

# Japan as a Leading Power: Trade and the FinTech Revolution

*CJEB's annual Tokyo conference*  
Otemachi Financial City Conference Center, Tokyo, Japan  
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*Top row, left to right: R.A. Farrokhnia, Masaaki Tanaka, Shang-Jin Wei, Shujiro Urata, Shotaro Oshima, Naoyuki Iwashita, Noriyuki Yanagawa;  
Bottom row, left to right: Takatoshi Ito, Merit E. Janow, Hugh Patrick, Wendy Cutler, David E. Weinstein*

## Welcoming Remarks

The Center on Japanese Economy and Business (CJEB) held its annual conference in Tokyo on May 28, 2018. This conference is a component of the Center's overall mission to promote knowledge of Japanese business systems in domestic, East Asia, and international contexts. This year the conference was titled "Japan as a Leading Power: Trade and the FinTech Revolution." It was co-sponsored by the Development Bank of Japan.

Hugh Patrick, director of CJEB and R.D. Calkins Professor of International Business Emeritus at Columbia Business School, welcomed attendees and gave a brief overview of the two topics chosen for the conference: international trade and financial technology (FinTech). Both topics have been made particularly relevant by recent international developments and were selected because they are key to understanding the current state of Japan's economy, business systems, and international relations.

Professor Patrick set the tone for the conference by providing a brief overview of current U.S.-Japan relations. He emphasized the strength of the U.S.-Japan alliance, which is supported by fundamental similarities between the two democracies and deepened by private business, economic, and person-to-



Hugh Patrick

person relationships. He also noted that while it is important to acknowledge the tension brought about by President Donald Trump's desire for bilateral trade agreements and his tendency toward trade skirmishes, CJEB designed the conference to be about Japan's economy, not about President Trump or political and security relations.

Similarly, while Professor Patrick found it surprising and dismaying that President Trump included Japan among the key allies that would have to pay tariffs on steel and aluminum, he found it equally important to recognize the hard work that Japan has put into maintaining U.S.-Japan trade relations. He gave as examples Prime Minister Abe's recent meetings with President Trump and the upcoming trade discussions to be spearheaded by Economic Revitalization Minister Toshimitsu Motegi and U.S. Trade Representative Robert Lighthizer.

### Keynote Speech: Challenges and Opportunities in U.S.-Japan Trade Relations

Merit E. Janow, dean of the School of International and Public Affairs at Columbia University, served as moderator for the keynote speech. Dean Janow spoke about her longstanding interaction with the speaker, Wendy Cutler, vice president and managing director at the Washington, D.C., office of the Asia Society Policy Institute. Both Dean Janow and Ms. Cutler previously worked at the Office of United States Trade Representative, with Ms. Cutler serving in many senior positions for over 28 years, including as a senior negotiator for the Trans-Pacific Partnership (TPP) agreement. Professor Janow explained that Ms. Cutler is able to provide a unique historical and contemporary perspective on the U.S.-Japan trade relationship.

Ms. Cutler began her presentation by noting that, while U.S.-Japan trade relations overall could not be in better shape, trade remains an ongoing, unpredictable element between the two countries, since President Trump took office. By way of example, Ms. Cutler described separate actions taken by the United States and Japan during the same week in May 2018. Taken together, these actions illustrate the broad differences in each country's approach to trade. First, President Trump's administration increased its protectionist stance by making a surprise announcement that it would initiate a national security investigation under section 232 on the imports of automobiles and automotive parts. Although this investigation seems to be primarily motivated by President Trump's frustration with NAFTA negotiations, it will have far broader consequences for relations with Japan. Then, during the same week, Japan approved the TPP in the Lower House of the Diet, marking a major milestone for the agreement and more generally for Japan's movement toward trade liberalizing measures. The passage of TPP also showed, Ms. Cutler explained, that Japan deserves



Merit E. Janow

enormous credit for leading the remaining TPP countries after President Trump abruptly pulled the United States out of the agreement.

Ms. Cutler said that she would use the rest of her keynote address to discuss her perspective on trade policy developments under President Trump, explain how she thinks the U.S.-Japan relationship fits into this new trade equation, and offer suggestions on how the two countries can move forward together.



*Wendy Cutler*

Ms. Cutler explained that, despite a particularly tense relationship in the 1980's and 1990's, when the U.S. felt threatened by Japan's growing dominance and its reluctance to provide market access to U.S. exports and investments, more recent U.S.-Japan relations have shown dramatic improvement, particularly after both countries entered TPP discussions. Both sides sought a similar vision for setting high standard rules for the region and a similar desire to achieve broad-impact results through multilateral arrangements. This is not to say that the road to better relations was easy; there were many disappointments and challenges along the way. However, because shared objectives were agreed upon between countries in advance, there was ongoing optimism and reason to believe that agreements could be reached.

This mutual optimism unfortunately did not last long. In the U.S., particularly during the lead-up to the 2016 presidential elections, TPP became a symbol of everything that was supposedly wrong with trade. As a result, when President Trump came into office, he had not only a passion but what he saw as a mandate to withdraw from the agreement, and he did so quickly, simultaneously making it clear that he would pursue bilateral agreements going forward. His perspective was rooted in his belief that past U.S. trade agreements and the WTO had worked against US interests, creating unbalanced agreements, the movement of U.S. manufacturing jobs overseas, and trade deficits. President Trump also underscored the need for "reciprocity," a term not used since the U.S.-Japan trade wars.

Ms. Cutler noted that President Trump's decision to renegotiate existing trade agreements has not gone smoothly. Obstacles have included resistance by the U.S. Congress, negative tradeoffs among goods sectors when tariffs are imposed, volatility in markets and the global economy, and resistance from trading partners, allies and adversaries alike.

To complicate matters, Ms. Cutler explained, the Trump administration's infighting on the topic of trade has led to conflicting messages. Furthermore, the imposition of tariffs, the development of trade agreements, and even the enforcement of policy have become transactional and open to negotiation. As such, the U.S.'s trading partners, including Japan, are trying to understand the evolution and execution of present U.S. trade policy and how to position themselves accordingly.

Ms. Cutler expressed concern that the U.S.-Japan trade relations may be headed toward a period of friction. On the U.S. side, President Trump gives the impression that he is reverting to outdated views of Japan and Japanese trade. On the Japan side, there is frustration over how the U.S. abandoned solutions

to trade disagreements made between the two countries and other partners when it abruptly pulled out of TPP. On the U.S. side, the Trump administration protests that it has a large trade deficit with Japan. Japan states that the deficit must be put into a global perspective, representing a smaller and smaller fraction of the overall U.S. global trade deficit. Furthermore, Ms. Cutler explained, many in Japan argue that it is too narrow to judge an economic relationship simply on trade flows, when there are many other factors to keep in mind, particularly Japan's FDI in the United States and the hundreds of thousands of U.S. jobs it creates. The U.S. and Japan can also join forces to address China's unfair trade practices.

With the U.S. and Japan now embracing different perspectives on trade and seeking different solutions, Ms. Cutler emphasized the importance for the two countries to find common ground. She noted that progress had been made during the TPP talks in regard to meaningful access to Japan's agricultural markets. At the time, some in the U.S. Congress and the U.S. agricultural community thought that access was not extensive enough. However, Japan has continued its efforts to extend market access with the remaining TPP members as well as with the EU. These efforts might, in the future, to convince the U.S. Congress and other stakeholders that it is worth reopening discussions with Japan.



*Wendy Cutler and Merit E. Janow*

Ms. Cutler noted that the Trump administration will continue to focus on the automotive industry, and she suggested that Japan and the U.S. could lead in standards and innovative endeavors in that industry, including in new technologies such as driverless cars and new energy vehicles. Regarding the difficult sticking point of multilateral vs. bilateral trade agreements, Ms. Cutler explained that if the United States could agree to the TPP rules, it could then explore with Japan building on the TPP rules. Based on her experience, she urged the U.S. and Japan to ensure, before embarking on further trade negotiations, that each country has a clear understanding of the other's priorities, expectations, and so-called "red lines" that politics and other factors prevent them from crossing.

In conclusion, Ms. Cutler urged the U.S. and Japan to reassert their partnership and take joint leadership in global trade relations. Ms. Cutler noted that with so much at stake in the global and regional trade systems, both countries should focus their collective energies on shaping international trade rules and improving market access.

Dean Janow began the question and answer period by asking if the recently renegotiated trade agreement with South Korea could offer lessons for the Trump Administration trade priorities and what might lie ahead in U.S.-Japan trade relations. Ms. Cutler answered that there were certainly things that could be

learned from this renegotiation, such as the fact that the Trump administration had many strong requests for changes but ended up settling for only a few modest and conventional updates.

Dean Janow expressed particular interest in what TPP had achieved by way of new rules in the area of digital trade, an agenda for which she said TPP has the most far reaching provisions of any trade agreement. She asked Ms. Cutler if the U.S. and Japan were sufficiently allied in approach to privacy and data security issues.

Ms. Cutler responded that when TPP members went back to review the rules following the U.S. exit, they kept the digital trade provisions intact, which she noted is an important indicator of the relevance of the issue. She explained that there were ways the U.S. and Japan could work together to solidify the specifics of trade rules in regard to the free flow of data. As examples of areas to be further explored, Ms. Cutler suggested 3D printing, artificial intelligence, and new energy cars. These are areas where the U.S. and Japan, as leaders in technological innovation, can work together first bilaterally and then more broadly to set standards for the world.

### Panel I: Challenges for the International Trade System



*Left to Right: Shang-Jin Wei, Shotaro Oshima, Shujiro Urata, Merit E. Janow, David E. Weinstein*

David E. Weinstein, director of research at CJEB and Carl S. Shoup Professor of the Japanese Economy at Columbia University, moderated the first panel discussion. Shang-Jin Wei, N.T. Wang Professor of Chinese Business and Economy at Columbia University, gave the first presentation, focusing on China's perspectives on trade. He noted that he would focus on the short-, medium-, and long-term challenges facing the international trading system.

In terms of short-term challenges, Professor Wei identified the uncertainty presented by on-again, off-again US-initiated trade wars with China and other countries. The abuse of "national security" as an exception to trade policies, the resurrection of what are considered illegal "voluntary" export quotas, and the blocking of World Trade Organization (WTO) appellate judges are some of the key short-term challenges for the global trading system. He surmised that President Trump viewed a trade war with China as easily won through a rebalancing of exports between the countries. He noted, however, that this view was fundamentally flawed and any resulting trade war would be mutually and globally damaging. He stated that President Trump is overly focused on trade deficits and does not sufficiently consider regional and global value-added trade supply chains. In addition, he explained that President Trump's



David E. Weinstein

global capital flows, and global economic difficulties, especially for emerging market economies that rely on international capital market to finance their consumption or investment. This may in turn generate demand for trade protectionism. Finally, Professor Wei explained that the common conception in the U.S. that trade with China led to U.S. job losses is actually wrong. He noted that through a direct competition channel, import of Chinese goods did lead to job losses, but that this was offset by increased productivity and resulting job creation generated by companies in the U.S. that use China-made intermediate inputs for their business. There are a lot more US firms that benefit from the imported intermediate input channel, than those that are hit by a direct competition effect.

Professor Wei's analysis of the long-term challenges centered on the idea that China will become the leading economic power in the world in coming years. He posed the questions of whether China would follow the set of rules currently being developed for global trade and whether they would be more or less likely to do so considering recent U.S. actions.

As an idea for promoting a stronger collective voice to defend an open, fair, and ruled based international trading system, Professor Wei proposed that China, Korea, and Japan, along with their ASEAN partners, should consider enhanced cooperation with one another to promote sensible trade reforms and champion open and rule-based global trading.

Shotaro Oshima, current chairman of the Institute for International Economic Studies and former Ambassador to the Republic of Korea and the Kingdom of Saudi Arabia, spoke next, giving a history of how the General Agreement on Tariffs and Trade (GATT) led to the WTO and ultimately the TPP. He began with a history of the GATT, explaining that the members of the agreement were primarily driven by a desire to

understanding of trade balance failed to include substantial sales by U.S. companies located in China to the Chinese. Finally, he noted that if the U.S. should choose to act outside of the WTO, it would run the risk of setting a precedent, making it more likely for any future globally dominant trading power to do so as well.

In describing the medium-term challenges, Professor Wei pointed to the forecast that policy measures taken by President Trump's administration, including U.S. tax cuts, would actually lead to further increases in the U.S. trade deficit with global trading partners. Professor Wei noted that this was likely to exacerbate trade tensions and the sentiment among U.S. politicians that trade deficits are too high. He also noted higher U.S. interest rates, projected to take place over the next two years, could create global exchange rate shocks, a sudden reversal of



Shang-Jin Wei

create a multilateral trading system to promote free trade and foster trade expansion and economic growth.

Belonging to a voluntary association of like-minded entities, GATT members came to agreements through settlements that were not binding or adjudicated but instead enforced mostly through peer pressure. As such, GATT agreements were capable of keeping up-to-date with changing economic, industrial, and business environments. In contrast, the WTO was founded upon the universality of membership and the use of binding adjudication to settle disputes. Ambassador Oshima surmised that it was because the WTO has so far failed to become a living agreement capable of standing up to the test of a changing global economy that it has had such striking disappointments including the failure of the Doha Round in 2008. And he added, referring to the fact that some WTO members were not willing to call the Doha Round dead, “If you can’t call a dead duck a dead duck, something is terribly wrong!”



Shotaro Oshima

Ambassador Oshima then described the founding of the TPP, which he noted had far more similarities to the GATT than it did to the WTO in terms of its overall spirit, like-mindedness in membership, preference for arbitration over adjudication, and ability to react dynamically to a changing global economy. He argued that the TPP should move forward as soon as possible and continue to expand in the spirit of openness and inclusivity. He expressed hope that, in time, the U.S. would reconsider joining and that other countries such as a post-Brexit U.K. might also.



Shujiro Urata

U.S.’s role in developing GATT as well as noting that the U.S. has traditionally been a driving force behind WTO efforts to strengthen and enforce international trade rules. The fact that the U.S. once led the global economy in open trade efforts but is now turning inward heightened Dean Urata’s disappointment in recent developments in U.S. trade policy.

Dean Urata explained that many East Asian countries closely watch the relationship between China and the U.S. and are concerned that if Chinese goods are diverted away from the U.S., they would be redirected to East Asian countries, which could damage their industries. Furthermore, he noted that East Asian countries already try to reduce export dependence on the U.S. market, favoring instead region-wide Free Trade Agreements in East Asia. He also noted that Europe and Latin America are areas where Japan and other East Asian countries are looking to expand relationships and develop like-minded trade associations.

As the final speaker on this panel, Merit Janow provided a brief historical perspective on U.S. trade policy approaches and frameworks and also offered perspectives on current developments. She noted that, under the U.S. constitution, authority for regulation of international trade resides with Congress but that the Congress had decided long ago to delegate authority for negotiation of trade agreements to the executive branch. This was done in part out of recognition by Congressional leadership at various points in US history that the executive branch is well placed to take a comprehensive view of US national interest while Congress can be more parochial. As a result, the executive branch has been given latitude to take trade related actions, although Congress still must ratify treaties and is deeply involved in oversight of policy.



Merit E. Janow

In explaining whether or not recent protectionist actions taken by the U.S. are anomalous in American history, Dean Janow pointed to the good work of economic historian Douglas Irwin who has noted the use of tariffs in several periods of US trade policy: an early period after the founding of the republic when tariffs were used as an instrument of revenue generation; a second when tariffs and trade policy used to restrict access to the U.S. market, and a third period when tariffs and trade policy used to develop reciprocity frameworks to secure bilateral and multilateral market openings. These days, President Trump's current focus on "reciprocity" has been a key point in discussions about what is seen to be this administration's increasingly protectionist stance. In fact, Dean Janow noted that reciprocity has long been embedded in US trade policy, and even negotiations multilaterally include a degree of reciprocity as sectoral negotiations between key partners can occur bilaterally but be embedded and lock into multilateral frameworks. In this way and others, bilateral and reciprocal approaches are not altogether new. At the same time, this administration is taking the concept of reciprocity much more literally than has been considered in the past.

When asked what to expect in terms of how negotiations may play out, Dean Janow noted so far the US has sounded more protectionist than it has actually become although there are many specific actions threatened that are worrisome. Also worrisome is the absence of clarity of what success might look like in these negotiations. She noted that recent developments have helped educate the American people about the complexities of international trade and have motivated the U.S. Congress to develop a more sophisticated understanding of how the American economy is integrated with the rest of the world.

However, Dean Janow expressed concerns regarding the current administration's choice to use national security as a reason for trade decisions. Because of its sensitive nature among trade partners, countries rarely use national security in negotiations; furthermore, it is hard to walk back from this invocation once it is made. Moreover, if the US invokes national security and a WTO panel or appellate body challenge it—using the confusion of views expressed by even parts of the US administration to call into question the reasoning of such invocation—this confluence of factors may further undermine this administration's support for multilateral dispute settlement.

In respect to what all of this means for Japan, Dean Janow noted that Japan deserved great credit for moving TPP forward under the "TPP 11 framework" and for advancing an approach in which the U.S. might willing to consider joining in the future without the underlying agreement being substantially altered. She wondered whether there weren't similar actions Japan could take in revitalizing the work of the WTO.

## Panel II: Is FinTech a Disruptive Innovation?



Left to Right: R.A. Farrokhnia, Naoyuki Iwashita, Noriyuki Yanagawa, Masaaki Tanaka, Takatoshi Ito

The second panel was moderated by Takatoshi Ito, professor at Columbia University's School of International and Public Affairs and director of the Program on Public Pension and Sovereign Funds at CJEB. He noted that while CJEB organized a conference on FinTech just the year before, so much changed in the last year, and so many new millionaires had been made in the realm of FinTech and cryptocurrencies, that the content of this year's conference would be quite different.

R.A. Farrokhnia, executive director of the Columbia Business School's "Advanced Projects and Applied Research in Fintech" Initiative and adjunct associate professor at Columbia Business and Engineering Schools, gave the first presentation. He provided his perspective on the world of Fintech and the latest developments in blockchain technology, artificial intelligence, machine learning, and data analytics. Professor Farrokhnia noted that while there was a certain amount of hype surrounding the relatively new term "Fintech," the basis upon which the field has evolved has been around for some time and indeed innovation has long been driven by technology.



Takatoshi Ito

services, albeit with some limitations. Then, when smartphones became prevalent and everyone suddenly had computers in their pockets, the floodgates of consumer access to Fintech really opened, empowered by the technological capabilities of smartphones.

Fintech now touches more than we ever thought possible. Software applications are at the forefront of all new developments, and the way that consumers use and expect to use technology continually raises the bar. We have grown accustomed to sophisticated interfaces, seamless user experiences, and augmented services such as geo-location. This puts Fintech startups driven by deep tech at a distinct advantage over older, more traditional companies with perhaps clunky legacy systems. The gap between these two types of companies and the increasing opportunities presented by developments in Fintech lead some to wonder whether companies that are tech savvy and user focused might end up dominating in fields where they have no previous experience, but are nimble enough to outsmart the big players now.

Naoyuki Iwashita, professor at Kyoto University School of Government, spoke next, focusing on cryptocurrency and central bank digital currency. He began by noting that Bitcoin is invisible, being conceptual rather than physical currency, and that there are 12,109 “nodes” in the world where Bitcoin blockchain is stored, with the highest percentages in the U.S. and China and only two percent in Japan.

He explained that advent of technology-based processes in financial services dated back to the 1950’s when the need for transactional data exchange between banks necessitated increasingly sophisticated encryption methodologies, eventually leading to the advent of electronic trading exchanges such as NASDAQ in early 1970’s. Such technological developments, however, were confined within the large enterprises in the financial services industry, and consumers had little direct access to the benefits. With the widespread adoption of the Internet in the 1990’s, consumers began to have more access to web-based financial



R.A. Farrokhnia

He also explained that since Bitcoin and relevant associated information are freely shared peer-to-peer and decentralized rather than structured under governmental overview, they can only be created by mining, a job that is limited to specific Bitcoin users considered to be specialists. He noted that the amount of equipment and electricity needed to mine Bitcoin is substantial and will only keep rising in the future, and it may trigger another debate of global sustainability.

Professor Iwashita described the massive growth in the value of Bitcoin, with its price starting to spike in 2017. There are many other virtual currencies besides Bitcoin, including most notably Ethereum. When one goes up in value, all others can too.

Professor Iwashita then delved briefly into the importance of the Initial Coin Offering (ICO) on cryptocurrency markets. He described the positive feedback to the Ethereum price when ICO trades on Ethereum and completes its offering successfully and then starts another cycle. People trading on ICO tokens can expect returns of over three times their initial purchase. Not surprisingly, many hedge funds and others use ICOs to generate quick profits for new endeavors.

As a result, Professor Iwashita explained, the U.S. Securities and Exchange Commission (SEC) has begun to attempt to regulate cryptocurrency and charge some ICOs with fraudulent activities. Monetary authorities in other countries have taken even more stringent steps to crack down on cryptocurrency exchange.

Professor Iwashita spoke about the theft of vast sums of a virtual currency called NEM, which are traded through the company, Coincheck. It turned out that Coincheck had stored NEM in a single virtual wallet using a single secret key, which left the virtual coin vulnerable. The NEM theft started an intense discussion on how to protect investors in the trading of cryptocurrencies.

Finally, Professor Iwashita spoke about Central Bank Digital Currency (CBDC), using his perspective as a former member of the Bank of Japan. He noted that while there may be hesitancy to create CBDC in Japan or in many other central banks in developed countries, CBDC may become popular in developing countries where the majority of the population is unbanked, and financial inclusion is needed.

Noriyuki Yanagawa, professor at the Graduate School of Economics at the University of Tokyo, gave the next presentation, focusing on the relationship between Japan's macro-economic performance and the recent trends in FinTech, namely the emergence of start-up firms and major cryptocurrency transactions. He noted that most Japanese households are still hesitant to use FinTech, preferring to put their money in more traditional banks, but that the younger generation is growing increasingly interested in investing



Naoyuki Iwashita

in cryptocurrencies. However, strongly positive impacts of FinTech on the overall macro-economy of Japan, such as growth in GDP, have yet to come.

Professor Yanagawa spoke about the abundance of FinTech firms in Japan and the beginning of what he saw as positive collaborations between more traditional banks and FinTech venture firms. However, he noted that the many small start-up venture FinTech firms will never be able to grow to a point where they could have global impact. Furthermore, most start-up FinTech firms still focus on new financial and payment services. While this increases efficiency and quality of financial services, it is not known what the ultimate consequences will be for the overall economy.



*Noriyuki Yanagawa*

Professor Yanagawa emphasized that major banks in Japan need to become “platform” companies that are able to attract other companies and individuals to join forces and assets toward mutual financial growth. This means that banks will need to offer benefits beyond financial services and funding to attract customers. They will need to gather from and provide meaningful data to their platform customers. He noted how extraordinary it is that China is currently becoming a cashless economy, saying that the major benefits included the heightened facilitation of data gathering and the ability to transmit new information and data

rapidly between players in the economy. In contrast, even though Japanese banks have been able to obtain information about customers, they have not been able to translate the data into a format upon which they can perform significant macro analysis. Blockchain technology, Professor Yanagawa argued, would be vital for changing the nature of how Japan does business and structures its economic growth.

Professor Yanagawa next spoke about the nature of ICOs and cryptocurrency as fundamentally speculative, presenting an interesting kind of economic bubble. The real value of cryptocurrency is zero but investors invest in it regardless. While the bubble might burst, particularly if cryptocurrency issuers have been fraudulent, it also might not.

Finally, Professor Yanagawa spoke regarding the potentials of Central Bank Digital Currency and its differences from Private Digital Currency. Many have acknowledged that physical cash is cumbersome. However, Professor Yanagawa noted, just because digital currency is more convenient, it doesn't mean that Central Banks should issue it. If they were to issue digital currency, everyone would have to have an account with the Central Bank. He argued that the potential for innovation and expanded data-sharing opportunities could be far greater if the private sector is responsible for issuing cryptocurrency.

The final panel member was Masaaki Tanaka, Senior Global Advisor at PricewaterhouseCoopers International. Mr. Tanaka began with a macroscopic overview of the FinTech ecosystem by describing its

three phases of evolution. The first phase, which started in 2013, was marked by an influx of investment in FinTech and characterized by technological innovations in respect to digital distribution, new digital and mobile services becoming available at lower costs, and disruptive models led in part by digital-native “millennials.” The second phase, which started in 2015, was characterized by tendencies toward new partnerships between FinTech firms and more traditional financial companies. This move away from pure disruption was in response to FinTech players’ financial and logistical difficulties in acquiring new customers and responding to regulations.



The third phase, which we are currently entering, is characterized by further attempts at synchronization between FinTech and incumbent financial institutions. For example, instead of cryptocurrency replacing traditional currency, we are seeing traditional financial institutions adapting to cryptocurrency use within their traditional practices, such as lending. Furthermore, FinTech has changed how financial products are developed, distributed, and consumed, but FinTech still does not have a large and loyal customer base. Thus the emergence of “BigTech,” which combines well-known financial sector brands with the basic tenants of FinTech’s advances. In years to come, we will see more hybrid models. For example, artificial intelligence (AI) will play a larger role in banks but will not replace humans, thus creating an AI-enhanced human environment rather than an AI-dominated one. He also posited that physical bank branches will act as an on-ramp to digital products and automation could supplement employee work.

Mr. Tanaka noted that funding for FinTech is on pace for reaching a record level \$21.6B total in 2018, showing strong growth since 2013. He also discussed the growth in global interest in FinTech, as measured by Google searches for the term. Moving onto a discussion of FinTech by region, Mr. Tanaka noted that the U.S. has 16 out of the 26 global FinTech companies valued at \$1B or more, and that these companies have shifted focus from disruption to partnerships to supplements to traditional financial services. Venture-backed funding in North America has moved into development of new technologies such as AI, and is focusing on digital-only bank platforms.

In Europe, Mr. Tanaka explained, new regulations are promoting greater competition among entrants to the FinTech market and a move toward making the playing field more consumer-centric. He also noted that the new regulations in Europe were promoting greater venture funding in FinTech initiatives. Finally, he briefly explained that in the Asia Pacific region, China and India are leading in investment in FinTech and the use of FinTech to rebuild financial services.

With regard to cryptocurrencies, Mr. Tanaka delved further into regulations, stating that, while the U.S. had relatively little unified regulation, Japan was the first country to use a registration system for market operators, commonly known as coin exchanges. Particularly following the NEM theft at Coincheck, more system changes may be put in place across the world. Among the nations regulating cryptocurrency, China is currently one of the harshest. The U.K. and the EU have also taken strict measures, including a ban on anonymity for cryptocurrency traders. According to surveys regarding Bitcoin, however, more than half of those asked approve a market approach to regulation.

Mr. Tanaka next discussed the emerging trend of stable coins, noting that cryptocurrencies such as Bitcoin are highly volatile, with single day drops of 30% being not unusual. Instead the value of stable coin would be pegged to a more constant asset like the U.S. dollar or Japanese yen. However, whether stable coin holders have an underlying asset or how they actually hold it is still unknown.

Regarding the future of banks in the FinTech era, Mr. Tanaka first examined what would happen to physical bank branches after wider adoption of AI and automation. He noted that steady and continued branch reductions are already taking place and are estimated to continue for the foreseeable future in all developed countries except Japan, where the number of physical branches is increasing.

China is leading the way in progression toward non-cash payment transactions. Japan, on the other hand, is well below the global average for FinTech adoption, and there is worry that Japan is losing momentum in the digital revolution. Mr. Tanaka surmised that Japan is having such trouble with FinTech because it is still a cash-based society and because, while Japan is open to FinTech advancements, adoption of new practices is slow.



Masaaki Tanaka



David E. Weinstein

## Closing Remarks

Professor Weinstein concluded the conference by thanking the speakers, the audience, and the Center's corporate sponsors. He extended special thanks to the Development Bank of Japan for their co-sponsorship of the program.

## Reception Toast

Mr. Masazumi Wakatabe, Deputy Governor of the Bank of Japan, opened the reception with a toast.



Masazumi Wakatabe



Masazumi Wakatabe and Hugh Patrick