



KYUNG-WOOK HUR

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Jean-Claude TRICHET

I talked before of Hur Kyung-Wook, Former Vice Minister of Strategy and Finance, and former Ambassador of Korea to the OECD, and also having this remarkable binocular view that is very useful. Can I give you the floor?

Kyung-Wook HUR

Thank you very much. As introduced, I worked in the Ministry of Finance.

In 1997 I was Deputy Chief for the Asian financial crisis, negotiating with the IMF at the working level to suddenly when the global storm rushed to Asia I was the Vice Minister of Finance, so I was at the forefront of this crisis as well.

Right now, one of the hats I have is that there is an institution called AMRO, Asian Metronomic Research Office, in a way this is the offspring of the Asian financial crisis. After the crisis, Asian countries got together and tried to come up with an Asian version of the IMF, which is called AMF, and then the idea was dropped. Finally, what has happened now is the Central Bank has multilateralised, around USD 240 billion between 10 countries and Japan, Korea and China, what we call ASEAN Plus Three. To manage those arrangements, we have set up a surveillance institution in the form of the IMF but much, much smaller. It is around 40 people right now, but that has become a formal international organisation this year. I am one of the six non-resident advisors.

I just want to bring the discussion's attention a little bit away from advanced economies and towards the Asian countries. Any other country, Asian country, was very much alarmed with this unexpected result of a Trump election. What we are afraid of is that there is a lot of uncertainty, but if that, if often mentioned by Mr Trump, if the combination of this drastic expenditure spending, tax cuts, combined with protectionism, can be very toxic to many Asian economies.

As you know, many Asian economies are very much trade-dependent. After the 2008 crisis, Asian economies also suffered a long slowdown and now the trade is slowly coming back. Then, during the past couple of years when we have very slow trade growth, most Asian countries have turned to domestic consumption as well as investment, fuelled by Asian money both domestic and from abroad as well.

What Trumponomics tended to say is that America is going to have a big budget deficit, most likely the USD is going to strengthen, and the interest rate will be *rising* much faster than we expected before. Asian countries then face this dilemma: if they raise the interest rate to stem the capital flow then their debt, that has been a major mechanism to finance their investment and consumption, will begin to suffer. If they stay their interest rate, or if they decide to lower their interest rate, then capital outflow will start, and in normal cases a low interest rate as well as a low exchange rate will result in an advantage in trade, but if there is trade protectionism coming together then Asian countries will have major difficulties.

This is why, following this Taper Tantrum, many Asian economies have been more or less well-prepared at this time, but after the Trump election, many economies in the region have had exchange rate depreciation. We are all focused



in 10% depreciation in Mexico, but if you look at the Asian countries, Korea's exchange rate lost about 7%, many Asian countries have lost around 5% or so.

We talk about G20 and how important it is that we have this emerging market voice in the G20, but at the end of the day I think the G20, just like the test of a pudding is in its taste, the G20 should prove its value by trying to really, not in just words but in deeds, reduce and resist trade protectionism raising its ugly head again.

Yesterday we had this APEC declaration which also talked about resisting trade protectionism but without America playing its leading role, it will be very unrealistic and then we are going to see not only the slowdown of the regional economy, which is one of the most dynamic parts of the world, but altogether we are talking about circumstances in the advanced economies, but combined with the slowdown with Asian countries, I think it would be a pretty messy picture.

Two more things are coming into play. One is that, of course, China is at the centre of the value chain in Asia, and many people are expecting that the current rate of 6.7%, around that level, is not sustainable. As mentioned, we have this overcapacity situation, shipbuilding, all those areas, and we have this chronic problem of the SOEs. All those things show that if China *slows* down, not a soft landing but more hard landing if not a crash landing, that there will be another severe blow to Asian countries.

In Japan, the second largest economy in Asia, but all this is despite all the good things that Abenomics has done for many Asian countries, Japan's Abenomics effect is mostly felt in its exchange rate policy which is done by different monetary policy. The debt also raises a problem for many Asian economies, so what are you going to do?

Fiscally, you talk about productivity and already if you look at the Asian countries, they are altogether seeing, for example, 650 million people, they are average per capita GDP around USD 5 000, a little less than that.

They are already, in a way, a typical so-called mid-income trap area, so with all these problems of course there is a very strong incentive to work on productivity gains, but here again the productivity gains when you look at those things, one important element is trade and competition coming from trade, as well as technology transfer. Protectionism is coming. This innovation or so-called productive growth is going to suffer *not only* in advanced economies, but many emerging economies as well.

Not only in advanced economies but in countries like Korea, we already begin to see the underlying resentment against growing inequality. If the productive gain is not there, if Asia cannot get its fair share due to *trade* continuing to being depressed, then social mobility as well as these ways and policies... we are going to come back to Asian countries as well. That is one thing that we are very much worried about.

I just want to highlight one thing. Demographic challenges, not only for this *secular* stagnation, but in general Korea is the fastest-aging country, whether you know it or not. We are moving from an aging society to a super-aging society within 26 years. This is a record in history, and Japan has followed that path in something like 38 years, but I think there should be more attention and study about these demographic changes in terms of productivity, in terms of financial markets and all the other areas.

Thank you.

Jean-Claude TRICHET

Thank you, but you will have to respond to a lot of questions so, thank you very much indeed. It was very stimulating and again I could see protectionism and, I would say, circular stagnation, lack of productivity process, as light motive as was the case in previous exposition.