

MUFG-IIMA Symposium
“Growth and Resilience in the Age of G-Zero:
Sharing Responsibility in a Leaderless World”
October 13, 2012, Tokyo Palace Hotel

- Good afternoon, ladies and gentlemen. It is indeed a great privilege for me to participate in this symposium together with many distinguished participants. I thank the organizers for inviting me.
- The topic assigned to me by the organizers is how Japan, Korea and China could collaborate in the coming decades. More specifically, the organizers asked me to provide realistic suggestions for these three countries to achieve substantial regional cooperation.
- It is needless to say that political reconciliation is the most important prerequisite for institutionalized collaboration for the three countries. But politics in this region as elsewhere often becomes a problem rather than a solution for the region. Unfortunately, we witness the very phenomenon today. However, this is not the place to focus on the emotion-charged political discussion of the region’s collaboration. Instead, I would like to focus my remarks here this afternoon primarily on the economic dimension of the region’s collaboration.
- Although Japan, Korea and China are the most dynamic outer-oriented neighboring economies, there have been virtually no institutionalized cooperative endeavors to enhance their economic integration until very recently. Their economic integration during recent decades has been mostly market-driven and accelerating. (For example, these three countries’ intra-regional trade almost doubled during the last two decades from 12.3% in 1999 to 22.5% in 2010.) But it is still much lower than intra-regional trade and investment of the NAFTA and the EU. It suggests that with their institutionalized cooperative endeavors their economic integration can substantially increase.
- Only in the aftermath of the Asian financial crisis of the late 1990s, these three countries started to make some institutionalized integration efforts in both trade and investment and finance with uneven results. On trade front, trilateral FTA background studies and discussions have begun since 1999. Based on the results of these endeavors, leaders of the three countries in May this year agreed to start trilateral FTA negotiations within this year. In fact, I gathered that the initiation of the official negotiations would be announced at the forthcoming East Asia Summit in November. It will be indeed a historical development for the three countries’ economic collaboration. I should also remind you of the fact that the bilateral FTA negotiations between Korea and Japan began in 2003 which is currently stalled. I personally would like to see the negotiations resume as soon as possible. In the

monetary and financial field, since the Asian financial crisis of the late 1990s, there have been various initiatives of institutionalized cooperation, mostly together with the ASEAN. The most important one is the Chiang Mai Initiative Multilateralization (CMIM) which was originally initiated in 2000.

- At this point, I must remind all of us of the rather odd phenomenon for outsiders and, I would say a very unfortunate fact for the region, that is, that leaders of the three countries could not meet face to face by themselves until as late as 1999. In 1999, they agreed to meet at the time of their participation in the ASEAN+3 Summit. In other words, they had to borrow the ASEAN+3 umbrella for their own summit. It was only in 2008 when they agreed to meet on their own outside the ASEAN+3 process, which is, indeed, a historical event for the region.
- Let me now turn to a few specific suggestions. Before doing so, the views and ideas I am presenting here are totally personal and my own.
- There is no doubt in my mind that the deep-seated mutual distrust and suspicion still prevailing in the region which, I must say, arise from negative historical legacies. Therefore, the first order of business for the region moving toward any meaningful collaboration is to make common efforts, I emphasize common efforts, to overcome the historical legacies. Having said this, however, I must also say that Japan is expected to lead this effort. I would argue that even the current territorial frictions flaring up in this region has a deeper root in this deep-seated mutual animosity and distrust.
- What specific suggestions for regional collaboration?
- Putting political reconciliation aside, I would like to see the three countries' more active engagement in mutually beneficial specific projects and programs which would eventually contribute toward mutual trust-building as well. (It is worth remembering in this regard the European Coal and Steel Community launched in the early 1950s.) Common energy and natural resources development and climate change-related projects can be good examples of such projects. And the three countries can jointly support and fund the infrastructure development for many developing and emerging Asian countries.
- In the area of monetary and financial collaboration, the three countries can and should do more in addition to their participation in the CMIM, the Asian Bond Markets Initiatives (ABMI), and other programs. For example, why not these three countries, which are major trading partners to one another, establish a trilateral settlement mechanism for using their own currencies. They may also want to introduce standing swap arrangements and reserve pooling to supplement the existing CMIM's regional firewall. The ongoing Eurozone crisis which was triggered

by a relatively small member country, and that is Greece, well illustrates that such arrangements are not only for the interest of the region but for the whole world. As I have been advocating all along, a regional financial research and training center can be established for both finance officials and regulatory/supervisory personnel and private risk analysts and banking staff.

- Along with these economic and financial projects and programs, the three governments should step up efforts for people-to-people exchange, youth exchange in particular. Various specific programs can be introduced in this regard.
- Lastly, Japan, Korea and China together should exert its leadership commensurate with their economic weight in the global forums. In this G-Zero or no polar world, the global community does not have other options than relying on collective leadership. Given this, the G20 should be further institutionalized and strengthened in its own governance. In the process, the three countries should more closely cooperate and take a positive leadership. By the way, I feel very strongly that the G20 should more actively engage in the process of the resolution of the Eurozone crisis. After all, the G20 is supposed to be the premier forum for international economic cooperation and its main objective is to achieve sustainable and balanced global growth. So, the Eurozone crisis resolution must be placed on the priority agenda of the G20.