The Perspective of the Japan Bank for International Cooperation

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At the outset, let me briefly explain what the Japan Bank for International Cooperation (JBIC) does. Our Bank was established in October 1999 through the merger of two separate financial institutions: the Export-Import Bank of Japan and the Overseas Economic Cooperation Fund. JBIC is the only governmental financial institution with a mandate to conduct Japan's external economic policy by financial means. Indeed, with its capital of 7 trillion yen, outstanding loan balance of 20 trillion yen, and annual loans amounting to 2 trillion yen, JBIC stands shoulder to shoulder with the World Bank group.

Turning to today's topic, I would like to make two important points when we consider financing in Northeast Asia.

First is a perspective that we take up two distinct kinds of projects in Northeast Asia: commercially viable and commercially non-viable projects. The second point refers to a particular timing at which these two kinds of projects should be undertaken, When we consider the creation of the Northeast Asian Development Bank, it is important to figure out the role of development financing in the Northeast Asian region by taking into account these two points.

The cumulative loan commitments made by JBIC to Northeast Asia (China, Korea, Russia, Mongolia, and KEDO) amount to some 8 trillion yen. Mostly they aim at financing exports of manufactured goods, development of natural resources, and development of infrastructure. For further progress in financial cooperation in Northeast Asia, infrastructure development would be the crucial area.

In principle, infrastructure development projects in individual countries should be undertaken by the country's own fiscal budget. If this turns out to be difficult, however, one can explore three avenues to obtain financing. The first is to borrow from international development financial institutions or foreign governments, if the project is not commercially viable. Second, if the project could become commercially viable, provided that there is a certain degree of government involvement, financing may combine borrowing from international development financial institutions, direct investments by foreign firms, and borrowing related to such activities from private banks. Third, direct investments can be sought from foreign firms and loans can be obtained from private banks, if the project is commercially viable.

Implementing commercially viable projects or encouraging foreign firms to invest in such projects presupposes that corporate investments are protected. In this context, it is indispensable that the host country government improves the domestic legal framework and taxation system.

For example, a survey, conducted by JBIC, of foreign direct investment activities of Japanese companies operating overseas found that the following points should be considered for their overseas investments: (1) changes in laws and regulations, (2) political stability, and (3) underdeveloped electric power and telecommunications infrastructure.

Now let me take up two different projects. For the economic development of Northeast Asia, it is essential to push ahead with infrastructure development and thus improve the investment climate. Then, having better infrastructure, we could take up commercially viable projects—for example, projects utilizing the abundant energy sources in the region. From the viewpoint of financing, it seems imperative to structure a package that includes not only low-return infrastructure projects but also high-return projects such as energy projects.

Touching on the second point. I believe it may be better to undertake minimum infrastructure development first, rather than proceed with low-return and high-return projects simultaneously. In other words, suitable instruments of financial support should be considered in accordance with the commercial viability of individual projects on a step-by-step basis.

In general, to establish a new bank for development financing, we must solicit individual countries for capital subscription and obtain the necessary resources to be used for financing, through borrowings and bond issues on the strength of this capital. The bank must set loan terms in such a way that they will be able to cover funding and administrative costs. As an independent, financially self-sustainable institution, the bank must conduct financing operations while keeping its eyes on its own financial soundness. I must say that a good deal of effort is required to establish and maintain a bank that operates on the principle of earning sufficient revenues to cover expenditures. Thus when to establish a bank may be determined by the objectives and characteristics of targeted projects. These considerations call for a cautious approach.

From this perspective, realistic progress in economic development in Northeast Asia may need a development fund created by contributions from the relevant governments rather than a bank.

Naturally this assumes that the governments concerned would agree to make contributions to such a fund. Unlike bank loans whose terms do reflect funding costs, the development fund will be able to offer financing at concessionary terms to low-return projects. In fact, similar funds exist in international development finance institutions, and they allow concessionary financing at no additional cost to these governments.

Assessed project costs, or the scale of the fund, may be determined by priorities individual countries assign to their projects and by summing up their projected fiscal budget appropriation. In this way we will be able to figure out the amount of funding requirements and the timing of the need for development finance in Northeast Asia.

Our Bank has benefited from discussions on economic cooperation at the Northeast Asia Economic Forum. The valuable opinions expressed at the Forum are taken into consideration, and we have made an effort to have them reflected in our operations. Looking forward, I feel that in designing increased development efforts in Northeast Asia, we may need a micro approach that deals with how to proceed with specific projects, in addition to the macro approach being discussed at this Forum. For example, what will become of the Tumen River project? As Japan constitutes part of Northeast Asia, a perspective is called for that considers how to improve port facilities in promoting trade with the other countries in the region.

I think it is difficult to provide economic cooperation in individual cases, unless a blueprint, drawn with project specific issues, is taken into account. What kinds of projects should be brought together? And how should they be put into shape, to make them amenable to specific financing modalities? I hope to see such topics discussed in future Northeast Asia Economic Forum meetings.

In several of our meetings we have heard different opinions concerning the idea of a Northeast Asian Development Bank. As Dr. Katz rightly points out, now is the time to discuss the merits and demerits for each government in the concepts proposed.