

Regional Financial Cooperation in East Asia*

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The global economy today is going through a very dramatic transformation, the sort of transformation that occurs only once every century or two. The current wave of technological innovation is accelerating and changing our society and economy in fundamental ways.

Tom Friedman, a journalist with the *New York Times*, wrote a book called “The Lexus & the Olive Tree”, in which he said that waves of technological innovation in the late 19th century re-sized the world from “large” to “medium”. I would say that today’s technological innovations are re-sizing the world from “medium” to “small”.

Historians in hindsight will probably call this the “third industrial revolution”. Of course, philosophers and futurists have been talking about this for about a decade or two. They talk about a post-modern, or post-industrial, society and claim the world is moving from an age of mass production to an age centered on technology, knowledge and various types of information. This is the economy and society in which we now live, strongly based on technology and information.

In addition to this technological shift, the world is seeing the re-emergence of formerly great economic powers, specifically China and India. This is dramatically altering the division of labor not just in East Asia but also in the whole world. Both China and India were dominant economic powers up until the 19th century. Angus Maddison, a well-known US historian, compiled GDP data over the past 200 years for the OECD countries. According to his data, China had 27% of the world’s GDP as late as 1820, and India had 14% in that year. So China and India combined had more than 40% of world GDP in 1820. At that time, the UK, which was just emerging as the eminent

* This is a transcript of a speech given at the Distinguished Lecture Forum on November 21, 2003.

power of the world, had only 5% of world GDP. China and India were the dominant economic powers for some 150 odd years.

My reason for referring to these historical developments is to point out that both India and China have the necessary infrastructure for their re-emergence into the world economy. Although their hard infrastructure has become somewhat obsolete, they do have ports, roads, and the like. But above all, they have entrepreneurship and a human network of citizens living abroad. These will constitute the force behind the comeback of China and India into the world economy.

In his last interview before his death in 1985, Fernand Braudel, a very well known French historian, said that the center of the world seems to be moving from New York to somewhere as yet unknown. In fact, the center of the world had moved from London to New York in the early 20th century, and today it is still New York. But after hearing that prediction by Braudel I would hazard a guess that the center of the world economy is slowly shifting toward Asia, with China as the center. This is happening in a timeframe of decades, 40 to 50 years. The US is, for the time being, the dominant economic power and will continue to be so for at least some time to come. But if you are trying to foresee the situation 50 years from now, it is most likely that Asia, centered in China and possibly India, will be the engine of the world economy. This is a 'futurist' prediction. There seems to be slow movement in that direction.

There is another very conspicuous phenomenon taking place in the world today that has fundamentally changed the form of cooperation between companies. Interestingly, a US analyst conducted a survey of typical US companies listed on the S&P 500 index. Twenty years ago, 70% of the assets of a typical US company were tangible assets, e.g., factories, equipment, and offices. But today, a survey of the same companies reveals that 70% of a company's assets are non-tangible assets, e.g., royalties, technologies, brand names, and databases.

General Electric can be used as an illustration. Twenty-five years ago it manufactured products such as refrigerators and air conditioners. Now it is

one of the biggest financial companies in the world with a focus on high-technology medical equipment, and it is deep into medical services as well. The nature of the corporation has shifted from being a producer of goods to a provider of technology and services. This is a fundamental change that has taken place in corporations of developed countries. The same thing is slowly taking place in Japan and Korea.

What matters now is the technology, not the money. Corporations used to be organized to raise capital, to acquire money. But now, if the corporation has a brand name or a good database, money is not that difficult to obtain. That may not be true yet in Japan and Korea, but the world in general is moving in that direction. The new chapter on the global economy is not one that describes the experiences of the 19th and 20th centuries, but instead is one that describes the current change to some new type of market-oriented economic system. This could be called “new capitalism” or just “capitalism” but, in any event, constitutes a fundamental transformation of the global economy. The focal point of the world economy has shifted toward East Asia, and major technological innovations are dramatically altering the patterns of corporate organizations.

Within the process of “globalization”, there is a great deal of “regionalization” as well. The European Union (EU) has been formed and is rapidly expanding. In 2004, the EU will expand from its current 15 countries to 25 countries. By 2007, it will expand even further. Of course, this process follows a zigzagged course. There are difficulties in many areas, including the decision-making mechanisms, presidential systems, local administrations, and so on. But there is no doubt that the EU, despite its zigzagged course of difficult negotiations, will expand. Furthermore, if we look five to ten years in the future, it is not impossible that we will see Russia join the EU. This possibility enhances the importance of the current coalition of Germany, France, and Russia that has formed relative to Iraq-related issues.

The current period is often referred to as the “age of globalization”. True, globalization and international networking are proceeding apace. But at the same time, regionalization, particularly in the form of regional free trade agreements (FTAs) and bilateral FTAs, is also progressing very rapidly.

What is actually behind this regional cooperation movement?

I think there has been, and will continue to be, a slow disintegration of the US-centered world regime, which has the WTO, the IMF, and the World Bank as its main mechanisms. The WTO mechanism seems to have been weakened by the emergence of developing countries, such as China, Brazil, and Mexico.

The G7 has played a crucial role over the past two decades in supporting US leadership, supplemented by the IMF, WTO, and the World Bank. This system worked fairly efficiently up until the end of the 20th century. But the G7 mechanism seems to be slowly disintegrating. We are now viewing a global mechanism, more equitable *vis-à-vis* developing countries, such as China, India, Brazil, Mexico, and South Africa. There is a slow disintegration of what we have called the “Washington consensus”.

What about Asia? They say Asian integration has lagged far behind that of Europe and the American continents. This is true. But if you look at it from another angle, you see that Asian integration and cooperation has been proceeding fairly smoothly, led by more and more direct investment. This started in the late 1980s spearheaded by Japanese and Korean companies going into Southeast Asia and followed by Singaporean and Taiwanese corporations. Toward the end of the 20th century and into the early years of the 21st century, once again, private sector-led integration is proceeding very rapidly, often in China and other East Asian countries.

Intra-regional cooperation in trade and direct investment (for example, joint ventures among Chinese, Korean, and Japanese companies) has been increasing quite dramatically. It is true that European integration and unification was led by policymakers, by the elite. In fact, there has existed for some time a very firm political will to unite Europe and forget past negative legacies. The Franco-German agreement to stop warring with each other is at the heart of the European Union.

That is not the case with Asian integration. Here, integration has been led by the market and by the private sector. It is a fact that intra-regional economic

transactions have been increasing in East Asia. China, Korea, and Japan are beginning to integrate into one economic region, at least where the private sector is concerned.

In the Asian region, however, political leaders have not developed a European-type political will to integrate. Fault for this lies, first, on the Japanese side. Japan-Korea and Japan-China have not forgotten their past negative legacies. If France and Germany can put these legacies aside, Japan-China and Japan-Korea can do it too. Of course, we have been warring for the last 1,500 years. But if we could put those legacies behind us, just as the Germans and French did after World War II, then we would be better off.

For example, the Japanese prime minister should stop going to Yasukuni, the controversial shrine for the war dead. Once the Koizumi government falls, I don't believe that any subsequent Japanese prime ministers will visit that shrine. As you can see, there are various actions the Japanese can take to form a new alliance among Japan, Korea, and China. Of course, there are some things you can do as well.

I think our relationships, Korean-Japanese and Chinese-Japanese, have improved a great deal during the course of the last five to ten years. I do not think it would be all that difficult to form some common political will in the region, supporting the private sector and the market.

Another obstacle to developing a regional political will in Asia is that countries like Japan and Korea have an underlying connection with the US. There is a dominance of the US in this region, both in national security and economics. Needless to say, we have to maintain a good, friendly alliance with the US. But while maintaining that alliance, we need to form a common political will for regional cooperation. This is a very difficult, subtle, and delicate business, particularly for countries like Korea and Japan. But it needs to be done. I hope that recognition on the part of the US for the Asian desire to strengthen its regional cooperation will eventually be forthcoming and that the US will at some point approve of an organization such as an Asian Monetary Fund (AMF). I think this situation seems to be evolving in a

positive direction.

The next decade will be an interesting one for both Korea and Japan, as they try to form some kind of political coalition to accelerate their growing market integration. There has been lots of criticism of China for its exchange rate policy for the yuan. But on this issue, I strongly endorse the Chinese government's decision not to revalue the renminbi/yuan at this time. This is one point on which I differ from the Japanese government. I am now at a private university, so I have the freedom to criticize the Japanese government. If my successor at the Japanese Ministry of Finance were here, we would have a serious discussion on the matter, as he would probably be urging China to revalue the renminbi.

An integrated economy is developing in this region. Sony has proposed a joint venture with Samsung, Sanyo has formed a joint venture, and Matsushita has formed a joint venture with NCL. The economies of China, Korea and Japan are complimentary. China has very low-cost but high-quality labor, and both Japan and Korea have technology, particularly on the application side.

Take, for example, a technology like flash memory. Only three companies in the world have this technology: Samsung, Toshiba, and Microsoft. US corporations are dominant in the basic technologies. But Japanese and Korean companies are good at applications technology. Nowadays the technological platform, particularly in IT, has shifted from stand-alone personal computers to more universal communications platforms that connect personal computers with televisions, mobile telephones, and digital cameras. This is an area where Korean and Japanese firms excel. We have the technology in television and in mobile telephones. If we connect those to the PC and the camera, we can have an extensive communications platform. Combine this expertise with China's high-quality, low-cost labor and the resulting cooperation would be extremely productive and rewarding for all three countries.

What is really necessary is to push for progress on all fronts. A well-known Chinese economist by the name of Fan Gang has labeled the Chinese

development strategy with the acronym “PPP”. This usually stands for “purchasing power parity”. But in Fan Gang’s usage it stands for “parallel partial progression” meaning to push on all fronts, simultaneously, in a parallel manner, and to proceed gradually. He describes the Chinese strategy as a “PPP” strategy. It is parallel, partial and progressive, and I believe it has been successful.

Why don’t we adapt this strategy for Asian cooperation and integration? We should push regional trade and even an FTA. Let’s have an FTA among the ASEAN+3 countries. Of course, agriculture is a problem. You have an agriculture lobby here in Korea, but it is nothing compared to the impossible agriculture lobby in Japan. You may not be aware that I have done something quite unusual for an ex-official from the Japanese Ministry of Finance. I openly supported the opposition party in the last election. The opposition party gained 40 seats in that election, and in the next election the LDP’s long rule may come to an end. This is an interesting period on the political front as well. The Japanese federation of managers has said that it would allocate political funds not only to the LDP but also to the opposition party. So things are starting to become much more fluid in Japan. But we still must do something about our agriculture lobby.

We should jointly promote the formation of FTAs. We need an FTA with China, Korea, and the ASEAN countries. We also need to proceed further on foreign direct investment (FDI) and to promote joint ventures and mergers and acquisitions. We need to do all of these things in this region.

Of course, we also need to proceed on the foreign exchange front. We now have huge foreign reserves. For example, Japanese foreign reserves exceed US\$ 600 billion. Korea has also accumulated a large amount, as has China. We should earmark about 25%, 15%, or even 10% of our foreign reserves and jointly manage the resources. We could call it an AMF, or some other name. We could use it for joint interventions, crisis prevention, and various other purposes. With such a large pool of foreign reserves we could have some type of mechanism or secretariat with some level of joint surveillance or joint analysis of the economies of the region *à la* OECD. There could even be a forum for the discussion of various joint policy issues that abound in this

region.

The time is ripe to push forward Asian regional cooperation. Initiatives on the part of Korea, Japan, and China are very important. The new Chinese leaders are quite positive on regional cooperation. They are less negative on Japan, since they have no direct memories of past wars, as did their predecessors. They are extending their hands to Japan, and it is the duty of the Japanese government to shake those hands.

The Japanese prime minister should stop going to Yasukuni and stop commenting on the issue of textbooks. These things he can easily do. They are not difficult at all. Mr. Koizumi and I are from the same generation, around 60 years old. Maybe less than 1% of people from our generation visit that shrine. The prime minister is an exception. Why should he do that? Of course, I, too, have taken a walk in the adjacent park on very nice summer days. It's a lovely park. But I have never gone to the shrine to pray. I am not an exception in this regard. Rather, I am the norm. The prime minister is the exception. So in that respect he could change quite easily.

Our relationship has improved so dramatically over the course of the last five or six years. Japanese and Korean young people love each other's movies. Korean movies and television dramas are very popular with Japanese youth, and vice versa. Many of your young people also quite like Japanese songs, and so on. There are some similarities in our cultural heritage. We need to recognize that. We need to have the political vision of enhancing the integration already in progress, both in the economic and cultural spheres.

Finally, let me go back to the renminbi issue. Why do I oppose pressuring China to revalue the renminbi? First, as I said, our private sectors have been quite significantly integrated with each other. The Nihon Keizai Newspaper, a well-known Japanese economic journal, surveyed major Japanese corporations. The question it posed was, "Do you want Chinese authorities to revalue the yuan?" Over 70% of those surveyed answered, "No. We want a stable yuan. We are quite significantly integrated into the Chinese economy. We export parts. We have networks of production in China, Japan, Vietnam, Thailand, and some in Korea."

Those networks are already there. They exist. The corporations now want a stable exchange rate. Something like a crawling peg is out of the question. A fluctuating exchange rate, they don't like at all. I would imagine that if you take a similar opinion poll among Korean corporations, the result would be nearly the same. These accusations of exporting deflation and unemployment are political issues. They are not economic issues. Economically, we are now being integrated.

Another reason I oppose the revaluation of the renminbi is that the Chinese economy is very vulnerable. It has grown at a very rapid rate and has attracted a huge amount of FDI. But there is an issue concerning non-performing assets. Between 20% and 25% of bank loans are non-performing. As you know, the official numbers are probably understated. So you can imagine what it would mean if 40% or 50% of assets were non-performing.

On the other side of the non-performing asset problem are state owned enterprises (SOEs). There are some marvelous, dynamic SOEs, but some are in *de facto* bankruptcy. They have problems with income and asset inequality, social and political issues, and so on. China needs to grow at 7% to 8%, at least for another five or six years. China needs to attract foreign capital in significant amounts for another four or five years. If the economy slows down, all these problems will come to the surface. China's economy, as well as China's political regime, would be a mess. Chinese leaders know this. About three or four years ago, all Chinese leaders started saying to people like us, "China is weak. China is vulnerable." That is true, and they recognize that. China today could be the Japan of the early 1960s. It may eventually need some sort of Plaza Accord. The Plaza Accord was in 1985. So maybe 20 years from now we will have some sort of "Beijing Accord" or "Shanghai Accord" that will revalue the renminbi. But that would be far in the future.

The Chinese trade surplus is declining. It is only 1% of GDP. China has a huge surplus with the US, but with most Asian countries it is a major importer. For example, it is a major importer of Japanese and Korean semi-finished goods. It is not only an exporting country. It is a trading giant

in Asia, particularly in this region, and China's domestic markets will be the key to this region's prosperity.

Chinese leaders will never revalue. If you discuss this issue with Chinese people who are in a position of responsibility, they are always very polite and very sophisticated, but in one way or another, their answer is always, "Absolutely not!" We have all experienced this. It may be impolite to say this in Seoul, but I keep telling the Americans that you can pressure Japan or Korea and we will yield. But don't ever push the Chinese. They will never yield. This is my view on the Chinese yuan.

Questions & Answers

Q I fully agree with your assessment that the Chinese leaders will never agree to revalue at this time. I, myself, am not exactly sure whether or not this is the right time for that. But given the fact that Chinese technological and productivity gains are very, very rapid, if they persist in staying with a fixed exchange rate forever, sometime or another they are going to face a huge problem of gigantic adjustments of currency exchange rates.

Since the end of World War II we have seen many economic problems and two different major exchange rate regimes: fixed exchange rates and flexible exchange rates. Fixed exchange rates in the short term, of course, work much better. It gives us stability, predictability, and so forth. But when the fundamental factors behind the scene change, how do you make the adjustment? The longer you wait, the more the chaos and bad results. How do you propose the world, and China, face this problem?

A The Chinese will eventually deregulate their foreign exchange controls, deregulate their capital account, and move toward some sort of floating regime. That is the course China will eventually follow. There is no question about it. But there is a question concerning what has been called "sequencing".

In order to deregulate capital accounts in a smooth, orderly manner,

it is necessary to have a strong domestic financial system. The Chinese financial system at this moment is a mess. I talked earlier about its non-performing asset problems. There are four major banks, and they all need to be restructured. Then there are regional banks and financial institutions that need to be restructured. While China grows at 7% or 8% for the next four or five years, it needs to restructure its financial system before opening its capital account to the rest of the world.

Fortunately, they are prepared to do the job. They have now set up the Chinese equivalent of a financial supervisory agency (FSA). A very competent fellow, who used to be head of the Bank of China, is now the minister in charge of this FSA. He just happens to be a very good friend of mine. He is set to restructure the Chinese financial system in a fundamental way. Let's wait for that restructuring to take place and then cooperate with China to move toward a more flexible exchange rate and foreign exchange system.

Q You said that you would discuss the outlook for the Japanese economy. It seems to be recovering. It looks as if, after ten years of sluggish growth, it's turning around. Is that your assessment?

A After four or five years of expressing pessimism about the Japanese economy, I am now able to be optimistic. A couple of things have happened recently to the Japanese economy. First, remember that Japanese corporate earnings have been declining since the late 1980s. Good earnings in the late 1980s were around 12%. They came down to 5% in the 1990s, and in the year 2001-02 they dropped to almost 0%. There has been a fairly consistent decline in corporate earnings over the course of the last decade or so. But in the year 2003, corporate earnings on average increased by some 15%. According to a recent survey by Goldman Sachs, in 2004 earnings will increase by as much as 20%.

Now, of course, there is a great deal of uncertainty in these numbers. This is a very uncertain world. Whether or not that prediction turns out to be true depends on many factors. But at least, this recent survey indicates that on average there will be a 20% increase in Japanese corporate earnings this

fiscal year.

Japanese corporations, particularly those that are competing globally, have finally moved to restructure their operations. Restructuring on the part of big Japanese corporations has been proceeding very rapidly. Look at the steel industry. There have been many mergers and acquisitions. Kawasaki Steel merged with Nippon Kokan, and is now a giant steel company. Many other steel mills have been closed. Some industrial reorganization seems to be taking place in the steel industry.

The semiconductor industry has been suffering from a cyclical downturn. Now, though, they are developing new technologies. Even Toshiba, which suffered extensively, has developed flash memory technology and is producing flash memory devices in large quantity. Nissan has revived. There are many machinery makers, like Canon and Nikon, which are coming up with new product lines.

Restructuring efforts in combination with the development of applications technology, to which I referred in my speech, are helping. Japanese companies are quite good at applications technology. Even if you have cellular telephone or digital technology, that is only significant if you can create new products that use it. The technological frontier has moved to an area where Japanese and Korean companies have an advantage.

So I believe the corporate earnings revival is sustainable. The growth rate for 2003 will be close to 3%. The government forecast right now is 2.1%. This is a revised forecast, up from 0.7% earlier this year. But in all likelihood, I think the actual growth rate will exceed 2.1%, and come close to 3%. For 2004, I would not be surprised to see 3% or 3.5% growth.

Having said that, let me add a caveat. The financial and banking problems are not yet resolved. For the major banks, things are improving. There won't be any more major financial crises involving mega-banks. But there are many regional banking problems that the government must address. There are rumors in the Japanese press that this regional bank or that regional bank will be dealt with by the government. These problems still

persist.

The Japanese regional economy is still suffering. Big Japanese corporations have adapted to globalization and to the rapidly changing world economy. But regional economies have yet to adapt to the new pattern. The regional economy is still declining. Large, export-oriented corporations are improving their performance dramatically and pulling up the Japanese economy. However, this really needs to be followed by the fundamental structural reform of industries that are government controlled, regulated, and subsidized. By that I mean construction, real estate, distribution, agriculture, and food processing. Major deregulation and major de-subsidization of those industries should follow.

This is what “Koizumi Reform” has been all about. “Koizumi Reform”, though, has not been implemented. I call the Koizumi government the “NATO” government, or the “No Action, Talk Only” government. Koizumi talks about reform, but has not been able to implement it. We should now implement it. If we could implement those reforms and follow in the steps of those very dynamic, export-oriented corporations, it is not impossible for the Japanese economy to grow at 5% over the next five or six years. I hope that will happen. But for the time being, I think the Japanese economy will only grow slowly over the next two years or so.

Q Before making my major points, I would like to remind you that we here in Korea probably have fewer problems with Mr. Koizumi than we do with Tokyo Governor Ishihara. You should do something about him. He has been infuriating many Koreans. He may not be representative of Japanese politicians, but he’s bad. He’s really bad.

Now, you have rightly described the picture of regional integration that is taking place in this part of the world. I agree with you on that. But I would note that what is happening right now is not considered a backlash against globalization. It constitutes the first phase of more intensified globalization. There will be East Asian integration, European integration, and integration among the countries of the Americas. After this phase, I think there will be integration among these three centers of the world.

Eventually we will have a much more deeply globalized world economy. We are in the opening phases of that.

To manage this process, East Asia needs better representation in world governance. The shift of power you described represents a shift of power from a bipolar world to a tripolar world. This new world will be governed not only by Europeans and Americans but also by Asians. This will make it possible for us to pursue greater globalization based on the principles of fairness and so on. This is a very good process.

For that, we must have closer collaboration among East Asian countries, especially between China and Japan. You described the current stalemate on this front and attributed it to history. But I'm not sure it is related only to the issues of the shrine, textbooks, and so on. I think there is something much more fundamental and profound behind these differences. I believe China and Japan are reluctant to share power and influence.

For example, you described a very nice pattern of specialization among the three countries, where China would sell cheap labor. But I'm not sure the Chinese would be content as being merely a supplier of cheap labor. They have their own industrial ambitions. They have launched a satellite. I think their ambition is to catch up with Japan, not to mention Korea, in the whole spectrum of high technology. This represents their unwillingness to share power and influence. It may be this much more fundamental disagreement among the countries, rather than just a historian's textbook, that I think represents a very formidable obstacle.

Finally, about the FTA among the three countries, in a nutshell, isn't the Japanese government in favor of pushing for a trilateral FTA? Do you think the Chinese leaders are genuinely interested in pushing this trilateral FTA?

A Ishihara is a major problem. At least his son was not elected to the lower house. He has two sons. One was elected, but the other was not. This is a problem with the Japanese populace. There is a very nationalistic and xenophobic undercurrent, particularly vis-à-vis Korea. This is deplorable.

Absolutely deplorable. You need to stop the flow of those very bad undercurrents while they are still just a trickle. We need to be very careful. This nationalistic, xenophobic feeling exists in every country these days, in the US and elsewhere. We need to counter it by showing that regional cooperation really pays and improves living standards for all. The “China bashing” I have been talking about is, again, a political phenomenon. Ishihara is spearheading this. We need to fight against those forces.

I agree with you that globalization has intensified. The type of regional cooperation that is taking place in Asia is not anti-globalization. It is for globalization. I would call it global networking. This global networking will increase. That is why I do not oppose an FTA with Chile or an FTA with Mexico. I think we should proceed with that. We don't need to erect a wall around East Asia. We need to establish close regional relationships, but why not a relationship with Mexico? Why not with Chile as well? Why not with the European Community and Canada too? I think regionalism is only one phase of globalization: European integration, Asian integration, and the FTA of the Americas.

Our relationship with the US, even while we move forward with regional integration, will become closer and closer. There is no question about that. This is a small world, which could be connected in real time at a very low cost. I do not believe for a moment that the momentum of globalization is weakening. But as you said, if we could set up some kind of tripolar world where Asian participation were secured and if we could manage globalization, it would be very good for us.

This has been exaggerated by the US. I have to say that I am not anti-US in any way. I lived in the US for ten years. I respect its universities. I respect its society. But having a countervailing force is a good thing. With Europe as a countervailing force and Asia also as a countervailing force, we can compete with each other. That is a good thing. We need to have multipolar, equitable global governance.

With regard to China, it is not only a question of history. You are right; it is probably competition for hegemony. But I am of the view that

China will eventually be the center of Asia. Japan should not compete. Japan is just a small island at the peninsular end of the continent. Japan is like the UK. The big powers in Asia are China and India, like France and Germany in Europe. That is how it used to be. For the last 1,500 years, both Korea and Japan lived under the shadow cast by China. We have managed to survive under this very loose Chinese hegemony. That may be again what we are heading toward.

I think there is a role for Japan and Korea to play. As long as China recognizes this, I don't think the Japanese should vie for hegemony in this region. Japan has modernized itself ahead of other countries. Japan has the technology. So we have various factors that we could contribute. But Japanese hegemony in this region would just regenerate the negative legacies of the past. We don't need hegemony. We need cooperation. I think we should let the Chinese know that.

Q I was glad to hear your favorable comments on an AMF, an idea that was killed in the past. I want to hear your frank opinion on why it was rejected. What are the prospects for an AMF in the near future?

A It failed at that time. Of course, there was very strong opposition from the US. But what I really regret is that I did not consult closely with the Chinese authorities. I did not have the time. I did not have, at that time, the proper contacts in the Chinese government. I went through the Hong Kong Monetary Authority to approach China. That was a long way around, and the negotiations had to be done in a matter of four or five days. The original AMF proposal was proposed very hurriedly.

The Chinese system takes some time to reach conclusions. It's a huge bureaucracy. I should have taken more time to consult with China. The Chinese attitude toward the AMF and regional financial cooperation has since changed. They have had some study groups and some deliberations within various organizations. They have now become very positive toward financial cooperation.

That was in the middle of the crisis, which erupted in Thailand. It

was about to move to Malaysia. We thought we needed to form some sort of AMF very quickly. If it had not been during the crisis, I would have taken more time. The original AMF proposal was done in a matter of two weeks. We knew the crisis was spreading to Malaysia. But in our anxiety, we did not know it would spread to Korea. We learned that in October. That's why we had to propose the AMF very hurriedly.

Q The Chiang Mai Initiative has been very successful. In addition, eleven central banks from the Asia-Pacific region have agreed to cooperate on an Asian bond fund. The next meeting for those central banks will be held here in Seoul. With these two kinds of regional monetary cooperation, do you still think the Japanese initiative for an Asian monetary fund should be established?

Secondly, the Asia Development Bank's Asia Development Fund (ADF) has only given money in Northeast Asia to parts of China and Mongolia, amounting to 1.8% of its lending. But countries like Bangladesh and Pakistan get 54% of total loans. So do you think a Northeast Asian Development Fund is formable? Do you think it would be suitable?

A This Asia bond initiative is a good thing, which we need to jointly endorse. We need to come up with some concrete products, either in Seoul, Tokyo, or Bangkok. I think my former colleagues at the Japanese Ministry of Finance are working very closely with your ministry to come up with some specific products.

With regard to the ADF, your proposal is right and we need to expand the scope of the ADF to further enhance cooperation within this Northeast Asian region. The Asian Development Bank should be utilized more. We need to expand the scope of the Asian Development Bank even further.

But with regard to the AMF, I do not necessarily stick to a regional formation. My idea is to pool our foreign reserves. We have huge foreign reserves. Again, this is not an anti-US proposition. Huge amounts of these foreign reserves are being invested in US Treasuries alone. Of course, this is supporting US financial markets. I'm not suggesting that all of that money

be taken out of US markets. Why not just 10% of it? Why not take 10% of our foreign reserves and jointly manage them in some strategic way. That could be done.

We have enough foreign reserves. Japanese foreign reserves today are three times higher than when I was vice minister. That means that within a matter of four years, Japanese foreign reserves have tripled. Why not take 10% of these funds and use them jointly for some strategic purpose? How should we use it? We can mature the bond market, have some kind of partial guarantee, or offer some types of subsidies. There are many options. We could think about various strategic uses for these foreign reserves. That could serve as one of the cornerstones of regional cooperation.