mentioned, the Chiang Mai Initiative (CMI) was expanded and multilateralized now to become what’s called the CMIM. Going forward, I would like to see the CMIM become an Asia region-wide monetary facility. Of course, its mode of operation needs to be consistent with the IMF and other multilateral facilities.

In May 2012, the ASEAN+3 agreed to double the CMIM to US\$240 billion which is about 1.7% of Asia's GDP as of 2010, still relatively small. By the way, the European Stability Mechanism (ESM) of 500 billion euro (equivalent to US\$620 billion) is about 4.7% of the euro zone GDP of 2011.

The ASEAN+3 Macroeconomic Research Office (AMRO) was also launched as an independent regional surveillance unit to support effective decision making of the CMIM. However, there are a number of hurdles for the AMRO to effectively play its supposed role as a regional economic and financial surveillance body. For instance, the AMRO is registered as a private limited company in Singapore where it is located. The ASEAN+3 finance ministers and central bank governors plan to agree on turning it into an international organization when they meet on May 3 in New Delhi

Given this, I would like to see much expedited progress toward establishing a regional monetary facility, as indicated, provided its mode of operation is consistent with that of the IMF. In fact, this regional facility should work closely with the IMF and rely on the immense bastion of knowledge and experience of the IMF, particularly in the area of surveillance and early warning exercises.

What's happening in the euro zone today makes us realize the importance of regional level financial cooperation in supplementing the multilateral facilities. I don't want to get into details of the CMIM any further. But there are still a number of critical issues to be resolved, for example how to do away with the so-called "stigma effect" of the first user of the facility.

Although Asia has a large pool of savings, the region still relies heavily on financial intermediation outside the region, namely, in London, New York and Frankfurt. Realizing this, there have been various initiatives to develop efficient and liquid local currency bond markets with such programs as the Asian Bond Markets Initiatives (ABMI). These initiatives have been making steady progress so far, but I personally would like to see those processes expedited as well.

Closing Remarks

In ending my remarks today, I just want to share with you my rather optimistic view of the Asia's future. Why am I bullish on Asia's future?

There still remains unpicked low hanging fruit for late comers, in this case most Asian emerging economies, until they move out of the production possibility front. Especially those transition economies, namely China and Vietnam, can gain further by enhancing their systemic efficiency through structural reforms for enhanced private initiatives, privatization of state owned enterprises and financial sector reform.

Asian economies as a group still has a large room for increased intra-regional trade as previously indicated and relying more on domestic demand.

With their closer region-wide cooperation and policy coordination Asian economies can benefit further through increased availability of public goods, i.e. a freer trade environment and enhanced financial stability of the region.

In addition to these favorable factors, I just want to bring your attention to an Asian cultural heritage of high value attached on education. In the tradition of neo-classical economics, cultural factors are not often considered in causal analyses. However, the Asian value drew heightened attention at the time when the so-called Asian tiger economies started doing well.

Long ago, the late development economist, Paul Rosenstein-Rodan, was rather cynical about economists' attitude of bringing cultural factors into causal analysis by saying, "When doctors don't know what caused an illness, they call it psychosomatic: when economists cannot explain a phenomenon, they call it social or cultural."

However, 2006 Nobel laureate Edmond Phelps not only brought renewed attention to a few studies which established "culture as a causal factor that makes market work better" but also attempted to explain the gap between the American and European economic performances with culture-bound choice of economic system.

The reason I wanted to bring your attention to it at this point is because it will become more relevant to talk about Asia's future now. Today we are living in the age of knowledge-based economy where knowledge is the most critical strategic factor for growth and development. The knowledge can be inculcated and promoted through education. Consequently, education is more important than ever before for growth and development in this era. So, Asians have initial competitive advantages since education is on top of their societal values.

Whether or not they will be able to take full advantage of the initial competitive edge will depend on their education system which may or may not accommodate or facilitate the society's high zeal for education. I would like to see the Asian governments put the highest priority on reforming their educational system suitable to this deepening knowledge society.

With this optimistic personal view of Asia's future, I would like to end my remarks this morning.

Thank you for your attention.