

JUN KWANG-WOO

Former Chairman of Korean Financial Services Commission (FSC)

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Mr Chairman, may I intervene before we move on to the next round?

Jean-Claude Trichet, former President of the ECB

You have the floor.

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First of all, organisers should be congratulated for having this prestigious conference in a fantastic facility in Seoul, which is much better venue than the ones you see in Davos. And so, I may say we are proud of having this conference, not to mention distinguished speakers joining us today.

First a few comments on what has been said and then I would like to share with you my perspective on global economic prospects. Aso san mentioned some virtues of having a collaborative approach in the Northeast Asia, especially between Japan and Korea. I think it's a great idea. An interesting example may be the Soft Bank chairman Masayoshi Son who made a fortune out of the recent Alibaba IPO on the NYSE. When I met him a few years back in Seoul, I was very impressed with his passionate entrepreneurship and innovative mind. Mr Son's case is quite interesting because his background and business represent three countries in the Northeast Asia; he is a third generation Korean Japanese and has active business operation in China. What could be a better combination than that? I think there are ample investment opportunities to be explored collaboratively within the Asia region and around the world. As a related example, I may add that there is an on-going relationship in the area of institutional portfolio management. We already have active partnership between Korea's NPS, which is the world's third largest public pension fund with almost USD 500 billion dollars and Japan's GPIF, the world's largest public fund of over USD 1 trillion. China also has similar institutions such as NSSF and we often collaborate on how best we can pursue our common interest.

Mr Trichet and others have spoken about demographics. The way I see it especially from the vantage point of Korea which is witnessing the very rapid aging, I think it is perhaps the most serious challenge to the future of our country and, for that matter for many other countries as well. Why do we have such a low, falling total factor productivity? I think one of the contributing factors may be demographic change. I have not seen very elaborate economic research on this causality, but I suspect the aging population might be behind declining total factor productivity that derives from innovation and creativity. In general older people tend to have a low risk tolerance and not aggressively engage in venture type investment. So, the result is: saving more, spend less and prefer safer assets. The overall environment and investment climate is being greatly affected by the demographic changes that we are experiencing. Therefore, when we discuss secular stagnation, we must pay greater attention to the demographic factor. We also need to think hard how effectively to bring older people with higher savings to spend more. That is an important angle that we need to pay more attention to.

Now, let me touch upon another couple of points on macroeconomic issues that have already been mentioned by former speakers. I think the world economy is heading into a period of increasing divergence and differentiation across countries. What I say may be highlighted by the remarkable evolution of so-called BRICs. Up until a few years ago, they are the dominant rising power house. Now if you look at BRICs today the parts are moving in separate directions. By and large, Brazil is in bad shape, Russia is falling apart, with its market capitalisation has

literally halved. India is getting better, with some improving investor sentiment, especially since Prime Minister Modi came on board. On the contrary, China is slowing. Although we did not discuss much about China today, it is such an important factor for the future path of the global economy. I hope we will see a soft landing but there are legitimate concerns about a hard landing scenario which is very detrimental to the future growth around the world. Therefore, what I am saying is that at one point BRICs looked like a strong homogenous group but now, a very much like a heterogeneous set, implying that you will see more and more differentiation across country performance.

Now, I also see the next year as a period of changing tides. We all know that the US is the only one that will taper QE and move on to contracting monetary expansion but others are not. BOJ, ECB, even the Peoples Bank of China and most other are in need of continuing to pump money to the system. Therefore, on the one hand, there is a cold current, and on the other hand, there is a warm current. I say this in part because my previous job was to manage big funds, so I am trying to generate some investment implications. In general, when we have changing or conflicting tides of economic situation, we have more volatility and uncertainty because market confusion and changing direction of capital flow as well. With respect to investment strategy and policy choice, it may be useful to note that when a cold current meets a warm current we may have more fish. That tends to become a fertile breeding ground. From my experience in recent years, I say that we have extended our investment horizon to alternatives because when we have an environment where unconventional policy is in pursuit then investment managers should also look at unconventional investment choices. Along this line of expanding investment scope, I am happy to let you know that Korea's NPS has recently made an investment in Poland for the first time. It is a big project, a real estate investment package worth close to USD 1 billion. In the past, Korea's NPS has focused more on advanced economies, including large property investments in Europe, notably the UK, Germany and France. What I am saying here is that the changing economic currents or tides clearly present a challenge for the policy makers and the international community, but at the same time they could create new opportunities for cross-border investment.

With that I will stop my intervention. This is my first participation in this conference and I would like to appreciate great insights of our distinguished speakers. Thank you.

Jean-Claude Trichet, former President of the ECB

Thank you very much indeed we learned a lot from you and when I referred to Aso-san saying that the Korean have a capacity to communicate, which is fantastic, I think it could be the compliment we could give you. Thank you very much for what you have said.

What I would suggest now is to give the floor to the next speaker and perhaps, Marek, if you wish, you could intervene immediately afterwards so that we will have the three last interventions and we could discuss all the complex matters that have arisen there was this remark of Mr Kwang-Woo, that when central bankers engage in non conventional measures, boom, they stand for investors also in non conventional ways [inaudible].

Please, you have the floor.