Financial Cooperation in Northeast Asia

Northeast Asia International Conference for Economic Development

January 30, 2018
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What would be the Challenges for Asia?

- Stable Energy Supply
- Transportation and Logistics
- Water and Food Supply
- Maintaining of Supply Chain and Production Network
- Seamless Development
- Inclusive Growth
- System Harmonization
- Environmental Preservation
Financial Markets’ Conditions in 21st Century

Excess Supply of Funds $\iff$ Fewer Demand

Prevailing Low Interest

Searching High-yield by Assets such as Pension Funds

Requiring High rate of Return

New Instruments introduced

Accumulation of Risks in Indirect Financing System

Sovereign Support for Banking Industries

Quantitative Easing (QE) by many Central Banks

AI Advancing \textit{Blockchain}
Demand and Supply of Funds

Supply

- Increase in Per Capita Income of Emerging Countries etc.
- Poor Safety Net in Developing Countries
- Income Transfer to Non-equally Distributed Countries
- Increase in Savings \( \geq \) Increase in Income

Demand

- Already High Growth in Emerging Countries
- Increase of Income \( = \) Increase of Investment
- Consideration to Environment Issues as Constraint
Designing Project     Back-up Financing

For the good development of the region,

Good Designing
    Clear Object
    Cost-Benefit Analysis
    Bankability

According to the type of Project, the Back-up Financing mechanism also varies.
Host Country’s Responsibility

For the investors and the lenders,

*Predictability* and *Stability* are critical.

Even they do not require any budget transfer or offer of guarantee from the government, keeping the durable system is important in Rent/price setting, Taxation, Bankruptcy Law, Currency Transfer regulation, Maximum Stock-share and other relevant regulations.

Too often, periodical and discretionary changes are damaging.

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Cross-border Project and Corresponding Finance Scheme

Regional development requires the coordination among relevant countries.

In designing the projects, *connectivity* is also appropriate and should be emphasized. Especially for the relatively smaller population country and/or Land-locked country it is essential.

That leads to the **Cross-border** project.

Sharing the financing responsibility also reflects the nature of joint project.
Public Money ⇔ Private Money

For the lower-income developing country, ODA has a big contribution.

However,

① Our region is not classified in this category.
② The provision of ODA is not expected to expand in coming years, due to “Austerity” pressure in most developed countries.

The size of Private Money Pool is far larger than Public Money, such as ODA.

We must seek the mobilization of Private Money.
ODA is shrinking
← Fiscal Constraint in Many Developed Economies

More Private Flows should be mobilized

3 Functions played by Public Institutions
- Counter-cyclical Function
- Catalytic Function
- Trouble-shooting Function

Financial Patriotism
Fear for Liquidity Shortage
Capital-ratio Requirement
Shortening Asset Maturity

Cautious Operation by Private Banks

Multilateral Institutions (MDBs)
Sustaining Capital Flows
Bilateral Institutions (ECAs)

Private Financial Flow in Global markets

Banks

Global Financial Markets

Operate here first!!
Government

Keep our jobs!!
Taxpayers

Invest in Domestic market!!
Parliament

Shrinking Private Flow in the markets

Financial Patriotism
Financial Nationalism (Financial Protectionism)

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Market Condition

Due to
* the recent change in Balance between Supply and Demand of fund and
* Actions/Operations of many Central banks,

① Low interest have continued and continues for the expected time span.

② Short money is abundant, but long money is scarce.

Financial Times, Thursday, October 22, 2015
Change in Monetary Policy

Since 2009, after Lehman-Brothers’ collapse, many Central Banks such as FRB, ECB, BOJ have taken *Quantitative Easing Policy*.

FRB announced the Exit from QE in October 2014, and started to raise interest rate in December 2015.

Now ECB suggested that they would follow the manner of FRB.

Pace of Raising Interest rate is quite slow so far.

It may have some impact upon the funding environment for developing economies.
Thank Yellen for strong U.S. economy

For the moment, most of the departing Fed chair's judgments seem on the mark
Financial Regulation

The recent discussion on the soundness of Banking operation, trend is limiting the strength of Banking Lending Capability.

Especially for the Infrastructure financing, the Long-term money is needed.

But, now Banks who have been a main players of International Financing are losing power.

They shift their operation toward shorter and less-risk operation.
Harmonization of System

Even in the sphere of financial regulations, each member country’s regulation can not be different.

The forming the Lending syndication, common sharing of system is inevitable.

Banks of different nationalities make agreement of lending scheme only when they keep a same position in contract which must be authorized by its respective Public financial regulation body.

The discussion among relevant bodies are quite urgently needed.
Banking or Securities

As Banks’ strength is weakened and limited, we have to seek other channels.

Weak position of the banks would not allow them to offer nor provide long-term fund, even though most country in our region has a pretty large excess savings.

We must consider the possibility of
① Expansion of Bond markets and
② Attracting Long-term Funds such as Pension

Finance and economics

Banking without banks

By offering both borrowers and lenders a better deal, websites that put the two together are challenging retail banks
Bond Markets’ Development

Many financial institutions in our region have rather short funding period, 2-years or less.

That makes quite difficult for them to offer 10 years or longer financing.

And attempt for shifting long-term funding is not fully supported by new International regulations or rather discouraged.

In this regard, the development of Bonds markets is important.
[ Why Bond Markets in Asia - Details ]

• High savings rate in many Asian countries
• The dominant financing tools - short-term bank loans
• Bond markets in the region - underdeveloped

• The savings deposited in local banks in the region have been funneled to international financial centers and then back to the region
  - maturity and currency mismatches (“double mismatch”)

• It is important to foster bond markets in Asia which provide local currency denominated bonds in order to enable the private sectors in Asia to raise and invest long-term capital without maturity and currency risks.
• A Multilateral Guarantee Mechanism was established (CGIF) and some measures are promoted.

**Environment for Bond Markets**

- Partial Guarantee
- Existing Guarantors
- New Guarantee Institution
- Rating System
- Mechanism of Disseminating Information
- Technical Assistance
- Settlement System
- Legal & Institutional

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Long–term Fund

The fund which has long-term money as its nature, like pension fund or insurance premium pool, would be potential providers of Long-term funding.

However, most funds are still only interested in the Brown field in Developed economies.

How to invite them into Green field projects in Developing economies are critical.

Their expected rate of return is still very high.
How to Bridge Green and Brown Fields

Case of Infrastructure

<table>
<thead>
<tr>
<th>Repair Maintenance</th>
<th>New Construction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developed</td>
<td>Emerging</td>
</tr>
</tbody>
</table>

Developed Economies

Emerging Economies

We have interests in investing into Infrastructure Projects!

Brown field in Developed economies!!

Yes!!

For Infrastructure projects, Banks face large demand and need for taking initiative in the Green field in Developing economies.

Really?!?!

In what areas??

Oh?!?!

How about Green field in Developing economies?

We have interests in investing into Infrastructure Projects!

Well...

Still a little bit riskier....

Show us the record and performances!!

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Stabilizing Arrangement

As Money/Fund are coming in, we face much bigger In-and-Out movement of Money/Fund.

We have to prepare to equip some mechanism which mitigate any volatility in several markets.

Some region already equipped these mechanism and at least one of them is activated and put into force.

Arrangement among Central banks or Finance/Treasury Ministries should be sought.

Global : Regional : Sub-regional

The share of *Intra-regional* trade is getting so significant but not dominant.

We have to keep ties with wider, such as “Reginal” And “Global”, arrangement.

In Europe, the Trinity operation has been activated, and in ASEAN+3 there is Chiang-Mai Initiative even it was not activated yet.

As we are the members of global community we must work hard to that direction.
Single Country

Regional Arrangement

Global Arrangement

More Resilient

But

Quicker Diffusion

The Economist, July 4th-10th, 2015
Support for Balance of Payment

Since “Real” FDI remains long in the host country, it would hardly cause any disruptive flow of fund.

On the other hand, portfolio investment or purchase of securities bring in a rather short money. In some occasions it will lead to rapid outflow of funds.

We have to secure the minimum amount of fund pool which allow the import of necessary foods and goods.
Monitoring Economy

When the country X agrees to provide the liquidity to cover a minimum foreign reserve requirement of country Z, X must be confident that this provision saves the recipient country Z from the difficult condition which must not be brought in by the mismanagement of recipient country Z.

I order to keep these confidence, every member should know the other members’ economic condition and their policy package.

Especially, we should closely monitor the weight of short-term money Inflow.

Currency Issues

As far as there is no possibility to have a Single Currency in our region, denomination of investment, lending and purchase of securities in daily transactions should be always checked and decided.

US dollar so far keeps dominant position in denomination of transaction in our region since ① it has a wider use in any transaction and ② each borrowers’ revenue is also concentrated in US dollar.

We may discuss the creation of “Unit for Accounting”.
Regional Unit of Accounting (ASEAN case)

Global Type
( Mini SDR like)
SDR Currencies( $ EURO & JPY CNY)
+ Won, Baht, etc.

Regional Type
(Euro like)
ASEAN+3 Countries’ Currencies

Convertible,
Free Usable & Floating
Asset Back Securities
Private Sector Initiative
Bond Fund
(ABF like)
Legal Tender

Political Decision

Intra-regional trades and other transactions are denominated mostly by Non-regional currencies

Post-Crisis Growth and Poverty Reduction in Low-Income Asia

How to encourage the Domestic Demand
How to assess the Market needs and to adjust the Production Targets
How to sustain Regional Supply-Chain
How to finance the Infra-structure Investment for both New Construction and Repair & Maintenance
How to give a Consideration to Small Countries & “Bottom-Billion” — Water, Foods, Electricity and Education —
How to actively assess Inter-national D/S ⇔ Intra-national D/S
How to mobilize Rich Domestic Savings toward Long-term Investment
How to establish the Flexibility and the Stability in Foreign Exchange
How to rebalance World Economy and preserve Environment
Thank you !!

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