

## Session A: Development Finance

### Summary

The first session of the 25th conference took up development finance cooperation. A quarter of a century ago Japan's GDP made up approximately 80% of the total GDP for the nations of Northeast Asia, and virtually monopolized the position of donor country. Subsequently other countries have developed, and from last year into this, the China-led Asian Infrastructure Investment Bank (AIIB) began operations, and the BRICS Bank was also established. In development finance cooperation also a new current is coming in. What kind of impact will this have on the future development of Northeast Asia?

First, from Tadashi Maeda, Representative Director and Senior Managing Director, Japan Bank for International Cooperation (JBIC), there was an overview of Northeast Asian development finance cooperation, and a report on what kind of contribution Japan can make. Mr. Maeda emphasized that within this the recipients of economic cooperation to date have been "countries", but the keyword for the future will be a cooperation in the form of "areas" irrespective of national boundaries. More specifically, examples are the upgrading of Zarubino Port in Primorsky Krai in Russia, and the Russia–Japan Energy Bridge concept. Regarding Japan, Prime Minister Abe formulated the "Quality Infrastructure Investment Partnership" in 2015, and the contributing of US\$110 billion over five years in cooperation with the likes of the Asian Development Bank (ADB) was introduced.

Next, based on the relationship between the Asian Infrastructure Investment Bank (AIIB) and the ADB, Masahiro Kawai, Project Professor, Graduate School of Public Policy, University of Tokyo, made a report on the possibilities for the procurement of funding for infrastructure development in Northeast Asia. According to Professor Kawai, there is an annual demand for infrastructure investment in Asia as a whole of US\$750 billion and in Northeast Asia of US\$63 billion, and the power of the private sector will be necessary, not provided only by the public sector, such as multilateral development banks (MDBs) and bilateral funding agencies. The importance of the AIIB as a quantitative source of funding is recognized, but there are problems in the area of operations, etc. Professor Kawai also noted that along with the AIIB showing a hope of continuing to amass its own experience and knowledge in coordination with the ADB, etc., there is the possibility of these MDBs guiding the return of the DPRK to international society.

Third, Kang Boosung, Senior Advisor, Greater Tumen Initiative (GTI) Secretariat, made a report on the Northeast Asia EXIM Banks Association. The Northeast Asia EXIM Banks Association was set up in September 2014 by the import–export banks and/or development banks of the four GTI member countries (China, Mongolia, the ROK, and Russia). According to Mr. Kang, the Zarubino Port project was chosen as the initial collaborative project, and they are to create a detailed future financing scheme. Moreover, although the GTI is supported under the United Nations Development Programme (UNDP), from 2017 it will be an independent intergovernmental organization. It was introduced that a variety of strategic issues are being examined, such as new decision-making organizations, new areas for cooperation, and geographic expansion.

Following that, there was a report from Li Zhidong, Professor, Graduate School, Nagaoka University of Technology, on low-carbon and energy international financial cooperation within the "One Belt, One Road" strategy. According to Professor Li, China has positioned energy cooperation as one pillar of the "One Belt, One Road" strategy, and is aiming for the formation of a low-carbon and energy community. China in recent years has become the world's largest country in terms of the scale of installation, production volume of facilities, and export volumes for hydro, solar and wind power, etc. The AIIB was established for international cooperation making full use of such advantages. It cannot be denied that the AIIB is lacking in experience, but the expectation was shown of learning with humility the experience and know-how of existing international development finance institutions, and of continuing to carry out governance.

The final report was carried out by Takahiko Onozuka of the Japanese Business Alliance for Smart Energy Worldwide (JASE-W) on the proposal from Japan involving energy-efficiency projects in Russia. In Russia also the raising of energy efficiency has become a pressing issue, and within that the energy-saving effect for the electricity generating sector is great. The JASE-W proposal is to first establish within Russia an energy service company (ESCO) as a Japan–Russia collaborative project, and making good use of the "Japan–Russia Investment Platform" which JBIC agreed with the Russian side, the ESCO will supply highly efficient gas turbines and the like to the electricity generating side, and it is intended that there will be a payment in substitution from the consequent

fuel reduction. At the Ministry of Economy, Trade and Industry they hope in particular for the formulation of future proposals in the Russian Far East.

To supplement the above reports, a second round to the session was carried out in the shape of a question-and-answer session. The discussion here centered on the AIIB in particular. First, from Mr. Maeda came a question concerning the AIIB business model. For the international financial institution model, part of the capital has actually been paid, and getting a credit-rating for the remaining callable capital as collateral on the capital market, they undertake financing centered on capital procured as bonds. The AIIB has not yet got a credit-rating, and the business model has not been clarified. In addition, from Professor Kawai came the question of what the AIIB's vision is. Does the AIIB function as Asia's public goods or function fully prioritizing China's advantages?

In contrast, from Professor Li the following idea was presented. That is, the World Bank and the ADB were set up with a focus on solving poverty issues, but the target of

the AIIB is confined to infrastructure. In addition, The AIIB's priority finance destinations are not within China, and quoting the words of Shi Yaobin, China's Vice-Minister of Finance (and AIIB Chinese Deputy Director), the use of the AIIB is firmly centered on Asia, he stated that if the advantages for Asia as a whole can be raised, those for China would also rise.

On summarizing the session, as moderator I mentioned two points. The first was the AIIB discussion. At this time, with the AIIB having only just started operations, participation is difficult. I would like participation in the AIIB to be being realized next time there is this kind of session. The second point was the regional viewpoint. Regional exchange is the origin for Northeast Asian exchange, and at this conference proposals on the utilization of Zarubino Port have been made from the beginning. Grounded in the regional perspective, there is also the point of how the regions are able to participate in the major conversation on finance cooperation, and I would to incorporate that in the future discussions.

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