

Chinese Business Summit
September 13, 2004 (Working Lunch, 12:45-14:15)

Ladies and Gentlemen,

It is my real pleasure to address you here this afternoon at this Business Summit.

Today, as we focus on the situation in Northeast Asia, I'd like to take up an issue which the business community has been finding more and more reasons to get excited about, specifically, the economic partnership among Japan, China, and Korea, which has been building such steam in recent years. I think as you hear more about recent changes to this partnership you'll agree that we are onto something truly groundbreaking here.

Common sense tells us that any economic partnership among Japan, China, and Korea would constitute a sizable market. But did you know that our three countries together are almost equivalent in population to the EU and NAFTA combined? Our three countries also account for some 17% of global GDP and 13% of global trade volume.

Yet what is really impressive in my mind even more so than this is the pace at which the relations among our countries have evolved in recent years. Over the last five years, for example, trade between Japan and China has more than doubled and investment has roughly tripled, and trade between Japan and Korea has come close to almost a full doubling. I understand that between China and Korea too, overall trade figures have tripled and investment has increased by sixfold. So what characterizes our relationship is not merely the enormity of the market but also its dynamism.

Integration on the business front is also quite striking, and to give you just one example of cooperative business strategies among literally thousands that are taking place, a liquid crystal display TV on sale in Japan might easily have been manufactured in China using a liquid crystal panel made by a Korean company.

As you are all well aware, the economies of all three countries are doing quite well recently. China, of course, is continuing to see economic growth of over 9% per annum. The Korean economy has overcome the formidable obstacles that emerged during the Asian Financial Crisis and its economic development is once again very much back on track.

As for Japan, the government has been undertaking a number of very significant structural

reforms and we are really seeing a lot of positive developments as a result. In 2002, for example, Japanese banks had a non-performing loan ratio of 8.4 percent, but we have successfully brought that down to a current 5.2 percent. Meanwhile, Japan has seen very robust sales of value-added products such as DVD players and flat-screen TVs, bringing business confidence among Japanese firms to their highest level since the bursting of the bubble. For fiscal 2004, we are forecasting a yearly real growth rate of 3.5%, which would give Japan its second consecutive year of growth above 3%. Japan was undervalued by some during the 90's as it struggled to overcome the bursting of the bubble, but I can tell you it would be unwise to underestimate the dynamism and potential in the Japanese economy.

Now, with this as our backdrop, we come to the question of what exactly is taking place regarding efforts to strengthen even further the economic cooperative relationship among Japan, China, and Korea.

First of all I would like to touch on some of the very forward-looking steps we have been taking to strengthen our cooperation even further.

Included in the Joint Declaration on the Promotion of Tripartite Cooperation among Japan, China and Korea issued at last year's trilateral summit in Bali was an agreement to launch an informal joint study on the possible modality of trilateral investment arrangements. The joint study group is now investigating the possibility of concluding trilateral investment arrangements and looking into means of improving the investment environment. Also, thinktanks in the three countries are conducting joint research on a possible trilateral free trade agreement.

Japan already enjoys an Economic Partnership Agreement with Singapore and we are now in negotiations regarding similar EPA agreements with Korea, the Philippines, Malaysia, and Thailand. Moreover, at the most recent Japan-ASEAN Economic Ministers' Meeting, it was agreed that a recommendation be given to the head of state level that negotiations on an EPA with ASEAN as a whole be launched next April. The larger international context is that we're seeing simultaneous movement towards EPAs on a number of fronts, with China, Korea, ASEAN, Australia, New Zealand, and India all working towards such agreements among themselves. We will most certainly be seeing some very historic changes in the area of economic integration, with bilateral and multilateral agreements all forming a web which will quite literally redefine the state of economic integration in the Asian region.

With the mutual competition that will emerge, these efforts will be encouraging further

structural reform and adjustment in each country, and I think we can all agree that this will have a very positive impact on the economies of the region.

Second, let me touch for a minute on the political framework within which these cooperative changes are taking place. This past June in Qingdao, I served as the Chair of the “Three-Party Committee,” which consists of the Foreign Ministers of Japan, China, and Korea and which has as its primary mandate the follow-up of the Joint Declaration announced by our heads of state. Trilateral discussions have until now been held along with ASEAN-related meetings in ASEAN countries, but meetings of the Three-Party Committee are held in one of the three member countries as an entirely independent process. In addition to the Three-Party Committee, there are five other trilateral ministerial meetings held regularly, taking up the topics of economic and trade issues, the environment, information and telecommunication technology, finance, and energy, and next year a new ministerial meeting will be launched to address issues in the fields of science and technology. So you can see that we are actively expanding and deepening our cooperation to far beyond what is happening on the factory floor. As we proceed with these efforts we are redoubling our commitment to economic growth in harmony with surrounding circumstances existing within the greater society, with environment and energy as prominent examples of trans-boundary issues to which this principle applies.

Indirectly related to all this is the North Korean issue, one of the destabilizing factors for Northeast Asia. You are of course all aware of the ongoing efforts to bring about the elimination of nuclear activities in North Korea by means of the six-party talks. We are now heading into the fourth round of talks and all parties involved, including Japan, China, and Korea, are fully engaged in preparations. The idea for establishing a mechanism for Japan, China, Korea, the United States, Russia, and North Korea to come together to discuss security issues in Northeast Asia was originally proposed in 1998 by then-Prime Minister Keizo Obuchi. Currently, of course, the six-party talks are a framework aiming for the peaceful resolution of the North Korean nuclear issue. But in the future, these talks could take up a broader range of security-related issues in a deeper way, and that will certainly yield enormous peace and security benefits for the Asian region.

A third point which is really strengthening the economic cooperation we see among Japan, China, and Korea is the positive developments occurring within private business practice. As I mentioned earlier, these developments are already very much underway and we are certainly looking forward to greater and even more substantive strengthenings in the area of private business practice in the months and years ahead.

A fourth point, and the point which is really the key to making all the rest possible, is having the political will to make the strengthening of these regional cooperative ties actually come about. In 2002, Prime Minister Koizumi called for the creation of a community that “acts together and advances together” in East Asia. Now what this means in concrete terms is that we must work to create a community which is open, a community that works together in harmony not despite, but rather because of, the diversity we find in our histories, our cultures, our ethnic backgrounds, and our traditions. At the Japan-ASEAN Commemorative Summit held in December of 2003, the heads of state of every ASEAN country confirmed along with Japan their commitment and political will to move ahead to create just such an East Asian community. And for Japan, China, and Korea—and again, what we are really talking about is the three countries which will be main stage in shaping the future of this region—our heads of state stated very clearly in their Joint Declaration that they have a very strong political will to move forward proactively with trilateral cooperation in a transparent, open, non-exclusive and non-discriminatory manner. In my view, it is really impossible to overstate the importance of this political will, and I am certain that within this context the promotion of various forms of functional cooperation, including EPAs, will be critical for our three countries to advance and lead the creation of an East Asian community.

Ladies and Gentlemen,

If we consider the US/Canada Auto Pact of 1965 eliminating tariffs on automobiles as the first step towards NAFTA, we can see that it took a full 30 years for NAFTA to be realized. Europe, too, took about 60 years for regional integration. Considering the enormity of the diversity that characterizes the Asian region, it is quite clear that there are many hurdles which are still to be overcome. Yet I believe that when we speak of an East Asian community, its creation is not far off at all, considering the movement now taking place both within the private sector and at the highest levels of government.

Thank you very much for your attention.