

Financial Cooperation in Northeast Asia

Northeast Asia International Conference
for Economic Development

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Niigata

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IIMA

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 \Leftrightarrow 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

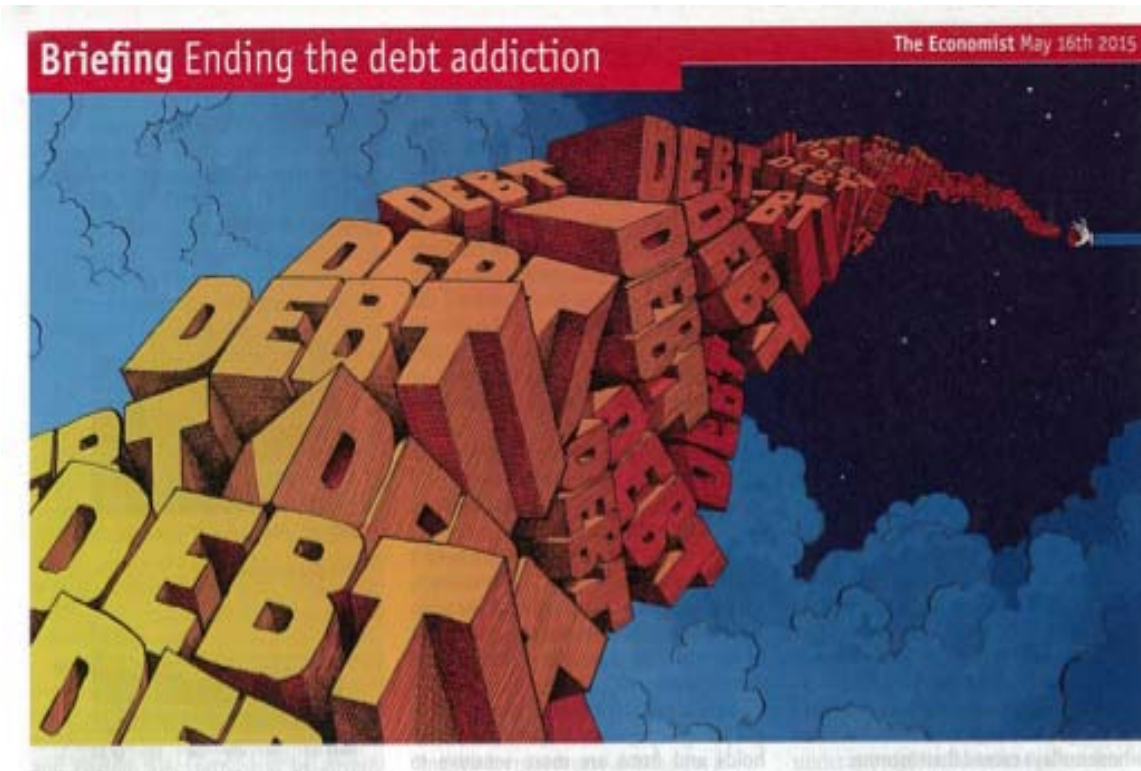
Sovereign Support for Banking Industries

Quantitative Easing (QE) by many Central Banks

AI Advancing *Blockchain*



The Economist, MARCH 21st-27th, 2015



A senseless subsidy

The Economist, May 16th-22nd, 2015

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

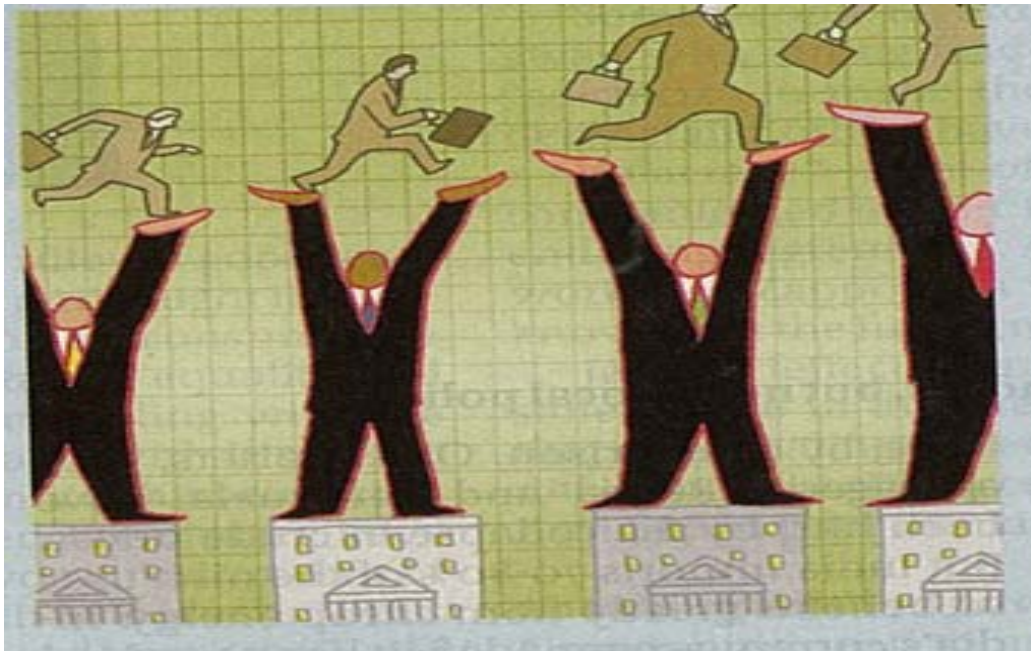
Increase of Income
= Increase of Investment

Consideration to
Environment Issues
as Constraint



Buttonwood | With great power

Markets are dangerously dependent on central banks



The Economist, September 5th-11th, 2015

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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.

Cross-border Project and Corresponding Finance Scheme

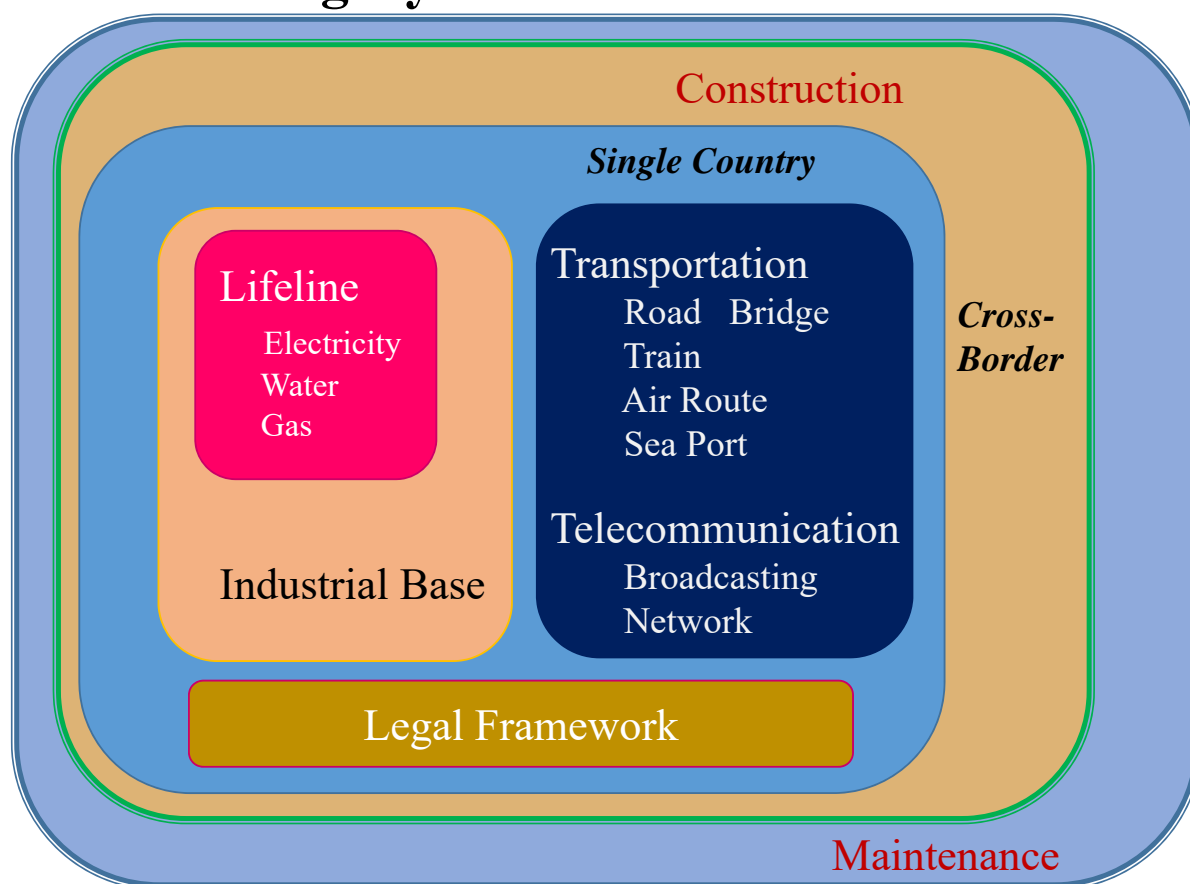
Regional development requires the coordination among relevant countries.

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.

Category of Infrastructure



Public Money \Leftrightarrow Private Money

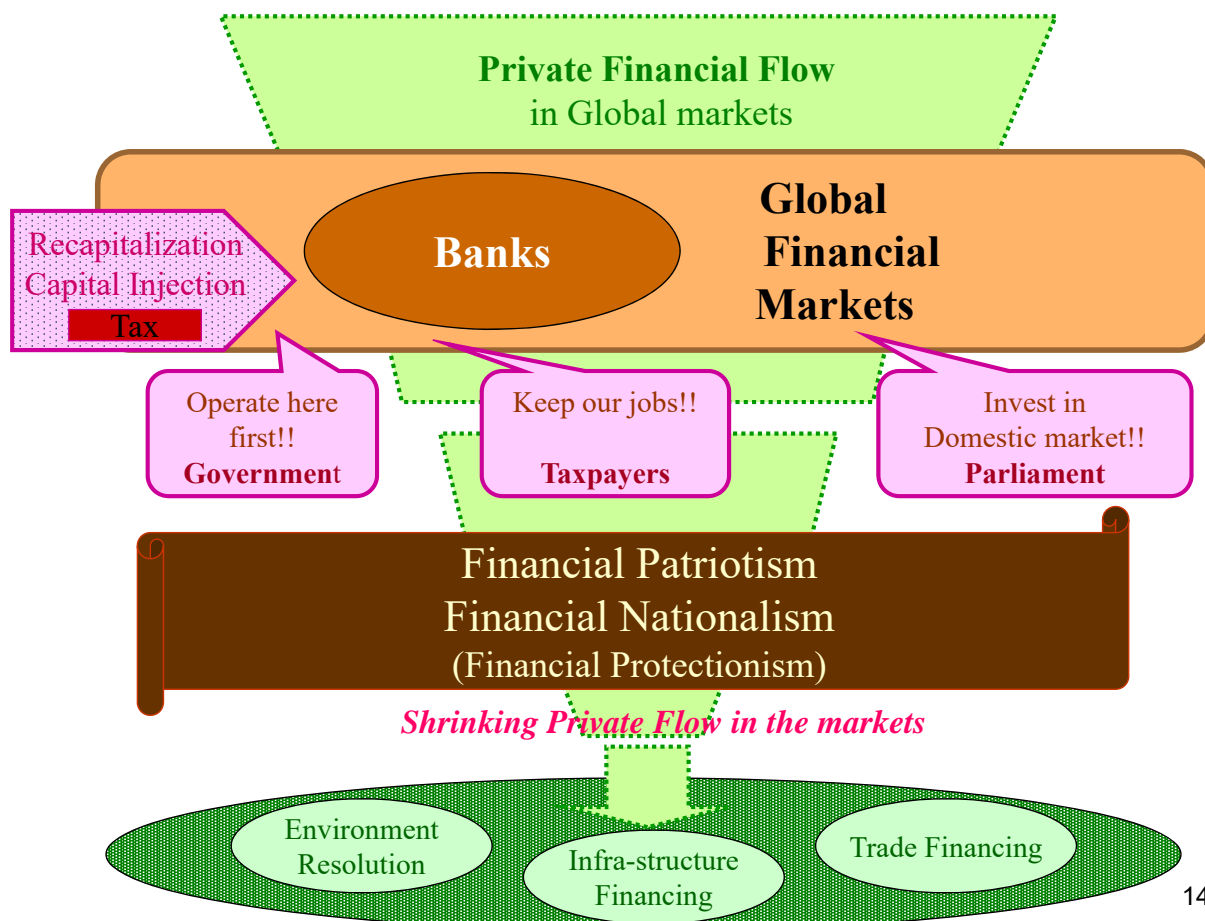
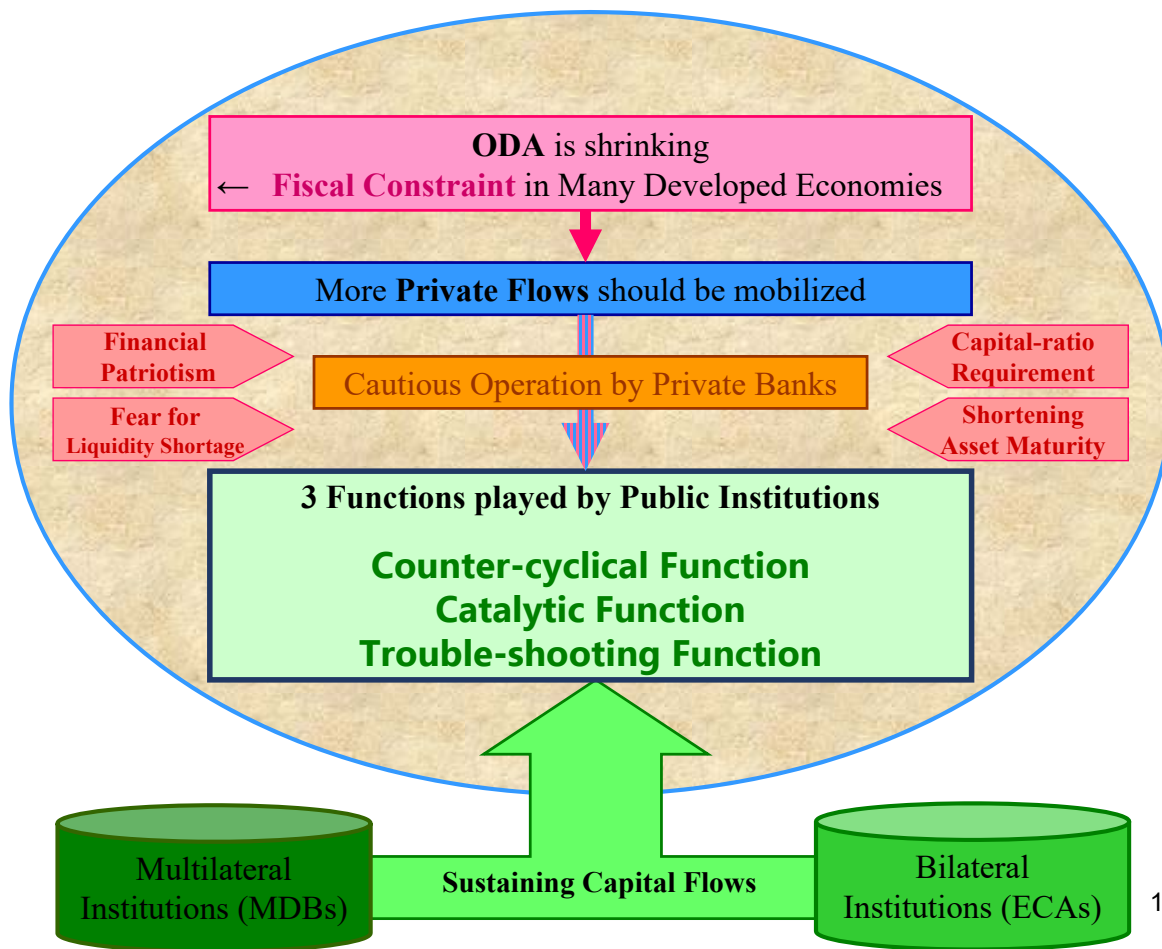
For the lower-income developing country,
ODA has a big contribution.

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.



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.

A global
retreat for
European banks



Financial Times, Thursday, October 22, 2015

Banking in India
**Downwardly
 mobile**



The Economist, JANUARY 31- FEBRUARY 6, 2015

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Change in Monetary Policy

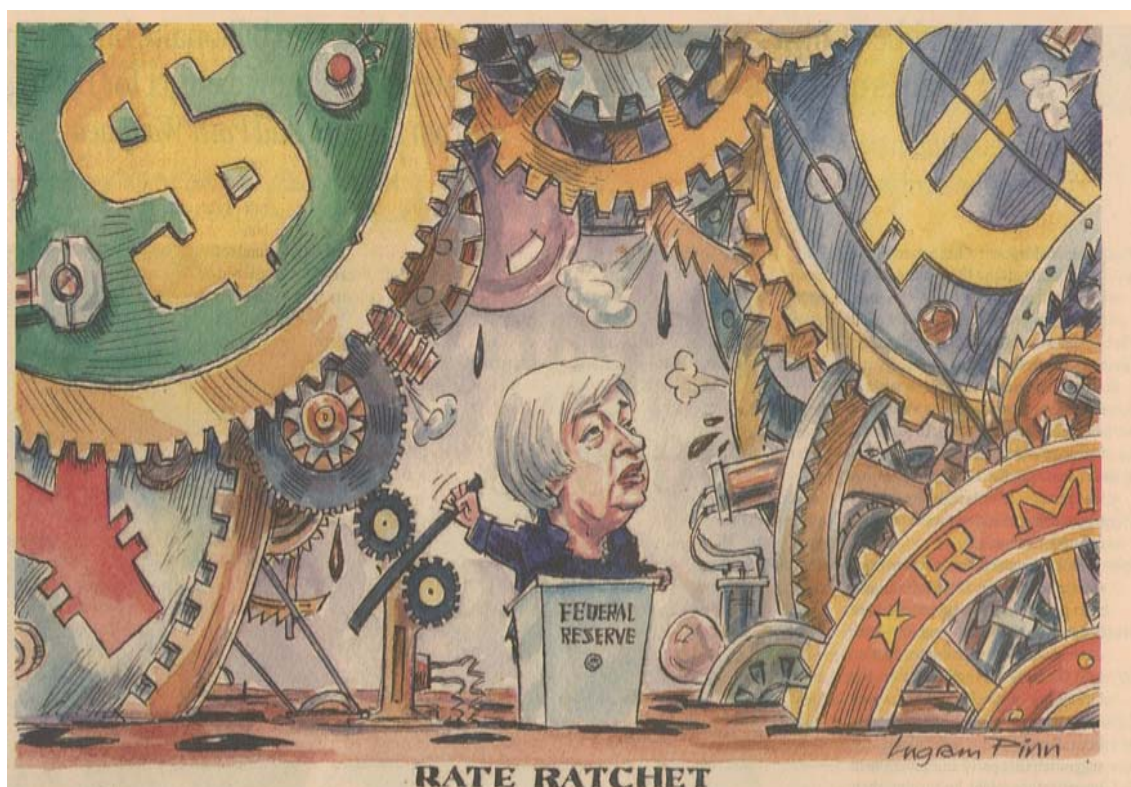
Since 2009, after Lehman-Brothers' collapse, many Central Banks such as FRB, ECB, BOJ have taken *Quantitative Easing Policy*.

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.



Financial Times, Saturday, December 19, 2015



Thank Yellen for strong U.S. economy

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

The Japan Times, Tuesday, December 19, 2017

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.

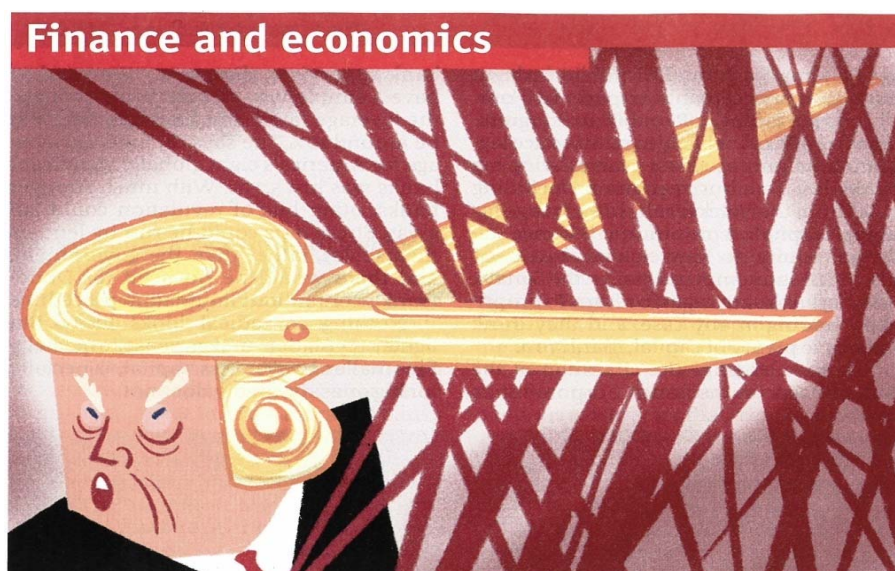
But, now Banks who have been a main players of International Financing are losing power.

They shift their operation toward shorter and *less-risk* operation.



Global banks
No respite
Big banks' prayers for a halt to new regulation have fallen on deaf ears

The Economist, SEPTEMBER 27th-OCTOBER 3rd, 2014



American financial regulation

Shearing and shaving

The Economist, February 11th-17th , 2017

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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

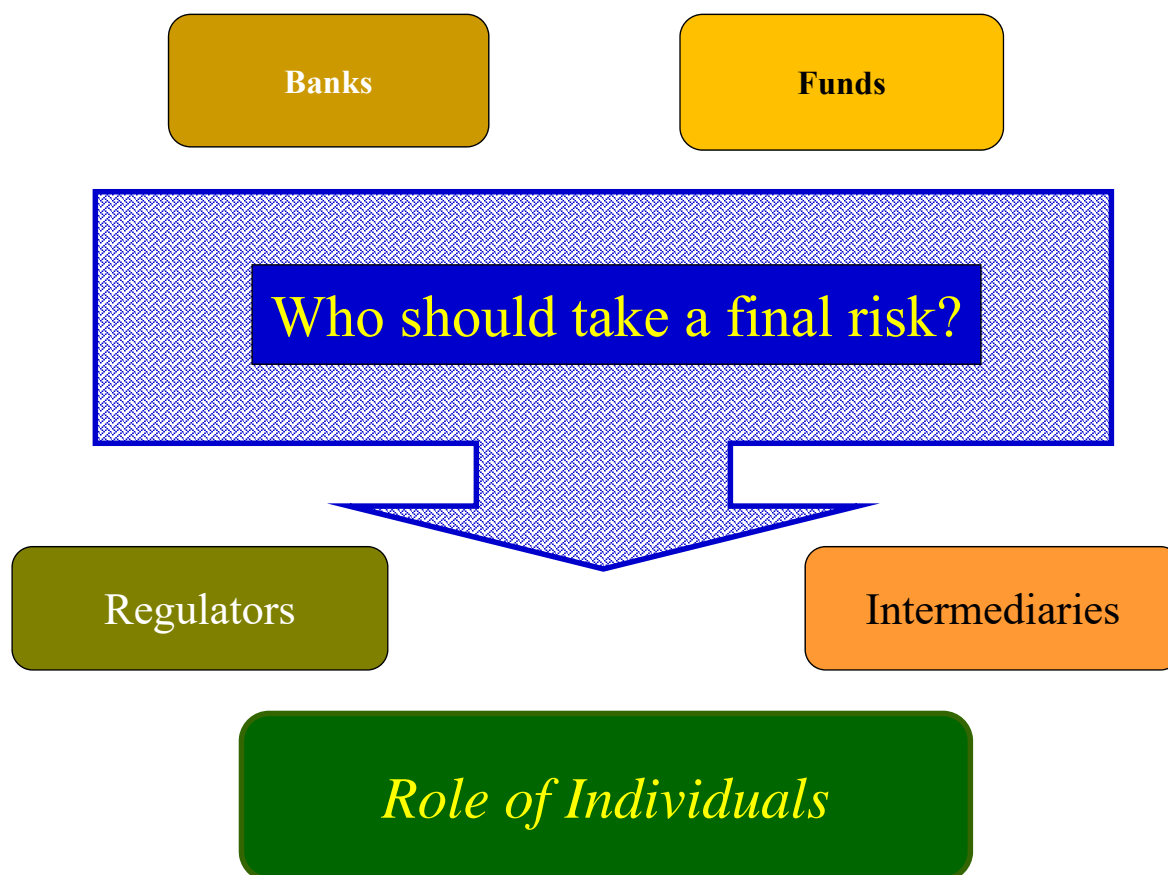
- ① Expansion of Bond markets and
- ② Attracting Long-term Funds such as Pension



Peer-to-peer lending

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.

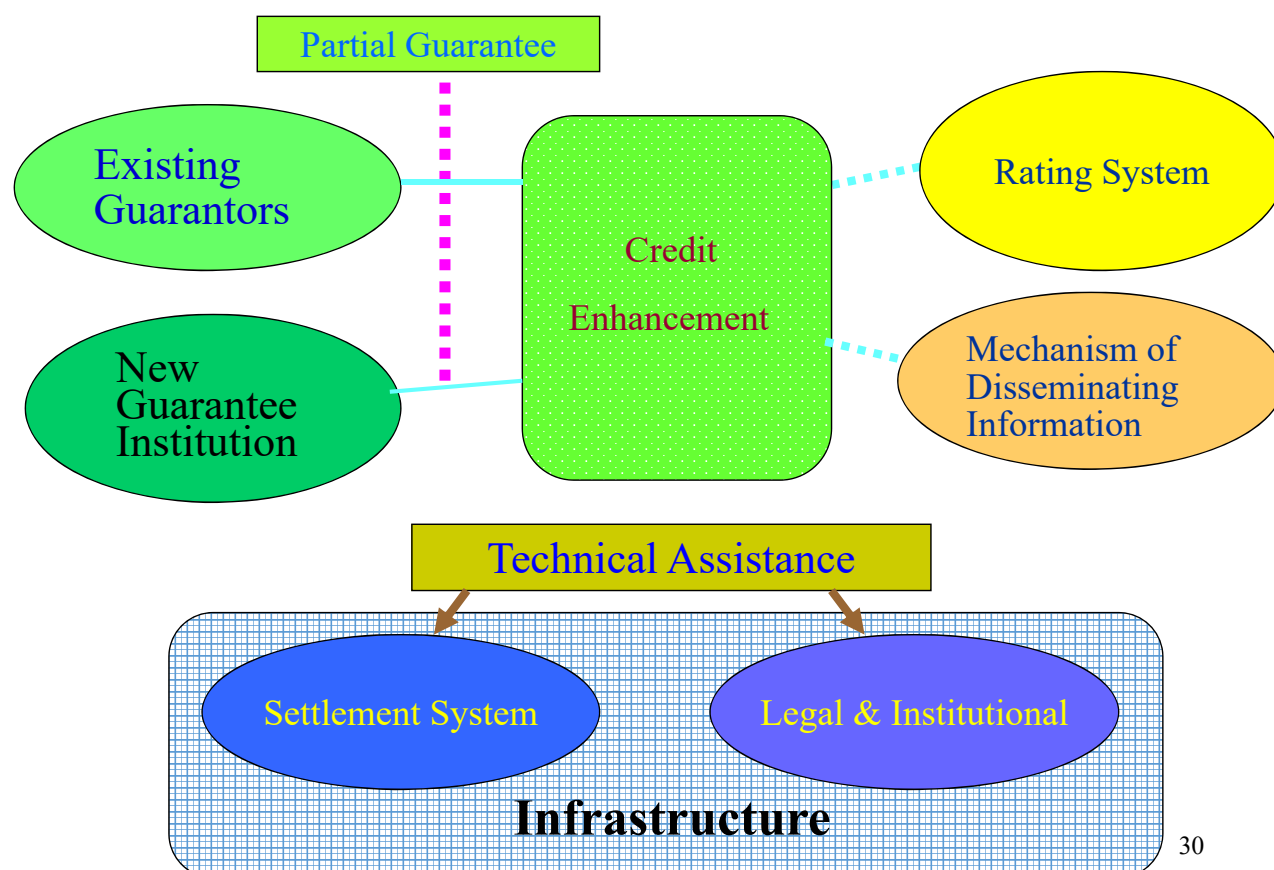
In this regard, the development of Bonds markets is important.

[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.

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Environment for Bond Markets



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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.

Future Infrastructure Investment in Asia

Seamless Investment
(Time Horizon \leftrightarrow Geographical Space)

Cross-Border Regional Project

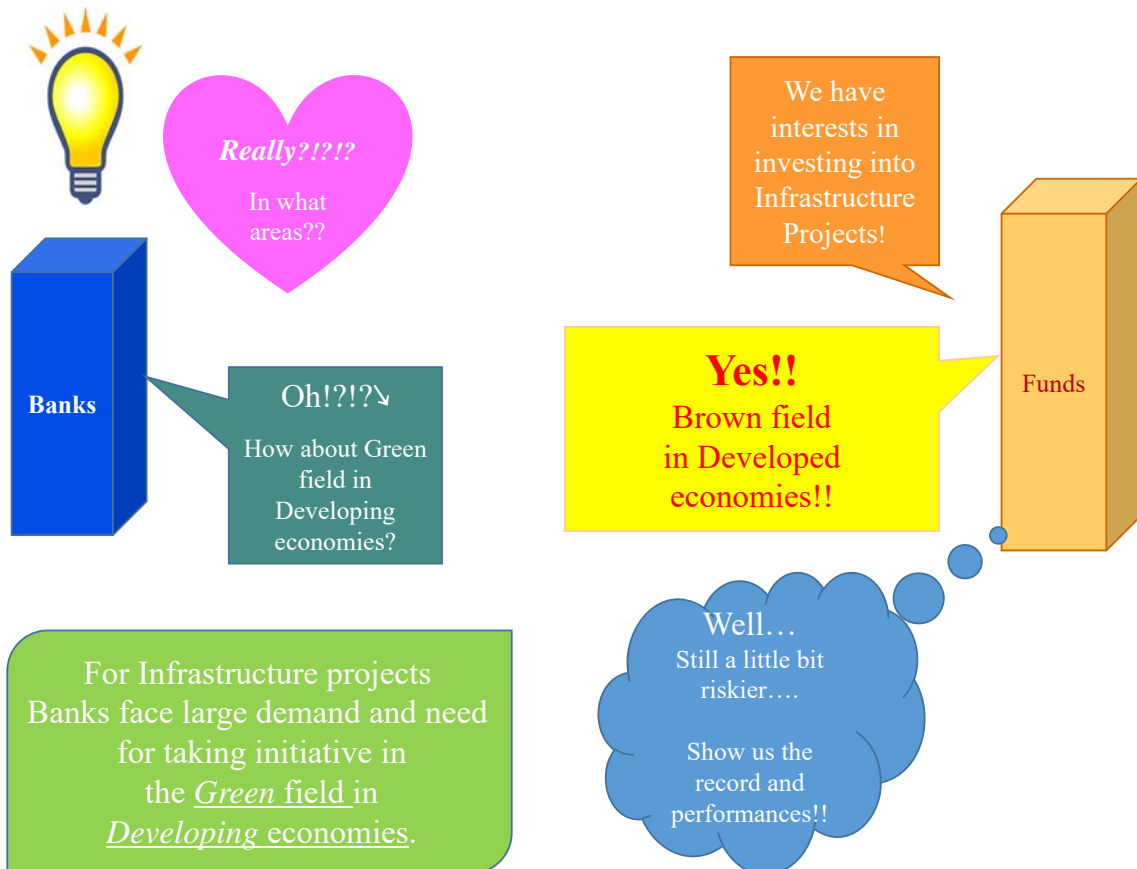
Comprehensive Consideration to
Small Countries & “Bottom-Billion”

Friendly to Environment

Green **Brown**

Case of Infrastructure

	Repair Maintenance	New Construction
Developed		
Emerging Developing		



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.

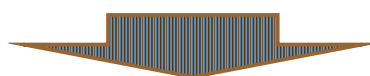
In Europe, the Trinity operation has been activated, and in ASEAN+3 there is Chiang-Mai Initiative even it was not activated yet.

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

Single Country

Regional Arrangement

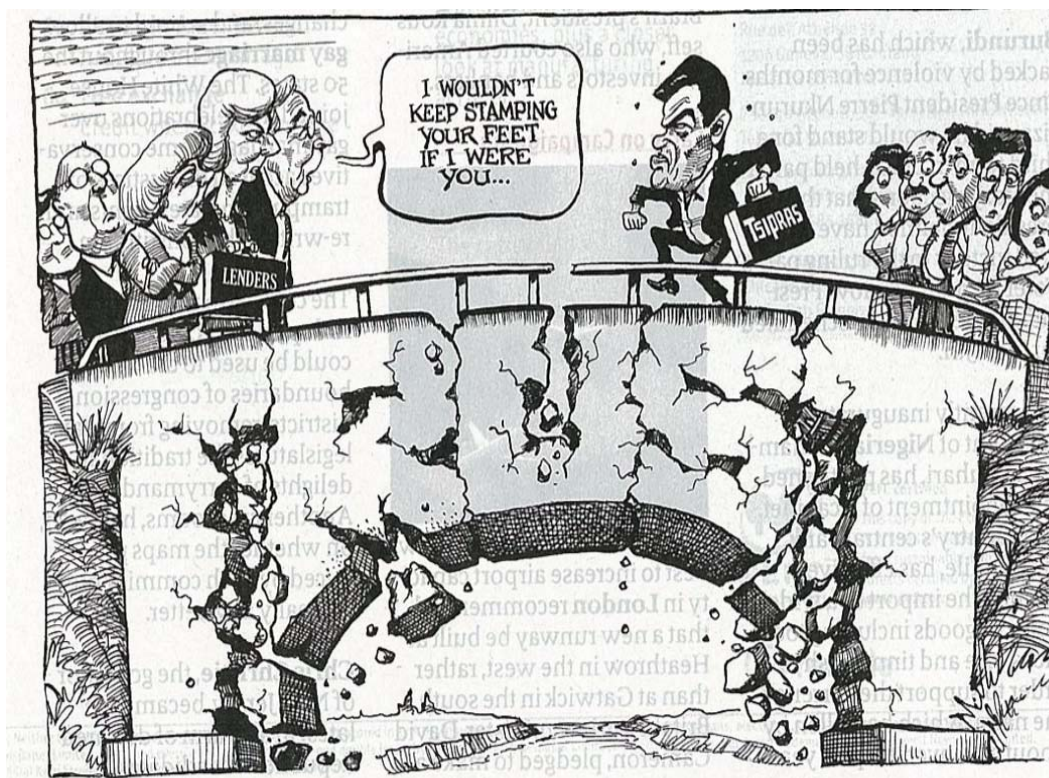
Global Arrangement



More Resilient

But

Quicker Diffusion



The Economist, July 4th-10th, 2015



Emerging-market banks
Stressful times

The Economist, December 5th-11th, 2015

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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.

In 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.

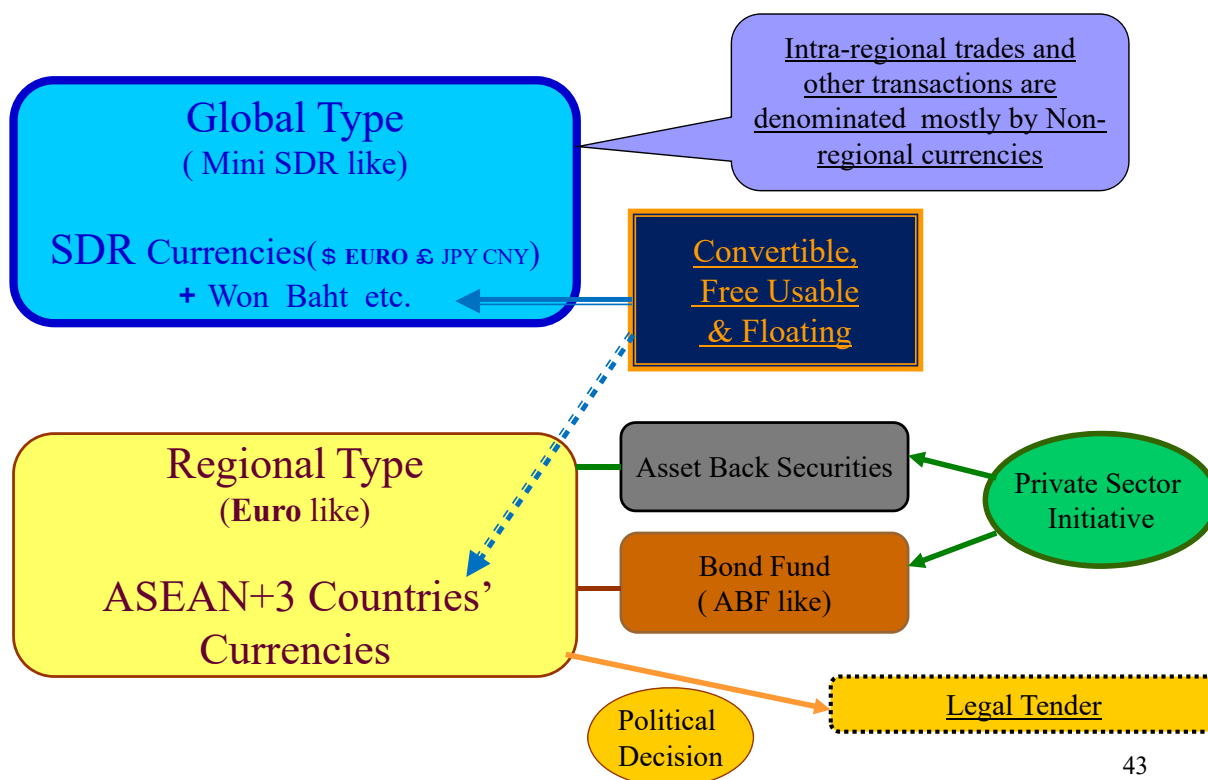
US dollar so far keeps dominant position in denomination of transaction in our region since

- 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)

(Trades, Loan Liabilities, Bond Face Denomination)



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Post?-Crisis Growth and Poverty Reduction in **Low-Income Asia**How to encourage the **Domestic** DemandHow to assess the **Market needs** and to adjust the Production TargetsHow 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/SHow to mobilize Rich **Domestic** Savings toward **Long-term** InvestmentHow to establish the **Flexibility** and the **Stability** in Foreign ExchangeHow to **rebalance World Economy** and **preserve Environment**

Thank you !!

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