

JBIC TODAY

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Infrastructure Development in East Asia

— The Way Forward —

Stronger Economic Ties Between Japan and the Booming Indian Economy

— An Approach to Reinforcing Japan-India Economic Cooperation
and Sustainable Growth in India —



JAPAN
BANK FOR
INTERNATIONAL
COOPERATION





Infrastructure Development in East Asia

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Of the eight Millennium Development Goals (MDGs) adopted at the United Nations Millennium Summit in September 2000, the most important goal is to reduce by half the number of people living on less than US\$1 a day. This goal, to be achieved by 2015, is shared by the entire international community. Infrastructure promotes sustainable growth, and infrastructure development can therefore be used as an important tool to reduce poverty.

The recent phenomenal economic growth and development in East Asia have certainly reduced poverty. There is heavy demand for more infrastructure to support this growth and further reduce poverty, but the supply is still inadequate. This situation is complicated by other trends, such as urbanization, decentralization, regional integration, and greater emphasis on environmental and social considerations. For these reasons, a new framework and a new approach are needed when tackling infrastructure challenges.

To define new strategies for infrastructure development in East Asia,* the Japan Bank for International Cooperation (JBIC), the World Bank, and the Asian Development Bank (ADB) launched a joint study in September 2003 called *Connecting East Asia—A New Framework for Infrastructure*. The outcome of the study was presented at a symposium in Tokyo on March 16, 2005.

The following pages take valuable information from that report to examine challenges facing infrastructure development in East Asia, and to show how recommendations in this new framework are applicable. The role JBIC can play, in light of the report's findings, will also be discussed.

* The study, *Connecting East Asia—A New Framework for Infrastructure*, focused on the following countries: Cambodia, China, Indonesia, Lao PDR, Malaysia, Mongolia, Myanmar, the Philippines, Thailand, Timor-Leste, Viet Nam and Pacific island countries such as Papua New Guinea. In this issue, the term "East Asia" refers to these countries.

Linkage between Infrastructure, Economic Growth and Poverty Reduction in East Asia

By promoting international trade, many countries in East Asia are now playing an active role in the global economy, and this has helped them achieve high economic growth. Over the last 15 years, the developing countries of East Asia have enjoyed annual GDP growth rates averaging more than 7%. Over the last 25 years, East Asia's share of world trade has more than tripled—today, it is responsible for about 20% of all world trade.

Even more noteworthy is the great reduction in the number of people living in poverty. During the five years between 1999 and 2003, the number of people living on less than US\$2 a day in East Asia dropped by more than 250 million, from about one person in two to one person in three.

Infrastructure has spurred economic growth and reduced poverty in East Asia. Infrastructure promotes business activities and helps raise the incomes of the poor, reduce infant mortality, increase school attendance rates, and extend hours of learning. This has been indicated in numerous studies.

China, Thailand and Viet Nam have been investing in infrastructure at a rate of more than 7% of their GDP each year. Infrastructure development helps boost industrial production, increase trade and investment, and offer people living in poverty better access to services that depend on infrastructure. These factors have combined to reduce poverty in the region.

Infrastructure Challenges Facing East Asia

The funding gap

Over the five year period from 2006 to 2010, East Asia's funding challenge is to find resources for estimated infrastructure needs of approximately \$200 billion annually including both investment and maintenance—for electricity, telecommunications, water, major transportation networks and other services.* The pressing question is, where will the money come from? Not all funds can flow from the governments of developing countries. Financial assistance from donor countries and international financial institutions and investment from the private sector are expected to fill the funding gap. However, private infrastructure investments peaked after the mid-1990s and fell into a slump, although there have been signs of recovery lately.

* Infrastructure funding needs, excluding ports, airports and the like, are estimated at US\$160 billion each year. (These figures do not incorporate all factors.)

The funding gap is only one of many difficult issues facing developing countries in East Asia wrestling with the need for improved infrastructure.

Urbanization, decentralization, regional integration, environmental and social considerations, political risk

Urbanization rates in East Asia are rising rapidly. Large cities help drive national economic growth, but at the same time, rapid urbanization and booming populations create an urgent need for more and better infrastructure. Further, these infrastructure deficits tend to affect the poor, informal settlements far more than the rest of the urban population. Correcting the disparities in infrastructure service is a major issue.

Infrastructure provision in the rural area, where about two-thirds of the region's population and most of the poor live, is also crucial. In Indonesia and the Philippines, the government is promoting decentralization. Success of these decentralization reforms is dependent on how well local governments can choose and implement suitable and highly cost-effective infrastructure projects that create greater access to education, generate job opportunities and raise local income levels.

Globalization increases the importance of regional integration in the contexts of market revitalization, market expansion and promotion of competition. Improving logistical infrastructure will facilitate the movement of goods within East Asia, and this too will promote integration. Regional integration will link low income countries and regions to markets and provide more opportunities for all to share in the benefits of East Asia's growth. Thus, improving logistic infrastructure is essential.

The importance of environmental and social considerations in infrastructure development projects is well understood in East Asian countries. Such considerations are vital during every phase of a project, from planning, to implementation, to post implementation, and need to be embedded within basic processes at national and sectoral levels, especially through environmental legislation, systematic use of environmental impact assessments, and capacity building at environmental agencies.

The question of who pays for infrastructure costs can create severe political headaches. Since the 1980s, the private sector has taken an increasingly important role in East Asian infrastructure development, but private investment may face problems related to political risk—for example, governments may find it politically difficult to permit user charges to rise. Governments need to develop and implement appropriate policies on user charges and subsidies, keeping in mind the need to reduce the fiscal burden and promote private investment.

A New Approach

Under these circumstances, the question is how infrastructure projects should be promoted in East Asia. To suggest a way of approaching the issues, JBIC, the World Bank, and ADB launched a year-long joint study in September 2003 called *Connecting East Asia—A New Framework for Infrastructure*. The joint study team, composed of representatives from the three institutions, consulted with East Asian government officials, private investors, NGOs and other stakeholders at seminars and workshops in Tokyo, Manila and Bali, and conducted a wide-ranging study. The team completed its final report in March 2005.

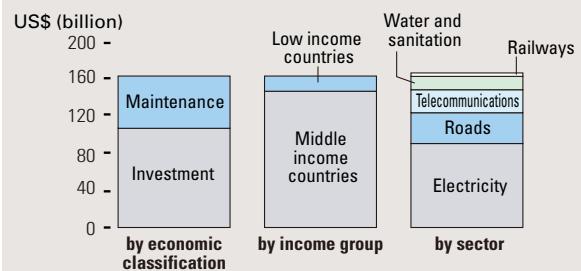
The report proposes a new framework for infrastructure based on three concepts:

- (1) Inclusive Development
- (2) Coordination
- (3) Accountability and Risk Management

Inclusive Development

It is important that infrastructure promote economic growth, and that the fruit of that growth is shared by as many people as possible. Whatever its purpose—whether for water systems, electric power generation or transportation—infrastructure greatly improves the quality of life. The poor remain poor

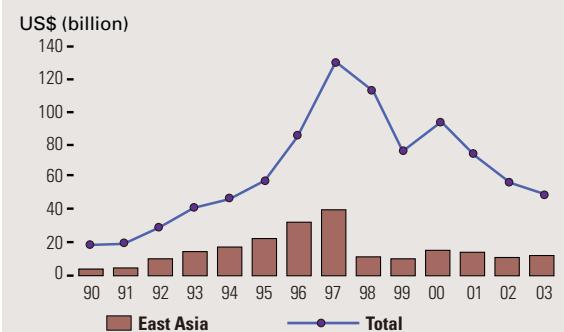
Estimated annual infrastructure need, East Asia, 2006-2010



Economic Classification: 65% for investment, 35% for maintenance of infrastructure assets.
Income group: Middle income countries such as Thailand, Malaysia and China represent 90% of the total. Low income countries such as Indonesia and Viet Nam represent the remaining 10%.
Sector: Electricity and roads occupy well over half of the total required capital.

Note: Compiled based on *Connecting East Asia—A New Framework for Infrastructure*

Private sector investment in infrastructure, 1990-2003



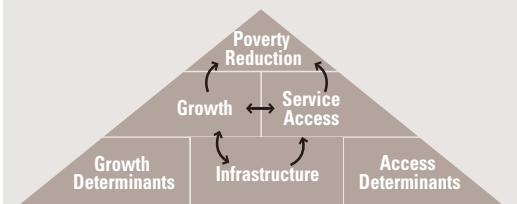
Source: *Connecting East Asia—A New Framework for Infrastructure*

The new framework



Source: *Connecting East Asia—A New Framework for Infrastructure*

Linkages between infrastructure, poverty reduction and growth



Source: *Connecting East Asia—A New Framework for Infrastructure*

because they often cannot benefit from the most basic infrastructure services. Infrastructure, an essential factor in securing an adequate livelihood, promotes job opportunities by linking production centers with markets, and it raises productivity levels as well. These benefits translate into higher incomes for workers.

Improving access to infrastructure services and promoting economic growth through infrastructure bring benefits that create a “virtuous circle” contributing to poverty reduction.

But benefits from improved infrastructure will not always be shared fairly by all people. And the interests of some stakeholders may clash with the interests of others. It is therefore important that all stakeholders, including those who will benefit from the infrastructure, participate in the decision-making process.

Case Study 1:

Infrastructure Development Stimulates Economic Growth and Reduces Poverty (Viet Nam)

JBIC has provided ODA loans for two major projects in Viet Nam: the National Highway No. 5 Improvement Project (to repair and widen the highway linking the capital Hanoi with Hai Phong, the largest port in northern Viet Nam), and the Hai Phong Port Rehabilitation Project (to modernize port infrastructure).

The upgraded highway has raised logistic efficiency. This has encouraged many foreign corporations to establish operations in nearby industrial parks, creating 14,000 new jobs and contributing to economic growth in northern Viet Nam. The highway also offers better links between the two cities and rural areas, improving routes for the transport of agricultural produce. This has stimulated the production of rice, vegetables, live-stock and value-added items such as shrimp reared in fish farms. Rural household incomes in the area jumped 30% in the 1993-1998 period, and the poverty rate dropped 35% between 1998 and 2000.



National Highway No. 5:
Improvements have raised
logistic efficiency.

Coordination

“Coordination” is about the State’s ability to generate strategic vision, and its ability to turn that vision into reality. It requires making trade-offs between multiple objectives, particularly when multiple actors are involved. Governments must work to optimize trade-offs among the various stakeholders, who often have conflicting vested interests. In this process, the ability of the government to balance its leadership with the participation of various stakeholders is tested.

In East Asian countries that have enjoyed rapid growth, political leaders and senior policymakers have played a major role in creating a long-term development vision and the sectoral strategies that followed from that vision. Ministries and agencies in charge of infrastructure planning have been given leadership powers to promote infrastructure development along the lines of that long-term vision. The resulting high growth has helped to create a policy consensus for more infrastructure investment to support that growth. Developing countries in East Asia tend to devise similar development models, but typically face the following three challenges:

(1) Coordination to ensure appropriate levels of infrastructure investment

In many East Asian countries, responsibility for investment planning is vested in one ministry, with responsibility for financing vested in another. This often creates inefficiencies in fiscal resource management. During times of high growth, a lack of coordination among the ministry in charge of infrastructure development and the finance ministry may result in the government investing too much in infrastructure. Conversely, in times of fiscal retrenchment the government may spend too little. In an optimal scenario, appropriate levels of investment set in motion a “virtuous circle”: investment brings growth, which brings more fiscal revenue, which brings greater potential for more investment. Coordination among the responsible ministries is therefore essential.

(2) Coordination of local governments

Decentralization offers benefits—for example, it makes it possible to tailor infrastructure services to local needs. But decentralization also creates difficulties in coordination. Each local government tends to focus on only its own jurisdiction, which results in inadequate provision of regional-scale projects whose benefits extend beyond the jurisdiction of a single local government. Special measures are needed to deal with such cases. Further, where excessive fragmentation is a concern, it may be difficult to achieve efficiency gains due to the loss of economies of scale. These problems should be dealt with by strengthening the role of an intermediate tier of government, and through greater vertical coordination between the central and local governments.

(3) Coordination of urban infrastructure

Land use management is a key element in urban planning. Many East Asian cities have a long way to go to achieve effective use of urban land. These cities need to improve insufficient legal frameworks, inappropriate application of existing restrictions, and inappropriate political intervention. Obtaining a consensus among the multiple agencies involved in urban management and infrastructure delivery is also vital. And timing matters: when urban expansion precedes infrastructure investment, subsequent infrastructure improvements tend to be inefficient and more costly.

Accountability and Risk Management

Accountability and risk management involve a dynamic interaction among the many stakeholders, such as infrastructure service providers, investors, users, local communities, regulators and overseers, governments and NGOs. Each is bound by its own set of rules, and each tries to minimize its own risk and maximize its own benefit. When accountability and risk management work effectively, these mechanisms can result in optimum infrastructure services.

Accountability is a set of institutional tools that reward infrastructure service providers who perform well for their stakeholders, and penalize those that perform badly. Appropriate risk management is needed to ensure that risk is balanced by commensurate return—this will drive good performance.

Inadequate accountability and risk management can cause the bankruptcy of service providers and corruption. These problems can be avoided through community participation, competition and regulation.

For example, the best way to ensure accountability for small-scale infrastructure is to empower the communities that will benefit from that infrastructure to plan and manage it on their own. Community participation is becoming more common in East Asia.

Service providers must be held accountable, especially when a government offers them subsidies or guarantees. Subsidies are sometimes necessary for environmental protection or poverty reduction, or because of political considerations. But subsidies must be used carefully to avoid budgetary difficulties. Subsidies should be a last resort after costs have been minimized through competition, regulation, appropriate technology and service standards. Subsidies can be minimized through transparency, making them contingent on performance, or through subsidy bidding processes.

Guarantees do not constitute a liability for governments, but under certain circumstances they become debt. These contingent liabilities should also be carefully addressed by government risk management.

Case Study 2:

Community Participation in Infrastructure (Indonesia)

JBIC has provided ODA loans for small-scale irrigation management projects for the construction and repair of irrigation infrastructure essential to food production (mainly rice) in eastern Indonesia. A participatory approach with community empowerment measures was effective in the project. This approach includes giving community members a leadership role in agricultural management, and offering assistance for training programs so that they can be involved in the project from the planning stage. The local farming communities are now showing expertise in irrigation infrastructure management. This has greatly boosted production levels and raised farm incomes, and these positive results have in turn raised children's education levels, increased land and home ownership rates, and improved the living standards of local farming communities.



Farmers happy with their vegetable harvest (benefits of the Small-scale Irrigation Management Project)

12 Policy Recommendations: The Way Forward

The report, *Connecting East Asia—A New Framework for Infrastructure*, offers 12 policy recommendations to strengthen the contribution of infrastructure to inclusive development.

The recommendations offer effective guidelines for future action. Politicians and policymakers in developing countries can use them as relevant policy guidelines when establishing new policies, the private sector can use them as a check list to determine business potential in the developing world, and donor countries and NGOs can use them as the basis for examining new directions for infrastructure assistance and cooperation.

- 1. The center matters—infrastructure demands strong planning and coordination functions.**
- 2. Decentralization is important—but raises a host of coordination challenges.**
- 3. Fiscal space for infrastructure is critical.**
- 4. “Subsidies” is not a dirty word—subsidies can be important, but are always risky, and should be handled with care.**
- 5. Regulatory independence matters more in the long-run, than in the short-run.**
- 6. Competition is hard to achieve in infrastructure—but it is the best way to bring accountability.**
- 7. Civil society has a key role to play in ensuring accountability in service provision.**
- 8. Infrastructure has to clean up its act—addressing corruption is a priority.**
- 9. Public sector reform matters—but be realistic.**
- 10. The private sector will come back—if the right policies evolve.**
- 11. Local capital markets matter—but are not a panacea.**
- 12. Infrastructure needs reliable and responsive development partners.**

Here we will highlight four policy recommendations that are especially important: the role of central government in developing countries, fiscal space, private investment, and developing partners.

The center matters—infrastructure demands strong planning and coordination functions

Coordination functions not only address economic factors—they include environmental and social considerations, and require coordination among central government offices and local governments. Old models of top-down economic planning should give way to a model where the central government coordinates, with other stakeholders, strategic plans that respect the modern ideals of democratization, decentralization and an active role for the private sector.

Fiscal space for infrastructure is critical

The long-term goal is to pay for infrastructure through user fees. But it may be necessary over the short term to cap those fees, and large investments generally require upfront financing. In those cases, short-term financing from the public sector is necessary. And when private capital is invested, the public sector may have to share some of the risks. In East Asia, infrastructure development should receive public sector financing, on condition that governments take the necessary steps to ensure macroeconomic stability, sound fiscal and debt management, and private sector participation. Investments for worthwhile infrastructure can create a “virtuous circle” of growth leading to more fiscal revenue. The challenge is to select the right projects and implement them with effective policies and regulations.

The private sector will come back—if the right policies evolve

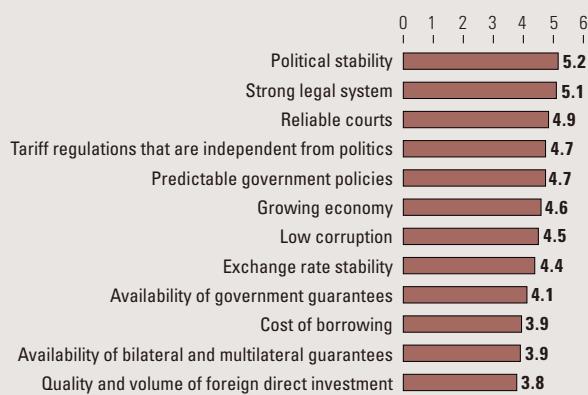
Responses to a questionnaire sent to 48 companies in Japan and the West indicated that many companies are keen to invest in infrastructure in East Asia, provided government policies are predictable. Private sector investment in infrastructure in developing countries is currently in a slump, but is expected to rise again if governments ensure policy predictability.

Infrastructure needs reliable and responsive development partners

Infrastructure is a long-term asset, so development partners need to stay for the long haul. Reliable partnership is needed to ensure financing, guarantees, policy advice, capacity building and more, and assistance should be tailored to the countries' specific conditions. During the 1990s, some public sector financing partners reduced their assistance for infrastructure because they expected, too optimistically, that the private sector would play a larger investment role in infrastructure development, and then placed more emphasis on direct support for the poor. It is now realized that infrastructure promotes economic growth and reduces poverty, and those financial assistance trends are now changing. The governments of developing countries now aim to promote infrastructure development that makes use of both public sector financing from development partners and private sector investments. Public sector financing must be linked more closely to the development policies and poverty reduction strategies of developing countries. The role of the development partner, not only in terms of financing but also in offering knowledge, is also very important.

Results from a survey of private sector perceptions regarding investing abroad

Question: “Please tell me how important each factor is when determining whether a country is appropriate for investing on a scale of 1-6, 1 meaning not at all important, 6 meaning extremely important.”



Tokyo Symposium on Connecting East Asia: JBIC's Future Role

JBIC, ADB, and the World Bank held a symposium in Tokyo on March 16, 2005, to present key findings of their study team's report, *Connecting East Asia—A New Framework for Infrastructure*, and to introduce a suitable policy framework for future infrastructure development. The symposium was attended by about 330 people, mainly from private companies, academia, the media, the Japanese government and relevant agencies, embassies in Tokyo, and multilateral institutions.

JBIC will use the outcome of the study report to prioritize infrastructure development in its operational strategies. With the report's findings in hand, JBIC will further strengthen its funding, guarantees and other forms of financial assistance programs for East Asian infrastructure development by offering the best mix of financing instruments, and will contribute know-how to improve policies and regulations for private sector investment.



Stronger Economic Ties Between Japan and the Booming Indian Economy

—An Approach to Reinforcing Japan-India Economic Cooperation and Sustainable Growth in India —

Of the countries within the BRIC group (Brazil, Russia, India and China)—an economy that is the subject of much attention as a massive new world market—India is thought to hold potential market growth on a par with China. As such, this nation is the focus of growing interest in Japan.

Since the liberalization of its economy in 1991, India has stepped up its participation in the global economy, attaining strong economic growth, at an annual average of more than 6%. Despite this progress, however, approximately 300 million people in India still live in poverty, a situation which is further complicated by an underdeveloped industrial infrastructure, environmental issues, and other challenges.

The relationship between Japan and India is a long and well-established one. India was the first country to which Japan extended ODA loans, in 1958, and is presently the top recipient of this type of Japanese assistance. This year, the fifth anniversary, of the Japan-India Global Partnership, Prime Minister Junichiro Koizumi concluded a visit to India in April with a joint declaration, "Strategic Orientation of Japan-India Global Partnership," an agreement that incorporates strategies for strengthening economic ties between the two countries.

This issue of *JBIC TODAY* focuses on the booming Indian economy and the relationship between India and Japan. The following pages provide an overview of the efforts made by the Japan Bank for International Cooperation (JBIC) to ensure sustainable development and a strong investment environment in India.

Issues with Stable Economic Growth in India

Kazuhide Usui

Deputy Director General, Country Economic Analysis Department, JBIC

A sleeping giant on the world stage, India has moved into the spotlight in recent years.

Comparison with China, however, is telling. Despite the fact that these two countries introduced economic reforms at roughly the same point, significant disparity in the results attained in China and India has emerged. Compared with the 5.7% average real GDP growth in India between 1980 and 2003, China has seen much stronger average growth of 9.5%.

One of the factors underlying this gap has been the degree to which the two countries have opened up their markets. While China has taken bold steps toward liberalization, India has chosen to preserve a more closed economy. The difference between the two is also evident in their respective industrial structures. Over the past 20 years, agriculture has consistently accounted for a smaller share of Chinese production, with industry gaining ground, an obvious sign that industry is driving economic growth in China. In India, however, agriculture still represents a significant portion of the economy, and the services industry accounts for more than half of the country's GDP. Although India may still be able to achieve 6% to 7% growth even under its current industrial structure, economic growth would be largely dependent

on agriculture, a sector which is subject to weather conditions.

To ensure stable growth, India must address several challenges. First and foremost, it is crucial that industry position itself as the driving economic force. The IT/software services sector contributes significantly in terms of balance of payments, and future growth is anticipated in this sector. They represent, however only a small portion of the Indian economy as a whole, and cannot be expected to act as a driving force in increasing employment and boosting income.

Infrastructure development is one of the highest priorities for India if it is to achieve sustainable growth. The primary focus in this area must be electricity and transportation. Financing is crucial to developing infrastructure, and the central and state governments face significant deficits, amounting in total to more than 9% of GDP. The country is also burdened with considerable public domestic debt which exceeds 70% of GDP. While the central government is working to reduce the deficit under the Fiscal Responsibility and Budget Management Act of 2003, the government needs to increase, rather than to decrease, investment in infrastructure for sustainable growth. The country is struggling to find ways of resolving this difficult issue, and developments in this area need to be closely monitored.

India Emerges with Huge Potential and Many Development Issues

An immense South Asian country, India is the seventh largest nation in the world (roughly nine times the area of Japan), and with more than one billion people, has the second highest population (roughly eight times the population of Japan). The country's economy is one of the largest in Asia, exceeded in scale only by Japan, China, and South Korea.

Spurred by an economic crisis in 1991, India has taken steps to liberalize its economy, achieving annual average economic growth of more than 6% and hitting record high 8.5% growth in 2003. The IT-related sector is the subject of particular focus. A population that is extremely proficient in English, its semi-official language, and a wealth of highly qualified IT technicians trained in the West and at home provides India with the resources and capacity to develop inexpensive, high-quality information technology and software. Total software exports have increased roughly 40-fold over the past ten years, growing to become India's top exporting industry. Moreover, domestic consumption is increasingly spurred by a growing middle class eager to purchase automobiles, household appliances and other commodities. Against this backdrop, attention is now turning to current and potential growth in the India market.

On the domestic political front, India is said to be "the world's largest democracy," with influential state governments and an increasingly decentralized power structure. In terms of international politics, India has emerged as a notable global power. The country has been active on the diplomatic stage. In addition to pursuing closer ties with the U.S. and better relations with its neighbors Pakistan and China, India has also initiated talks on free trade agreements with ASEAN countries and China, and is working with Japan and other countries in a bid to obtain a permanent seat on the UN Security Council.

In addition to minerals and other natural resources (possessing the fourth largest supply of iron ore in the world), India is also blessed with abundant natural and cultural treasures and other tourism resources. (India is home to 26 World Heritage sites, the sixth highest number in the world.)

On the other hand, India faces a large number of challenges to its development. Approximately 300 million people in the country are estimated to live on less than US\$1 dollar a day, a population that represents one-third of the world's poor. In addition, maternal deaths in India account for one-fourth of those worldwide, while one-fifth of the children who do not attend school around the world live in India, and one-fifth of worldwide infant deaths occur here. Developing an enhanced approach to the problem of poverty is an issue India is now addressing with support from the international community. Modernization of agriculture, on which approximately 60% of the country's population depends, is a crucial aspect of alleviating poverty in this country.

At present, electricity, transportation, water supply and other aspects of infrastructure required as the foundation for a growing economy no longer adequately meet the country's needs, creating a bottleneck in the Indian economy.

The country also faces serious environmental challenges. In rural areas, reversing the erosion of water resources and soil caused by deforestation are critical to development, while urban areas are faced with air pollution and deteriorating water quality caused by the lack of a developed sewage system.

Poverty in India and the UN Millennium Development Goals

Millennium Development Goals (MDGs)		Current Situation in India	India in the World
Poverty	Halve number of people living in poverty by 2015	35% living in absolute poverty on less than US\$1 a day	1/3 of the world's poor
Education	Ensure primary education for all children by 2015	83% attend primary school	1/5 of children not attending school worldwide live in India
Infant mortality	Reduce to 1/3 by 2015	95 in 1,000 children die before reaching age of 5	1/5 of infant deaths worldwide
Maternal death	Reduce to 1/4 by 2015	540 in 100,000 women die in childbirth	1/4 of maternal deaths worldwide

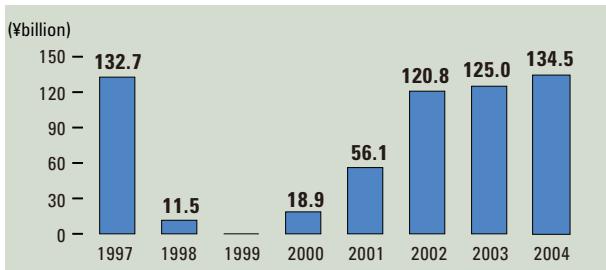
Source: *Country Assistance Strategy/World Development Indicators 2004*, World Bank.

Japan-India Bilateral Relations

As the birthplace of Buddhism and the home of curry dishes, among much else, India is a country with which the Japanese people are very familiar. Though the two countries have maintained friendly relations since establishing diplomatic ties in 1952, Japan has not enjoyed the level of trade with India that it has with the ASEAN countries or with other East Asian countries such as China and South Korea. This, however, is changing. Japan has finally begun to take note of India's economic growth, as evidenced by the frequent feature articles on India appearing recently in Japanese newspapers and economic journals.

Since the liberalization of the Indian economy, overall trade between the two countries has increased, and Japan is now India's seventh-largest export destination, with the eighth-highest amount of imports into India coming from Japan. The expansion of Japan-India trade, however, remains reserved when compared with Japan-China trade. Japan accounts for only a small percentage of software exports, the sector exhibiting the most notable growth in the Indian economy. In terms of total direct investment, Japan follows the U.S., Mauritius, and the U.K. as the fourth largest investor in India. Japanese investment in India, though, is still in its infancy. Compared with total Japanese direct investment in China of ¥355.3 billion (FY2003), only ¥9.9 billion was invested in India in the same fiscal year. Interest among Japanese firms in moving into the Indian market would seem, however, to be rising. As of 2004, approximately 280 Japanese companies had launched ventures in India, primarily in the automotive and machinery sectors. India also moved to third from fifth place in the FY2003 rankings of the Promising Countries/Regions for Overseas Business Operations over the Medium Term in the annual JBIC Survey Report on Overseas Business Operations by Japanese Manufacturing Companies.

Trends in ODA Loan Commitments to India (1997-2004)

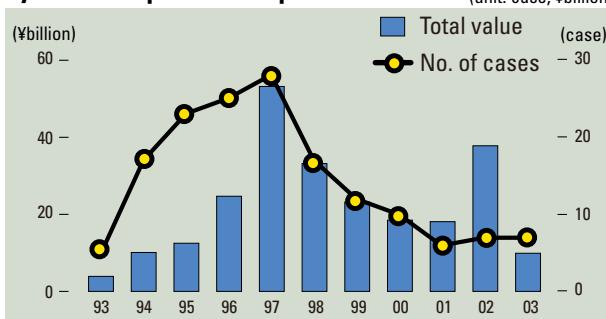


Note 1: Between ¥110 and ¥140 billion in new loans have been committed each year from FY1990 to FY1997.

Note 2: The Japanese government imposed economic sanctions in response to India's underground nuclear tests in May 1998, suspending new ODA loans until FY2001.

Note 3: After economic sanctions were lifted, ODA loans were reintroduced in FY2002, and India was the top recipient of ODA loans in FY2003 and FY2004.

Trends in Direct Investment toward India by Private Japanese Companies



Note 1: On ex-post facto report or prior notice basis.
Note 2: Value is rounded off to the nearest unit.

Source: Based on statistics from the Ministry of Finance, Japan

Promising Countries/Regions for Overseas Business Operations over the Medium Term (Multiple responses)

Rank	FY 2004 Survey	(No. of companies) 497	(%)	FY2003 Survey	(No. of companies) 490	(%)
1	China	453	91	China	456	93
2	Thailand	151	30	Thailand	143	29
3	India	117	24	U.S.	106	22
4	Vietnam	110	22	Vietnam	88	18
5	U.S.	100	20	India	70	14
6	Russia	49	10	Indonesia	63	13
7	Indonesia	48	10	South Korea	44	9
8	South Korea	44	9	Taiwan	35	7
9	Taiwan	41	8	Malaysia	31	6
10	Malaysia	28	6	Russia	25	5

Note 1: In this survey, respondent companies cited the top five countries that they saw as having promising prospects for business operations in the medium term (next three years or so). Tallys were made based on the number of times each country/region was cited, and the countries were listed according to that number.

Note 2: Other than the countries/regions listed above, North America (listed by 44 companies, 8.9% share) and the EU (listed by 29 companies, 5.8% share) gathered some votes.

Japan-India relations, however, have long established ties based on economic cooperation. The first country to which Japan extended an ODA loan was India, and this milestone occurred in 1958. With total ODA loans approved from 1958 through FY2004 exceeding ¥2 trillion, India is the third-highest recipient of Japanese ODA loans, surpassed only by Indonesia and China. Today, Japan stands as the top ODA provider to India.

Multifaceted Approach Combining a Variety of JBIC Financial Tools

JBIC's Overseas Economic Cooperation Operations (OECOs) extend ODA loans for building basic infrastructure, while its International Financial Operations (IFOs) provide support for the business activities of Japanese companies. By combining the various financial tools of these two types of operations so that they complement each other, JBIC is able to provide effective multifaceted support for sustainable development and a better investment climate in India.

Case Study 1:

Assistance for the Power Sector of India



In India, a chronic shortage of electricity inhibits the development of industry and keeps the standard of living from rising. This is particularly true in the northern and western regions, the commercial and industrial centers of the country where 60% of all demand for power throughout India originates. Resolving the issue of inadequate power supply is a matter of urgency if India is to achieve economic development and reduce poverty. Through ODA loans, JBIC is providing support for the construction of a number of power plants, including the Gandhar Thermal Power Plant, a clean fuel plant that uses natural gas, and the North Chandrapur Thermal Power Plant, which utilizes supercritical pressure technology, a highly efficient means of generating power. Moreover, JBIC is offering its support to a power generation project under IFOs to improve the business environment for the dozens of Japanese companies already operating in these regions and promote further investment in the future. This complementary combination of the two operations to provide support for India's power sector is designed to help energize the Indian economy and reduce poverty in the country.



Gandhar Thermal Power Plant

Improving the Investment Environment Promotes Japanese Investment

In order to promote investment from Japan by improving the investment environment in India, JBIC's International Financial Operations prioritize support for the development of infrastructure and supporting industries. Assistance is specifically provided for exports and investment in India by Japanese companies, in addition to assistance in the form of untied loans to be used in developing electric power supplies, telecommunications, roads, ports and other infrastructure, which helps not only the local people, but also the Japanese companies operating in the region. Priority in untied loans and energy and natural resources finance is given to projects that contribute to ensuring a stable supply of raw material resources, particularly coal and iron ore, for Japan and the development of the infrastructure needed to execute these projects. JBIC also provides assistance for environmental business ventures by Japanese firms in India and other developing countries. In cases in which it proves difficult to obtain guarantees from the Indian government for the implementation of these types of projects, JBIC is willing to consider a certain degree of risk associated with serving local financial institutions and companies.

Case Study 2:

Equity Investment in Projects for Greater Energy Efficiency Leads to Energy-Saving Street Lamps and Small Scale Hydroelectric Power Generation in Bangalore, India



Working with Japanese private firms and ADB, JBIC extends equity investment in the U.S. environmental fund (FE Clean Energy Fund: abbreviated to Asia ESCO Fund*) and provides assistance for new overseas environmental business ventures launched by Japanese companies.

This fund is the first in the Asian region to invest in ESCO projects and renewable energy ventures. The fund is currently working with local companies involved in the sale and installation of energy conservation devices in Bangalore, India on an energy conservation project that will automate the lighting and extinguishing of street lamps in this region. The fund is also working with other local companies to develop small-scale hydroelectric power plants.

These energy efficiency projects are expected to boost awareness of the issue of conserving energy and help resolve the problem of power shortages in rural areas. If successful, similar projects may be developed in other areas throughout India.



Automating street lamps

*ESCO: Energy Service Company. These companies are energy conservation service providers that upgrade their clients' facilities (factories, buildings, hotels, etc.). Corporate revenue is generated from the savings in light and fuel expenses resulting from these services.

ODA Loans Promote Infrastructure Development, Poverty Reduction, Environmental Improvements, and Japan-India Exchanges

To help ensure sustainable growth in India, ODA loan assistance specifically targets the development of power supplies, transportation, and other aspects of infrastructure required for economic growth, as well as the reduction of poverty and environmental improvements. One example of infrastructure development is the Delhi Mass Rapid Transport System Project, which spans 59km (13km of subway) along East-West and North-South routes from Connaught Place in the heart of Delhi. This transport system helped alleviate traffic congestion caused by urbanization, thereby further improving environmental conditions.

As part of the UN Millennium Development Goals, the international community has proposed to reduce by half the number of people living in poverty by 2015. Reducing poverty in India, home to one-third of the world's poor, is vital to achieving this goal. For this reason, JBIC focuses on rural areas, where the percentage of poor is especially high, and has been working to improve agricultural productivity through irrigation and flood control and to assist with afforestation to ensure water supplies, cultivate the soil, and protect the natural environment. Assistance is further provided for water supply and sewage systems and sanitation projects to safeguard water resources and prevent water pollution in urban areas (in Bangalore, Jaipur, Varanasi, and other cities).

The JBIC approach to implementing these ODA loan projects focuses on promoting exchange between Japan and India by strengthening collaboration with local governments and NGOs in Japan with diverse experience and expertise in the area of revitalizing rural areas and improving the environment. At the same time, JBIC also targets projects that will increase awareness among local residents of the importance of these issues.



Delhi Metro, the newest mode of transport for Delhi residents

Case Study 3:

Project for Developing Tourism to Sacred Buddhist Sites in Uttar-Pradesh Introduces Japan's "Michi no Eki" (Roadside Stations) to India



JBIC provides assistance for a project designed to promote tourism at sacred Buddhist sites in Uttar-Pradesh, one of the poorest states in India, in order to reduce poverty by taking full advantage of the resources available for local tourism. Home to four of the eight largest Buddhist sites, Uttar-Pradesh is an important spot for tourists interested in Buddhist history. The lack of developed roads and other tourism infrastructure, however, has prevented the region's resources from being put to full use to revitalize the local economy.

JBIC is working to resolve this problem by extending ODA loans for the improvement of road conditions and other infrastructure, as well as by collaborating with the Nara Prefectural Government and a Roadside Station in Nara Prefecture to create local jobs and increase local income. Toward this end, the project provides assistance for the production of handicrafts and local goods, as well as support for retailing.



Station Master from Japan and Indian Buddhist monks meet to exchange ideas

Note: A roadside station is a facility that provides a comfortable stop for road users, and provides traffic information as well as tourist, medical and other information. It serves as the hub of a regional collaborative network. Often a complex of multiple facilities, a roadside station may have a specialty shop, a restaurant, a lodging facility, and even a museum.

Case Study 4:

Collaboration with Local Japanese Governments Improves Sanitation in Cities Along the Ganges (Varanasi)



JBIC ODA loans are utilized to improve sanitation conditions along the River Ganges. The most sacred city for Hindus, Varanasi receives over one million people making the pilgrimage each year to bathe in the river and tour the area. This project aims to develop a sewage system and public sanitation in order to improve the quality of the water in the Ganges, which will in turn improve sanitation conditions for residents, pilgrims, and tourists.

In collaboration with Okayama Prefecture, a presentation was made on the Program to Renew Lake Kojima, and Japanese expertise in training in schools and educational activities for local residents was shared through local seminars.



Bathing in the River Ganges

A Framework for Strengthening the Japan-India Global Partnership

As a member of the South Asia Association for Regional Cooperation (SAARC), India has been working toward the creation of a South Asia Free Trade Area (SAFTA) and also pursuing closer relations with other East Asian countries by announcing its participation in the East Asian Summit to be held at the end of 2005. Steps have also been taken to strengthen relations between India and Japan specifically, as well. Since the Japan-India Global Partnership was agreed in August 2000, the two countries have pursued active exchanges designed to build closer ties. With its massive untapped market, abundant resources, and strong political voice within the international community as a leader among developing countries, India is an important partner with whom Japan will continue to strengthen bilateral relations.

Prime Minister Junichiro Koizumi met with India's Prime Minister, Dr. Manmohan Singh, when he visited India in April 2005. The two leaders followed their meeting by issuing a joint statement entitled "India-Japan Partnership in a New Asian Era: Strategic Orientation of India-Japan Global Partnership" and announcing an eight-point action plan. Under this action plan, the two countries agreed to: the comprehensive economic engagement including trade, investment, and other economic ties, with a study of Japan-India economic cooperation agreements and other measures; the promotion of investment in the ICT sector and other Indian industries by Japanese companies, and strengthening technical cooperation to improve the competitiveness of the Indian manufacturing industry; continued ODA loans and other Japanese ODA in priority sectors such as infrastructure and environment; utilization of Japanese technology in the infrastructure sector; and assistance for the development of tourism-related infrastructure. Bilateral ties and cooperation between Japan and India are expected to increase and intensify at all levels, including in the political, economic, and cultural arenas.

JBIC remains committed to developing an effective and diverse set of aid tools to provide assistance that will strengthen Japan-India economic ties and cooperation. To increase the efficacy of its activities in this respect, JBIC will develop a wide array of partnerships with the Indian government, relevant local organizations, and international financial institutions, as well as Japanese firms, local governments and NGOs.

United Kingdom



Winds of Change Blow from U.K. to Africa

Year of Africa

In 2005, the 'Year of Africa,' the United Kingdom will assume both the presidency of the G8 Summit of world leaders and the chairmanship of the European Union. In its leadership role at this particular time, the U.K. has made aid for Africa the highest priority agenda focus for the G8 Summit. Further, the current status of the Millennium Development Goals (MDGs) will be the subject of scrutiny at the UN Summit, which will be held in September of this year, and the closest attention will be paid to the progress made to date on these goals in Africa.

In February 2004, British Prime Minister Tony Blair established his Commission for Africa as a top-level inquiry body to review development in Africa. Headed by the Prime Minister, this commission is made up of a diverse group of commissioners ranging from the UK Chancellor of the Exchequer and Secretary of State for International Development through the President of Tanzania and other African heads of state to representatives of the African private sector and an Irish musicians who put together the Live Aid concerts in the mid-1980s. The commission is slated to distribute a comprehensive report on aid to Africa among countries represented at the G8 Summit to be held in Gleneagles, Scotland in July 2005.

Public and Private Sector Cooperation

A Commission for Africa conference was recently held in London in February as a forum for commissioners to present executive summaries of their reports and the private sector to offer opinions on these topics. Attended by approximately 30 representatives from both government and the private sector, the conference provided the opportunity for the heads of companies operating in Africa from bases in Great Britain and other European countries and representatives of the African business community to interact. Hosted by the UK Country Chairman for Shell, a corporation that is actively involved in a wide range of spheres in Africa, the conference was chaired by the Chairman of the Board of the Uganda Investment Authority and closed with remarks by the UK Chief Secretary to the Treasury.

The issue of African development assistance has in the past been most strongly associated with aid and debt relief to

reduce poverty. More recently, however, a growing understanding of how vital economic growth is to reducing poverty has led to increasing awareness of the importance of revitalizing the private sector through foreign direct investment.

Participants at this conference provided a variety of comments. The two most striking to me were that "Prosperity in Africa is extremely important to those doing business on the continent" and "The private sector has a significant role to play at every level." The post-conference reception was an impressive sight, with the representatives engaged in passionate discussions on issues related to Africa.

Africa Today

I would like to conclude with a word or two on my own impressions of Africa. Since taking up my post at the London Office, I have had the opportunity to visit South Africa, Nigeria, and Ghana. Nigeria is a place that stands out to me as somewhat different from the conventional image we have of the country.

Since control of the government was transferred to a civil administration in 1999, Nigeria has, under President Obasanjo's leadership, taken steps toward economic and social reform. In February, I was invited to give a presentation at the Nigeria Investment Forum, a conference sponsored by British NPOs and the Nigerian government in the capital city of Abuja. With more than 400 people in attendance that day, the conference hall was the site of lively discussion sparked by presentations from foreign firms, government ministries, state-run oil companies, the Central Bank, and international organizations.

I was most impressed by the Nigerian love of debate and the surprisingly high volume of comments and questions from Nigerian participants at every forum session. I will also never forget the smiling faces of our friendly Nigerian hosts.



Cover: Silver Pagoda, Cambodia



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