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**Gゼロ時代の成長と回復の原動力**  
リーダーなき世界における責任と役割

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**Growth and Resilience**  
**in the Age of the G-Zero**  
**Sharing Responsibilities in a Leaderless World**

Occasional Paper No.24

**MUFG**

Mitsubishi UFJ Financial Group

**IIMA**

Institute for International Monetary Affairs

## Preface

It has been more than four years since a “once in a century” global financial crisis erupted. Despite a series of new monetary and fiscal policies tried by major countries, however, the world economy is still on an uncharted voyage. In Europe, a crisis that was triggered by Greek sovereign debt jeopardy has spread all over the continent, and no clear future path is seen even though the countries involved have strenuously been discussing ways to solve the crisis and recover the confidence of the euro, while adopting fiscal discipline and working on their growth strategies.

The American economy is also faltering due to a weak recovery in its labor and housing markets, and even Asia, which has been a locomotive of the world economy, is under severe strain due to the global recession. In Japan, the economy faces a heavy burden due to serious fiscal problems, although a way to raise consumption tax has been recently paved. In emerging countries, the slowing of the economy has caused various problems to rise to the surface including inflation, unequal opportunity and social divide, which have increased discontent with their political situations, leading in some countries to social disorder and responsive populist politics.

These instances clearly indicate that we have entered an age where more than ever, politics and the economy are strongly interconnected. There has never been a greater need for individual countries to act responsibly and implement internationally harmonious policy measures.

In reality, however, the G20, which started with the strong expectation to create a new framework for international cooperation, is far from functioning on a full scale, and some of the major countries have even shown a tendency towards strengthening their inward-looking attitude in a leaderless world (G zero).

With the participation of prominent panelists from in and out of the country, the Mitsubishi UFJ Financial Group and the IIMA held a symposium last October to broadly discuss the prospects for the world economy together with the roles of advanced countries and emerging economies, as well as governments and private sectors, in order to recover the stability of the world economy and help materialize its sustainable growth in a leaderless world.

This is the record of the symposium and we sincerely hope this will serve you as a food for thought in your analysis and forecasts of the world politics and economy.

February 2013  
Institute for International Monetary Affairs

## パネリストのプロフィール/ Profiles of the Panelists



イアン・ブレマー

Ian Bremmer

国際政治学者として、起業家として、学界、投資・金融業界、政官界のすべてにわたって幅広い活動を展開する。1994年にスタンフォード大学で博士号を取得。その後コロンビア大学国際関係・公共政策大学院での教鞭や世界政策研究所上級研究員等を務めるほか、1998年調査研究・コンサルティング会社ユーラシア・グループを設立、社長を務める。「Gゼロ後の世界：主導者なき時代の勝者はだれか」（2012）など著書多数。

Mr. Bremmer is an international political scholar and entrepreneur who participates in many fields including academics, finance, and politics. He earned a PhD from Stanford University in 1994, and currently teaches at SIPA at Columbia University and serves as a senior researcher at the World Policy Institute. In 1998 he established the Eurasia Group, a research and consulting company, and has served as president since then. He is the author of many books including *Every Nation for Itself: Winners and Losers in a G-Zero World* (2012).



平野 信行

Nobuyuki Hirano

1974年京都大学卒業後、三菱銀行に入行。1980年代のユーロ市場でのシンジケートローンや公的金融、90年代初のアジア市場業務などを経て、96年よりニューヨーク支店副支店長、98年米州企画部長。2001年に帰国し、05年のUFJ銀行との合併等、経営企画を主導。09年三菱東京UFJ銀行副頭取、12年同頭取に就任、現在に至る。

After graduating from Kyoto University, Mr. Hirano began his career at the Mitsubishi Bank in 1974. After extensive involvement in euro syndicated lending and public finance in 1980s and Asian markets in early 1990s, he headed the bank's NY corporate banking operations. Returning to Tokyo in 2001, he served mainly on corporate development initiatives, including the merger with UFJ Bank in 2005. In 2009, he became deputy president of the Bank of Tokyo-Mitsubishi UFJ, and then president in 2012.



**イル・サコン**  
**Il SaKong**

ソウル国立大学卒業、1969年UCLAより博士号取得。1987-88年の財務大臣、2000-02年の経済通商大使など政府要職を歴任。2008-09年に大統領経済顧問等を務め、2010年には韓国大統領諮問 G20 委員会委員長を務める。1993年世界経済研究院を設立、現在会長兼 CEO。高麗大学の名誉教授を務め、著書多数。

Dr. SaKong graduated from Soule National University and in 1969 received a Ph.D. from the University of California at Los Angeles. He has served many governmental posts including Finance Minister (1987-88) and Ambassador for International Economy and Trade (2000-02), Special Economic Advisor to the President (2008-09) and in 2010 he chaired the presidential committee for the G20 Summit. In 1993 he established the Institute for Global Economics and is now chairman and CEO of the IGE. He is also a distinguished professor at Korea University and has published many books.



**マーティン・ウルフ**  
**Martin Wolf**

1971年オックスフォード大学から経済学修士号取得。世界銀行、通商政策研究センターなどを経て、1987年フィナンシャルタイムズ社に入社。1990年以降副編集委員および1996年以降経済論説主幹。2000年に金融情報への貢献により大英勳章第3位を受章。*Fixing Global Finance* (2010)等著書多数。

Mr. Wolf graduated from Oxford University and obtained a Master of Philosophy in Economics in 1971. After working for the World Bank and Trade Policy Research Center, in 1987 he joined the Financial Times. He has been Associate Editor since 1990 and since 1996 Chief Economics Commentator. In 2000 he was awarded the Commander of the British Empire for services to financial journalism. He has published many books including *Fixing Global Finance* (2010)



**行天 豊雄**  
**Toyoo Gyohten**

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。

Mr. Gyohten 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 became 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 named Chairman of the Bank of Tokyo Ltd. in 1992. Since 1995 he has been president of the IIMA.

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**Growth and Resilience**  
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## 1 . Opening Remarks

### Toyoo Gyohten, President of the Institute for International Monetary Affairs

Unfortunately, the world is full of knotty problems as always. In the U.S., Europe, Asia & Middle East, economic, political and social situations are far from being stable and snug. The intriguing feature of today's situation is that many of the problems are offshoots of fundamental changes that took place in the world during last three decades or so. Let me briefly touch upon them.



First of all, the triumph of finance in the economic arena greatly enhanced global income, employment and convenience. It created many heroes, and at the same time enormous wealth was amassed in their hands. However, it also transformed the nature of finance. Rather than playing the sober role of a public utility to support the real economy, finance became a high flying master of the show. Players of finance enjoyed high-risk high-return games. They trusted in the infallibility of the market and in their own ability to control the risk.

Unfortunately, things were not that perfect. During the last thirty years the world has experienced financial crises with increasing frequency. The new character of finance and the globalized market exacerbated crises and made them more contagious. The predominance of finance and the ugly fallout of the crisis since 2007 gave rise of a very captious view toward finance on the part of the public. Populist politicians and media are denouncing bankers as if they are public enemy and calling for tighter financial regulation. In most of advanced economies the search for the proper role of finance is still going on. Today, Europe is in the worst economic crisis in the post-war period and the contamination is reaching every corner of the world. Until the eruption of Greek fiscal debt crisis Europe was thought to be on a steady path of ascent toward the glorious position side-by-side the US, and the currency Euro was expected to become the global key currency equal to the dollar. The future of the Euro is now, at the best, uncertain. How can we deal with the situation?

Also, the revolutionary progress made in the information technology has altered the world completely. Billions of people today can share the information simultaneously and instantaneously. Rulers of countries or corporations can no longer

enjoy the monopoly of information. In other words, the foundation of their authority is gone. Furthermore, people can now express their views and communicate with their fellowmen throughout the world. The evolution as such is pressing for a fundamental change of the governance style in governments, political parties and corporations. The prominence of the small group of elites and the atrophy of sound and conservative middle class are undermining the basis of the social democracy. The disgust against the prolix democracy which is prone to run into a political impasse has made many voters wonder if democracy is the best political system. Furthermore, many incidents occurred in the process of financial crisis clearly exposed the failure of the market. People are now suspicious about the infallibility of the market. In other words, democracy and market economy, two pillars of Washington Consensus, are now being questioned. The loss of confidence in the globally shared value standard may prepare a dangerous mine-field for the peace and stability of the world. The divergence between the path leading to constructive contest for improvement and the path leading to disastrous mutual destruction is totally unpredictable. How can we reestablish a globally shared confidence?

Another fundamental change is the shift of global balance of power. There is no question that the U.S. is still the strongest and the richest country. It is also true, however, that the U.S. has lost its singular hegemonic leadership status. The damage caused by the excess of external deficit and the fiscal deficit has injured the international confidence in the U.S. economy. A sort of imperial overreach exemplified in Afghanistan and Iraq has sapped the credibility of the U.S. leadership. While no country is trying to replace the U.S. as a hegemonic leader now, there are countries like China, Russia, Iran, etc who refuse to accept the American leadership. In other words, the day of the Pax-Americana is in eclipse. Countries in BRICs group are claiming for a greater role in the global decision making process. In the multi-polar world as such, which is bound to be unstable, sine qua non for the global peace and prosperity is to have a set of rules of a fair sharing of power and responsibility among major countries. Where and how can we start to work on it?

In this respect, particularly relevant is the future role of Asia. Since the phenomenal recovery of Japan in 1960's, around the time we had the IMF-WB Meeting last time in Tokyo, Asia has made a historic development and became the biggest and the most dynamic economic power. Many experts predict the 21st century becomes the Asian century. It may well be. However, Asians should not forget they are still faced

with many challenges.

Serious diversities and conflicts in all facets aside, Asia should not forget that Asia's ascent during the last several decades was, in part, a product of the global imbalance. Asia and the Western developed economies have enjoyed, for years, a precarious win-win game on the aggravating global imbalance. The current crisis has cast a serious doubt on the sustainability of such growth model. Can Asia find a solution?

This is my purely personal view on some of the salient feature of the global situation today. I have thrown it on the table just to stimulate the following discussion.

As you see, we have an excellent panel today. Since the biographies are already printed on the program, I would just introduce them in a very simple way, From my furthest right, Dr. Ian Bremmer, president of the Eurasia group, USA. Next Mr Martin Wolf, chief economics commentator of Financial Times, UK, and Mr Il SaKong, chairman and CEO of the Institute for Global Economics, Korea and to my immediate right, Mr Nobuyuki Hirano, president of the Bank of Tokyo-Mitsubishi UFJ. Well I will ask each one of them to make an opening remark, on any prominent issue they consider is relevant of today's world. Then I will open discussion among ourselves. So, I will ask Mr. Bremmer to give us your remark. Please, Ian.

## 2. New Tensions and Balance of Power in the World of Today: the Age of the G-Zero

**Dr. Ian Bremmer, President of the Eurasia Group, USA**



Thank you very much, and delighted to see all of you. We are one eighth of the way through the 21<sup>st</sup> century and it's kind of interesting to think about where it is as we've got some data at this point. Doesn't feel to me like the Asian century. It feels to me more like "G-Zero." Since you titled the symposium that, I should start with "why G-Zero?" very quickly.

First, too many countries that matter are hard to coordinate. Second, these new countries are of a different kind. They have different priorities, different political and economic systems and different capabilities. Third, America's allies are consumed with their domestic and regional issues. The Euro zone and Japan are like that. And it is not only a matter of today but this situation is going forward. You'd hear Ms Lagarde says, we need two more years for Greece and Europe. Fourth, finally, the United States does not want to be involved in those matters as much as they used to. Not global policemen, not lender of last resort, they are less interested in playing that roles. None of these four things are going to go away. This is a new environment. So any one of these would have made you worry that the old system would have been shaken.

Thomas Friedman, an American Pulitzer Prize-winning journalist, laid it out pretty well. He says this was the flat world. I loved one part of his book when he talks about going to India, to Bangalore to go to a golf course. While he is golfing on a golf course, he sees a billboard for a Pizza Hut. And he says, "We're not in Kansas anymore." That is sweet because the flat world is a world where no matter where you go, Kansas or Bangalore, you can find a Pizza Hut. If it is a flat world, you did not need me. Politics do not intrude in a flat world. As a corporation, a flat world means a U.S. dominated world, where you find the U.S. driven globalization. Your model is "Coca Cola." In more than 200 countries, they have 1.8 billion units of sales every day. The most known English word in the world is "OK," the second is "Coca Cola." But if Thomas Friedman had written the book, The World is Flat, now, he would not just be wrong, he would be profoundly wrong, because politics now are intruding. You don't

need political scientists in a flat world but in a G-Zero world, you do. Now, in the flat world, there was the Coca Cola model, but there was a second model, and in my few minutes this afternoon, I want to mention the second model.

The second model was a little U.S. corporation called Lockheed, now Lockheed Martin, probably the best defense company in the world. But, of course, they are not global. Over 95% of their employees today are in the United States. 80% of their sales are to the U.S. government, and a majority goes to the Pentagon. The remaining 20% are to America's friends and allies. They do not sell to China. They are not selling advanced fighter aircrafts to China. It's very interesting. You all know the expression, "too big to fail," referring to the banks. Very interestingly, the first time the expression was ever used was in the 70's, referring to Lockheed. Because it was so critical to the American national security that America could not afford to let that company go down. No one has ever referred to Coca Cola as "too big to fail."

Now, what I want to say is that in the flat world, almost all of us aspire to be Coca Cola. Japanese CEO's aspire to be Coca Cola. Find me more consumers, let me sell to them, let me build my brand. Governments, please stay out of my way unless you're just going to give me money, give me subsidies. In a G-Zero world, politics matters dramatically. Last week on October 4<sup>th</sup>, Facebook hit their one billionth user. And Zuckerberg, the CEO, came out on TV and said, "I want to connect everyone else, the rest of the world (connecting all 7 billion people in the world)." Sounds like Coca Cola. Only one problem. We have 550 million internet users and growing fast in China. And they will not use Facebook, and they won't use Twitter, and they won't use Google. And their government doesn't want them to, because God forbid in China a foreign company has control of that data, especially an American company. That is a problem. The United States government, The House Intelligence Committee came out on Monday, October 8<sup>th</sup>, and they said that Huawei and ZTE, the two largest telecom companies in China, are a national security threat to the United States. And after that the Americans called Canada, and they said, "You know what, it's a problem for you, too." And yesterday Prime Minister Harper got up and said, "We're going to pay much more attention to national security in China when we think about who can and can't invest in Canada."

Now, speaking with my friends in the Japanese government yesterday, it seems like the Americans have not yet called Tokyo. But they will. We've seen this in Iran. I

don't expect that the Japanese are going to be ordered by the Americans on everything. We see this on TPP and other issues. But on Iran, when there was a national security issue, things are different. My point is, everyone wanted to be Coca Cola years ago. In today's world, in a G-Zero world, politics are intervening. Economics are still very, very important. There was a huge spectrum between Coca Cola and Lockheed Martin. And every single company out there needs to understand proactively, where on that spectrum they can be. That's the point. That is probably the single most important implication for companies of the G-Zero.

There are lots more we can say, and I'm sure we're going to, but I fear my 8 minutes are up. I'll turn it to Martin.

### 3. Can the EU Overcome the Current Crisis and Ensure its Future?

**Martin Wolf, Chief Economics Commentator of the Financial Times, UK**



First of all, thank you very much. It's a great pleasure and honor to be here particularly because this is the last seminar I will be participating in these meetings during the week of IMF/WB annual conference. I am sure this will be very interesting. I have been encouraged to address the question of the future of the Euro zone, the EU, and Britain's place in it. I recognize that for Europeans in the audience who are members of the Eurozone, the fact that I'm discussing the Eurozone is pretty offensive, given where I come from and what I've been writing about it. I hope you will forgive me, a little.

Should you really be worried about Eurozone crisis? Is it actually something that really matters? And I think the answer to that is, I'm afraid yes. It's serious and complicated. As I said in the seminar yesterday, the Europeans do things like this bigger and better than anybody else. And what we have here is a financial crisis, a fiscal crisis, an economic crisis, and a political crisis, all wrapped up in one. And they are trying to resolve all aspects of this crisis simultaneously. They are playing 17-sided chess, with one player having more pieces than anybody else. It's unbelievably complicated. It's obviously threatening for the world, because the Eurozone is still an enormous economy, almost as big as the U.S. It has far the biggest banking system. Maybe people here would know that the combined assets of European banks, including our British ones, are five times bigger than the total assets of U.S. banks. So we are talking about a gigantic banking system. And now the crisis of this gigantic system is threatening the achievement of European integration more than anything else has done in the past six decades. In particular, as critics of the project, like me, feared, it has created profound resentments. It is now quite normal to see in newspapers in countries under stress pictures of the German Chancellor in the garb of a Nazi storm trooper. These are very profound taboos that, however, have been broken.

Why is the crisis so serious? It is essentially because of the interaction of two events, . The first was the implosion of the great credit boom in 2007 and 2008, which itself, as it were, divided the Eurozone into the credit suppliers on one hand, and the credit users on the other. The second was a colossal explosion of external imbalances;

the Chairman talked about the global ones, I've written a lot about this, but there were extraordinary imbalances in the Eurozone with a number of countries running current account deficits, averaging close to 10% of GDP a year for a decade, ending up with net international investment positions of minus 100% of GDP, or so. After the crisis hit, there was a "sudden stop". And these flows of finance just stopped. So the integration of the Eurozone, not only stopped but went into reverse. And the only institution that effectively stabilized the situation has been the ECB. Along with that, the profound weakness of the Eurozone is the structure. It simply did not have the set of mechanisms for dealing with a series of crises of this kind because it was not supposed to happen.

What has to be done to resolve the crisis? Essentially I've described this process that they are working through as having three elements. The first thing is to deal with the legacy of the past, that overhang of bad debts. A number of countries are going to have to write down a sizable proportion of their private and/or public debt. There is a very close inter-connection between the financial and the fiscal crises. In some cases purely a private debt that has to be written down. That was the case of Ireland. In some cases it was public and private debt. That is dramatically so in Greece, and it's moving in that direction in Spain.

The second thing is that the countries need to be financed through a long and painful process of adjustment, to regain the competitiveness they lost through the good years and restore growth. For all the countries to regain competitiveness, it will be a multi-year process, Ireland is the furthest along, and in countries like Spain or Greece, we're talking about a multi-year process. Already quite early in the process the unemployment rate is close to 25% percent in Greece and Spain. That has profound political implications. And, finally, this adjustment process has to be reciprocal, with shifts in competitiveness on both sides. It can't just happen through years of deflation in the weaker countries. We could safely say none of these processes has worked really well so far.

What is the likely outcome of the crisis? I see three possible outcomes; what I refer to as a "good marriage", a "bad marriage", and a "divorce". A good marriage would be one in which the Eurozone would be structured into a quasi-federal union in which everybody felt they were prospering, there were mutual benefits, and everybody could see the advantages of being inside. A bad marriage is one in which almost



everyone was miserable but leaving the marriage would be even worse, because the shocks and crises would be so bad. And divorce is exactly what you think it would be. Personally I think the most likely outcome is the bad marriage. And the bad marriage is going to be a very unhappy situation. There is no doubt at all, right now it's a very bad marriage, and it needs a lot of counseling. Which is why they all want the IMF in there and that is the IMF's role.

Finally what does the crisis mean for the UK in Europe? I've recently done a lecture on that in Oxford. I was asked this interesting question, and the answer is, whatever happens in the Eurozone, the EU itself is going to change. Either they succeed in resolving the crisis or they fail. If they succeed, they will succeed by creating a tighter, more integrated, more effective Eurozone, and the UK would be an outsider. If they fail, the EU itself would come into question. Either way the position of UK would be transformed. And the crucial implication to the world is, whatever happens the future Europe is going to look different. The future Europe is going to look different from what seemed to be five years ago. And I think that's what everybody is looking at in Europe just now. Thank you.

#### **4. How Could Japan, Korea and China Collaborate in the Coming Decades? II SaKong, Chairman and CEO of the Institute of Global Economics, Korea**



Thank you very much. Good afternoon, ladies and gentlemen. It is a great privilege for me to participate in this symposium along with the distinguished panelists. I, of course, join others to thank the organizers for inviting me.

As you just heard from Gyohten-san, I was assigned with rather an interesting subject at this particular time: What is the best way for the three important countries in the Northeast Asian region to collaborate more closely? For the sake of time-saving, I would like to just follow closely the prepared text for my remark.

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. Unfortunately, we witness the very phenomenon today. Politicians always try to take advantage of nationalism for their own political gain and advantage. 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 regional collaboration, particularly since this symposium is held at the time of the IMF/World Bank annual meetings.

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 accelerating economic integration during recent decades has been mostly market driven. But it is still much lower than intra-regional trade and investment of the NAFTA and EU. It suggests that with their institutionalized cooperative endeavors, integration can be substantially increased.

Only in the aftermath of the Asian financial crisis of the late 1990's, these three countries started to make some institutional integration efforts in both trade and

investment and finance. On trade front, trilateral FTA background studies and discussions have been launched 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, the initiation of the official negotiation 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 negotiation between Korea and Japan began in 2003, which is currently stalled. I personally would like to see the negotiation resume as soon as possible.

In the monetary and financial field, since the Asian financial crisis of the late 1990's, there have been various initiatives of institutionalized cooperation, mostly together with the ASEAN. The most important one is, as you know very well, the Chiang Mai Initiative Multilateralization. Originally, it was called the CMI, Chiang Mai Initiative, but it was multilateralized to the CMIM later on.

At this point, I must remind all of us of the rather odd phenomenon for the outsiders, and I would say, a very unfortunate fact for the region. And that is, the 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. There is nothing wrong with it, but this is a sheer fact. It was only in 2008, only a few years ago, when they agreed to meet on their own, outside the ASEAN+3 process. Indeed, it was a historical event.

Before turning to a few specific suggestions, let me just share my personal view. There is no doubt in my mind that the deep seated mutual distrust and suspicion still prevail in this region, which I must say, arise from negative historical legacies. Therefore, the first order of business for this region moving forward any meaningful collaboration is to make common efforts. I emphasize "common efforts" to overcome the historical legacies. Having said this, however, I must be candid enough, in front of my many Japanese friends here, that Japan is expected to lead in this regard. I would argue that even the current historical frictions flaring up in this region has a deeper root in this deep seated mutual animosity and distrust.

Let me now turn to 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. In this regard, I would like to remind you of the European Coal and Steel Community launched in early 1950's. Common energy and natural resources development and climate change related projects can be good examples of such projects. I know there are some projects under way, but I would like to see them on a bigger scale and on a trilateral basis.

And the three countries can jointly support and fund infrastructure development for many developing and emerging Asian economies. In the area of monetary and financial collaboration, the three countries can and should do more in addition to their participation in the CMIM, Asian Bond Markets Initiative, 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 Martin Wolf addressed on, which was triggered by a relatively small member country, Greece, well illustrates that such arrangements are not only for the interest of the region, but for the whole world. I would say that even Korean housewives wake up in the morning and pick up the newspaper to see what's happening in Greece. Greece is only less than 2% of the total EU GDP. This is the kind of world we are living in. So when these things happen with the next door neighbor, it becomes immediately your own problem. So we should be prepared for these things, not only for the countries that are involved, but our own neighbors and the whole of the global community.

Yes, I have been advocating all along. This is again, my own idea, that a regional financial research and training center can be established for financial officials and regulatory or supervisory officials as well as private risk analysts and banking staff. We three countries have so many experiences accumulated to share with each other, and I think this will contribute essentially to the region's maintenance of financial stability.

Along with these economic and financial projects and programs, the three governments should step up efforts for people-to-people exchange, particularly youth

exchange. Various specific programs and projects can be introduced. I don't think this is the place to get into there.

Lastly, Japan, Korea, and China together should exert the leadership commensurate with their economic weight in the global forum. In this G-Zero world, Ian Bremmer's term, in this non-polar world, the global community does not have other options than to rely on collective leadership. Ian Bremmer described the current global economic power constellation and the power balance. But that's a description. The solution should be found. That's what's important. I think collective leadership is the only option, and the G20 is the forum that is supposed to be the premium forum for international economic cooperation. So I would like to see the G20 as the premium forum for international economic cooperation has its own governance strengthened and further institutionalized. In this regard, I think we three countries can take leadership and contribute much toward that end.

Also, I personally feel that the G20 should more actively engage in the process of the resolution of the current European crisis, because the European crisis is a global crisis, and we all have a vested interest in it. There are channels by which the G20 can be more actively involved there, but I would like to see the G20 as a group do more on this problem. After all, the G20's main objective is to achieve balanced and sustainable global growth, and the European crisis, of course, is the largest obstacle toward that end. With this, I would like to end here.

## 5. The Future of Finance: A Post-crisis Scenario

**Nobuyuki Hirano, President of the Bank of Tokyo-Mitsubishi UFJ**



Well, first of all, thank you very much to you all to join us. This seminar is arranged jointly by MUFG and IIMA. Now, let me share my view about where the banks are going to head for, or needs to head for after a decade of triumph of finance in your terminology. I'll try to give you a kind of post crisis scenario in our industry, it may be ill-fated, and also it is by nature one of the Japanese bankers' view which may sound a little bit different from the one of our western counterparts. But in fact, after attending a series of symposiums, seminars, panel discussions, now I realize what I am trying to convey as my message to you echoes here and there in Asian countries and some parts of the European countries, too.

It is almost a self-evident truth to say that the history of finance is a history of financial crises, which have continuously been occurring every 10 years. We have had Black Monday in 1987, the Asian financial crisis in 1997, and the most recent global financial crisis in 2008.

Having experienced many crises to date, I am wondering whether the financial industry has been growing in a healthy and responsible manner. Has the industry really been fulfilling its mission as a social infrastructure to provide the real economy for its growth with finance? This is the question that the world is now asking the financial industry.

What is the future of finance? I believe it is to carry out the fundamental role of providing liquidity and credit while mitigating risks and this should be undertaken with accountability and transparency to their stakeholders.

Forming a part of social infrastructure as such, the financial industry is subject to supervision and regulation by governmental authorities. Once it faces a crisis, government takes necessary steps to stem the crisis, sometimes even by using public money.

In a word, the banking business should be built on the needs of each economic unit whether it's corporate, household or government. We should not be oriented toward short-lived businesses. Instead, we must closely observe the real economy and be creative to develop the way to facilitate those needs. This is a continuous and constructive process. Generating profits is important, but it should come as a result of such activities. I would call it a "return to banks' fundamental role".

"My" particular view of the future of finance starts with knowing where I am. The Bank of Tokyo-Mitsubishi UFJ is rooted in Japan and surrounded by Asian countries. The world is being globalized whether we like it or not. Some people talk about the downside of globalization, but increasing connectivity is a reality. No one can resist it.

The Japanese economy has reached one of the world's most developed and matured stage with a decreasing population. Given this, Japanese industries and banks find it extremely difficult to paint a rosy picture as long as they stick to the domestic market. Consequently, they have no choice but to eye overseas markets. Our sights are directed at Asia.

I believe there are three big trends in Asia: these are:

- 1) Further growth of domestic demand, thanks to a rising middle class.
- 2) Further growth of trade and investment encompassing the region.
- 3) Further growth of infrastructure development.

How could financial institutions meet the growing financial needs of the rising middle class? Urbanization and income growth are simultaneously occurring in Asia. Growth of consumer markets in urban areas will pave the way for a variety of service industries and diversified streams of merchandise, which in turn create a great deal of financial needs, as we saw in Japan in its development stage, including credit cards, mortgage loans and, later on, investment instruments. These are the areas where commercial banks can contribute by leveraging their network and marketing capabilities.

Corporations are a major driving force of globalization. They have been continuously extending the reach of cross border supply chains and distribution channels. Banks can support them in various fronts. Large corporations need

sophisticated cross border settlement services to run their complex cash flows and to manage multi-currency FX exposures more efficiently. Small and medium sized enterprises may need credit enhancement to trade with overseas counterparts.

Touching on the third, infrastructure development, it is often said that Asia's infrastructure needs in the coming 10 years will amount to some 8 trillion dollars. It is impossible for the public sector alone to meet those needs. Accordingly, private and public collaboration is the key. ECAs, which stand for export credit agencies, and infrastructure funds set up by public and private sectors, such as ASEAN Infrastructure Fund, can fill significant gaps in infrastructure finance by taking on certain risks which the private sector is unable to undertake.

In such favorable circumstances, I am rather optimistic about the future of Japanese financial institutions.

Some may point out that Japanese banks are rising through the misfortunes of US and European peers. But, I don't think it is an incidental outcome. I would point out a positive legacy of the lost decades on the financial industry.

The lessons of Japan's economic bubble in the late 1980s are still being discussed by regulators and banks. The fact that the Japanese financial system went through the crisis without serious damages owes much to the cautious policy of both camps against un-transparent financial risks. I don't think there is much difference in written regulations among the US, Europe and Japan. The different results have come from how regulations have been interpreted and implemented. And I believe because of the lessons learned, there has been a constructive dialogue and understanding between regulators and banks to avoid underwriting easy credit or excessively leveraged banking which contributed to formation of financial bubbles.

Recent financial crises have made clear the trends shaping the future of the financial industry. I believe it is the return to banks' fundamental role.

Currently, there is much argument over the size of financial institutions. Some argue that financial conglomerates should be dissolved and that the Glass-Steagall Act should be reintroduced. Well, that might be right and might solve problems in some cases. But size itself is not the true cause of crises. It is the complexity of organization



that leads banks to opaque governance practices, inefficient management and becoming too big to withdraw from certain businesses in a timely manner.

We all live in a globalized world. Clients' needs are becoming broader. How can banks respond to them without being trapped in complexity? Financial institutions must now focus on their core competency and to establish dominance based upon their core competence.

It is important to develop diverse financial services to meet diverse clients' needs. This is particularly true for a large financial institution that plays a significant role as a part of social infrastructure. What counts most under the current uncertainties is the core competency of each financial institution, in other words, whether they have a solid anchor that stems from needs in the real economy and gives them a solid ground of standing even on stormy days.

## 6. Panel Discussion

**Mr. Gyohten:** Now, we finished listening to four panelists' presentation. At this point I feel like I finished a full course of very rich dishes brought from all different corners of the world. So frankly speaking, I'm a little bit puzzled, how should I start a discussion? So I think I should follow a rather simplistic way. That is to ask, first of all, each one of you about the topic you are supposed to know the best.

So Ian, I would like to ask you about America, the U.S. You said that we are in the world of G-Zero. Well, maybe you are right. But it is also true that we are still looking at the U.S. as the most important single member in this global community for various reasons, particularly in Asia. I think the existence and the role played by the U.S. is still by far the most important. Everybody knows that the U.S. has many problems in terms of economy, in terms of your politics, in terms of social problems. Particularly as the presidential election is approaching, the interest or even the concern about the future of U.S. is rising. The U.S. has many problems in the near term. But if you look into the medium and long term future, I personally do strongly feel that the potential of the United States is still very large. Take the case of the demography, take the case of technological innovation, take the case of higher education, take the case of corporate dynamism. But I particularly want to ask you about one issue which is now very widely discussed about. That is the prospect of U.S. energy situation. Many people are talking about the vast future possibility of shale gas, shale oil in the U.S. They argue that if the development continues, then before too long U.S. will become energy independent. That will certainly bring about tremendous boost to all sectors in the American economy, but not necessarily only economics. It will provide a huge influence on the U.S. geo-political policy. If U.S. becomes independent in energy, what will be the U.S. policy toward the Gulf region where the situation has been one of the



major headaches for the U.S. and for the world as well? The U.S. independence in energy will reduce or even eliminate U.S. interest in that part of the world. And if that happens, how will be the situation in the Middle East which is disturbing the whole world now, the Israeli Palestinian situation and all other Arab issues? That means, my feeling is that in a long run, the U.S. will probably be in a much better position than many other countries in the world as the country which has the strong potential of surviving and maintaining its global role. Can you comment on that from your own perspective?

**Dr. Bremmer:** That was a fantastically in-depth question that you answered most of and I don't know if I can even say that here, but I guess I can. And I agree with your answer, by the way. I will answer a little more, but I want to go a little off-piste, because I am told that one secret of a good panel is when there is disagreement among the panelists. So I want to offer my contribution.

Dr. Il SaKong mentioned that the G-Zero is a description and not a solution. He is right. It's not a solution. Sometimes recognition that there is not a solution allows you to create next best alternatives. He would like the G20 to do more in Europe with the crisis. So would I. I would like the Security Council to do more in Syria. I would like all of us to have some money because I am kind and generous. But it's not going to happen. I think the G20 was a mistake. I would be very clear about that. And I think the Global Climate Summits are mistakes because they allow us to keep having these big global meetings that can't do anything as opposed to getting groups together. I do think there are solutions. I don't think they are great solutions. They are not G20 solutions. They are not Security Council solutions. The Security Council is the precursor of the G20. It is equally ineffectual. The United Nations is one of the worst named organizations in the world. I think what we need is groups of like-minded countries, coalition of the willing.

I think the TTP is an important idea because the Japanese must work more closely with economies that actually are like-minded and share values. When there is volatility in the world, shared interest can change very quickly. But relationships of trust and shared values are more durable. So they are more important. I think the Japanese need to work on Japan-EU FTA. I think there should be a Trans-Atlantic partnership. Those things are important. I furthermore believe it is very important that governments practice economic statecraft, but they work with the members of the

private sector so that companies cannot be picked off one by one by folks outside of these shared values. I remember when Google was shut down in China and the CEO of Yahoo said, “We don’t have any problems with China. Those guys at Google are bad guys.” When I see what happens to Toyota and Nissan, and then I see Volkswagen dealerships with signs that say, “We support the Chinese position on the islands,” let me say, I don’t think Volkswagen should have a position on the islands. But if you are Japan, you really need to make sure that the corporations are all singing off the same hymn sheet. This is important. These are the solutions. They are not great solutions, but they are okay solutions, and they may be the best we can get.

In a G-Zero world, the Middle East is the part of the world that is most problematic for reasons that you mentioned. The United States is going to do less. President Putin really wanted to cause a problem right now for President Obama. He would say, “I behaved badly at the Security Council and I am embarrassed.” And he would say, “I vetoed these resolutions, but these innocent Syrians are getting killed. President Obama, I would go along with whatever you want to do. I would stop vetoing. So what do you want to do?” And President Obama is going to say, “I wanted to blame you. I don’t know what I want to do.” We are going to experience this in the Middle East. We are going to experience this in Syria, and with the Russians and the Turks. We are experiencing it in Iran. We are going to experience it in Iraq. United States is pulling out of Afghanistan. I asked the Chinese. “The British, the Soviets, the Americans, all did in Afghanistan. Isn’t it your turn?” They don’t want to do it. I don’t blame them.



And to answer very specifically your question, if you talk to the Americans now in the White House about the Middle East, they don’t bring up the energy explosion. They don’t bring up energy revolution. If you are working on the Middle East, you are not thinking about U.S. energy. That is true. But that will change. And over time, by the expansion of energy, not just in the U.S., but in Canada, offshore Mexico, offshore Brazil, in the long term even the Arctic, the Middle East would become more irrelevant. If you think Japan has a problem in the G-Zero world, go talk to Israel. This is not a good environment for Israel. And the countries in the region that are going to be much more important players when the U.S. doesn’t do it, and the Chinese and the Russians, and the Europeans and the Japanese focus very narrowly. You are talking about Saudi

Arabia, Iran, Qatar, Turkey but these countries don't agree with each other at all about outcomes. These are countries that will engage in proxy wars. So there are lots of parts of the world that look good in the G-Zero, Latin America, general Western Hemisphere, Africa, everyone wants to cut in. Middle East does not. And I think it's a big danger.

**Mr. Gyohten:** Thank you. Does any panelist have any comments or questions on this?

**Dr. SaKong:** Well, I don't know if I'll have enough time. But I think Ian made really an exaggerated comment on the G20. He said it was a mistake, but I hope you have not forgotten the experience the world had in the early 1930's. Thanks to the G20's collective efforts, the global economy avoided another great depression although we experienced a great recession. But if you don't admit that, then I don't see what the real solution is. Ideally, what the world needs is G193, right? But that does not work very well, and that's why you have the Security Council at the UN. We have to make an effort to make the Security Council work. And the G20 started as an informal global governance group. Previously, the G7 played the role but it did not include other new players. So they finally decided to include those new players and ended up with the G20. I don't know if the 20 is really the ideal number, but we do have that now.



And the finance ministers' meetings that started in 1999 have produced some results since. So we have to work to make it work. If you keep emphasizing the G-Zero world, or a non-polar world, or a leaderless world, then we will have, maybe not the first best solution, but the tenth best solution. But we have to make it work. And imagine what would happen if you keep saying it is a mistake. Of course, we have to rely on any other available institutions in addition to the G20.

**Mr. Gyohten:** Thank you. I have to give floor to Martin.

**Mr. Wolf:** Yes, Ian has succeeded in waking me up. It's quarter past five, and with the jet lag it's quite an achievement. He is, of course, talking complete nonsense. There is a famous line, a very important line, that you should keep your friends close

and your enemies closer. And there is a very good reason for that. It, sort of, follows from where we were before. Of course, I have no difficulty with the idea that national allies who share values and economic systems should continue to cooperate closely. Fortunately they remain, and we know what economies we are talking about, the dominant players in the world. They will remain in aggregate the dominant players in the world for a very long time, in terms of their levels of technology and the simple size of their economies. So they should cooperate. However, structuring the world system, or non-system, on the lines of, as I understood what he was trying to say, constructing alliances which excluded other important powers with whom he disagrees, strikes me as perverse and irrational, because conflicts of interest with them are actually relatively trivial. They share the same interest in a stable, prosperous market-based economic system, because they are the basis of their current and prospective prosperity. And the idea that we could have continued with our G7 type structure and credibly dealt with the crises was just wrong. So my view is that these aren't alternatives, they are complements.

The G20 was clearly not an optimal number of countries. It had too many. The number of countries in there was not, to put it mildly, that important. It was done to give all the regions of the world the appearance of a say. I have no problem with that. It's a matter of preserving face. Everybody in Asia should understand that. So we have Argentina, which is not very important, and we have South Africa, which globally is not very important. But it was actually essential to have Latin America and Africa represented. Everybody knew when the G20 was created that it was about having China and India inside, talking to us about how to run the world system. Since China was the world's largest surplus country with the world's largest foreign currency reserves, the largest trade and the fastest growing economy in the world, the idea that we could not discuss, in any serious way, how the world economy is going to operate, leaving aside all the other big issues, without their being inside and regularly in discussion (this week they are not here), strikes me as obviously right. So, let us put it at this level. These aren't alternatives, they are complements. It's a mess, but a mess has to include a constant process of discussion with people we often find uncomfortable. I hope that if, I won't say any more, Mr. Romney becomes president, the day after he is elected he will forget the silly things he said in the day before.

**Mr. Gyohten:** Thank you, Martin. Before time runs out I have to pose one question to you on Europe, I'm afraid. You gave us, as I expected, the sobering

perspective of the future of the Euro. However, particularly looking from outside, if you look back at the history of Europe, it has many times surprised us by making what seemed completely impossible: reconciliation between Germany and France, international single currency, and more lately reunification of Western and Eastern Europe in a peaceful manner. So I think we should not underestimate this potency of Europe. I'll never be surprised to see that there will be some possibility of further integration, including a transfer union, fiscal union, political union. So my question is, do you think I am lunatic, if not, what is your view on the possibility of those kinds of things?



**Mr. Wolf:** Well, we know, I believe it was yesterday, the Nobel Peace Prize was given to the European Union. I believe this is the prize by the Norwegians. You should know that Norwegians refused to join the European Union. I find it very interesting because the Swedes who give all the other Nobel prizes did join the European Union. But as outsiders they decided to give the European Union the Peace Prize, and actually in the long history, if I may say so, of more or less outrageous Peace Prizes, this was actually quite sensible. So I agree with you. I do think the European Union is one of the more remarkable achievements, possibly the most remarkable achievement of statecrafts of the post-war period. And if you think of what the previous half-century had been like, and the catastrophes that had visited upon Europe and the world, the achievement of constructing an integrated Western Europe, and perhaps as much, the achievements of the last 20 years in integrating Central and Eastern Europe, and creating not only a zone of peace and harmony, but also the most successful convergence club, probably in the world, this is a very remarkable achievement. I am among that group of British people who are passionately in favour of the EU idea and are very keen that we stay part of it. So that's clear, it's very, very, important.

They have, however, got themselves into quite a serious mess by being very ambitious. And that is what always concerns me. It's very simple, and I am just going to the end of what it may mean. They decided to share money. As I say when I do lectures on where we are, on this subject, money is really important. People care more about money, particularly if they are over 40, than about anything else in the world, including sex. So people think their money is being stolen. Let's be clear about this. What is going on in Europe is people, not just Germans, lots of other people,

Finns and Dutch people, think their hard won money is being stolen by reprobates who live somewhere else. This is really politically explosive. So it's a bad marriage today. Both sides feel that the other sides, its multi-sides, are badly behaving. You could say that, I won't mention the sex of the spouses, but one side feels that he or she has earned all the money and the other side feels his or her spouse is being incredibly mean with it. Now, this is a difficult situation.

If you are optimistic, and I tend to be optimistic, a bad marriage will end up in a reasonable marriage - not a good one, but a reasonable marriage. But it will take ten years. The process of adjustment and change and reform to get to the point when everybody is clear that they are happier inside than outside, is going to take that sort of time if you work through the process. If they are given that sort of time and there is a fair amount of give and take and a fair amount of commitment to the goal of staying inside. It can work, and we will look back on this as the crisis that created the modern European Union. And the alternative is that at some point somebody gets elected somewhere either in a creditor country or a debtor country, on the platform, "we had enough of this, we want out."



And politics has become very unpredictable. It's the very last point. When you got countries with 25% unemployment which is going to continue to rise for two or three years at least, whatever they do, and the other side is going to find they are going to be asked for more money than anybody had told them, there is a potential for further trouble. But the optimistic picture remains that the bad marriage will become a decent one after suitable counseling about how to handle the monetary affairs of the marriage over the next ten years, but it's that sort of time period we are talking about.

**Mr. Gyohten:** Well, thank you very much, Martin, and I should say I am happy to find you are critical, but at the same time constructively critical. Thank you very much, Martin.

Now, Il, let us talk about unification in Asia. I am not talking about Asian unity or Asian union. But I think probably one of the very important events which will take place during this century will be the unification of Korea. Well, if you don't like the



subject you may skip it, but I want to know how you see the circumstances surrounding that. And it may happen very suddenly. So can you tell us what do you think is necessary sort of arrangements to make this thing happen in an orderly, peaceful way, because I am sure this will affect other region of Asia very importantly.

**Dr. SaKong:** Well, let me first comment on Martin's knowledge of marriage. In Asia, fortunately or unfortunately, we are not married yet. Not even engaged. As a preparation I was saying we should have some mutual trust building. I would like to see an Asian community, if you want to call it, an Asian unity. But you cannot talk about a community or a unity without growing out of the past negative legacies. How can you make forward-looking common efforts whenever you do something about future, people keep looking at the past? So to me it's an empty rhetoric to talk about a community or a unity without dealing with the past. We have to make common efforts. All three countries have to play their own parts. Let's get over it and then let's do that. I know the current situation very well and the politics in these three countries. And that is why I will say, "Let's engage in specific projects, so we can do something about building trust".

Now with North Korea, I think we all agree with you in saying that the maintenance of peace and stability in the Korean peninsula is everybody's interest, not just Korea's and immediate neighbors', but the whole world in this inter-dependent world. If the event forces us to have some manageable solution, then we have to collaborate very, very closely. Of course, Korea should take the brunt of the burden fiscally and financially as well as the foreign reserve and the foreign exchange-wise. But Korea does need to work very closely with Japan and China, the U.S., and even Russia. Relevant multi-lateral institutions such as the World Bank and ADB should be prepared to participate very closely. These kinds of firewalls and infrastructure,



facilities, and all these things will also help very much when dealing with this situation because we can learn valuable lessons from Germany's experience. But in terms of the magnitude of the cost involved, it is much bigger. So we have to prepare for it, and I think, considering the current rapid changes taking place in China and the rest of the world, and South Korea continuing the progress, and with young new leadership in North Korea, I can say that the change may come rather sooner than later, so we should prepare for it. For that we need very, very close collaboration.

**Mr. Gyohten:** Well, thank you, Il. Now, I'm sorry I kept you waiting, Mr. Hirano, not because I consider you as a public enemy. I know you are a very strong public friend. Mr. Hirano, as you know, and I think you have touched upon in your remark also, there are views that arguably Japanese banks' balance sheets are stronger than those of their international peer, but at the same time many people wonder when Japanese economy is suffering from low growth in the environment of abundant liquidity and zero interest rate, why don't Japanese banks get much more active in lending in order to revive Japanese economy and global economy as a whole.

Also, you also touched upon this in your remark but many damaging incidents were exposed in the global financial industry – poor risk management, huge loss, huge compensation, manipulation, insider trading, money laundering, etc. etc. As a result there are growing voices asking for tighter regulation and containment of excessive finance. As the head of the biggest Japanese bank, how do you respond to such voices? How do you think banks can properly discharge their duty of public utility?

**Mr. Hirano:** Well, thank you very much. You are asking me very tough questions, but let me try. It is a really tall order for a bank executive including myself nowadays



to successfully manage both soundness and profitability of the bank, as I commented earlier, and also sustain a good balance between potential growth and soundness toward the future. One of the barometers for gauging the bank soundness is the Basel regulations including core capital and liquidity. Though the ratios are prerequisite for those financial institutions engaging in global business, a bank that is too absorbed in complying with these ratios may not be pursuing profitability in tandem. The fare to get on the bus, so to speak, named global finance, has been getting

more expensive year after year because of the reasons as you commented and as I described. But we have to live with that.

Regarding the low profitability of Japanese banks, it is true that Japanese financial institutions have long been labeled as institutions with low profits. However, we now hear much less loud voices or criticisms these days, because I think the pre-crisis profitability in the U.S. and European banking institutions were not sustainable and have now been adjusted to the levels where they ought to be. So pre-Lehman crisis, 20% R.O.E. was quite common among the U.S. and European investment banks with the very high leverage ratio such as 30 times or even 40 times. But now the lower interest rate environment together with tighter regulation requirement for enough capital and liquidity drags the global financial institutions' profitability down to the level of where we are. So now the low profitability is not unique to Japan, so to speak, but it is commonly observed, at least across developed countries.

Now then, what would we do? You are right, Mr. Gyohden, we have the clients' affluent deposit basis in this domestic market place. The rough number is, our bank has about 100 trillion Japanese Yen, which is 1.2 or 1.3 trillion U.S. Dollars, versus we have about 60 trillion Japanese Yen in loan, the balance of which is about 40 trillion Japanese Yen that is kept in the form of Japanese government bond. So we have 40% of liquidity on our balance sheet, why not use those liquidities for the lending purpose or investment purpose which can facilitate the real economy? It could be to household or businesses. And we are trying very hard to push, and support our industry trying very hard to recover from the disaster of East Japan earthquake and tsunami as well as the nuclear power plant accident and so on since last year, whether it's a large corporation or SMEs. And also we are focusing on the growing market as I commented earlier, that is Asia. I think the very important issue for a financial institution right now is, on top of the capital and liquidity, a solid business ground based upon which you can get the stable revenues. In our case it is the Japanese domestic market. We claim ourselves as a global bank right now. Actually we have about 500 offices across the world in more than 40 countries. But still, the revenue from outside of Japan remains at around 30% level. But as we have a very solid and deep basis of our business here in Japan, we can play the game outside of Japan by using the liquidity in Japan.

In Asia we are trying to fill the gap which was created because of the contraction

and down-sizing of the business and balance sheet of European financial institutions. So we are helping our friends in ASEAN countries or India, Australia, of course Korea, for those economies, companies to grow, and develop their infrastructure, development projects. So that's how we are trying to pursue our business. By putting our main footprint on the ground of Japan, which is still the third largest economy in the world, we try to explore business in overseas, and facilitate the needs of real economy. That's how to enhance our profits and business scope toward the future.

Now, regarding your second question, yes, it is true, the financial industry is encountering a lot of criticism and public anger, and not a single day passes without articles in the Financial Times about the scandals, I know. There are a number of actions and measures we have to take. The first one is the enhancement of regulatory framework, which we have discussed over four years already in the form of Basel 2 and 3, or in each country's regulators try to set up the framework, ring-fencing in U.K., or Dodd Frank and Volcker Rules in the United States. But I don't think they will help to resolve all the problems in the future. I think there are two issues I would like to comment on, in addition to the importance of the supervision by the regulators which seems to work quite well here in Japan after there have been a lot of troubles between our regulators and our industry through the years of, so to speak, restructuring initiatives since late 1990's when a number of large scale financial institutions failed. But after all, regulators and banks jointly figured out the way to have the banks run on sound and safe banking practice, not to rely too much on public money, even if something happens. So the supervision is important. But apart from that, let me point out two things.

One is the macro prudence. That has been advocated by European regulators, because no matter how tight control you place over the financial industry, big scale failures cannot be avoided unless you can capture an early sign of a crisis in the future. So you need to keep your very sharp eye over what's going on in the market place and pick up any yellow signals or red signals. The typical one is too much leverage or too much volume of notional value of derivatives, and of course, money supply and so on. And action should be coordinated across the world, because the global finances are now inter-connected with each other, and an incident here will spill over to the other side of the globe very rapidly. So, macro prudence comes first.

And then, what I would like to really emphasize is corporate culture and ethical

conduct of bankers in compliance with my favorite wording, “safety and soundness”. Safety and soundness is the principle of banking, and that is the greatest asset when banks carry out their mission, a part of infrastructure or social foundation, as you may like to call it. I think the managements, including myself, have to convey a clear message to all employees across the organization on what kind of company they are aspiring to be. Allow me to give a familiar example, though it might be a kind of advertisement of the sponsor. At MUFG, Mitsubishi UFJ Financial Group, we have adopted “Be the world’s most trusted financial group”, which we have articulated as our corporate vision to clarify and indicate the way of conducting business both management and employees commonly share. So I think that kind of approach, the common sense to be shared across the organization, fundamentally help avoid the recurrence and continuation of scandals. We have had a very solid experience, let’s say, five, six years ago, we faced the compliance issues in Japan as well as in the United States, and we invested huge amount of the money to build a quite robust, extensive risk management compliance framework and we did it. But still there are some new issues popping up. And then I tried to get back to the basics, why this would continue, and then my answer was the culture and ethics. For you, it sounds too self obvious, but that’s the reality. I need to repeat them to my employees.

**Mr. Gyohten:**

Thank you very much. My dear panelists, I think you have covered such a wide range of topics in a superb way, so I have to declare that it is impossible to wrap up this rich food in one package. However, listening to all your remarks, I was deeply convinced that probably the most fundamental challenge we are faced with today is, how can we build a bridge which will connect the solution of short-term immediate problem with the long-term problems? Well, in this environment of crisis, everybody is faced with urgent, short-term problems. But at the same time, as I said in the outset, I believe these problems are, in a way, offshoots of more fundamental underlined problems. So how to solve these two sets of problems, in one way, is the biggest problem. Well, these days, we listen so often, and we discuss so often those kinds of dilemma situations. The issue of austerity and growth is a very easy one to discuss about. And when we discuss these issues, apparently there may be many cases of so-called fallacy of composition or the risk of discontinuity, or whatever. But what I am really afraid of is, when we are wasting our time discussing whether these are compromisable or not, we may lose a chance to achieve either of them. So how to improve the situation is a really crucial task for us. It is quite obvious that there are

only two groups of people who can deal with these problems. One is political leaders and the other is voters. Political leaders can lead voters. Voters can choose political leaders. So what we need now is that these groups will address the issue with adequate wisdom and courage.

Well thank you very much, panelists, and thank you very much, you audience. I think we have enjoyed this session very much and I hope those foods for thought provided by our excellent panelists will benefit you in leading your respective lives in the coming years.

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