Contributing to the Fight against Global Warming as a Member of the International Community

Promising Business Prospects in Vietnam and India
Contributing to the Fight against Global Warming as a Member of the International Community

With the world facing increasingly serious global environmental problems, attention is focused on the role of Japan and other developed countries.

Global warming in particular has become a topic of keen interest, as the international community has begun to work in harmony to formulate a framework of various countermeasures. Nations participating in the Third Conference of the Parties to the United Nations Framework Convention on Climate Change (COP3) held in Kyoto in 1997 adopted the Kyoto Protocol. The COP3 set targets for the reduction of greenhouse gas emissions by developed countries, and since then, continuous progress has been made on the establishment of international rules within a global framework.

Assisting with the resolution of environmental problems has long been an important theme for the Japan Bank for International Cooperation (JBIC), which has prioritized in particular the funding of projects that promote the use of clean energy. In view of the anticipated full-scale implementation of the Kyoto Mechanisms, JBIC also plans to support Japanese companies who seek business opportunities in emissions trading.

This issue introduces JBIC’s endeavors in the environmental field by providing examples of its support for global warming solutions.

Global Warming

Many experts believe that the increasing atmospheric concentration of greenhouse gases such as CO₂, methane and CFCs that trap heat radiated from the Earth’s surface is causing a worldwide rise in temperatures that could have serious consequences for the global environment. If current trends continue, global mean temperature is predicted to rise by a maximum of 5.8 °C by 2100 compared with its 1990 level (IPCC Third Assessment Report, Working Group I, Intergovernmental Panel on Climate Change).

Applying Japanese expertise to provide for global warming solutions

The threat of global warming affects every aspect of social and economic activity. Whenever fossil fuels such as oil and coal are exploited for power generation and various other purposes including production, transport, utilization and disposal of goods, the CO₂ that exacerbates global warming is generated as a by-product.

As such, the most effective way of reducing CO₂ emissions is for developed countries, which are the heaviest energy consumers, to conserve energy and develop new means of power generation that do not exploit fossil fuels. At the same time, it is also vital from a global perspective to consider how to deal with the anticipated sharp increase in the energy demands of developing countries as they pursue economic growth.

Prompted by its lack of fossil fuel resources, Japan has long endeavored, in the process of weathering two oil crises, to promote energy conservation and the development of alternative means of power generation. Japan was also quick to launch efforts to reduce greenhouse gas emissions, and as a result, now boasts some of the most advanced emission reduction technologies in the world. Making use of this technology overseas is
an ideal way for Japan to contribute to global warming prevention, and also holds the promise of new business for Japanese companies.

It is from this perspective that JBIC has placed priority on support for projects that lead to reductions in greenhouse gas emissions in its International Financial Operations and Overseas Economic Cooperation Operations.

**Financial support for environmental improvement projects**

JBIC actively seeks to support endeavors aimed at environmental conservation. It intends to improve its operations through monitoring such indicators, for example, the share of total project held by environmental improvement projects and the degree of participation of local residents and NGOs in targeted project areas throughout implementation. The Medium-Term Strategy for Overseas Economic Cooperation Operations, the basic strategy for ODA loan operations, also specifies that priority be placed on “supporting environmental improvement and anti-pollution measures” and “addressing global issues.” Further, in its overseas investment loans and ODA loan operations, JBIC provides support for environmental improvement projects under preferential conditions. Support for projects that contribute to the curbing of global warming, such as promotion of the use of natural gas, has increased as a portion of International Financial Operations, while about 40% of ODA loans approved in FY2002 were for environmental projects.

The following are some recent examples of projects supported by JBIC that are related to the prevention of global warming.

**Case 1: Geothermal power generation in Mexico**

**Construction of a 100MW independent power plant**

Due to rapid economic growth, Mexico’s electric power needs are expected to rise to 1.6 times their 1998 level by 2007. JBIC is supporting the introduction of clean energy generation in Mexico to help meet this demand while addressing the problem of increasing atmospheric pollution.

In 2000, JBIC provided an export loan for a 100MW geothermal power project (Cerro Prieto Plant) planned by Mexico’s Comisión Federal de Electricidad (CFE) on the Baja California Peninsula near the border with the United States. Geothermal power generation exploits the heat energy available in the Earth’s subsurface, and because it generates far smaller CO2 emissions than oil, coal and even natural gas-based power generation, it is favored as a low environmental impact energy source. The Cerro Prieto plant was completed in 2000, and is already in operation.

**Case 2: Wind power generation in the Philippines**

**Contributing to the development of domestic renewable energy sources**

The Philippines depends on imported oil and coal for about 60% of its energy consumption, and with economic growth constantly boosting electricity demand, the country is striving to develop renewable energy both to reduce its dependence on external sources and to protect the environment. It had developed 2000MW of geothermal energy by 2000, but wind power remains untapped.

To help remedy this situation, JBIC provided an ODA loan in 2002 to the Northern Luzon Wind Power Project, the first commercial renewable energy project in the country. This project, which involves the construction in Northern Luzon Island of an approximately 40MW wind farm and power transmission line connecting to the nearest trunk transmission line, is being carried out by the Energy Development Corporation of the Philippine National Oil Company, and is the first of what is hoped to be an increasing number of wind power projects aimed at developing sustainable and stable electricity supplies and reducing the Philippines’ dependence on imported energy sources.
Contributing to the Fight against Global Warming as a Member of the International Community

Case 3: Investment in the Prototype Carbon Fund (PCF)
Promotion of CDM and JI initiatives

The World Bank established the PCF as a pilot project within the framework of two of the Kyoto Mechanisms, the Clean Development Mechanism (CDM) and Joint Implementation (JI)*. The PCF will invest contributions made by companies and governments in projects designed to produce emission reductions fully consistent with the Kyoto Protocol and the emerging framework for JI and the CDM, with contributors receiving a pro rata share of the emission reduction units (ERUs). The PCF channels funds to many kinds of projects, including renewable energy generation, power station thermal efficiency improvement, and landfill methane recovery projects.

* See p.6 for an explanation of CDM and JI.

JBIC made an investment in the PCF in 2000, with the additional aim of acquiring expertise in the Kyoto Mechanisms so that JBIC can facilitate promotion of countermeasures to global warming by Japan and Japanese firms.

JBIC has been selected as a member of the Participants Committee to provide advice on candidate projects and PCF operations. The bank became the first financial institution affiliated with the Japanese government to receive verified ERUs* when, in July 2003, it was awarded 5,640 tons from the PCF-funded Chacabuquito Hydropower Project in Chile.

JBIC intends to continue its participation in the PCF to accumulate the kind of knowledge and expertise on the Kyoto Mechanisms that will help it to better support the reduced-risk participation of Japanese companies in CDM and JI initiatives.

* JBIC will be submitting an application to the CDM Board for the issue of emission credits required to count these verified ERUs toward the attainment of Japan’s emission reduction target.

Full implementation of new environmental guidelines

In October 2003, JBIC implemented its new Guidelines for Confirmation of Environmental and Social Considerations (referred to hereafter as the Guidelines).

The Guidelines combine and expand the scope of the two previous environmental guidelines separately employed for JBIC’s International Financial Operations and Overseas Economic Cooperation Operations. In preparing the new Guidelines, JBIC held public consultation forums and study groups to gather the views of a broad spectrum of society, including representatives from academia, industry, government, and Civil Society Organizations, and also placed priority on ensuring the transparency of its operations and consistency with prevailing international opinion. The Guidelines place a premium on (1) the promotion of dialogue with, and participation by local residents, (2) due consideration of environmental and social impacts, and (3) proactive disclosure of information.

When considering the funding of projects, JBIC divides them into categories according to the degree of environmental impact, and for Category A projects with the potential of the most serious environmental impacts, requires project proponents to submit Environmental Impact Assessment (EIA) reports. The relevant finance section and JBIC’s Environment Analysis Department also identify all environmental and social considerations through the use of detailed environmental checklists. Further, even after a loan agreement is reached, projects are monitored, and dialogue with project proponents is conducted as occasion demands to ensure that appropriate environmental and social considerations continue to be observed.

During the screening process for a project, JBIC discloses the project’s environmental impact category and the progress status of EIA reporting on its website, and after reaching loan agreements, also publishes the results of the project’s environmental reviews.
Introduction of Objection Procedures

To ensure compliance with the Guidelines, JBIC also introduced the Procedures to Submit Objections Concerning JBIC Guidelines for Confirmation of Environmental and Social Considerations (“Objection Procedures”).

The establishment of such procedures by a bilateral export credit or aid agency is groundbreaking even by international standards, and goes beyond even the “common approach” environmental review recommendations adopted by the OECD.

While the projects financed by JBIC are aimed at providing various benefits such as electricity, improved transportation, and water supply, they also have the potential for negative environmental or social impact, and this must be alleviated or mitigated based on the Guidelines. The bank’s provision of the Objection Procedures is one way of ensuring strict compliance with the new Guidelines.

The procedures call for a suitably qualified outside Examiner in Charge of Environmental Guidelines to conduct an independent and impartial investigation when objections are submitted by the people affected such as local residents or NGOs, and to report the results to the governor of the bank. Examiners also contribute to the early solution of problems by fostering dialogue between concerned parties. JBIC will publish the results of information on these processes on its website.

Two new Examiners in Charge of Environmental Guidelines were appointed upon establishment of the Objection Procedures.

Vital role of the Environment Analysis Department

The Environment Analysis Department plays a vital role in JBIC’s efforts to ensure that due consideration is given to the environmental and social impacts of projects.

Director General Kunio Hatanaka says, “The two forerunners of JBIC also established independent sections in the latter half of the 1980s for the impartial assessment of environmental impacts. This Department was born with the launch of JBIC in 1999, and about 20 employees are currently involved in implementing the Guidelines. For projects with extensive environmental impacts, staff members visit project sites with environmental specialists to ensure that the requirements detailed in the EIA are being complied with, or are likely to be implemented in the future. When required, they take the matter up with the borrower country’s authorities and other concerned parties.

To enhance the transparency of JBIC itself, and foster understanding of our activities, we have been publishing an annual Environmental Report since 2002 — and we were the first financial institution affiliated with the Japanese government to do so. We will be making even greater efforts in the future to enhance our environmental analysis capabilities and environmental communications, and boost our expertise in global environmental issues, particularly operations addressing global warming measures.”

Looking to the future

In September 2003, in preparation for the full-scale implementation of the Kyoto Mechanisms, JBIC established the new position of Special Advisor for the Kyoto Mechanisms and IT Cooperation, which is tasked with gathering relevant information from JBIC’s 26 overseas representative offices, overseeing the bank’s endeavors regarding the Kyoto Mechanisms, and disseminating information broadly in order to increase awareness.

Implementation of the Kyoto Mechanisms requires not only discussions between developed countries, international institutions and concerned Japanese parties, but also the cultivation of understanding among the governments and local residents of countries where projects are being planned. To support implementation of the Kyoto Mechanisms, JBIC draws on a wealth of experience and expertise in overseas environmental improvement projects, and very close and longstanding ties with developing countries.
The Kyoto Mechanisms

Japan has ratified the Kyoto Protocol, committing itself to the numerical target of reducing its average greenhouse gas emissions for 2008-2012 by 6% compared with its 1990 emissions. In its Guidelines for Measures to Prevent Global Warming, the Japanese government proposes to achieve a 4.4% reduction through domestic measures including voluntary action plans, and to make use of the Kyoto Mechanisms and other measures to achieve the remaining 1.6 percentage points of reduction.

The Kyoto Mechanisms offer three means of reducing greenhouse gas emissions from a global standpoint, enabling countries to receive credits for reducing emissions in other countries to count toward their own targets, and also to trade in emission credits.

- **Clean Development Mechanism (CDM):** a mechanism whereby a developed country finances and otherwise supports the implementation of an emission reduction project in a developing country, in return for which it receives emission credits that it can use to achieve its own emission reduction targets.
- **Joint Implementation (JI):** a mechanism whereby developed countries can receive emission credits for financing projects that reduce net emissions in other developed countries.
- **Emission trading:** a mechanism whereby developed countries that have committed to numerical emission reduction targets may buy and sell emission credits to contribute to the achievement of those targets.

Introducing JBIC's Examiner in Charge of Environmental Guidelines

**Establishing open and fair Objection Procedures**

Junji Annen and Kazuo Matsushita, who were each appointed by JBIC as an Examiner in Charge of Environmental Guidelines in October 2003, express their aims and hopes for the task ahead.

"JBIC has put itself at the forefront of the world’s export credit agencies, aid agencies, and financial institutions in the environmental field with its groundbreaking new Environmental Guidelines and Objection Procedures, which we feel are sure to make a positive contribution to the way borrowers, project proponents and JBIC conduct themselves. The adoption of such high environmental standards will also help boost the competitiveness of Japanese industry as a whole, and we have high expectations that the Guidelines will set an international standard. We are very honored at the prospect of taking on such a heavy responsibility, and we both feel that this is a very worthwhile role."

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**Junji Annen**
Attorney, Professor, Faculty of Law, Seikei University, and Visiting Professor, Center for Collaborative Research, University of Tokyo
Graduated from University of Tokyo Faculty of Law in 1979. Positions from 1979 to 1993 include Associate Professor, Faculty of Law, Hokkaido University; Associate Professor, Faculty of Law, Seikei University; Visiting Scholar, Harvard Law School. Has served from 1993 as Professor, Faculty of Law, Seikei University, and from 1996 as Visiting Professor, Research Center for Advanced Science and Technology, University of Tokyo.

**Kazuo Matsushita**
Professor, Graduate School of Global Environmental Studies, Kyoto University, and Visiting Professor, United Nations University
Graduated from University of Tokyo Faculty of Economics in 1972, and then joined the Environment Agency (now the Ministry of the Environment). Served from 1990 to 1992 as Senior Planning Officer, UN Conference on Environment and Development (UNCED) (Earth Summit held in Rio de Janeiro), and then as Director, Global Environmental Issues Division, Environment Agency; Cabinet Councilor; Acting Vice President, Institute for Global Environmental Strategies (IGES), etc., before assuming present position in 2001.

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Results from a Survey on Japanese Manufacturers’ Overseas Business Operations

Promising Business Prospects in Vietnam and India

When responding to surveys over the last few years, many Japanese manufacturing companies have indicated that the three most promising countries for business development over the medium term are China, Thailand and the United States. During the annual surveys, respondent companies have increasingly come to consider Vietnam and India to be promising countries. In the FY2003 survey they ranked Vietnam as the 4th most promising country, and India the 5th. This is one of the most noteworthy points discussed in Survey Report on Overseas Business Operations by Japanese Manufacturing Companies. The report was released by the Japan Bank for International Cooperation (JBIC) in November 2003.

This issue of JBIC Today focuses on Vietnam and India, two Asian countries now viewed by Japanese corporations as favorable investment destinations, after China and the ASEAN 4. We explore reasons for the growing interest in these two countries, examine investment trends, and discuss JBIC’s support for efforts to improve the investment climate.

Vietnam, India and Russia move up in the ranks of countries considered promising for overseas business

Every year since 1989, JBIC has distributed questionnaires to Japanese manufacturing companies, surveying how they view overseas business prospects. The FY2003 survey was the 15th conducted to date. Results of the survey can be found in Survey Report on Overseas Business Operations by Japanese Manufacturing Companies — Results of JBIC FY2003 Survey: Outlook for Japanese Foreign Direct Investment (15th Annual Survey).

During the 2003 survey, questionnaires were sent to 932 Japanese manufacturing companies with three or more overseas affiliates. Valid responses were received from 571 of these companies.

Major themes covered in the survey included:
- Prospects for overseas and domestic business operations
- Prospects for overseas business operations by region
- Evaluation of overseas business performance
- Promising countries for overseas business operations over the medium term

Specific topics included:
- Free trade agreements
- Impact of China’s WTO entry
- Impact of SARS

Promising Countries for Overseas Business Operations over the Medium Term
(Next three years or so) (Multiple responses)

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Source: Survey Report on Overseas Business Operations by Japanese Manufacturing Companies
The survey results generally indicate that, compared with the previous year, respondent companies are slightly more satisfied with sales and profitability from their overseas business. The majority (78.3%) stated they intend to “strengthen and expand overseas business operations.” On the impact of overseas business development on domestic operations in the medium term, 40.3% of all respondent companies — the largest group — stated that “products previously made in Japan will be moved to production at overseas bases, but we will tackle other products and fields in Japan to fill in the resulting gap.”

One major point of interest is that, when asked to select promising countries for overseas business over the medium term, respondent companies ranked Vietnam in 4th place (it was 5th in the previous year’s survey), and India in 5th place (6th the previous year). Russia rose to join the top 10 most promising countries. Greater interest was shown in Asia, central and eastern Europe, and Russia as locations for new overseas investment. One common reason given for considering these locations promising is the expectation that they all have potential for domestic market growth. Noteworthy here is that many companies gave “excellent human resources” as the reason for considering Vietnam and India as promising countries.

Even so, when asked whether they had concrete business plans for the countries they considered promising, many companies said they had no actual plan (77.3% of all respondent companies for Vietnam, 64.3% for India, and 80.0% for Russia). This indicates that expectations are running higher than preparedness. Commonly cited issues for these countries to solve included: “Insufficient information concerning the investment destination”; “Opaque operation of the legal system” (specifically for Vietnam and Russia); and “Underdevelopment of infrastructure” (specifically for Vietnam and India). JBIC is offering strong support for the resolution of such problems as well as providing information on the investment climate in those countries.


**Vietnam since the 1990s: on the economic growth track**

Vietnam is situated on the eastern side of the Indochinese Peninsula. With a population of 78 million, the country has an area about the same as Japan. After north-south unification in 1976, national policies were based on socialism. The Doi Moi (reform) policy announced in 1986 paved the way for introduction of market economic principles and a policy of opening the country to foreign business.

In the early 1990s, the government revised the Foreign Investment Law and began fostering the growth of private enterprise. These efforts placed Vietnam on track for export-driven economic growth, and made it possible for the country to achieve high annual growth rates of 8% to 9% between 1992 and 1997. However, the Asian currency crisis that began in 1997 created severe economic problems for the country for a period of time. However, subsequent government programs to stimulate the economy boosted domestic consumption and improved the investment climate, placing the country once more on track toward growth. The Vietnamese government released figures indicating a growth rate of 7% in 2002.

With the second largest population in Southeast Asia, Vietnam’s domestic market offers much potential. One vital issue is how to develop and promote projects that will harness this potential.
Japan contributes to resolution of problems facing Vietnam

Vietnam’s GDP more than doubled during the 1990s, with mining and manufacturing accounting for 39% of GDP. The Vietnamese government intends to continue to promote foreign investment, especially in the manufacturing sector. Its major policy strategies for the ten-year socioeconomic development plan beginning in 2000 are: further integration with the international economic community; an average annual economic growth rate of 7%; reduction of regional disparities within the country; and reduction of poverty. Many challenges still stand in the way of achieving these goals.

Structural reforms must be implemented rapidly to advance the transition to a market economy. These reforms include the restructuring of inefficient state-owned enterprises, support for the private sector, modernization of the banking system, and development of a full-fledged stock market. Vietnam is also easing regulations on imports, in an effort to meet its goal of joining the WTO by 2005. However, the country has a trade deficit because many of its exports are primary products and light manufactured goods easily impacted by international market conditions, and because of growing imports of raw materials and machinery. The percentage of people living in poverty has dropped from 60% to 30% in the last decade, but the income gap between urban and rural populations is widening. In addition, major economic infrastructure — especially for transportation, electric power and telecommunications — is still inadequate.

Financial support from the international community can improve this situation through measures to upgrade Vietnam’s economic infrastructure in order to stimulate private-sector economic and investment activity, to improve governance in order to encourage the development of effective policies, to provide private capital, and to transfer technology.

One example of Japan’s support for Vietnam was a joint Japan-Vietnam project conducted between 1995 and 2001, entitled Study on the Economic Development Policy for the Transition toward a Market-Oriented Economy in the Socialist Republic of Vietnam (also called the Ishikawa Project). JBIC also participated in the study, and Shigeru Ishikawa, Professor Emeritus at Hitotsubashi University, was named lead researcher for the Japanese side. The project team, composed of Japanese specialists and members from the Vietnamese side, conducted joint research and surveys with regard to macroeconomic issues, financial and fiscal matters, industrial policies, and agricultural and rural development. Results of this project have been highly praised, and some of its findings were reflected in the Five-Year Plan for Socio-Economic Development, which began in 1996.

When Prime Minister of Japan Junichiro Koizumi, met with Prime Minister of Vietnam Phan Van Khai in April 2003, they launched the Japan-Vietnam Joint Initiative to Improve the Business Environment with a View to Strengthening Vietnam’s Competitiveness. The Initiative promoted policy discussions among leaders and high-ranking officials of both countries, with regard to priority polices and measures to sustain further economic growth in Vietnam. The Action Plan resulting from the Joint Initiative is expected to strengthen Vietnam’s international competitiveness and attract foreign investment. Subsequent results included the November 2003 Agreement between Japan and the Socialist Republic of Vietnam, and presentation of the final report on the Japan-Vietnam Joint Initiative in December 2003. The positive achievements of these bilateral policy discussions are now becoming apparent.

Vietnam has high hopes for assistance from Japan, and Japanese efforts to meet these expectations will contribute to stability and development in Asia.
Priority on economic structural reform, infrastructure development and poverty reduction

ODA loans provided by JBIC to Vietnam place priority on:

–Sustainable economic growth through promotion of the transition to a market economy, including encouragement of private-sector economic activities
–Economic structural reforms and economic infrastructure improvements to encourage greater international cooperation
–Efforts to reduce poverty and regional disparities within the country
–Environmental conservation
–Development of human resources
–Support for other environmental conservation measures

During FY2002, JBIC collaborated with NGOs to implement the Small-Scale Pro Poor Infrastructure Development Project, targeting the construction and improvement of roads, water supply systems, electricity distribution networks and irrigation systems. The project’s objectives were to improve the economic situation and living environment in areas of the country where poverty levels are high. JBIC is also providing capital for the North-South Submarine Fiber Optic Cable Link Project, which was established to cope with the rapid growth in demand in telecommunications, for projects to improve transportation and electric power infrastructure, and for the Ho Chi Minh City Environmental Improvement Project and Water Environment Improvement Project to alleviate severe river pollution.

In the area of International Financial Operations, JBIC is financing a wide range of investment projects. These include the Phu My 2 and Phu My 3 Thermal Power Plants, jointly financed with Japanese corporations and others, and a reforestation project implemented by a Japanese paper manufacturer to expand Vietnam’s forest cover and increase the supply of raw materials for the paper industry.

Paradox in India: economic growth amid severe poverty

GDP comparisons based on purchasing power parity indicate that India is the world’s fourth largest economic powerhouse, after the United States, Japan and China.

In 1991, India shifted from a mixed economy with a strong socialist tinge to new economic policies promoting open markets, import liberalization, lower customs duties, and deregulation of private enterprise. Positive results have included a rapid influx of foreign direct investment, and continually high economic growth averaging more than 6% per year since 1992. One trend attracting worldwide attention is the growing interest the American IT industry is showing in India’s human resources. After time in the US or elsewhere, native-born IT technicians are returning to India and launching software ventures that grow rapidly there. Enjoying the world’s largest arable land base, India is also a very important agricultural nation.

With a population of 1 billion, India is also a huge market waiting to be developed in the 21st century. Economic advances over the last decade have lifted more than 200 million people into the middle-income bracket, and the domestic market that this group represents has tremendous latent purchasing power.

On the other hand, in 2000 more than 700 million people were living in poverty, many of them existing on less than 2 dollars per day. Poverty remains a major problem to be solved. Irrigation systems for agricultural land are inadequate, health and sanitation conditions are poor in urban areas, and environmental problems, including air and water pollution, are common. Electric power facilities, roads, ports and other infrastructure, all necessary for economic development, are insufficient. These problems await resolution.
Support for economic infrastructure, poverty reduction, sanitation and the environment

The Indian government has set as its objective an average economic growth rate of 8.0% for each of the five years from 2002 to 2007. This objective cannot be achieved without improvements in the antiquated socioeconomic infrastructure and the improvement of the investment climate.

After India’s 1998 atomic bomb tests, the Japanese government imposed economic sanctions on India, suspending the provision of new ODA loans in accordance with Japan’s ODA Charter. The sanctions were lifted in October 2001, in light of the fact that the Indian government had cooperated in the international effort against terrorism after the terrorist attacks on September 11 in the United States. Japan has determined three priority areas for ODA loans to India: (1) infrastructure improvements, particularly for electric power and transportation; (2) anti-poverty efforts focusing on agricultural and rural development; and (3) environmental conservation.

Within the framework of overseas economic assistance for India, JBIC is providing prioritized support for economic infrastructure improvements, in particular electric power and transport, for regional poverty-reduction development programs such as irrigation and sericulture projects, and for projects to improve environmental and sanitary conditions in urban areas, where such conditions are worsening.

ODA loans were provided for nine projects in India during FY2002. These include: the Simhadri Thermal Power Station Project (IV); the Rajasthan Forestry and Biodiversity Project, which promotes afforestation at the grassroots level, with a view to raising ground water levels in order to increase water resources, halt desertification, and raise the income of the poor; and the Ajanta-Ellora Conservation and Tourism Development Project (II), which will conserve and protect a world heritage site and promote tourism.

In the area of International Financial Operations, JBIC is offering support for the exports of Japanese corporations to India, and for their investments in that country. Recently, for example, JBIC has provided loans for an electric power generating plant whose construction involves a Japanese corporation. JBIC will also consider providing support for other ongoing projects, using a variety of financing tools, especially export and overseas investment loans.

Stronger Ties with India

Takashi Shimada,
President, Indo Business Centre Ltd.

Despite India’s tremendous economic progress today, we are often asked, “Why are you promoting investments in India now?” My answer is always: “Actually, we should have started promoting them some time ago.”

When Japanese corporations consider investing in other Asian countries, they generally think of an ASEAN country or China. For most company executives, India is some distant, poverty-stricken country, and that is why very few Japanese investment funds have reached India.

And yet the people of India exhibit remarkable talent. For example, it was Indians who invented electronic editing systems and e-mail systems. People from India developed software for automatic ticket reading devices and ATMs. The heroes of many Silicon Valley success stories are Indian. India’s software industry is growing rapidly, and surveys show that India will occupy 57% of the global software market by 2007.

Today, Japanese overseas investment goes primarily to China. But this is changing slowly — after a delay of too many years, economic exchanges are finally beginning with India, reflecting its growing expertise in intelligent technologies.

Our company supports Japanese corporations investing in India or doing business there, and we also serve as a bridge for Indian corporations who do business in Japan. I believe it is essential that businesspeople from both countries work hard to make up for the two decades they neglected to take advantage of.

However, we have to recognize that India still has many problems that cannot be solved by the private sector alone, such as inadequate infrastructure and poverty. We hope that JBIC will continue to provide support through ODA loans and investment loans. We hope it will also promote ties with organizations in India, such as the India-Japan Center, a joint research institute, in order to support the development of human resources and the formation of better policies.
Reducing Greenhouse Gas Emissions: Efforts Have Already Begun

The Kyoto Protocol represents a worldwide effort to reduce greenhouse gas emissions. When ratifying the Protocol, developed countries take on the obligation to meet quantitative targets for limiting those emissions. One way to meet these targets is emissions trading, a system under which developed countries transfer (trade) and acquire emission reduction units (ERUs) among themselves.

After the EU Council adopted an emissions trading directive in July 2002, EU member nations began preparing for emissions trading, which will start in January 2005. Attempts to determine ERUs for each source of emissions have met with various difficulties, including such questions as how to evaluate emission reduction efforts taken before 2000, and how to establish a standard framework. Even so, there is no doubt that efforts aimed at reducing greenhouse gases have already begun in earnest.

The EU and European corporations view central and eastern Europe as a good target for investment in environment-related businesses. Industries there used large amounts of energy supplied cheaply by the former Soviet Union, but production is now stagnating. As a result, there are reports of surplus ERUs that exceed the amount of emission units used over quota by western European countries. This represents a business opportunity for Japan and Japanese corporations.

Study Group Will Explore Business Opportunities in This New Environment

The JBIC Representative Office in Frankfurt collaborated with the Budapest office of Japan External Trade Organization (JETRO) in holding a seminar on global warming countermeasures for Japanese firms. The seminar was held in September 2003, and a follow-up study group was established in October to examine environment-related business trends in central and eastern Europe. Representatives from more than 20 Japanese trading firms, engineering consultants and manufacturers stationed in Europe belong to the study group. Discussions are driven by an eagerness that their companies must not delay entry into this sector of the European market, and a keen desire to explore new business opportunities. The study group’s aims are not only to examine the issue, but also to prepare for actual projects and to lay the foundation for project frameworks, including financing mechanisms.

The study group has another objective: to create opportunities for companies to form new business partnerships. After study sessions, participants who used to regard each other as rivals get together over Germany’s famous Frankfurt sausages and beer to discuss dream businesses. The next day, they return to the competitive world of real business.

Serving as a Center for Information Sharing

Obtaining ERUs effectively is necessary to maintain industrial competitiveness, and investment in energy conservation creates new business opportunities. The Federation of German Industries says that the effective achievement of Kyoto Protocol goals is an issue affecting industrial competitiveness. For its part, the Kreditanstalt für Wiederaufbau (KfW) has announced it will establish a fund for the purchase of ERUs, and will provide export financing for emission reduction projects. As both financial institutions are government-affiliated, JBIC representatives frequently exchange views with KfW fund managers. On the other hand, they normally compete in their respective support for corporate negotiations, and they are rivals who know each other’s positions well. The relationship thus displays various subtleties.

JBIC’s office in Frankfurt will promote dialogue with various stakeholders including KfW, continue to serve as a conduit offering information to Japanese corporations through the study group, and do what it can to create more opportunities for information sharing.