

**Keynote Speech by Mr. Takayuki Ueda, Former Vice Minister of METI
At the Third China-Japan-Korea Cooperation Dialogue
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Introduction

My name is Takayuki Ueda. I am a former vice Minister in charge of international affairs in Ministry of economy Trade and industry. It is my great honor to have an opportunity to give a keynote speech in front of such a distinguished guest. I also congratulate all the participants and the attendees upon the opening of the third CJK dialogue in such a magnificent setting.

Today, I would like to touch upon the current global economic situation, three country's recent economic situation and the interlinkages among the three countries, and finally I would like to make some suggestions that I think very important for sustainable economic development of the three countries.

The Global Economy

First, the global economy. The world economy at this moment is facing weak growth, partly due to the variety of geopolitical issues like the increasing number of migrants and refugees in Europe, Britain's decision to leave the EU, and political instability in Ukraine and partly due to the economic situation such as low oil price. In particular, the economies of the major member countries of the OECD are slowing down.

Looking at the growth potential of the global economy, it is on a long-term downward trend, caused by a decline in the productive working population and private investment. Therefore, the world economic outlook is under increasing downside risk.

Meanwhile, the newly emerging nations like the ASEAN countries, having shown high economic growth even after the Financial Crisis, are now facing a decline in the working-age population. With the slowdown of economic growth as a result of this working population decline and also a price fall of natural resources, even natural resources rich countries like Russia and Brazil have recently seen negative growth rates.

The Japanese Economy

Now Japanese economy, the Prime Minister Abe sometimes says 'economic first' and Abe's government implemented a wide range of economic policies that are known as 'Abenomics' and most recently the Prime Minister Abe announced "the new three arrows" and made the economic revitalization plan and supplementary budget to achieve this target.

As a matter of fact, in the three years since the change of administration at the end of 2012, our nominal GDP has increased by around 26 trillion yen and achieved a total of more than 500 trillion yen for the first time in eight years.

Corporate profits have recently increased significantly and the sum of current corporate profits was 16.7 trillion yen in April-June 2016, having increased by around 4.6 trillion yen over the same quarter of 2012.

Reflecting such a stable trend in the economy, unemployment rate is historically low and the effective job offers ratio is showing positive signs. The unemployment rate was 3.0 % in July, the lowest in about 21 years, and the effective job offers ratio was 1.37, the highest in about 25 years. This ratio has exceeded 1.0 among all the prefectures in Japan for the first time in our history.

At this moment, we are now seeing a labor shortage all over the nation. How to cope with this issue is one of the urgent issues in our country. Solutions are 1.to develop and introduce the labor-saving technologies such as IoT, robots and AI, 2.to reform our labor market in order to take a full advantage of the diversity of the workforce including women and aged people.

Through such innovation and labor market reform, we would like to increase our potential growth power and lead the world economy.

One important thing for us is, although the population in Japan is decreasing, the population in Asian countries is increasing. In order to achieve sustainable growth in Japan, it is important to take a full advantage of increase in the overseas demand thorough increasing our export. Since our export still remains at a low level compared with other OECD nations I think there is enough room to do so.

The Chinese Economy

Second, about the Chinese economy, China achieved high economic growth in the 2000s by export expansion through attracting FDI (Foreign direct Investment) in infrastructure and production facilities.

In particular, in coping with the world economic crisis triggered by the Lehman shock, the Chinese government implemented a variety of counter measures including a 4 trillion yuan policy package, and it was successful in sustaining its high growth and working as an engine of global growth.

However, in this process, in my view, they are now facing difficulties such as over-production capacity due to the significant expansion of production capacity brought about by those policies, as well as an expansion of the debt of national corporations and local governments.

Thus, the Chinese economy is now facing a wide range of structural issues including a need to get out of the investment-oriented growth model with excess production capacity. In coping

with these issues, the Chinese government, perceiving this transition from high-speed growth to medium high-speed growth as the “new normal” state, is now changing its basic policy direction. The 13th Five-Year Economic Plan adopted by the National People’s Congress in March 2016 set an annualized economic growth rate target of more than 6.5% during the five years from now on. In addition, the Chinese government is also working on elimination of excess production capacity, reform of national enterprises. I believe these actions are very important steps towards the right direction, although there are still many further steps to move forward.

One important symptom in China is, although the second industry’s growth is slowing the service industry is leading Chinese economy. The service industry’s proportion to GDP having exceeded 50% in 2015 for the first time in history. This shows that the economic structure heavily dependent upon investment growth is now being transformed from an “investment-oriented one” to a “consumption-leading one”.

The Korean Economy

Third, about the Korean economy, the GDP growth rate has been gradually recovering since 2012. However, the growth rate in 2015 was only 2.6% over the previous year due to stagnant domestic demand brought about by the spread of MERS (Middle East Respiratory Syndrome). The latest economic growth forecast seems to be on a downward trend, although still higher than Japan.

I understand that the Korea is now facing the structural issues and the government is now tackling these issues through various policy measures.

One area is trade policy. Korea has had competitive strength in trade; half of its GDP is created by trade. And it should be noted that it enjoys a large trade surplus with China, a big market for its exports.

In order to take an advantage of this strength, it is also to be noted that Korea is building up FTA networks with the rest of the world. At the end of March 2016, the trade amount to be covered by FTAs put into effect reached 67.3% in the case of Korea, while in the case of Japan it is only 22.7%. Therefore, Korean companies are in a better environment to engage in broader overseas business activities. In recent years, their exports to Vietnam and Mexico have been increasing. Through expansion of investment in Vietnam by Korean business firms, many products are exported by Korea to Vietnam.

However, despite such an aggressive policy and business activities in trade, Korea’s industry seems to be also facing the structural difficulty. Being affected by the worldwide excess supply capacity of industries, there are some businesses falling into a management crisis in principal industries such as shipbuilding, the third-biggest exporting industry in Korea, petrochemicals (the fifth) and steel (the ninth). In coping with this situation, the government, I

understand, is steadily working on industrial structural reform in order to lead an autonomous adjustment to promote new growth industries by implementing the “Business Vitalization Act” in this August. This law aims at supporting business restructuring in the five industries – steel, petrochemicals, construction, shipbuilding and marine transportation.

Economic Interlinkages

Now I turn to the question of economic interlinkages between these three countries. Japan, China and Korea together constitute one of the engines of the global economy. In 2015, the total GDPs of the three nations accounted for 22.6% of global GDP and their total goods trade amounted to 18.4% of global trade. So the three countries’ market is really a gigantic one. Looking at their respective trade relations, the Japanese trade amount with China is approximately four times as big as that with Korea, while Korean trade with China is around three times larger than with Japan.

Moreover, we must also note the interdependency of three countries especially in manufacturing sector. If you look at the iPhone, many components and parts and even manufacturing machines are exported from Japan and Korea to China, and iPhone is assembled in China and exported to all over the world. We can see this interdependency in the almost all manufacturing sector including automobile, textile and so on. I believe this close interdependency is the most important and fundamental factor for our economic competitiveness. Economic slowdown in one country directly affects the economy of the other two countries. It is no exaggeration to say we are undoubtedly on the same boat in the world economy.

Some Suggestions

I think to maintain and even strengthen our economic relationship and interdependency is the essential for our economy and for the world economy.

How to realize this is the common question before us. Now I would like to make some suggestions.

Firstly, sharing knowledge, experience and wisdom is the key.

All three countries are more or less facing the structural problems. Over capacity issues including the steel sector are the urgent issues to be solved. To make a full use of the market mechanism seems to be important, and Japan had been suffering from the over capacity issues in the past and tackled this issue by introducing various policy measures. I think we willingly share our experience with the other countries.

All three countries will suffer from the aging and population issues sooner or later. We should sit down together and consider the economic and social impact of this issue and how to deal

with this.

Secondly, to tackle with the world protectionism together is the urgent issue.

The world seems to be moving towards protectionism, rather than the globalism. Many people in the world are now opposing the globalism and free-trade. They say globalism doesn't give any merit to them and shouted rabid isolationism.

I think protectionism and isolationism, although I understand the sentiment of the people to some extent, will not be productive and even destructive for the world economy despite the fact that this movement is gradually prevailing over the world including the U.S. and Europe. I think this movement is dangerously reckless and the world should not overlook this movement.

I believe we, Japan, China and Korea are the countries who enjoy the maximum benefits from the free trade system under the WTO and FTAs in the world. Our economic prosperity really attributes to the world free trade system to a large extent.

Therefore, it is essentially important to insist on protecting free trade system in one voice to the international world. I would like to share the importance and urgency of this issue with all of you sitting here.

One thing that we can control by ourselves is the CJK FTA. I think in order to resist the protectionism, CJK FTA must be concluded as quickly as possible, and as high standard as possible.

Thirdly, information technologies such as IoT, AI, and big data analysis will be the game changer in our economy and society in the future. It may have huge impact on the labor market and even on our life style. Some say most jobs including the intellectual jobs will be substituted by the robot and we will see a lot of unemployment in the future. Some say we will enter into the new world we have never seen before where human beings will not work for sustaining our life and enjoy our lives in line with what we would like to do.

No one knows exactly what is really going to happen. But all know the world will change by these technologies. The change brought by the technologies will be so huge, fundamental and deep that perhaps no one country can control this.

I think there is a room for cooperation to gather the wisdom of three countries to analyze and examine the impact of the technologies and measures to be taken.

Concluding Remarks

I would like to conclude my speech by saying a few words.

In October 2015, in Seoul, the "Japan, China, Korea Trade Ministers Meeting" was held after a lapse of three and a half years to discuss trade, investment and economic cooperation.

Three Ministers have agreed to make further efforts to accelerate trade negotiations to conclude a CJK FTA and the RCEP, and also promote further collaboration to strengthen multifaceted cooperation.

I understand that the next meeting will be chaired by Japan and we invite the Chinese and South Korean heads of government as well as the ministers in charge of trade and economy to Japan for the Japan-China-Korea Summit Meeting and the three countries' Economy and Trade Ministers Meeting. I strongly hope that we can see the concrete progress for CJK-FTA and much fruitful discussion in the meeting.

Finally, I would like to express my sincere appreciation to the people in the secretariat who made a hard work for the preparation and success of this conference.

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