April 30, 2015

The Real Problem of Chinese Styled Asian Bank

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The establishment of the China-led Asian Infrastructure Investment Bank (AIIB) demonstrates China's enormous conceptual power overwhelming that of Japan, the U.S. and Europe. Not only developing countries in Asia but European countries announced their intention to join, leaving Japan and the United States behind and in frustration. Following the public debates in Japan on this topic, I should say that the most critical point is being overlooked. Thus, no wonder China belittle us. This bank is to be established on 100 billion-dollar capital to finance infrastructure development in such areas as construction, telecommunication, and transportation. Investment demand for infrastructure development in Asia reaches 730 billion dollars every year, going far beyond the lending capacity of existing international organizations such as the World Bank and the Asian Development Bank.

In other words, despite the overwhelming abundance of investment targets in Asia, financial resources are fatally lacking. This is where China came in, with a view to establishing a new international financial order on its own initiative. They think it is a good opportunity for China to spend huge amount of hard currency reserves, mostly denominated in US dollar. Here, we must not be convinced, but must give it a second thought. In order to boost the economy, Japan, the U.S. and Europe are implementing unprecedented scale of financial easing as exemplified by the massive financial easing program initiated by the Abe administration. However, excess money does not go to real investment, particularly in Japan, but to the stock market and the real estate. Besides, that money hardly goes to infrastructure development in developing countries.

Although the U.S. is now supposed to shift away from the massive financial easing (in other words, to explore an exit strategy) as it has benefited from high stock prices and the economy is gradually being recovered, it is hesitant to do so for fear of negative impacts on the money market, including stocks and bonds. This is because the central bank continues to supply excessive money to the financial market to conquer deflation and to stimulate the economy. Now, the interest rate is negative in Europe, almost zero in Japan, and extremely low in the United States. This implies that all of them are too well funded.

The economies of Japan, the U.S. and Europe have become so mature that surplus money rarely flows into infrastructure development or factory construction, etc. Exuberant money reserve in the advanced nations of the west as contrasted by the serious shortage of money in developing countries in Asia and other areas is a phenomenon which is a critical issue of today's capitalism. China seems to be trying to take advantage of the situation. They can also enhance their global influence thereby.

The majority of the countries announcing their intention to join the AIIB are Asian countries counting twenty to thirty, including India, Indonesia, Thailand, and so forth. By joining AIIB, European countries including Great Britain, Germany, France, and Italy have the intention to win by bidding orders of infrastructure-development-related projects. South Korea, a close ally of the U.S., also announced its intention to join the bank for the same reason. Why is it that the surplus money generated in Japan the U.S. and Europe through drastic financial easing does not flow into Asia with such huge demand and abundant investment targets? This is an extremely important point. Cash coming from advanced economies is a short-term fund aiming at immediate profit margin. Developing countries, on the other hand, want long-term funding, which is, however, considered risky to invest on. Reliance on a Western-style financial market does make the money flow to places most in need.

Current public debates in Japan on AIIB, as it seems, focus on the following points: “Against the background of China's dominance, criterion of loan and assessment would lack transparency,” “Without an executive board, administration and decision making process may become arbitrary,” and “It is questionable whether the bank gives sufficient consideration to social issues, including environment and human rights issues.” Particularly, Japan and the U.S. are not comfortable with rise of China's influence. Both of the two countries are big stakeholders of the Asian Development Bank (ADB), whose incumbent president is Japanese, and erosion of their influence is the last thing they want to see.

I should say that today's Japan is characterized by its indecisiveness and sloppiness as shown in the recent statements by Vice Prime Minister ASO Taro, saying that “We shall study the possibility” and “We should consider carefully as China does not reply to us.” Lately, the Japanese government has flip-flopped its position by announcing that they may cooperate with the AIIB to provide joint-loans. China’s hard currency reserves reach 3.8 trillion dollars, which is the largest in the world, and most of them are managed with low interest by the U.S. governmental bonds. Probably, they use them for the start-up capital and loans of the new bank. Japan is the second largest reserve holder after China, amounting 1.2 trillion dollars. While being in a position to act more proactively, the Abe administration appears unable to have a say to the U.S.

The Japanese government should have considered expanding the scale of funding of the ADB much earlier, instead of being dismayed at this stage. More fundamentally, we must reconsider how we see the nature of Western styled financial market that is liable to lead the cash to flow into corporate acquisition and asset investment, even though the central bank eases money supply. Since the Abe administration declares to tackle the greatest reform since the end of World War II, they must take this occasion to shape a solid vision about how to use excessive money supply for world development.

(This is an English translation of the article written by Mr. NAKAMURA Jin, Former National Paper Writer, which originally appeared on the e-forum "Hyakka-Somei" of CEAC on March 28, 2015.)