



## Report on the 3rd CJK Cooperation Dialogue

Co-hosted by  
China Foreign Affairs  
University  
Japan Economic Foundation  
East Asia Foundation



# The 3<sup>rd</sup> CJK Cooperation Dialogue

Date: October 21, 2016

Venue: International House of Japan, Tokyo

Compiled by  
Japan Economic Foundation



EAST ASIA  
FOUNDATION

# **The 3<sup>rd</sup> CJK Cooperation Dialogue**

October 21, 2016, TOKYO

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# 1. PROGRAM

## The 3rd CJK Cooperation Dialogue

Envisioning a deepening and evolving China-Japan-Korea Partnership:  
From sharing information and experiences to creating mutual trust  
At International House of Japan in Tokyo

### Thursday, 20 October

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18:00-20:00 **WELCOME RECEPTION**

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### Friday, 21 October

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09:00-12:05 **PUBLIC SYMPOSIUM**

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09:00-09:10 **OPENING REMARKS**

- **KUSAKA Kazumasa**, Chairman & CEO, Japan Economic Foundation (JEF)
  - **CHAI Xi**, Director, Center for Asia-Pacific Studies, China Foundation of Intl. Studies / Former Chinese Ambassador to Malaysia
  - **GONG Ro-Myung**, Chairman, East Asia Foundation (EAF) / Former Korean Foreign Minister
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09:10-09:30 **KEYNOTE SPEECH**

**UEDA Takayuki**, Special Advisor to the Minister of Economy, Trade and Industry (METI). Japan

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09:30-10:30 **PRESENTATION**

Moderator: **HARAOKA Naoyuki**, Executive Managing Director, Japan Economic Foundation (JEF)

#### **ECONOMIC SESSION:**

#### **Challenges and growth strategies for sustainable growth**

Speakers:

- **TAKEMOTO Naokazu**, Member of the House of Representatives of Japan
- **GAO Haihong**, Professor and Director, Research Center for International Finance Studies, Chinese Academy of Social Sciences (CASS)
- **AHN Choong-Yong**, Chairman, Korea Commission for Corporate Partnership (KCCP)

#### **ENVIRONMENT SESSION:**

#### **Constraining factors and solutions in environmental issues towards sustainable growth**

Speakers:

- **MATSUSHITA Kazuo**, Professor Emeritus, Kyoto Univ. / Senior Fellow, Inst. for Global Environmental Strategies (IGES) / Examiner, Environmental & Social Guidelines, JICA
  - **WANG Xuedong**, Associate Professor, Deputy Dean, Inst. of Advanced Intl. Studies, Sun Yat-Sen Univ.
  - **KIM Sang-Hyup**, Visiting Professor, Graduate School of Green Growth, College of Business, KAIST / Chairman, Coalition for Our Common Future
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10:30-10:50	<b>COFFEE BREAK</b>
10:50-11:50	<b>Q&amp;A</b>
11:50-12:00	<b>SPECIAL SPEECH</b> FUKUDA Yasuo, Former Prime Minister of Japan
12:00-12:05	<b>CLOSING REMARKS</b> KUSAKA Kazumasa, Chairman & CEO, JEF
12:15-13:30	<b>LUNCHEON</b>  <b>LUNCHEON SPEECH.</b> KOJIMA Akira, Chairman, World Trade Center Tokyo, Inc.
14:00-18:10	<b>CLOSED ROUNDTABLE DISCUSSION</b>
14:00-14:05	<b>OPENING REMARKS</b> KUSAKA Kazumasa, Chairman & CEO, JEF
14:05-15:55	<b><u>ECONOMIC SESSION :</u></b> <b>Challenges and growth strategies for sustainable growth</b> <u>Discussion points:</u>  <ul style="list-style-type: none"> <li>- What are the social and economic challenges in achieving sustainable growth? Are growth strategies of each country effective in resolving these challenges? Has it been effective so far?</li> <li>- What impact does structural readjustment and expanding income and asset disparities have on the flow of goods and investments among the three countries?</li> <li>- What measures are effective in tackling structural reform and correcting income and asset disparities?</li> <li>- Will CJKFTA and RCEP lead to solving these domestic challenges?</li> </ul> <p>Moderator: <b>AHN Se-Young</b>, Chairman, National Research Council for Economics, Humanities and Social Sciences (Governor of the 23 National Think Tanks) / Professor, Sogang University</p> <ul style="list-style-type: none"> <li>- <b>AHN Choong-Yong</b>, Chairman, Korea Commission for Corporate Partnership (KCCP)</li> <li>- <b>FUKAGAWA Yukiko</b>, Professor, School of Political Science &amp; Economics, Waseda Univ.</li> <li>- <b>GAO Haihong</b>, Professor and Director, Research Center for Int'l Finance, Inst. of World Economics &amp; Politics, China Academy of Social Sciences (CASS)</li> <li>- <b>KIM Jung-Sik</b>, Professor of Economics, Yonsei Univ.</li> <li>- <b>TAKEMOTO Naokazu</b>, Member of the House of Representatives of Japan</li> <li>- <b>URATA Shujiro</b>, Dean &amp; Professor of Economics, Graduate School of Asia-Pacific Studies, Waseda Univ.</li> </ul>
15:55-16:15	<b>COFFEE BREAK</b>

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16:15-18:05

**ENVIRONMENT SESSION:**

**Constraining factors and solutions in environmental issues towards sustainable growth**

Discussion points:

- What can China, Japan, and Republic of Korea learn from each other with regard to the innovation and application of environment-related technologies, and the establishment and management of government institutions and systems, in order to tackle air, water and other environmental pollution issues that constrain sustainable growth? What can the three countries do mutually to contribute in solving this issue?
- As China, Japan, and Republic of Korea speed up measures against global warming in response to the COP 21 Paris Agreement, what synergies effect can we expect in implementing comprehensive measure against environmental pollution, by speeding up global warming policies in response to the COP 21 Paris Agreement?

Moderator: **WANG Xuedong**, Associate Professor, Deputy Dean, Inst. of Advanced Intl. Studies, Sun Yat-Sen Univ.

- **AKIMOTO Keigo**, Chief Researcher, Leader of Systems Analysis Group, Research Inst. of Innovative Technology for the Earth (RITE)
- **CHO Hong-Sik**, Professor, Environmental Law, Administrative Law, & General Theory of Law & Policy, Seoul National Univ. School of Law
- **HARUYAMA Yutaka**, Executive Director, Japan Chemical Industry Association (JCIA)
- **KIM Sang-Hyup**, Visiting Professor, Graduate School of Green Growth, College of Business, KAIST / Chairman, Coalition for Our Common Future
- **MATSUSHITA Kazuo**, Professor Emeritus, Kyoto Univ. / Senior Fellow, Inst. for Global Environmental Strategies (IGES) / Examiner, Environmental & Social Guidelines, JICA
- **MOON Seung-II**, Professor, Dept. of Electrical & Computer Engineering, Seoul National Univ. / President, Korea Electrical Engineering & Science Research Inst. (KESRI)

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18:05-18:10

**CLOSING REMARKS**

**KUSAKA Kazumasa**, Chairman & CEO, JEF

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18:40-20:00

**FAREWELL DINNER**

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## **2. OPENING REMARKS**

### **JAPAN**

**KUSAKA Kazumasa**

**Chairman and CEO, Japan Economic Foundation (JEF)**

Thank you for the introduction. I am Kazumasa Kusaka, Chairman of the Japan Economic Foundation. I would like to say a few words to represent the three co-hosting organizations of today's symposium.

First, I would like to extend my sincere welcome to Ambassador Chai Xi from China, to Mr. Gong Ro-Myung, former Foreign Minister of Korea, to the members of the Chinese and Korean Dialogue members, the Japanese members of the Dialogue, Mr. Takayuki Ueda, former Vice Minister for international affairs, METI, and to all of you here today for your participation to today's symposium.

The Japan Economic Foundation has been hosting policy dialogues between industry, government, and academia from the early 1980's, and since 2000, we have emphasized our efforts in the ASEAN+6 region. With the relationship between Japan and our neighboring nations becoming more complex, we aimed at holding a smaller dialogue within a smaller group, Japan, China and Korea, to discuss, amongst the wide network of experts as well as the next generation of intellectuals in our countries, on issues that each country faces, which are actually "common agendas" for the three countries. We approached Mr. Gong of the East Asia Foundation in Korea and Dr. Zhang Yunling of the Chinese Academy of Social Sciences in China for a possible dialogue, to which they both gave us their approvals, and after a preparatory conference, the China-Japan-Korea Cooperation Dialogue started in Seoul in 2014.

Economic issues that arise as each country aims for sustainable growth, as well as the political and social environment that surrounds economic issues are addressed, and discussions have taken place amongst the intellectual leaders on how to solve these issues as well as lessons learned from the successes and failures in each of the three countries.

Today marks the third dialogue following Seoul and Changchun. Issues that we have discussed so far include, sharing experiences of successes and failures on how the three countries have overcome domestic economic, social and political obstacles in pursuing



FTAs, how to build growth strategies by proceeding with structural reforms that are mostly met with opposition domestically, and experiences of measures addressing environmental problems.

These are domestic issues, but are also issues that all the three countries in this region face, and are moreover common agendas for the three countries.

We will soon be faced with the challenge of declining birthrate and ageing population, and I believe that with our concerted effort to tackle this “common agenda” with a sense of companionship, it will be possible to strengthen the wide network of experts in many areas and also involve the next generation of intellectuals.

I would like to end my remarks by hoping that the discussions today will enable us to achieve this goal, and also for the bond between China, Japan and Korea to become even stronger.

## **CHINA**

### **CHAI Xi**

**Director, Center for Asia-Pacific Studies, China Foundation of International Studies**  
**Former Chinese Ambassador to Malaysia**

Excellencies, Honorable guests, Ladies and gentleman, Good morning!

First of all, I would like to extend my sincere thanks to the Japan Economic Foundation for your gracious invitation, your hospitality, and your thoughtful arrangements for all of us. I am honored to attend this important dialogue.

China, Japan and Korea are geographically approximate only separated by a strip of waters, economically tied with growing interdependence, and culturally related with common tradition. The CJK countries have expanding role in the economic and political landscape of the Asia-Pacific and bear common responsibility for peace, stability, and prosperity of the region and the world at large.

Needless to say, ever-closer economic ties and growing interdependence have always been the foundation for trilateral cooperation, while environment is an area of common concerns. Through information and experience sharing and joint actions, trilateral cooperation will not only benefit the three countries but also provide public good for the region.

Moreover, vibrant functional cooperation in economical and environmental sector will help improve mutual understanding, cultivate a cooperative culture and contribute to confidence building. In this sense, the theme of the Dialogue is very timely and desirable. China attaches great importance to trilateral cooperation. The Chinese new leadership is committed to enhance trilateral cooperation under framework of China's "good neighbor policy". In this unprecedented and pioneering cause, Think-tank cooperation is most needed.

The Japan Economic Foundation, the East Asia Foundation and China Foreign Affairs University are influential think-tanks in policy studies and consultation, I believe sincere and in-depth exchanges among scholars and pundits will not only bring fresh ideas, but also prove essential in trust-building if trilateral cooperation were to further. Therefore, I look forward to hearing your insights and you wisdom and wish the dialogue a success. Thank you.

## **REPUBLIC OF KOREA**

**GONG Ro-Myung**

**Chairman, East Asia Foundation (EAF) / Former Korean Foreign Minister**

Good morning, ladies and gentlemen. Mr. Kusaka and Ambassador Chai and delegates from China, Japan, and Korea, I am very glad on behalf of Korean delegation to greet all of you who are here on the 3rd CJK Cooperation Dialogue.

As you may know, East Asia Foundation, which I represent, was founded as a non-profit, for-public-good foundation by generous support of Hyundai Motor Company in 2005. The foundation has been engaging in various public programs to promote peace and prosperity in East Asia through human and knowledge network.

We have held two successful CJK Cooperation Dialogues as Mr. Kusaka told this morning, the 1st in Seoul in November 2014 and the 2nd in Changchun, China last year. In those meetings, we confirmed that it is essential for the three countries to cooperate together for common prosperity and sustainable development in spite of differences in our political, social, and historical backgrounds.

However, all of us are undergoing more or less some economic difficulties. Especially Korea has been under red lights for some time for its low growth since the global financial crisis in 2008 and its various social problems such as low fertility rate, rapidly aging population, employment instability, youth unemployment, and struggling small and medium enterprises are getting even more serious.

The growth of CJK can be attributed basically to the export-oriented market structure. Regional and transnational economic communities such as RCEP and TPP are drawing their own new versions of the world economic map. The foundation of economic blocs and the abolishment of trade barriers, although unpopular in the presidential debates in the United States, seems to be an inevitable global trend for world economy in the long run and CJK must stand right on top of this wave.

On the other hand, we are also strongly urged to deal with global tasks that can be resolved not by a single country or community but the whole world that is environmental problem, a byproduct of economic prosperity.

According to the agreement from COP21 in Paris, CJK, much like any other advanced countries, are speeding up the development of green energy sources and clean technology to achieve sustainable development. This might be considered a matter of survival for an individual country. But in order to bring common prosperity and development to our region, we need to draw a multi-pronged cooperation in the R&D areas to resolve environmental problems. When we are talking about common prosperity and economic cooperation, we discuss on ways to abolish trade barriers among many issues to deal with; however, pollution have no barriers among us and their negative impact is widespread in the region.

I hope that the 3rd CJK Cooperation Dialogue serve as a venue where we can share our ideas that can help us understand and cooperate each other.

Once again, I thank all of you for joining here in Tokyo to make this dialogue successful, and lastly, I thank the secretariat for their meticulous preparation for the meeting.

Thank you.

### **3. SUMMARY**

#### **Keynote Speech:**

UEDA Takayuki

Special Advisor to the Minister of Economy, Trade and Industry of Japan (METI), Japan

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 also economic situations such as low oil price. In particular, the economies of the major member countries of the OECD are slowing down. Looking at the growth potentials 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 slowdown of this economic growth as a result of this working-population decline and also applies for natural resources, even natural resource-rich countries like Russia and Brazil have recently seen negative growth rate.

In Japan, Prime Minister Abe puts economy first and his government has implemented a wide range of economic policies that are known as Abenomics. Most recently, the PM announced new three arrows with an economic revitalization plan and supplementary budget to complete this mission. In the three years since the change of administration in 2012, our nominal GDP has increased by around ¥26 trillion and achieved a total of more than ¥500 trillion for the first time in eight years. Corporate profits have recently increased significantly, and the sum of the current corporate profit was ¥16.7 trillion in April to June 2016, having increased by around ¥4.6 trillion over the same quarter of 2012. Reflecting such a stable trend in the economy, unemployment rate is at 3.0% in July, the lowest in about 21 years, and the effective job offer ratio is 1.37, the highest in about 25 years. However, we are now seeing a nationwide labor shortage and this is an urgent issue. Solutions are firstly to develop and introduce the labor-saving technologies such as IoT, robots, and artificial intelligence. Second, we need to reform our labor market in order to take full advantage of women and aged people. Through these innovations and labor market reforms, we can increase our potential growth power and economy. While population in Japan is decreasing, in Asian countries it is increasing. In order to achieve sustainable growth in Japan, we need to use this increase of demand and population

through driving our export which is at a low level compared to other OECD nations and has that potential.

China achieved high economic growth in recent years by export expansion through attracting 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 countermeasures, including a 4-trillion-yuan policy package. This was successful in sustaining high growth and working as an engine of global growth. However, China is now facing difficulties such as overproduction 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 government. Thus, the Chinese government 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 is perceiving this transition from high speed growth to medium-high-speed growth as a new normal state. It's 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% in the five years. In addition, the Chinese government is also working on elimination of excess production capacity and reform of national enterprises. These are steps towards the right direction, although there is a long way to go.

One important symptom in China is although the second industry growth is slowing, the service industry, the third industry, is leading Chinese economy at this moment. The service industry is proportional to GDP having exceeded 50% in 2015 for the first time in history. This shows that an economic structure heavily depending upon investment growth is now transforming from being investment-oriented to consumption-lead.

Now, in Korea 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 the stagnant domestic demand brought about by the spread of MERS. The latest economic growth forecast seems to be on the downward trend, although still higher than Japan. I understand that Korea is now facing the structural issues and the government is now tackling these issues through various policy measures. One is aggressive trade policy. Trade has been competitive power for Korea, accounting for half of the GDP. Especially notable is a large trade surplus with China – a market-wide export. Korea is also building up free-trade agreement 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%, while in Japan it is only 22.7%. This helps Korean companies to accelerate overseas business activities. In recent years, exports to Vietnam and Mexico has been rallying due to investments made by Korean business firms.

However, despite such aggressive trade policies and business trends Korean industries are facing structural difficulty. Global excess capacity is causing serious management crisis in principal industries such as shipbuilding which is the third largest export industry in Korea; petrochemicals, which is the fifth; and steel the ninth. The Korean government is working to reform industrial structure with the Special Act on Corporate Revitalization, which came into effect this August. The act enables autonomous adjustment to promote new growth in the industries. The fast-tracked industries are steel, petrochemicals, construction, shipbuilding, and marine transportation.

China Japan and Korea constitute one of the engines of the global economy. In 2015, the total GDPs of these three nations accounted for 22.6% of global GDP and their total goods trade amounted to 18.4% of global trade. The Japanese trade amount with China is approximately four times as big as with Korea, while Korean trade with China is around three times larger than with Japan. There is trilateral interdependency especially in manufacturing. For example, components and manufacturing machines for iPhone are exported from Japan and Korea to China, where it is assembled, and then exported globally. There is such interdependency in almost all manufacturing sectors, including automobile, textile. This close interdependency is the most important and fundamental factor for our economic competitiveness. Economic slowdown in one country directly affects economy of the other two. We are on the same boat in the world economy, even though there are differences in tradition, history, and culture.

There could be three focuses on trilateral sustainable development which would also enhance global economy. First, maintaining and strengthening economic relationship and interdependency is essential. How to realize or maintain this is a common question for us all. Sharing knowledge, experience, and wisdom are the key. All three countries are facing some level of structural problems. Excess capacity prominent in the steel sector needs to be solved urgently. We need to make full use of market mechanism. Japan suffered from overcapacity issues for a long time and our government tackled these issues with several measures. We have willingly shared such experience with other countries. Aging society and population issues will become common issues too. We should sit down together to work out the economic and social impact of these phenomena and how to

overcome. We should also combine our wisdom towards global environment issues. Japan and China have a long history of cooperation in this area through Japan-China Energy Conservation and Environment Forum, which works as a platform to drive bilateral cooperation. We need to strengthen the ties to prepare for the Paris Agreement on global warming coming into effect soon.

Secondly, we need to address eminent protectionism. The world seems to be opting for protectionism over globalism. More people are now opposing globalism and free trade. Many people believe that globalism has no merits for them and are calling for isolation. While protectionism and isolationism can be understood on a sentimental level to some extent, cannot be productive and could be even destructive for the world economy, despite the fact that this movement is gradually prevailing in the United States and European countries. This movement is dangerously reckless and the world should not overlook it. The economic prosperity of Japan China and Korea heavily rely on the free-trade system of WTO and global free-trade agreements. Therefore, it is essential for us to protect free-trade system in unison. This is important and urgent. One thing we can control is the China, Japan, Korean free-trade agreement, so called CJK FTA. I think in order to resist protectionism, CJK FTA must be concluded as quickly as possible and highest standards.

Thirdly, there is information technology such as IoT and big data analysis. These technologies will be game-changers in our future economy and society. It may have a huge impact on the labor market and even on our lifestyles. Some say most jobs including intellectual jobs will be substituted by the robot, and we will see a lot of unemployment in the future. Others say we will enter a new world where human beings will not work for mere survival but have the leisure to contemplate what one would really like to do. No one knows the definite outcome of this technology, only that there will be change. Huge, fundamental change that perhaps no one can control. There is room for cooperation here, consolidating wisdom of the three countries will enable us to analyze impact and develop measures.

In October 2015, the Japan, China, and Korea trade ministers met in Seoul, after a lapse of three- and-a half years, to discuss trade investment and economic cooperation. The three ministers agreed on accelerating trade negotiation to conclude CJK FTA and RCEP, and also promote further collaboration to strengthen multi-faced cooperation. Japan will be hosting the next meeting where we invite senior government officials of China and Korea to join their ministers for concrete discussions towards CJK FTA.

**Economic Session:  
Challenges and growth strategies for sustainable growth**

TAKEMOTO Naokazu

Member of the House of Representatives of Japan

After the change of administration in Japan from the DPJ to the LDP in December 2012, the progress of "Abenomics" has brought us strong economic performance, such as nominal GDP having exceeded ¥500 trillion for the first time in the past eight years, private investment having increased by around ¥5 trillion in the past three years, our effective job openings-to-applications ratio having reached 1.3, which is the highest in 24 years, and the wage increase rate having recorded around 2% during the past three years consecutively. We have achieved a virtuous cycle in the economy.

We have also been focusing on "six challenges" – namely, the excessively strong yen, the high corporate tax rate, delayed FTA negotiations, strict labor regulations, environmental problems, and the price of electricity which is three times compared to Korea or the United States. We are aiming to reform bedrock regulations especially in tourism and healthcare. These efforts have mitigated impediments in business operations.

However, domestically our business recovery is not complete. Private demand is struggling, with feeble personal consumption growth and stagnant recovery of private investment.

Other developed nations are experiencing stagnant growth, especially in newly created demand and supply side growth potential. Many economists point out "Secular Stagnation." The uncertainty is increasing globally. Business firms need to invest in the future, such as in innovation, new facilities, and human resources. That would contribute to further revitalization of private businesses.

We will continue to work on further structural reform to achieve the following three targets: Create and expand new high-potential markets to achieve ¥600 trillion in nominal GDP, revolutionize productivity to counter depopulation and labor shortage, and develop human resources competent in reforming industrial structure.

The Abe administration is promoting "Government-Business Collaboration Projects 10" to address challenges in second stage of growth strategy. The Fourth Industrial Revolution



consisting of innovations such as the Internet of Things (IoT), Big Data, robots, and artificial intelligence is progressing globally at an unprecedentedly high speed and potential impact upon our economy. We need a clear picture of this innovation so that we can reform the social economic system and benefit from the change. It could assist Japan in soaring to a new phase of economic growth.

Japan has been affected by the slow-down from the Lehman Shock in 2008. The ratio of exports to GDP is low, while major OECD countries are seeing growth by driving export. It is important for Japan to benefit from the growth of other large markets, and our focus on FTA negotiations in East Asia such as the China-Japan-Korea FTA and RCEP, in addition to TPP, will continue. CJK FTA has been negotiated since 2013 and covers around 20% of the world population, GDP and trade. RCEP started negotiations in 2012 and is a wide regional FTA covering 50% of the world population, 30% of GDP and also 30% of world trade with 16 countries, which are 10 ASEAN countries and Japan, China, Korea, India, Australia, and New Zealand.

By achieving comprehensive and high-quality rules of trade, investment and services in these regions, and more efficient product supply chain, would be encouraged, and benefits shared by business people. China Japan and Korea need to work in line on driving reforms of the economy structure and gain strong growth with these mega-regional FTAs. We also need a comprehensive and high-quality FTA that can promote domestic structural reforms consecutively. Negotiations are currently on to conclude a mutually beneficial FTA for the interests of the whole of East Asia.

GAO Haihong

Professor and Director, Research Center for International Finance, Institute of World Economics and Politics, China Academy of Social Sciences (CASS)

Chinese economy growth is slowing down. The target rate for this year is 6 to 6.5%, and the actual growth rate just released the day before yesterday was 6.7%, unchanged from the second and first quarter. It is unlikely to meet targets this year, but an "L shape" growth may be possible.

The demand side drivers such as net export which has been negative or marginally positive during the past years, contributed to growth. Fixed capital investment continues to shrink. Although the government-led investment is still expanding, private investment declined rapidly. Consumption is the only bright spot, and we can see it's currently 67%

to GDP growth. China now is consumption driven or is at least on the path.

On the supply side, the service sector surpassed the industrial sector already, and this is what China wants. The service sector is the most dynamic sector, with a large number of job opportunities. The service structure has changed to be better balanced and more sustainable. Service is always attached to lower productivity, so now China is facing a slowing potential growth rate. That is why Chinese government is trying to carry out supply side reform.

Exchange rate policy is a hot topic because currency is up and down on daily basis, and the markets are sensitive in reacting policy actions. Flexibility is a long term objective for China, and the government has carried out several regime shifts since 2005. RMB exchange rate experienced a long-term appreciation, but last August changed the course. When the PBOC decided to stop intervening the middle price of RMB, the result was overshooting the sharp depreciation afterwards and that was a strong signal to the market that Chinese intentionally devaluated its currency to boost the export. That time, China was facing entrance to SDR, the RMB SDR inclusion, so Chinese government is trying to show this decision to make currency information more market determined. Our unique problem is that there are different exchange rates for RMB making PBOC busy looking at all the rates. There are also differentials. When differential occurs, arbiters will be there and then there could be massive capital flows across the border, which could be damage to a financial stability. This is a concern for the Chinese government.

The capital flow in China now changed course as well. Previously we experienced net inflows but now outflow. The government is facing a dilemma whether to stabilize exchange rate or to make it more market determined. Stabilizing means tighter capital control, unless we want to repeat the Asia crisis of 1997 in many countries in Southeast Asia.

Domestic bubbles is linked to shadow banking, which is the major risk for the Chinese government regulators to deal with because it's linked to the banks, and it has very Chinese characteristics. We call it bank's shadow. It's off the balance sheet, mismatched, and in many different forms. The Chinese government decided to closely moderate government development and also there is coordination among different sectors and departments in the government to smoothly transform this shot. We call it financial innovation into a true securitization of the market.

This is the top issue. The MIF, BIS, and many other international organizations keep

sending warning signals to Chinese economy, and in comparison, China falls in the middle range. It's not very high. It's much lower than Japan, and it's of course higher than some other countries, but the thing is the pace is very fast. You see this pickup recently, and if you break down the structure of that level, the corporate debt dominates the overall debt level, and this is worrisome because we are now not clear how serious the problem is, or how much linked to the SOEs and non-performing loans of banks because many state-owned banks are involved with this debt cycle. It is linked to the whole financial system. Chinese government is carefully looking into this issue and decided to deleverage the economy but there are many obstacles because it is always difficult to have layoffs in the function of economy.

There are some buffers. I think this could keep us in pace with the economy. The growth rate is always a political decision, and inflation is reasonable low and especially PPI rebound, easing concern about deflation. Unemployment in China is quite stable. Reserves, although still shrinking, is very large at 3.4 trillion is a cushion for the debt burden.

Looking ahead, we have to look at long-term reform agenda. Predicting the prospect of Chinese economy, the third plenum for 2013 to 2020 is a very important one. It sets tones of reform, covering major areas, and objective is very important, letting market play a decisive role. This is the ultimate goal for the whole reform agenda. In the latest 13 five-year plan, the government reaffirmed its ambition to reform and tackling problems both cyclical and structural. Structural reform, especially on the supply side will be balanced by a demand side reform. RMB is committed to fully convert by 2020 because RMB is on path to its internationalization. Overall in the circumstances of a gloomy global economy and uncertain policy environment, the best China can do is to smoothly manage its slow down and successfully transform this economy into a more balanced one.

AHN Choong-Yong

Chairman, Korea Commission for Corporate Partnership (KCCP)

China, Japan, and Korea experienced a secular economic stagnation of different degrees. Korea has been no exception. Korea has experienced new normal symptoms of slow growth at about 3% in the past 5 years and also has a low employment, especially with youth unemployment at 12.5%, one of the highest NEET ratios, not employment, not in education, not in training among OECD economies, and also, rising income and social inequality. Korea's problem is that our potential economic growth rate has declined from

8% in the mid-1990s to about 3% at this time and likely to fall a mid-2% in the next decade.

During the economic crisis, as in with the rapidly rising income inequality across Asia, International Monetary Fund pointed out that a conventional trickle-down theory in economic development is no longer operating.

Main source of income inequality across Asia, especially in Korea, is attributable to an acute dichotomy existing between large conglomerate and small and medium enterprises in terms of productivity, salaries, composition of the regular and non-regular workers, and gender inequality.

Given these new normal symptoms, great challenge ahead for Korea is how to reinvigorate its slowing economy with a new engine of growth while addressing income inequality. Like other countries, Korea has attempted to apply effective monetary and fiscal policies to raise growth rate, create jobs, and post domestic consumption. Korea has also started fostering a symbiotic business ecosystem in which larger conglomerates and small and medium enterprises can pursue a mutual growth together. Since its economic takeoff, Korea has actively sought multi-track free trade agreements, basically bilateral but with varying degrees of liberalization. At present, Korea's FTA partners provide 76% of global GDP. Korea's important FTA partners include the United States, China, EU, ASEAN, India, etc.

However, Korea missed the opportunity of becoming a founding member of the TPP with a new set of liberalized trade rules applicable in the 21st century, but Korea has been actively participating in the Regional Comprehensive Economic Partnership negotiations. Korea wishes to join TPP as early as possible after its effectuation. Furthermore, I believe we should advocate down the road an eventual amalgamation of the two regional mega free trade deals by enhancing the quality of the RCEP on a par with TPP.

The symbiotic business ecosystem is likely to trigger an early advent of the fourth industrial revolution badly needed in Korea. For this purpose, Park Geun-hye government has been pushing a construction of the creative economy to promote venture startups based on AI, Big Data, Cloud, culture as an engine of new economic growth in the 21st century. To promote the creative economy strategy, government designated a total of 17 local creative economy innovation centers in which a large conglomerate has been assigned to nurture collaborative program with local SMEs and venture startups.

The regional free-trade deals, especially TPP and RCEP and AIIB, need structural reforms to search for a sustainable regional growth. CJK have been one of the greatest beneficiaries of the free trade regime while taking advantage of geographical proximity and the regional supply chains as global manufacturing powerhouse, and becoming interdependent functionally.

Even in the absence of the formal free trade except recently effective Korea-China FTA, three countries have involved very deeply in participating and increasingly deepening sub-regional value chains due to geographic locations and lucrative factor endowments and related costs.

CJK needs to share a common vision for economic prosperity to overcome increasingly secular economic stagnation and work together to circumvent frequently occurring natural and manmade disasters of catastrophic consequences.

Recently, TPP with 12 founding members had been concluded in October 2015 with joint leadership of the United States and Japan, waiting for ratification process by each signatory countries' legislative body. At present, it is not sure that the US congress will approve the deal during the remaining Obama Administration's lame duck sessions or sometime after the new president takes office on January 20th, 2017. Whenever it is ratified, we should recognize the fact that TPP contains the most comprehensive and liberalized mega deal ever effective, containing a new set of trade rules such as IPR enforcement, labor, and environmental standards, and state owned enterprises, ISDs, virtual elimination of non-tariff measures.

In this regard, each country of CJK should continue domestic structural reform to meet forthcoming new trade rules as contained in TPP. Especially, I would like to emphasize three countries must adhere to the fundamental principles contained in the intellectual property rights.

Given the conclusion of the TPP, the other mega free trade deal in the wider Asia, namely RCEP, should gain new momentum towards an early conclusion, although it is substantially less comprehensive and shallower than TPP. It is still highly significant that ASEAN plus six other nations agreed a free trade regime. Both TPP and RCEP need to serve as a building block towards an early realization of the APEC's ideal toward Asia-Pacific free trade areas.

We should recognize that TPP has been concluded without China, RCEP without the United States, and furthermore, the China-proposed AIIB has been launched without most notably the US and Japan. Are these three institutions going to counterweight each other for hegemonic leadership in Asia-Pacific? My answer to this question is "no", even in the near future if the United States and CJK are truly committed to sustainable common prosperity in the region. The three regional institutions without membership of either China or the United States are likely to become only half-baked. This is clearly indicated by the former Secretary of Treasury of the US, Lawrence Summers.

As mentioned by my colleague from China, on financial volatilities arising from the US exit from on-going QE policy and China's renminbi's joining the SDR basket, CJK needs to maintain a close consultation meeting on a regular basis in order to mitigate extreme volatilities of exchange rate and to resume some currency swap arrangements to minimize unexpected external financial shocks as we experienced during the Asian financial crisis.

Finally, an intra-regional coordinated mechanism needs to be developed to prevent natural disasters and to handle them once they have occurred due to weather anomalies. East Asian economies should begin more effective collaborations on non-traditional security issues, including nuclear safety, energy security, and cyberspace, etc.

**Environment Session:  
Constraining factors and solutions in environmental issues towards sustainable growth**

MATSUSHITA Kazuo

Professor Emeritus, Kyoto University / Senior Fellow, Institute for Global Environmental Strategies (IGES) / Examiner, Environmental and Social Guidelines, Japan International Cooperation Agency (JICA)

2015 was a landmark year for environment and sustainable development. The international community agreed to the Paris Agreement on climate change and sustainable development. The Paris Agreement established global goal of keeping warming between 2 degrees and 1.5 degrees, which requires net-zero emission of CO2 by the second half of this century. SDGs were adopted as a core part of 2030 Development Agenda at UN General Assembly in September last year. It contains 17 goals and 169 targets including no poverty and zero hunger by 2030. Its basic message is "Leave no one

behind."

The Paris Agreement implies massive transformation by 2050. Current national emissions reflected in nationally determined contributions are not ambitious enough to meet 2 degrees target. Therefore, we need to strengthen targets over time, and we need to both scale up investment in infrastructure and shift to low carbon.

This shows 17 SDG targets contained in the SDGs. SDGs follow up MDGs, Millennium Development Goals, which concluded in 2015. SDGs are universal goals for all countries and include issues of peace, prosperity, and human rights and good governance. They are more comprehensive and multi-faceted.

Then, what do SDGs and Paris Agreement signify? They signify no poverty, no hunger by 2030 as well as zero greenhouse gas emissions by the latter half of the 21st century. Then, the question we are facing now is how we attain these goals in a mutually reinforcing and equitable way.

We need robust environmental and climate policies, but these are not enough. We need integration of these policies with other policies such as financial, developmental, industrial, and technological policies.

We need stable and predictable climate policies for the transformation required to attain Paris Agreement, particularly a strong price on carbon so that low carbon investments are competitive as well as strong regulatory support in areas where price signals are not sufficient. For example, energy efficiency. We also need support for the uptake of low-carbon technologies; however, climate policies alone are not sufficient to achieve the low-carbon transition.

The Paris Agreement states that making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development. This means we need for both scaling up and shifting investment. For scaling up, \$53 trillion will be needed by 2035 in renewable energy and energy efficiency. As for shifting, we have to recognize that two-thirds of global investment in energy supply will go to fossil fuels.

In this context, the role of private investment is crucial. Private investment needs to reflect investment risks arising from climate policy such as stranded asset. Private investment needs also to meet climate change risks such as climate disasters and need additional

investment for de-carbonization options. At the same time, it is necessary to strengthen investment for mitigation and adaptation in developing countries.

Dr. Hoesung Lee, a world-renowned Korean energy economist who is now serving as the chair of IPCC, stated carbon pricing stimulates technological innovation, and low-carbon technologies will gain market competitiveness which will result in economic development. The report of IPCC will present research results, which demonstrate CO<sub>2</sub> reduction activities, and would open up new economic opportunities rather than economic burdens. Looking at prices of existing carbon pricing schemes focusing on carbon tax and emission trading, Japanese carbon tax is very low, \$2 per ton of CO<sub>2</sub>. On effective carbon prices, the Japanese carbon price is higher than US or Canada but lower than European countries.

As Dr. Hoesung Lee stated, climate mitigation and adaptation measures should be engines for new development. On solar PV capacity and additions, in terms of new addition of capacity, China is number one and Japan is number two in 2015. China is by far number one on wind power capacity and additions of 2015. Also in 2015, China Denmark USA and Germany dominate market shares of turbine manufacturers.

I would like to introduce a proposal on East Asian Low-Carbon Community. This proposal ends up shaping a sustainable and dynamic East Asian regional society that features harmonization of economies, environment, and communities, in addition to global warming countermeasures. It will promote innovative low-carbon technology and transfer of existing technology. It will also promote low-carbon-oriented economic and industrial systems as well as reformation of material and product lifecycles, taking into account co-benefit effects of CO<sub>2</sub> countermeasures. It facilitates international cooperation for energy and materials cycles as well as conducting feasibility study of low-carbon society through pilot or model projects. And I would also like to emphasize the importance of co-benefits. By taking measures against the climate change, various co-benefits can be generated.

In conclusion, Paris Agreement demonstrated the need for zero carbon society, which implies massive economic and social transformation. For that, enabling policies for low-carbon investment including carbon pricing, fossil fuel subsidy reform, well-designed renewable energy incentive policies, and clear long-term climate policy goals are essential. Also, policy integration is crucial, notably for mobilizing investment, taking into account of co-benefits, alliances with SDG finance. In addition, making climate



change countermeasures as new economic development opportunities is important. Finally, I put forth a proposal for East Asian Low-Carbon Community.

WANG Xuedong

Associate Professor, Deputy Dean, Institute of Advanced International Studies, Sun Yat-Sen University

First of all, we know that climate change is very important not only for the world, but also for all the countries including CJK, because all the countries including, China, Korea, and Japan are not only sensitive but also vulnerable to this phenomenon. When I was attending the first CJK Trilateral Dialogue in Seoul, Korea, I got the good news that Chinese President, Xi Jinping had signed the MOU with the US counterpart, President Obama about the joint funding against climate change, and after that, we got the Paris Agreement last December. Hopefully this agreement will be into force within November. We know the condition for bringing the Paris Agreement into force at 55 countries, and more than 55% emission of carbon dioxide. We also got news that China, India, and even the United States of America already signed the treaty in April and ratified and approved to the UN Headquarter. Japan and Korea also are waiting but hopefully they will approve or ratify this treaty in the coming November. But unfortunately, the pessimistic view on this story is even if we approve the Paris Agreement in the future, the carbon reduction plan cannot work to make the degree below the 2 degrees. We need to do something collectively right now.

Japan actually was or used to be a leading country in environment protection. Japanese government and the Japanese public actively participated in the environment protection and with good awareness. The Japanese government conducted several foreign aids or foreign assistance on the environment protection. I know many countries including China get financial support to fund against environmental degradation in the past along with other countries from Southeastern countries and countries in Africa. Japan already has highest energy efficiency across the world, and they have a very superior law covering the technology. Korea is among the first countries to embrace Green Growth as national developmental strategy. Lee Myung-bak as a president sped up the so called Green Growth Program while the current President Park has although slowed it down, is still active.

Japan is currently lagging behind in the international level, and we know that Japan is isolated in the G8 or G7 last meeting in Japan. Japan and Korea plan to build 61 to 62

new coal power plants in the next decade, 20 new power plants in Korea by 2021 and 41 coal-fired power plant in Japan, where there taxation favor for coal over natural gas, which emits less carbon dioxide.

Before Copenhagen, China actually lagged behind other developing countries. But ever since, China has been playing as the leading role in climate change issue. Let us look at the trajectory about the carbon dioxide emission in China from 1950 to 2012. In 1950, China was very poor and the carbon dioxide emission was low, but on the data collected in 2012, the emission increased more than 100 times during these 60 years, with robust economic development. In 2007 or 2008, China's carbon dioxide surpassed the USA as became top in carbon emission countries. Carbon emission is mainly the result of fossil fuel combustion. That means in the past China paid no attention to coal mining and coal burning power plant, and the good news is China actually has changed a lot of policy. I am from Shaanxi province, where coal mining and coal burning power plant is one of the major industries. Unemployment rate in my province is high because of the changes, but this is good news for China's energy transformation.

China's carbon emission per capita is getting higher, but approved to the level of EU average and that is lower than the level of the US. As the neighboring country of East Asia, I think we have obligation to work together in order to fund climate change and that is a good opportunity to view the multilateral and especially trilateral participation as a win-win cooperation. The high politics remain significantly sensitive in the trilateral cooperation between the CJK, but we should get started with policies like the environmental protection. We know we can cooperate in areas like environmental protection and education. We can learn a lot from Japan and Korea about the environmental education, awareness and public participation, also pollution control by diversity conversation and especially the carbon tanks pricing mechanism. China is promoting an idea like ETS, Emissions Trading System, but the question is the carbon tax price mechanism, and another question is can China learn from Japan about the local climate policy implementation?

KIM Sang-Hyup

Visiting Professor, Graduate School of Green Growth, College of Business, KAIST /  
Chairman, Coalition for Our Common Future

I would like to talk about how we can deepen our green cooperation among the CJK countries. Regarding current CO2 status and energy, China, Japan, and Korea share

about 20% of world population and amount to more than 25% of the global economy. CJK also accounts for 34% of CO2 emission and 31% of global power consumption. We have huge room for improvement and innovation in CO2 reduction and also energy system. That explains why the CJK respectively submitted their INDCs which is Intended Nationally Determined Contributions to the UNFCCC just before the Paris Climate Summit that reached to the final Paris Agreement.

We need to broaden our understanding on environment. We need to embrace climate and energy issues when we talk about environment. Environment is not just about conservation. When we embrace climate energy issues into environmental agenda, we need a new energy system that is basically requiring new economic thinking and with that we can transform the huge climate challenges into double digit new opportunities for our sustainable development as Prof. Matsushita emphasized through his speech.

It is true that we have seen very meaningful evolution of regional cooperation on environmental issues, but it is also true that we have not developed yet effective mechanism to deal with climate and energy matters collectively. Then, how can we deepen our real agenda to deepen our mutual green cooperation among the CJK countries? I would like to raise two agendas for that. One is immediate, the other is a long-term strategy, even geopolitical agenda. The immediate one is the fine dust problem, known also as particulate matters. China, Japan, and South Korea are all located on the latitude with westerlies, the wind blowing from the west. Westerlies affect the region, so both South Korea and Japan are directly influenced by the air condition and attributes in China. According to the analysis of the Ministry of Environment of Korea, the attributes of fine dust blowing from China are largely originated from the coal-fired power plants and old heating system and especially diesel-based automobiles. And so is the case domestically to Korea. Korea is also very much dependent on fossil fuel system. I am not here to blame any country but to point out that fine dust problems are directly felt by the citizens in the CJK and therefore can create mutually beneficial platform for deepening cooperation within a rather short period of time. It is about information sharing and knowledge sharing for the betterment of all the people in CJK. In that sense, we need scientific cooperation first for the CJK to build up mutually reliable fact-finding mechanism as soon as possible. Maybe we can install and launch a regional IPCC on fine dust.

The second point is on the East Asia Super Grid, which is now finally being visualized. In March this year, Soft Bank of Japan, State Grid Corporation of China, KEPCO (Korea Electricity Power Company), and Rosseti, the Russian power company, signed a four

party MOU to proceed first feasibility study of Asia Super Grid. Six months later at the World Knowledge Forum in Seoul, plans for the first Asia Super Grid project was revealed. That is to interconnect 2 gigawatt electricity grid from Mongolia to Japan by China and Korea. That is going to be a project of more than 6 billion US dollars and what is more meaningful is that it will be based on the green energy. Mongolia has potential renewable resource, especially in the Gobi Desert, of 15,000 tera-watt per hour, which is two times higher than the whole electricity demand among the three countries. This grid will be linked to Jeju Island. Jeju is going to be a carbon-free island by the year 2030 with the green big bang strategy which I mentioned at the second CJK dialogue, the idea is to produce all the electricity by renewable energy and to replace all the cars with electric vehicles and all these things will be linked with the smart grid system.

When I chaired the session at World Knowledge Forum in Seoul, the three representatives of China, Japan, and Korea seemed to be on the same boat, reading the same page of the same book, speaking as one voice. Long-time dream of CJK was fulfilled and this is the direction we should take. Green partnership can be done together, although no easy task. It is an immense project that requires intelligent and cooperative diplomatic settlement.

An epoch-making project requires diplomatic cooperation and strong political support from these three countries together. We can bring out new rapprochement or new cooperative pathway that can ensure our sustainable future together. In that regard, our cooperation dialogue as the 1.5 track can do much to bring about more fruitful outcome among the three countries. With the trilateral summit at the end of this year in Japan, I see great enthusiasm among the top leaders of CJK to deepen cooperation in this region. This dialogue can contribute to the better outcome of the regions of the CJK and play a big role for our common future that is sustainable.

## **Questions and Answers Session:**

### **Question 1 from the floor**

Question to Professor Matsushita who made a wonderful presentation on global warming. By the second half of this century, we are to achieve zero emission according to Paris Agreement. Can we? There are certain areas where we can use what we already have and then there are areas where we have to rely on newly developed technologies, so I think there are two ways of achieving targets. Some existing technologies are still not yet adopted so when that happens, the reduction can be more. But for zero emission, we

will have to develop technologies that are not currently available and that needs to be practically applied. Could you explain the assumptions, rough estimates even, with percentages or volumes or breakdown?

**Comment from KIM Jung-Sik**

I would like to make comment on the Japanese economy first, and I would like to ask about the Chinese economy to Professor GAO Haihong. Japan attempted to use Abenomics with three arrows such as quantitative easing and expansionary fiscal policy and new growth strategies. I evaluate this policy very highly because since 1985 Plaza Agreement, Japanese yen appreciated and the export has been reduced and real estate price decreased. Japan experienced 20 years of economy recession. However, Professor Hamada Koichi of Yale University suggested to use quantitative easing policy and devalue yen currency and finally yen depreciated from 75 yen per dollar to 120. Japanese firms' profit has increased and export also increased. I think this policy is very successful to increase Japanese growth rate, and when US Fed increase its interest rate, yen will depreciate more and the Japanese economy will recover more.

Regarding the Chinese economy, China also maintained very high economic growth rate by using export promotion growth strategy. It was also very successful; however, recently China faced difficulties and changes of the growth strategies. China would like to use its new normal(新常态) to stimulate domestic demand. In this case, China could experience sluggish economic growth rate that could affect other Asian countries' economy. China would also like to use the Chinese Yuan Internationalization policy. The currency internationalization is similar to the capital market liberalization policy. Usually, an emerging economy has a high economic growth rate. If that country liberalizes its capital market, it can usually experience the currency crisis or the financial crisis. Korea also experienced that kind of crisis. American economists are concerned that Chinese economy will experience a low economic growth rate. I would like to hear about the prospects of the Chinese economy.

**MATSUSHITA Kazuo**

In order to implement Paris Agreement, each country would have to come up with its own national commitment, even though the achievements will be later consolidated. Reducing 2 degrees would be difficult, more or like 2.7 degrees Celsius or 3 degrees Celsius. In addition to what each country is doing, we have to be even more ambitious and put in bigger efforts.

As for the technologies, how to propagate the existing low carbon type individual technologies is an issue, and in order to do that, the social system as a whole has to be transformed, which is another. Giving incentives to the market is yet another. Then, completely innovative, nonexistent technologies need to be developed. So there are several stages. I do not have any quantitative data, but even by increasing the penetration on existing technologies we can expect a significant reduction. For instance, using renewable energy, there is an American company called Tesla. They are making a fuel cell for home use or residential use, at \$3000 per unit, which you can connect to electric vehicle, solar panel, and photovoltaic panel. The home becomes source of renewable energy, competent to meet residential demand. Also, with the Internet of Things (IoT) sweeping across the world, and ICT or communication technologies, you can manage the demand or when to use renewable energy using weather forecasts for example. By doing so, a huge amount of renewable energy can be deployed.

Also, earlier, Mr. Kim from Korea mentioned there is a Super Grid Initiative which is a completely new system to connect each country's grid, so that renewable energy can be utilized across different countries. More is to come. Going back to Paris Agreement, the target itself is quite ambitious, but when it comes to concrete technologies, it depends whether it is backed by certain technologies and policy measures of each country. After 2050, we are to aim for net-zero emission, so technologies, policies, systems need to be strengthened step-by-step.

In that sense, the evolutionary technology and existing technologies will be more widespread and that should be driven.

About the timeline of targets generated by each country, the target year varies from country to country -some set at 2050 and some 2030. This does not apply for zero emission, but for INDC, Nationally Determined Contribution. For the interim target, they said around 2030, but for the long-term target, based upon the IPCC's research and achieve 2 degrees Celsius target, they say that should be done in the second half of 21st century, or by the end of the 21st century, we have to attain the zero emission status.

### **KIM Sang-Hyup**

On the new technology side, when it comes to Super Grid, I mentioned the technology is already out there. We do not need new sustainable technology. The key technology to make the Super Grid successful is HVDC, High Voltage Direct Current Transmission System. The energy loss rate is less than 2% according to the experts, which is an amazing

development. We also need to understand the new development of energy storage system, which is still very expensive. But it makes renewable energy stable. So, when the sun does not shine, when winds don't blow well, we can use the energy storage system that will solve the intermittent problem.

And, we also have developed smart grid system, which is the marriage between IT and energy, and according to the feasibility of technology, we will hear more detailed story from Professor Moon from Seoul National University on it afterwards. Technology feasibility is quite okay. What about economy? It is making sense, and the electricity production price is getting lower and lower, with renewable energy. It has even hit grid parity in Mongolia. What remains to be done is diplomatic settlement as I suggested.

Korea has been an island like Japan when it comes to electricity because we have not yet good relation with North Korea, and it is really exceptional that an economy like this big did not have a kind of interconnected power grid. That is not because of lack of technology. It is because of diplomatic settlement or rapprochement in this area. Recently President Xi Jinping stressed in an important speech at the UN Summit last year about global vision for power grid interconnection which is quite a big idea and echoed by the SGUN because it is based on green energy. I do not think we need any new sustainable technology at this moment to make the Super Grid happen. What we need is kind of political commitment and the willingness to scale up the opportunity.

### **GAO Haihong**

I think there are three channels of Chinese impact on the rest of the world. One is trade, and the second is finance, and the third one is global value chains. In Asia, the major channel is global value chain because China upgraded its position there. There could be impact on the countries in both upper level and lower level, like Vietnam, resulting in more labor intensive productions. Japan and Korea are at the upper level, which means dynamic changes in global production chain.

Co-movement of financial market will observe the volatility of foreign exchange rate markets and also the submarkets. Many countries eye the exchange rate of RMB. The effect of China's spillover is getting stronger.

Trade is consumption led, meaning we will have a huge demand in domestic market. Changes in the dynamics of import goods will bring a different scenario in the future. Korea will import more cosmetic goods from China, Chinese's consumers will consume

more in general, and Japan machinery import could be reduced.

On the second question, it is correct that the RMB internationalization requires capital account opening. RMB now ranks eighth in global Forex transactions, according to latest data released by BIS, and fifth in payment currency of world trade payment. RMB as a reserve currency included in SDR in many central banks and swap lines, there are many bilateral swap lines and clearing centers in Europe, and Asia, but not yet in some cities like Tokyo. Capital account liberalization is the objective for 2020 agenda, because the government promised to make currency fully convertible, but opening capital account will never be risk free. Japan and Korea both have experience in this area. China is facing triangle problems because China wants to have this monetary policy independency, and at the same time, we have to float exchange rate and free flow of capital together. China is on the path to liberalize capital account, but in a cautious way.

#### **Question 2 from the floor**

To Professor Choong-Yong AHN. One of the additional problems of Korean economy is other emerging countries catching up Korean major industries, such as shipbuilding, steel, chemicals and electronic industry. Korea has been catching up the Japanese industry since 1990s and could increase its economic growth rate. Japan has reached the technological frontier, as observed by Professor Paul Romer, who is an expert of new economic growth theory or Endogenous growth theory, a professor of New York University and senior economist of the World Bank. He argues that if the leading firm or country reaches the technological frontier, its economic growth rate will stagnate. Japan experienced 20 years of economic recession and now Korea is following it. Most of the major industries will go to China in the near future, economic growth will be sluggish and unemployment rate will go high. In order to escape from this trap, what should Korea do?

#### **Question 3 from the floor**

A question to Professor Kim regarding the fine dust issue, which is critical in Korea and Japan. What should Japan do to resolve the problem?

#### **AHN Choong-Yong**

This decade has been the lowest for Korean economy in terms of the productivity and economic growth. As Professor Kim indicated that Korea is caught up by China as it did to Japan, it is as the Flying Geese Theory pioneered by Professor Akamatsu of Hitotsubashi University. China has caught up almost every major Korean heavy and



chemical industry. Korean Shipbuilding Industry is in serious trouble since last year, failing to sign even a single overseas contract. In Ulsan and Geoje area, the whole industrial complex is under turmoil, resulting in second or third tier companies which provided parts and components to ship industry to almost shut down and causing massive unemployment. Korea is not challenged by emerging economies, only by China. China is threatening Korea's industries of semiconductor, automobile, iron, and steel.

We need to improve our R&D capability and develop leading edge technology to solve these issues.

China has made massive investment in these areas. One-half of investment in shipbuilding industry is over-invested and it will result in additional shutdown of Chinese plants. I suggest China to consider regional ramification when massive investments take place.

China has adopted a rebalancing strategy, shifting basically from the manufacturing- and export-based economic development strategy to service-oriented and domestic consumption related development strategy. In this regard, China will continue to effectively use ongoing regional supply chain, so it is possible for Chinese, Korean and Japanese small-and-medium enterprises to work together and launch a win-win collaboration. If CJK FTA is completed, this could be accelerated. It will help maintaining consecutive growth strategy to enter regional economic comprehensive partnership, even after rebalancing in China.

Professor Kim mentioned the importance of Professor Romer's Endogenous growth theory. In Korea, it is another agony. Korea's R&D investment over GDP is regarded now the highest among OECD economies in terms of the ratio; however, the efficiency of the R&D is at the bottom level among the OECD ranking. Korea's R&D investment includes that for construction of the R&D-related buildings and purchase of lands. Therefore, there is a tremendous bubble in terms of the R&D ratio over GDP. Korea should make another R&D clarification. We should design how to efficiently manage R&D investment, from both government and private sectors. We need a precise and effective collaboration scheme between the government, businesses, and academia to enhance R&D productivity and improve outcomes.

### **KIM Sang-Hyup**

On the question of fine dust or particulate matters, it was so serious last spring and I was saying that anyone who can solve it deserves to be the next president of Korea. Tentative findings tell us that half is produced domestically, originating from industrial activities

and daily lives of Korean people, and the half comes with the westerlies from China. We need to have more scientific understanding and analysis. Japan has the world's best technology in this issue with most sophisticated products and service including analytic tools. This is where three countries can work together, not only as territorial cooperation, but also for humanitarian health issues. We may invite cooperation from the international organizations, such as IPCC. In Asia, Japan launched the ADB in 1966, China AIIB, and Korea Green Climate Fund. We also have Global Green Growth Institute. We can support these international regimes or organizations to work together to deepen our cooperation. Maybe Professor Wang would like to make comments as he mentioned the global governance issues.

**WANG Xuedong**

Professor AHN mentioned Korea losing advantage to China in semiconductor and shipbuilding. On the other hand China is losing in textile and shoemaking to countries like Vietnam. Make this an opportunity to transform the industry. Change the mind-set before trying to change the world.

Since 2012 our economy slowed down. President Xi Jinping suggested taking this as an opportunity to change. Transform our economic structure to survive global competition. On climate change, our government tried to promote multilateral cooperation deal. We want to lead the future on Green Growth, and Green Fund. Last month we hosted G20 in Hangzhou and our President promoted Green Finance, which is a good starting point.

**Special Speech:**

FUKUDA Yasuo

Former Prime Minister of Japan

I have known Mr. Kusaka for a long time, and we have worked together on international exchange projects.

First, I would like to extend my welcome to the overseas participants here for this Dialogue.

I meet Mr. Gong Ro-Myung regularly at diplomatic forums and various other occasions, and I would like to thank him for his dedication and hard work in trying to improve the international relations.

There are considerable number of Japan-China-Korea dialogues and forums, and one of the reasons behind that is because the current affairs (political) between the three countries are unstable. As such, politicians should first strive to create an environment that will relieve the anxieties that the people have. On the other hand, I am beginning to feel that these activities are slowly manifesting into easing of tensions in the Japan-Korea and Japan-China relationships. I am hopeful that the fruit of efforts to build a positive environment, such as this Japan-China-Korea Dialogue, can be seen from the end of this year to the beginning of next year.

The importance of the East Asian (Japan, China, and Korea) region in the economic and technical dimensions are increasing, and I think the aspects for building a new generation are embedded here in this region. I believe that if the economic powers that lie within the three countries are brought together, then that power will be greater than that of EU, and match that of the US, with the potential to becoming the leading force of the global economy and civilization.

I have been calling for the importance of a trilateral cooperation mechanism for about 10 years, but the reality is that there still tends to be numerous feuds and our strengths have not been fully exhibited. Nevertheless, if the impact and the importance we have on the world is considered, I hope to make it our goal to strengthen each of the three countries of Japan, Korea, and China through trilateral cooperation, thereby making us more powerful than the three countries simply combined.

Bearing in mind the current dynamics of the trilateral relationship between Japan, China and Korea, improvements in the political front will lead to economic development. For political anxieties to resolve, cooperation from the people becomes necessary. With the fast progressing computerization of things around us, political leadership cannot be fully exhibited without the support of the people, regardless of what the mechanism looks like.

Asia is a growing region, but on the other hand, ageing society is a serious issue both in Japan and Korea, and it is said that China will also face the same challenge in a few years. In this respect, building a Japan-China-Korea mechanism has time constraints. On environmental issues, with China joining the Paris Agreement, the global momentum and direction has been set, and therefore by strengthening the Japan-China-Korea cooperation mechanism, we should be able to build environmental measures that are more effective than other regional economic areas of the world.

As we see things in this light, the current situation can only be considered “Mottainai (Too good to waste)”. This term is thought to have originally come from China to Japan, and as this term depicts, the three countries of Japan, China, and Korea all share a common thinking. By utilizing this thinking and laying ground for a cooperation mechanism, future global vision and goals should be set.

It is meaningful for the participants here today from Japan, China and Korea to engage in discussions that cultivate a path for the great challenge that lie amongst the three countries. I also hope that the politicians clearly set the path on the political front.

Thank you very much for providing me with an opportunity to deliver a short speech today.

## **4. CJK Participant List**

### **< CHINA >**

#### **CHAI Xi**

Director, Center for Asia-Pacific Studies, China Foundation of International Studies /  
Former Chinese Ambassador to Malaysia

#### **GAO Haihong**

Professor and Director, Research Center for International Finance, Institute of World  
Economics and Politics, China Academy of Social Sciences (CASS)

#### **WANG Xuedong**

Associate Professor, Deputy Dean, Institute of Advanced International Studies, Sun Yat-  
Sen University

#### **MIAO Ji**

Research Fellow, Institute of Asian Studies, China Foreign Affairs University (CFAU)

### **< JAPAN >**

#### **KUSAKA Kazumasa**

Chairman and CEO, Japan Economic Foundation (JEF)

#### **AKIMOTO Keigo**

Chief Researcher, Leader of Systems Analysis Group, Research Institute of Innovative  
Technology for the Earth (RITE)

#### **FUKAGAWA Yukiko**

Professor, School of Political Science and Economics, Waseda University

#### **HARAOKA Naoyuki**

Executive Managing Director, Japan Economic Foundation (JEF)

#### **HARUYAMA Yutaka**

Executive Director, Japan Chemical Industry Association (JCIA)

**MATSUSHITA Kazuo**

Professor Emeritus, Kyoto University / Senior Fellow, Institute for Global Environmental Strategies (IGES)  
Examiner, Environmental and Social Guidelines, Japan International Cooperation Agency (JICA)

**TAKEMOTO Naokazu**

Member of the House of Representatives of Japan, Liberal Democratic Party of Japan

**URATA Shujiro**

Dean and Professor of Economics, Graduate School of Asia-Pacific Studies, Waseda University

**< REPUBLIC OF KOREA >**

**GONG Ro-Myung**

Chairman, East Asia Foundation (EAF) / Former Korean Foreign Minister

**AHN Choong-Yong**

Chairman, Korea Commission for Corporate Partnership (KCCP)

**AHN Se-Young**

Chairman, National Research Council for Economics, Humanities and Social Sciences (Governor of the 23 National Think Tanks) / Professor, Sogang University

**CHO Hong-Sik**

Professor, Environmental Law, Administrative Law, and General Theory of Law and Policy, Seoul National University School of Law

**KIM Jung-Sik**

Professor of Economics, Yonsei University

**KIM Sang-Hyup**

Visiting Professor, Graduate School of Green Growth, College of Business, KAIST  
Chairman, Coalition for Our Common Future

## < Japanese Speakers for the Symposium and Luncheon >

### UEDA Takayuki

Special Advisor to the Minister of Economy, Trade and Industry of Japan (METI), Japan  
Advisor

### FUKUDA Yasuo

Former Prime Minister of Japan

### KOJIMA Akira

Member of the Trustees and Visiting Professor of National Graduate Institute for Policy  
Studies (GRIPS) / Chairman, World Trade Center Tokyo, Inc.

## < Observer >

### IZUMI Satoshi

Master of International and Administrative Policy, School of International and Public  
Policy, Hitotsubashi University

## 5. Result of the Questionnaire for CJK Cooperation Dialogue 2016

« Answers for the questions and Comments from the delegates »

### Q1. Overall Evaluation of the Dialogue

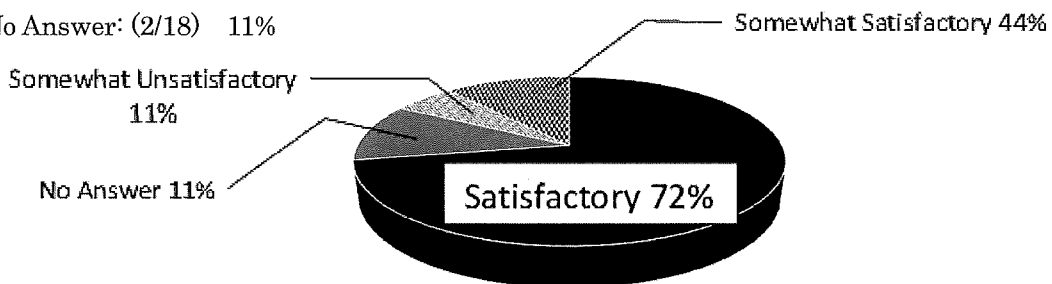
Satisfactory: (13/18) 72%

Somewhat Satisfactory: (2/18) 11%

Somewhat Unsatisfactory: (1/18) 6%

Unsatisfactory: 0/18 0%

No Answer: (2/18) 11%



### Q2. Evaluation of the Quality of the Dialogue as compared with your expectation?

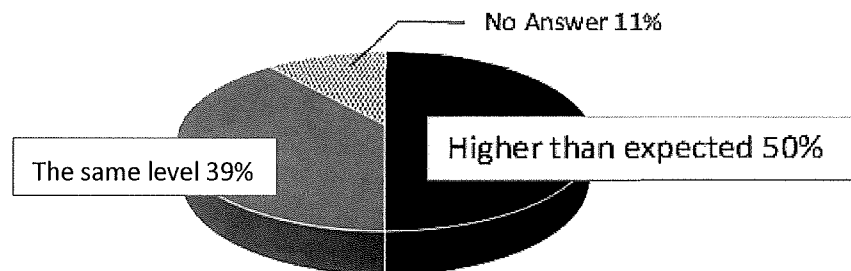
Satisfactory: (9/18) 50%

Somewhat Satisfactory: (7/18) 39%

Somewhat Unsatisfactory: (0/18) 0%

Unsatisfactory: (0/18) 0%

No Answer: (2/18) 11%



### 【Representative evaluations and suggestions】

- The participants were distinguished and the dialogue was successful.
- Tripartite Dialogue should be patient process to promote mutual understanding and are not expected to realize short-term results.



- Appreciation for your success in inviting Primer Minister to speak at Dialogue.
- Very Effective; hope for a relatively detailed report leaving for the future.
- Well prepared for discussion materials.
- Speakers focused on key points.
- Very well organized Dialogue.
- The preparation was lower than the expectation.
- Always good. This dialogue is really valuable and getting better as years go by. We need to institutionalize our efforts to be more sustainable.
- Well prepared. Concentrated discussion by all the attendants.
- Effective and efficient in maintaining the quality of presentation and discussion.

**Q 3 . Evaluation of JEF's preparation for the Dialogue**

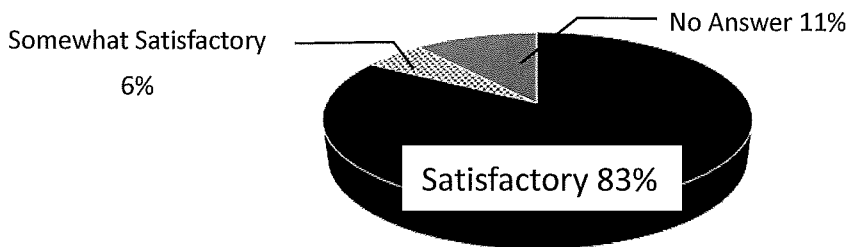
Satisfactory: (15/18) 83%

Somewhat Satisfactory: (1/18) 6%

Somewhat Unsatisfactory: (0/18) 0%

Unsatisfactory: (0/18) 0%

No Answer: (2/18) 11%



**[Representative evaluations and suggestions]**

- The discussion with all the participants on lunch and dinners were really fruitful for me.
- It would be better if we could grasp the contents of each speaker's presentation in advance. And discussion could be more enriched if there was some coordination between the organizer and speakers in setting topics.
- For the successful preparation, the secretariat needs to receive the points note about what every participant will discuss so that the moderator can prepare in advance.
- Organize the opinions and ideas discussed in the Dialogue and publish them.

**Q 4 . Evaluation of the Dialogue format this year. It limits the number of main presentations with the following exchange of comments in line with the presentations in order to facilitate focused discussions.**

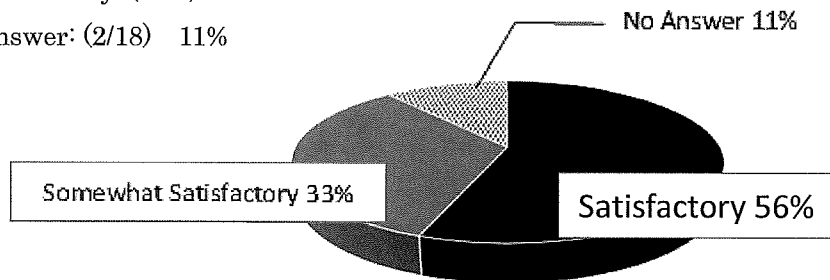
Satisfactory: (0/18) 56%

Somewhat Satisfactory: (6/18) 33%

Somewhat Unsatisfactory: (0/18) 0%

Unsatisfactory: (0/18) 0%

No Answer: (2/18) 11%

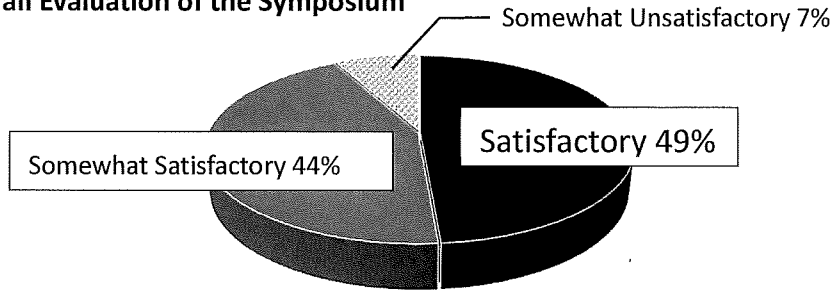


**[Representative evaluations and suggestions]**

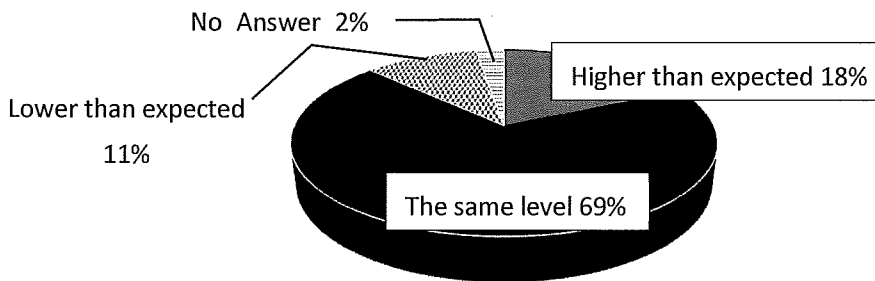
- It was better to focus on a specific topic, e.g., climate change or further focus on the actions under the Paris Agreement, and to concentrate in the discussion on the topic.
- It would be better to have interaction between experts in the economic session and the environment session. For example, experts in economics make comments on environment issues from the economists' viewpoints and experts in environment issues make comments on economic issues from their viewpoints.
- Two focus (Economy and Environment) are good enough but economy could have been narrowly focused such as economic integration, growth strategy etc.
- Current format is satisfactory. Good to have the closed door session to follow the Chatham House Rule.
- In some case or topic, it would be better if a certain topic for common presentations could be presented in advanced. For example, "Common risk & opportunity assessment" project (report)
- Specify the discussion topic and more concentrated conversations are proposed.
- This format is well designed for both the public and the participants. It also saves budgets. The only thing that was not visible is the publicity elements. One or two interviews with news media could help us in the publicity.
- Strongly agree to this format.

## Questionnaire Survey of the 3rd CJK Cooperation Dialogue (Audience)

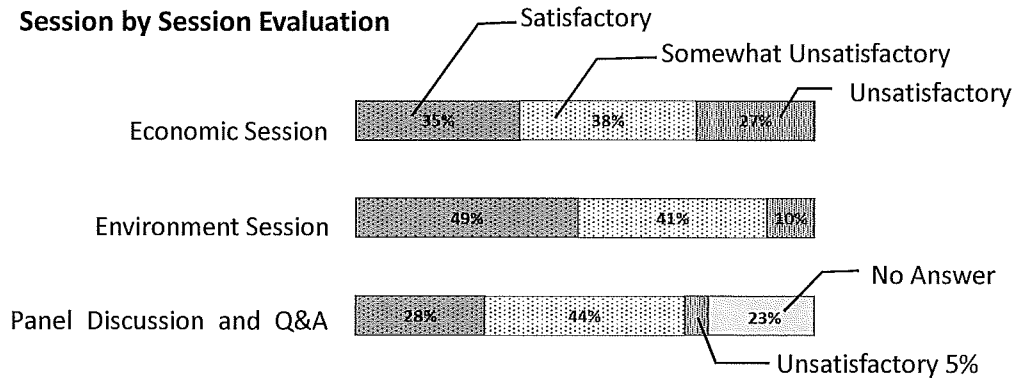
### 1. Overall Evaluation of the Symposium



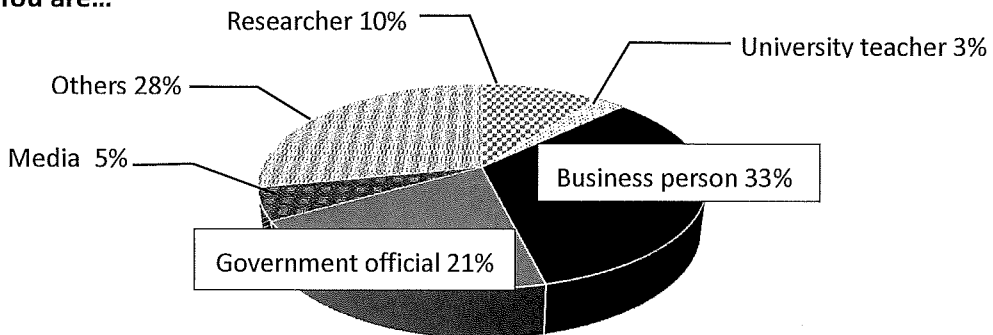
### 2. Evaluation the Quality of the Symposium as compared with your expectation



### 3. Session by Session Evaluation



### 4. You are...





Japan Economic Foundation