

Northeast Asia Economic Forum – Seoul Meeting
Comments by Kohei Nakanishi, Director General, International Finance Department I,
JBIC for The Grand Design and Northeast Asia's Investment Needs

Chairman Cho, Northeast Asia Economic Forum, Co-Chairmans Nam and Shioya for this session, Ladies and Gentleman, I would like to offer my sincerest thanks to you all for inviting me to the historic Northeast Asia Economic Forum today and for giving me the opportunity to say a few words at this session. My name is Kohei Nakanishi from the Japan Bank for International Cooperation (JBIC).

Executive Vice President Mr. Sawai from NIRA, Former Energy Specialist of World Bank Mr. Farhandi, and Mr. Choo head of the Center for Northeast Asian Studies of the Korean Development Bank made speeches on the Grand Design and Northeast Asia's Investment Needs. I would like to say a few words from the point of view of the governmental financial institution responsible for Japan's foreign economic cooperation regarding issues of financial support provided for infrastructure projects in the Northeast Asia region.

From the very lively debates among all those involved in Northeast Asian affairs over the many years and from today's speeches, I understand, in light of the potential or apparent conflicts of interests in Northeast Asia, the significance of multilateral cooperation in Northeast Asia and especially economic cooperation among countries in the region as a means to resolve conflicts.

In an opening speech, Mr. Sawai mentioned that to achieve development in Northeast Asia it will be essential to deepen relations concerning social and economic complementarities and to increase opportunities for regional exchange. He further noted that the achievement of these goals requires the establishment of strategic multinational infrastructure in the energy, transportation, distribution and telecommunications sectors. While I agree with Mr. Sawai, I dare to point out that we should not have as our premise simply the construction of infrastructure, but instead focus on the need for the establishment of infrastructure before considering specific projects. There are a lot of cases in which developing a project itself has become the goal, and in the end, the project has ended unsuccessfully. Rather, project design focusing on economical feasibility is needed. When a project lacks significant economic feasibility, multilateral cooperation in considering an adjustment to the project scope and making efforts to strengthen project feasibility as far as possible is important.

Concerning the remarks that it is essential for those of us involved in multilateral coordination of policies to achieve a consensus concerning a future vision for Northeast Asia, I would add that this is not easy. For example, for an energy project in Northeast Asia, it is not easy to coordinate the policies and national interests of each country as well as domestic concerns. I think it is more realistic to strengthen economic interaction with each country and then promote a mature and economically feasible project as a priority among the candidate projects. In that sense, the strengthening of economic ties such as an

FTA between Japan, Korea and China studied by NIRA and other Chinese and Korean research institutions, and FTA negotiations between Korea and Japan, is significant in deepening relations among Northeast Asian countries and improving economic fundamentals. In addition, because coordination of policies among multilateral countries is not easy, we also could take the approach of considering bilateral projects and the coordination of policies between two countries.

I agree very much with Mr. Sawai's comments on establishing a common platform of research institutions for Northeast Asian issues, proceeding with the establishment of a network among research institutions in Northeast Asian countries and sharing databases. Taking JBIC as an example, export credit agencies in Korea, China and Japan are developing a common approach. We are setting the environment for an exchange of views and discussion between us, and Korean EXIM is especially proactive in pursuing this. As I already stated, the establishment of multilayered platforms among multilateral countries is essential for promoting Northeast Asian economic cooperation.

Regarding development finance issues, Mr. Choo talked about the limited scale of finance provided by governmental institutions and international institutions, surmising that the establishment of a new development finance institution is needed. In my opinion, however, such a body would have great difficulty coordinating among relevant countries. Therefore, I think there is a need for the participation of private finance institutions from the perspective of complementarities of finance scale. In this respect, it is important for projects to be commercially viable.

As projects in Northeast Asia are of large scale, it would be very difficult for all parts of each project to be commercially viable. On that basis, I think it would be better to divide projects into commercially and non-commercially viable parts, and then allocate an appropriate finance method to each part. Actually, the participation of foreign private capital in Northeast Asian projects is not easy, considering the high political risk and monopolization of projects by governmental companies. Therefore, from the perspective of complementarities of scale in development finance, it is important not only to provide governmental guarantees with projects, reduce country risk by stabilizing of domestic politics and developing the finance sector's framework by, for example, developing the bond market and SWAP market in each country, but also to consider co-finance by governmental financial institutions. In addition, I think cooperation under the Asia Bond Market Initiative framework to develop an Asian bond market is very significant. Taking JBIC, for example, we are dealing with the issuance of a yuan-denominated bonds in China and providing a guarantee to Korean Collateralized Bond Obligation. In this respect, the role of each government is important.

I recognize that common obstacles to Northeast Asian projects are i) differing economic foundations among the countries in the region, ii) the existence of political risk, iii) differing political systems, iv) the coordination of national sentiments, v) the absence of an executing agency responsible for the completion of projects and vi) conflicting interests. Development finance in Northeast Asia is very difficult due to these obstacles. On the other hand, we can say there are three roles of international institutions, namely to

i) provide substantial long term, low interest financing, ii) improve credit for projects and iii) provide a venue to resolve conflicts of interest among relevant countries. In this respect, we feel there is a great necessity to utilize existing development institutions such as the ADB, which Mr. Choo also pointed out in his speech. Considering the lack of a possibility to establish a new development institution over the short term through equity investment made by each country, existing development institutions such as the ADB can serve as a place to resolve conflicts of opinion multilaterally.

In accordance with Mr. Choo's speech, Northeast Asia requires about US\$160 billion over ten years (US\$16 billion annually) in development finance, representing about 10% of the entire US\$1,600 billion needed for social overhead capital infrastructure within this region. I think we should not start with discussions on the establishment of a new development institution to meet the requirements of all in development finance but we should start with the utilization of existing development institutions such as the ADB and first see the accomplishment of some multilateral projects successfully. Along the way, we may find concrete problems and if we devise solutions to them, the risks to other development projects will be reduced. This will contribute greatly to the advancement of development finance in the region.

Concurrently with the utilization of existing institutions, if the governments in the region tackle the reform of economic policy, development of financial markets and promotion of private financial institutions' participation, and if development financial institutions in each country cooperate in this process and research institutions in each country also cooperate and draw up a common strategy for Northeast Asia through the sharing of databases, the establishment of a framework of economic cooperation in the region will be more realistic.