

The 17th Northeast Asia Economic Forum in Tianjin
 Session 3: Financial Cooperation in Northeast Asia
 - Steps towards a Northeast Asia Bank for Cooperation and Development
 October 28, 2008

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*Presentation **

Thank you very much. Good morning, Dr. Cho. I appreciate that you let me have this opportunity to present my views to the audience. Before my presentation, as well as other presenters I would like to thank Tianjin City Government. I am thankful for the warm hospitality for the last two days at this really wonderful Forum.

Issues to be Discussed --- Financial Cooperation in Northeast Asia

I got encouraged by previous presentation of the panelists, especially the former Korean Minister of Finance and Economy. Thank you very much. I would like to present my views briefly.

What would be the expected mission for this new financial institution? Having listened to Dr. Katz and Professor Ma, I would like to present my views.

The issues need to be discussed not only at this two-day Forum but also continuously after the Forum: what would be size of this newly-established financial institution; who would provide capital for the institution; and what would be its mission?

Scope and Mandates

Previous presenters already mentioned about the mission. Northeast Asia region is very rich in natural resources, which are not fully utilized. The economic power of the region has become strengthened thanks to the development in the past 10-15 years. The size of GDP of China,

Japan, Korea and Russia is, respectively, 2nd, 3rd, 12th, and 11th in the world. Since all these major countries are located in Northeast Asia, there is no need to doubt that the region is economically very powerful. Thus, it is expected to utilize the resources. At the same time, we need to be realistic and practical. The global economy, especially the financial markets, is deteriorating and getting worse.

We need to discuss about the institutional arrangement. Actions by the US and other countries strongly influence the world economy. We need to look at the direction the world economy is going. Thus, we need to prepare precisely and delicately. What actions are needed, which should be implemented in a timely manner? Of course, the timing is important. As you already know, the oil price has been declining. It was \$165 per barrel three months ago. The volatility still remains. We need to establish our energy security, fully acknowledging and understanding our capacity for sustainable development in the region. Since the commodity prices are not stable, the new financial institution to be established should contribute to the stabilization of the prices of energy and natural resources. Later, I would like to explain other issues.

Timing

The issue of timing. We are now in the critical period. Many things are not stable. We need to cooperate to establish regional stability. This is very important. It is not only an economic issue but also a political one.

Size and Participants

The issue of size and participants. Three countries, China, Japan, and Korea, have been already mentioned. We have to examine how we can tap other regional members and members outside the region. Currently, as you can see, most of the developed economies are in financially difficult situation. Those economies may envy Northeast Asia. We need to go campaigning and actively engage with them so they will participate in our endeavor. If they do not join us, we need to prepare for other plans, in which we both make use of our resources as well as others.

Institution and Management

About funding and financial resources. We will have to examine how we can utilize our foreign exchange reserves. China has the largest foreign reserve, followed by Japan, Russia, and Korea. The foreign reserve is a good financial resource, but we have to think about how we can fully use these huge foreign reserves. The value of our reserves would vary if the Euro becomes more appreciated. We have to prepare for such situation. We will have to establish a system so that member countries in the region can become sources of funds to defend the stability of our currencies. Furthermore, this needs to be announced to countries outside the region. We have to secure the funds necessary for our Bank, and fully utilize them. While we have large amount of foreign reserves, we are still short of financial resources. The infrastructure that we are going to build requires much larger amount of fund. One country or one financial institution alone cannot accommodate such financial needs. The private sector needs to be mobilized. It is necessary to develop and manage a mechanism where funds can be mobilized from the private sector for current needs in public projects.

About bond markets in Asia. We have put much effort on this issue for these several years, and I can see that things are slowly moving toward the right direction. In spite of the large size, credits in the region have not been well utilized. "Hot money" flew away from the region during 1997-98 financial crisis. We need to discuss seriously how we should utilize these credits, and develop a mechanism to mobilize them. This mechanism should be applicable for all the members. The year 2008 is not a good year for the financial markets, but the markets

will recover again after a few years. We have to actively participate in investment for a bright future that we hope we will have. If we achieve these, we can be sending a very positive message to the world. We will have to do many things to bring resources in financial markets into our region.

As Dr. Katz mentioned, the Asian Development Bank (ADB) currently covers Northeast Asian region, but this does not necessarily mean that economic development of Northeast Asia depends on the ADB. We need to support development activities of the ADB. China, Japan, and Korea should all play major roles, and at the same time should be generous (and/or considerate) to other countries. These are the challenges to be discussed further and to be overcome. Again, the three countries should cooperate not only in bringing funds into the region but also in helping some country in need. China, Japan, and Korea should not think of only one country, namely their own country.

Currently, we can say that the US is leading the mechanism of economic globalization. Northeast Asia can also play a larger role for the world. We have to work a lot so that we can achieve sustainable regional development and play a globally major role. That would require strong commitment for intra-regional development. We need more discussion on the role of the public sector, financial institutions, and the private sector, in each country and among all the member countries. We need cooperation among different groups including major stakeholders.

I would like to say more about the mission. With much effort, this financial institution needs to promote arrangement and implementation of important projects, for example, such as cross-border projects involving China and Korean Peninsula, as well as domestic projects. One country alone cannot promote and achieve such cross-border projects. It is necessary to coordinate arrangements and implementation. I expect further discussion for these topics.

I would like to talk about more specific proposals not only for this region but also for the entire Asia. We need to let Asia develop as a whole. At the same time, we need to make priorities because we face with different types of needs while our financial resources are limited. We will have to put priorities and provide funds according to the degree of importance. I would like to talk about “P-A-C-E”, my proposal on four elements.

PACE for Asian Future --- Japan's Proposal for Development with Quality

Public Mass-Transportation for Good Urban Living

P is for “Public Mass-Transportation”. We need to establish public transportation from production places to seaports. Mongolia is landlocked and lacks seaports. Thus, transporting cargoes is an essential issue. We have to think about needs and demands in Mongolia. In China or in Russia, there are backland areas away from coastlines. These areas have production capacity, but one of their serious challenges is to transport their products to seaports. Coordination among cities in Asia is needed to tie production places with seaports.

Agricultural Renovation for Easing Tight Market

A is for “Agricultural Renovation”. We need to support innovation and development of agriculture.

Clean Coal Power Generation for Cleaner Environment

C is for “Clean Coal Power Generation”. We have large amount of coal reserve in the region.

Coal reserve is larger than oil reserve, and we will have to unitize coal for power generation.

Educational Investment for Income Redistribution

E is for “Education”, which is another important development agenda. Korea and China need better institutional arrangement, and effective institutional arrangement needs stronger mechanism in education. We observed and practiced in this way for the last several years. Severe economic downturn will hurt low-income people without education. We need to give them good education and help them overcome their challenges.

Thank you very much.

· This presentation note is produced based on the record taken by Prof. Yasuhiro Chiba of Akita Keizaihoka University, Japan. His record in Japanese was translated into English with the responsibility of the NEAEF secretariat.