
Summary of the Development Finance Panel

During this session, multiple approaches to creating a development finance scheme to provide funds for infrastructure development in Northeast Asia were compared, an exchange of opinions took place, contributing to material for making policy judgments on this theme. Discussions focused mainly on analyzing the efficacy of and problems relating to the following points:

1. The current status of the development of infrastructure in Northeast Asia and an analysis of the accompanying financing problems.
2. An introduction to development projects supported

by existing development banks and the examination of the possibility of utilizing these for multilateral projects in Northeast Asia.

3. An approach to building development finance schemes.

First of all, Mr. Takafusa Shioya, President of the National Institute for Research Advancement (NIRA), stressed the importance of positioning development finance matters in the strategy of economic unification in Northeast Asia and the necessity of presenting a "grand design" to advance economic unification in the region. Making the solution of energy and environment problems the central issue of the strategy for economic unification, the Northeast

Asia Development Bank framework was supported as one means of providing funding in this field. Natural gas pipeline projects are important in the development of infrastructure in the fields of energy and the environment; with the aim of establishing a non-governmental body to coordinate the interests of each country, in order to promote natural gas projects, the view was advanced that, while private organizations should also be incorporated in this, development finance mechanisms should be made concrete under this process.

Mr. Bradley Babson, a UNDP consultant on Northeast Asian economic cooperation, analyzed the constraints and risks that are perceived as inhibiting the mobilization of capital to finance infrastructure projects and proposed the establishment of a political and organizational body, in which the private sector, governments and the existing international development banks work together. Regional investment strategies are planned under this framework, which aims to provide funds for high priority projects. Creating the right enabling environment for financing regional economic cooperation should be given top priority and the foundation of a new development bank is not the answer.

Mr. Shun'ichi Hiraki, Professor of the Faculty of Economics, Niigata University, took the transportation infrastructure project in the Tumen River area as a model case and presented an introduction to a private sector-led project finance method. Under this scheme, outside consultants are used to draw up the specific project plan, because of their skills and ability to conduct onsite research, and the income from the project is used to clear the debt. The speaker stressed the importance of making gradual advances and of realism, i.e. accumulating private multilateral projects, no matter how small, given the environment around Northeast Asia, and similarly to Mr. Babson, he stated that the framework for a new development bank should be the last question to be addressed.

Dr. Lee-Jay Cho, Chairman of the Northeast Asia Economic Forum, argued for the establishment of a Northeast Asia Development Bank that meets the requirements of Northeast Asia and benefits various interested parties, given the difficulties of developing Northeast Asia with private funds and the inability of existing development banks to satisfy the need for funds for infrastructure. He also pointed out that if the Northeast Asia Development Bank were established, it would be a good opportunity for Japan to establish its leadership, both in terms of funding and diplomacy.

Mr. Kazuo Kobayashi, Deputy Director of the Development Institutions Division at the International Bureau of the Ministry of Finance, introduced an approach led by existing multilateral development banks. He spoke of the advantages, including the supply of funds and the

development of multilateral economic cooperation, which would be afforded by the multilateral development banks' specialist knowledge, technical support and ability to engage in coordination in policy dialogue, as well as their catalytic function in implementing collaborative finance and guarantees.

Approaches to development finance schemes can be broadly divided as follows: those of the project-centered type, which advance infrastructure development with public and private funds, and those focusing on the concept of establishing a new regional development bank aimed at the development of Northeast Asia. With regard to the logical basis for these, the former contends that the establishment of new banks in the region is difficult given the current political and diplomatic situation in Northeast Asia, and that accumulating project-driven approaches that use public and private funds is more realistic and effective, while the latter asserts that, since the provision of development funding is insufficient under the present development finance framework, and as using private funding involves great risk, the countries of Northeast Asia should take the main role in supplying funds, as well as in forming a new financial framework.

An opinion from a different angle was advanced by Mr. Babson, who pointed out that financing methods could differ depending on the type of infrastructure project, such as ports, roads and pipelines, and emphasized the importance of developing capital markets, bond markets in particular, for fundraising in Northeast Asian countries, as well as solving problems relating to the domestic financial systems of the respective countries.

Summing up, it was a most fruitful discussion; the issue of "development finance", which has been taken up in part at previous Economic Conferences, was discussed intensively and in a multi-faceted way, and participants, including experts, analysts and those asking questions from the floor, acknowledged and shared problems relating to the theme. As Mr. Shioya averred, it is not appropriate to determine the relative merits of approaches at present, because of the political circumstances and risks. It seems likely that the momentum to advance development by capturing the world's attention with regard to the development frontier of Northeast Asia and cooperating multilaterally, will gather pace when Japan, the most advanced country in the region, takes the initiative in putting forward an investment strategy and development assistance plan and deepens partnerships with the countries concerned. It is hoped that in the future, further research into and activities to explain the importance of a development finance mechanism will be carried out, taking this discussion as a turning point.

[Shoei Sato, Researcher, Research Division, ERINA]