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JAPAN'S ROLE IN ASIA'S CONNECTIVITY: INFRASTRUCTURE FINANCE AND DIGITAL GOVERNANCE

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P R O C E E D I N G S

MS. SOLÍS: Good afternoon everyone. I'm Mireya Solís. I'm the Director of the Center for East Asia Policy Studies, here at Brookings. And it's a pleasure to welcome you to our program today on Japan's Role in Asian Connectivity. We'll talk about both development finance and digital governance.

The connectivity agenda is essential to Asia's economic growth, it goes from building infrastructure that is resilient, that can sustain efficient production that can create transportation networks. And it's also about establishing the infrastructure for digital connectivity, and about disseminating standards and rules to facilitate data flows that are so critical to the expansion of the digital economy.

Lately though, when we talk about connectivity, we think mostly about just one country; and that is a role that China is playing, and the growing influence it has to its Belt and Road Initiative, to its plans for a Digital Silk Road, and its views on Internet sovereignty.

But in fact Japan has been a very important player in these areas, Japan has for decades financed the infrastructure projects in Asia and other developing countries, and recently has stepped up its economic diplomacy, launching the Partnership for Quality Infrastructure -- and interesting, and this is something we'll discuss at length today -- establishing mechanisms of collaboration with other countries; countries such as the United States, Australia, India, but also last fall with the announcement of Business Cooperation In Third Countries With China.

And on the digital front, Japan has positioned itself in the leading edge by making sure that the Trans-Pacific Partnership Trade Agreement, with its very substantive discipline facilitating data flows, and the operation of digital economy survived the American exit of the agreement, and the CP, Comprehensive Progressive

TPP, just as they entered into force at the end of last year.

And Japan has announced that it plans to do more. Just last month at Davos, Prime Minister Abe made data governance now a centerpiece for Japan's Chairmanship of the G20, and leaders will be meeting at the end of June, in Osaka.

So, there's a lot to discuss when we're trying to understand the role that Japan is playing in digital and infrastructure in Asia and the world, and we've gathered a panel of experts to discuss these important policy trends.

We aim to engage in a discussion on what is the balance between competition and collaboration among great powers in the supply of Asia's digital and physical infrastructure.

And also what are the prospects for a U.S.-Japan partnership and infrastructure finance and digital connectivity with a focus that is not just bilateral, but that looks more broadly at the challenges that multilateral development banks face in supplying infrastructure finance, and also that looks at broader trends in the evolution of digital governance.

To get us started, because this is a very long introduction, I want to introduce to all of you our Keynote Speaker.

We are delighted to have with us Mr. Kohei Toyoda. He is the Director for International Coordination at the Trade Policy Bureau of Japan's Ministry of Economy, Trade and Industry, or METI. And Mr. Toyoda has been a lead person in working with the United States Government on the U.S.-Japan Energy and Infrastructure Cooperation in Third Countries; which includes collaboration, and rulemaking, and capacity building. And he will share with us today his views on: what are the goals that Japan is pursuing in the connectivity arena? And what are the prospects for U.S.-Japan collaboration?

So, please, join me in thanking him for being here. (Applause)

MR. TOYODA: Okay. Thank you for the kind introduction. Good afternoon, ladies and gentlemen. I'm Kohei Toyoda, Director for International Coordination, Trade Policy Bureau, Minister of Economy and Trade and Industry, METI Japan. I'm responsible for U.S.-Japan infrastructure and energy cooperation, working with all the relevant ministries, both in Japan and the U.S.

It is an honor for me to give a presentation at the world-famous think tank, Brookings. Today, I'd like to talk about Japan's role in Asia's connectivity including ongoing and future cooperation between U.S. and Japan in the area of infrastructure and digital.

First, infrastructure: In 2017 ADB estimated developing Asian countries need $26 trillion for infrastructure investment between 2016 and 2030, which is $1.7 trillion per year. McKinsey estimated global infrastructure investment needs 49.5 trillion for the same period, which is $3.3 trillion per year in order to achieve base rate GDP growth.

These researches identified serious financing gap. By simply comparing these future investment needs with current investment amount we can calculate average annual gap which is 606 billion in Asia, and 800 billion in the globe.

We know that different assumptions may bring different figures but almost all the similar researches, including OECD, PwC, and so on, foresee such large gaps. Unless we could substantially increase infrastructure investment, the deficit would become a bottleneck for sustainable and equitable growth of Asia and the world.

No one country fill the gap alone, Japan, U.S., as well as all the countries, both public and private, need to collaborate to serve this issue, the quantity of infrastructure investment.

While we saw the serious quantity issue, we have also seen a lot of cases in which infrastructure lacking in quality cause a serious damage to the society and the economy.

The picture on the right-hand side shows the highway destroyed by the great earthquake in Kobe in 1993. I was a university student living in Kobe at that time. Although the damage to the university was small but it took three months to reopen the university due to the destruction of various infrastructures. This experience reminded me of the importance of resilience in infrastructure.

Of course there are other important elements of quality infrastructure, such as openness, transparency, economic efficiency, fiscal soundness, in order to contribute to the sound and sustainable economic development of host country.

Again, many countries are hoping for quality infrastructure investment. The demand is huge. This means a big business opportunity for U.S. and Japanese companies with a lot of experience, advanced technology and operation know-how.

In order to expand such quality infrastructure investment, Japan announced the partnership for quality infrastructure in 2015 which included $110 billion quality infrastructure investment in Asia over five years. It was further expanded in 2016, increased the target to $200 billion for the global infrastructure investment.

Policy-based financial institutions in Japan such as, Japan Bank for International Cooperation, JBIC; Nippon Export and Investment Insurance, NEXI; and Japan International Cooperation Agency, JICA, improved their risk-taking capabilities in order to attract more private capitals to the Quality Infrastructure Project all over the world.

However, as you can imagine, unilateral action cannot satisfy the huge financial needs urgency. Japan and the U.S. share the same vision, Free and Open Indo-Pacific, our goal is to realize and maintain rural-based, Free and Open Indo-Pacific, and to secure economic prosperity, peace and stability.

With this background, we are promoting U.S.-Japan Energy and Infrastructure Cooperation in Third Countries. Japan's partnerships exclude no country as long as it follows the vision. The partnership with U.S. is far more advanced than the other countries, but Japan has also being collaborating with Australia, India, China, EU, U.K., and so on.

Now, I would like to introduce these key activities under the U.S.-Japan partnership in energy and infrastructure. First, rulemaking; Japan, co-sponsored by the U.S. and other two countries proposed upgrading existing APEC Guidebook on Quality Infrastructure Development and Investment in November 2017. After a one-year discussion with APEC economies, especially with U.S. and China, a Revised Guidebook was released in November 2018.

The Revised Guidebook stipulates five elements of quality infrastructure, namely, alignment with development strategy, openness, transparency, fiscal soundness, economic and financial soundness including life-cycle cost consideration, local high-quality development, social and environmental sustainability, stability, safety, resiliency.

The Guidebook also describes the details of each item as well as practical viewpoint in each stage of infrastructure development. We hope the fruits of this effort will be expanded to G20 Osaka, June this year.

Second, capacity building: rulemaking does not change the world if it is not used in practice. In order to enhance effectiveness of quality infrastructure rule, Japan has been supporting capacity building in APEC economy in collaboration with Global Procurement Initiative by USTDA.

A life-cycle cost consideration is key for appreciating U.S.-Japan companies' high-quality equipment and services. Existed programs have been caused by inception debt management capability of host countries, as well as lack of lenders' proper due diligence. From these viewpoints, Japan is trying to enhance capacity building support in collaboration with U.S. and other partners to expand its coverage beyond APEC Region.

Third, financial cooperation is one of the most important areas of U.S.-Japan cooperation, JBIC and NEXI signed MOU with OPIC in November 2017, to set up a framework to promote U.S.-Japan joint project through their financial support.

In addition to the enhancement of risk-taking capacity of JBIC and NEXI, under the partnership for quality infrastructure, U.S. is now building up its financial capability through BUILD Act, OPIC's function will be enhanced and established new organization, International Development Finance Corporation, IDFC.

In line with such movement, OPIC has recently opened Tokyo office. We are pleased by the move and we would like to promote collaboration among these agencies in order to attract private investment and materialize U.S.-Japan joint project.

Finally, we are promoting U.S.-Japan Business Collaboration by organizing business-matching event, government advocacies, and so on.

Such effort has already materialized, cooperative projects, such as Jawa 1 Gas-to-Power Project in Indonesia. We are going to organize another event in Jakarta next month, inviting both public and private players from both U.S. and Japan, as well as Indonesia, in order to promote U.S.-Japan Business Cooperation in the area of energy and infrastructure in Indonesia.

Now, I would like to move to digital. It is different from physical infrastructure. First, data governance is the key to bring out its huge potential. Second, leapfrogging utilizing digital technology have been providing innovative solutions and changing the business environment in Asia.

Regarding data governance, Prime Minister Abe, in his speech in Davos, announced the vision of Data Free Flow with Trust, and (inaudible) as a way to achieve the vision.

As a first step, we would like to start e-commerce rule-making process in WTO. We will not go into details because it is still consultation stage. Instead, I would like to talk about the Solution Alliance in Asia.

Please look at the slide. In Asia, digital innovation has been changing economy and society. In fact, people in Asia are far more smartphone addicted than Japanese and Americans. India has become second largest smartphone market in the world, and it's quite active in using new applications. On top of that, and developing infrastructure and social system, called for innovative solutions using digital technology.

Half of the populations in Southeast Asia do not have bank accounts, they do not trust currency, and therefore improper transactions are prevailing. In such circumstances digital payment has been expanding very rapidly.

In Thailand 44 million people, which is 60 percent of total population, registered PromptPay, an ePayment System introduced by Central Bank of Thailand.

Also, you might have seen the terrible traffic jam in Asia, in which you cannot find taxi on time. Ride-hiring businesses, such as Grab in Singapore, and Go-Jek Indonesia, found business opportunities there.

Grab, established in 2012; increased number with drivers from 400,000 in 2014 to 2.6 million in 2018, 26 times in five years. Market value has increased to $11 billion, 14 times in four years, purchasing Uber's Southeast Asia business in March 2018, it is expanding to (inaudible) service business, including ride hiring, delivery, e-payment, logistics and house works.

Go-Jek provides motorbike ride-hiring service in Indonesia, the country which is famous for terrible traffic jam. In addition to ride hiring it offers food delivery service, shopping agent service by the drivers. The drivers even render small cash providing virtual ATM bank service.

Google has already made investment into the company in March 2018. Chinese technology giant are moving fast finding business opportunity in the leapfrogging Asian market.

While the Chinese Government advocating Digital Silk Road as a community of common destiny in cyberspace, private companies are already materializing businesses as stipulated in USCC 2018 Annual Report, Chinese tech giants are building telecommunication infrastructure expanding e-commerce and supplying smart city projects.

Chinese companies have already experienced the same digitalization in their homeland, and therefore they are confident in the Development Asia Market. Chinese tech giant have already made investment into emerging Asian platform economy, there are seven unicorns in ASEAN countries, including Grab and Go-Jek. Chinese tech giants such as Alibaba and Tencent, have taken equity stakes in all seven unicorns.

In India there are 12 unicorns including Flipkart which was purchased by Wal-Mart in May 2018, seven out twelve received investment from Alibaba, Tencent and DiDi. Alibaba and Tencent have been providing wide range of service which covers various life and business activities. It means they are capable of collecting a variety of data, so data, the 21st Century's oil.

Japan as well as U.S. need to open up our eyes to see the reality in digital Asia including the speed and financial capability. If U.S. and Japanese companies join Asia's Data Liberation and become drivers of the data growth in the area, ASEAN countries with 600 million population, and India 1.3 billion people, recognize the importance of free and open data flow.

In order to materialize Prime Minister Abe's speech, Free Flow of Data with Trust, Japan and the U.S. need to increase their commitment and involvement, and promote open, worldwide digital innovation in Asia.

Japan and U.S. are going to enhance collaboration in the area with digital as well as energy and infrastructure. Next to generation infrastructure such as 5G, satellite navigation, submarine cable; are of course very important, but alliance for innovative data solution in Asia is also important agenda.

Private businesses are center (inaudible) effort, it is also important for governments to create enabling environment to promote innovations by private business, facing Fourth Industrial Revolution which increases speed, size and (inaudible) business at unprecedented level.

Government needs to reform their effort in order to promote free, open, and transparent market. In fact, rapid expansion based on innovation requires substantial risk money, in U.S. BUILD Act will be hub for OPIC's equity investment operation. And in Japan JBIC is building up its equity operation in order to promote innovation.

We would like to promote collaboration of these policy financial tools. Digitalization and hyper-globalizations are rapidly changing economic environment, it requires updated and effective international rules in the area of trade and technology and digital. Emerging country may need the capacity building support to implement such rules.

U.S.-Japan cooperation has been advancing in the areas of energy and infrastructure, we need to expand such effective cooperation into the field of digital.

Finally, I'd like to finish my presentation hoping Japan and U.S. will raise international movement. Thank you very much. (Applause)

MS. SOLÍS: Thank you very much, Toyoda San, for your remarks. And now I would like to introduce our panelists. And I'll introduce them in the order in which I will ask them to come to the podium and make their presentations. And after that we'll have a moderated discussion here with all the speakers, and we'll take questions from you as well.

So our first panelist is Nancy Lee. She's a Senior Policy Fellow at the Center for Global Development, and a Senior Advisor at the Center for Strategic and International Studies. Her work focuses on the role of development banks in mobilizing private finance and increasing development impact.

She will be followed by Mr. Shin Oya, who is a Senior Consulting Fellow at the Asia-Pacific Initiative and Chief Representative for Strategic Research of the Japan Bank for International Cooperation.

JBIC provides generous support to foreign policy at Brookings; but I would like to reiterate Brookings' commitment to independence and note that the views expressed today are sole those of the speakers.

Next will come my colleague, Josh Meltzer. He's a Senior Fellow in the Global Economy and Development Program, and he's an expert on Digital Trade Law, leads the Brookings' Digital Economy and Trade Project, and also works on the legal aspects of financing sustainable infrastructure projects to meet climate change and development needs.

And our last speaker today is Mr. Hosuk Lee-Makiyama. He's Director of the European Center for International Political Economy, and Senior Fellow at the London School of Economics. He was the lead author of the official assessment of the

Japan-EU Economic Partnership Agreement, and has published widely on digital economy issues, such as privacy, data protectionism and telecom security.

So we have a terrific lineup for all of you. And I would like to ask Dr. Lee to, please, come to the stage. Thank you.

MS. LEE: Thank you so much. It's a pleasure to be here. I will focus in particular on the role of private finance and infrastructure. And I want to say a few words about the role of multilateral institutions in mobilizing private finance, in part, because the United States and Japan are very significant shareholders in those institutions.

I'd like to advance three propositions for your consideration today. The first is that private finance is not actually materializing on the scale that was hoped for when the original Billions to Trillions Agenda was contemplated in 2015.

The second is that the risk confronting private investors and lenders in financing infrastructure, are really concentrated in the actions of governments, and I'll say more about that in a minute.

And the third is, quite frankly, the multilateral development banks are not playing the role that they need to play, if they are to be a significant actor in mobilizing private finance. So, I hope I have your interest in what I'm about to say.

So, this is another gap estimate, this one actually came from a report on Green Infrastructure Finance that Brookings was one of the publishers of in 2015. It estimates the gap for the global infrastructure financing challenge at 6 trillion a year, and then if we subtract the actual flow of finance of $3 trillion, you're left with a gap of 3 trillion, and the report suggests that it's reasonable to assume that the public sector, that is governments in the receiving countries, might finance about 1.5 trillion, which leaves about 1.5 trillion for the private sector to finance.

So, this is an estimate of what the private sector, globally, can contribute to the global infrastructure financing gap, if you're talking about green infrastructure.

So this is the actual private finance contribution. This comes from a very useful database from The World Bank, it's called Private Participation in Infrastructure, and it takes account of all of the transactions globally in infrastructure, in which there is private participation; that is in which private finance plays part of the role.

So, the bars are the value of infrastructure investment with private participation over time, you can see it peaked about 160 billion in 2012, and really has settled, you know, in a low level since then. The 2017 number is 93 billion, this is globally, and you can see the first half of 2018 suggests that perhaps 2018 will look somewhat like 2017.

Now, if you look at the infrastructure transactions with private participation in IDA countries, that is the poorest countries of the world, which qualify for concessional terms in The World Bank IDA Program, you see that their plate is quite striking.

Their transactions totaled 14 billion in 2012, so that's less than 10 percent of the global total. And since then, the number has been low, quite low, it rose to about 8 billion in -- 8 or 9 billion in 2017, so once again about 10 percent or less of the global total.

So, I point that out because if you're a low-income country, you're simply not getting a significant share of your infrastructure investment in private finance. The bars are the value, and the yellow line is the number of transactions, so both the value and the numbers of transactions have fallen.

Now this is the distribution regionally of infrastructure finance with private participation, this is for 2017, and you can see that the East Asia and Pacific Region has more than half of the global flows. That is actually relatively recent. The year before in

2016, Latin America and the Caribbean had the largest share, and the year before that in 2015, Europe and Eurasia had the largest share. So, this is not necessarily what it looks like every year.

So, if you take away China as a recipient of these flows, you'll see that Indonesia is a very large recipient, but you'll see a number of other East Asian countries that are significant recipients. For the rest of the world, it's basically large countries that are getting most of this finance, Brazil and Mexico, India, Pakistan, and then smaller amounts to Turkey, Russia, Jordan and Egypt.

So, what you see is that most of the world is not receiving a lot of this private finance.

This shows for these transactions that have private participation where most of the finance comes from. So, the first thing that you see, that for transactions with private participation, still, most of the finance making up the transaction comes from the public sector.

That is about 45 percent comes from the private sector, private equity and commercial debt, and about 55 percent comes from the public sector, a very small share of institutional lenders, 0.1 percent.

And then if you look at the public finance that flows into these transactions, you see that about 24 percent of it comes from development finance institutions, of the ones that we're talking about today, from Japan, maybe 20 percent of that 24 percent figure is from Japan, and about 50 percent of that 24 percent figure is from China.

So, the two takeaways from this graph are: number one, when we're talking about infrastructure, even with private participation, it's really the public sector which is doing most of the financing. And number two, the sources of DFI lending are pretty much concentrated in Japan and China at the moment, although we hope, as was mentioned, that the USGFC as it emerges will be a significant source of finance.

This shows four numbers of transactions the role of multilateral development finance institutions -- there's one thing I forgot to point out -- if you look at the multilateral institutions, their lending, that is the grey pie sliver, it's only 6 percent. So, it's really, these are all of the multilateral institutions, The World Bank, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, and the new multilateral institutions, they all account for just 6 percent of these transactions with private participation.

And then if you look at their role over time, you'll see -- the good news is it appears to be increasing particularly in 2017, there's a bump up of the shaded parts of the bar, that account for multilateral institutions, bilateral institutions, or both together participating in transactions.

But you see that a lot of that growth, and particularly if we're talking about the first half of 2018, is the bilateral institutions. So, the point here is that the multilaterals remain a small actor in infrastructure transactions with private participation.

So, let me just make some observations about why that is and how that should change. So, first of all the first point, and I've already made, which is that the public sector still has a large share of infrastructure transactions which the private sector helps to finance.

Second, and if you ask the question: why is that? It is essentially, because the risks have not been managed, there are insufficient ways to manage those risks. And if you ask the private sector what are the principal risks in investing in infrastructure? They will answer that there are really two big risks, one is adverse regulatory decisions by governments, and the second is breaches of contracts, particularly by governments.

And that comes from a survey from MIGA and the Economist Intelligence Unit. So that's what investors say are the principal risks. Those really have to do with government actions or inactions, either governments are not paying their obligation, or they're taking regulatory steps, unpredictable regulatory steps that are affecting the functioning of the transaction.

So, what does that have to do with multilaterals? Multilaterals are the unique institutions which have the ability to work with governments on the public side, and on the private side. They have lending tools to support policy and institutional reform. They have lending tools to invest in public infrastructure investments, and they have tools to mobilize private investment.

So, one particular problem is the failure of those institutions to really effectively bring together their public arm, and their private arms in a synergistic way to bring together the policy institutional reform part of the challenge with the project finance part of the challenge. And I would submit again, they are the institutions that are best placed to do that.

And then I would say they need to do four other things. First, they need to broaden the range of their instruments from lending to more use of more catalytic instruments that actually mobilize more private finance, as opposed to increase their own transactions. So that's equity that guarantees, that's political risk sharing.

They need to manage greater amounts of risk, and they probably need to do that off balance sheet, and they need to use grants and other tools more catalytically to actually increase the returns to the investment, you can use grants in ways by paying for outcomes that actually increase the returns to the investment, which is as effective as intervening on the cost and on the sharing side.

So I would say that that is sort of a basic agenda for the multilaterals which would be very beneficial in mobilizing more private finance. Thanks. (Applause)

MR. OYA: Good afternoon, everyone. My name is Oya. And first I want to thank you, Mireya, and also Brookings for giving me this opportunity. I work for API and also JBIC, but my remarks today are purely personal and I'm not representing API or JBIC for today.

And because Mr. Toyoda provided a very comprehensive speech I'd like to limit myself to four points. First, about some history; I was in New Delhi from 2012 to 2016 as JBIC's Chief Rep, and during the time I heard from Indian friends that Prime Minister Abe made a speech in 2007, and it was quite impressive.

And actually this speech was delivered on August 2007, and one month before the speech ODP, Mr. Abe's Party, lost Upper House Election, and one month after this speech actually Mr. Abe resigned from the post of Prime Minister due to illness. So, this speech was delivered under very tough situation, but this speech impressed many Indian people.

And the title of this speech is "*The Confluence of the Two Sea*", so I want to quote, "The Pacific and the Indian Oceans are now bringing about a dynamic coupling as the seas of freedom and of prosperity. A broader Asia that broke away geographical boundaries is now beginning to take on a distinct form.

And by Japan and India coming together in this way, this broader Asia will evolve into an immense network spanning the entirety of the Pacific Ocean, incorporating the United States of America and Australia. Open and transparent, this network will allow people, goods, capital and knowledge to flow freely."

So, this speech shows basic concepts of Free and Open Indo-Pacific, FOIP, I think. And in the end of 2012, Mr. Abe came back to power and the August 2016 he formerly announced the concept of FOIP at the TICAD VI in Kenya.

And Foreign Minister Kono also explained the concept of the FOIP in September 2018, at the U.N. Side Event, and the based on this explanation, FOIP is interaction between the two Continents and the two seas, and namely Asia and Africa, as well as the Pacific and Indian Ocean; so a very broad concept.

And the basic principles are: rule of law, freedom of navigation, and free trade, and economic prosperity, and peace and stability.

So these are history, historical perspective, but I think that understanding this trajectory is very important to understand where we are right now, and where we are going.

Second, I'd like to touch upon the features of infrastructure finance. And infrastructure is a little bit different from other commodity, because it has spillover effect, or what we might say, is the externality. For example, railway company gets its revenue from train fare, and if such revenue is larger than its CapEx and OpEx, they can make profit.

But actually, benefit coming from railway project is not only this profit of special company, social benefit is larger, because by putting things like the railway project economy will be fostered, and also, for example, value of the estate is going to be increased, and also movement of people generate a new idea, and a new communication. So, project value itself is higher than the (inaudible) rate of the return.

I think that's why that the government involvement is going to be legitimatized. And there are two types of government involvement. Why is the government itself carry out such infrastructure project, so government becomes a provider of infrastructure service.

Another type is private sector is carrying out infrastructure service but government provides support, such as tax exemption, or subsidy, or can be as guarantee for finance, so so-called the PPP, public-private partnership. And because government is often perceived as inefficient, and also most of government has a fiscal constraint, PPP has a high expectation all over the world.

And ADB 2017 Report, which Mr. Toyoda touched upon, estimates that the shortfall of infrastructure finance in Asia is 2.4 percent of GDP per year. And this number includes China, and China's investment for infrastructure is relatively high, so that means that the gap is small, so if we remove China from this calculation actually finance shortfall is larger, more than 5 percent of GDP, and this is a huge number actually.

And the ADB, I mean, propose that 3 percent of this shortfall should be filled up by that budget, I mean coming from fiscal reform -- no, 2 percent, sorry, 2 percent coming from the budget, and 3 percent should come from private sector, and this is a very big, and this is a very challenging number.

And I explained that the shortfall based on ADB number, but when we talk with bankers, and also that -- I mean investors they often say that, yeah, they have money but they don't have enough viable and bankable projects. So, to make project bankable, this is also very important, and for doing that host governments have to make sure transparent and the predictable regulatory environment.

This has exactly touched upon the (inaudible), and the government policy does matter actually, and the government support shouldn’t be decided based on that the spillover effect, or externality, how much support they are going to provide.

And also special attention is required for fiscal sustainability of the countries, so strengthening domestic financial market, and also utilizing domestic saving, this is also important policy agenda.

So, understanding this feature of Infrastructure Finance is very important because, otherwise, we are going to just create a white elephant and unviable project, and also we are going to create a situation, that unsustainable debt problem. So, we have to be very careful that: what is infrastructure finance?

Third, I want to touch upon the cooperation with other countries, but because time is limited, and also that Toyoda San has already covered most of them, I just want to mention cooperation with China, because some of you have interest in this.

And China is promoting BRI, and although supporting infrastructure in Asia is pushed (inaudible), international community criticizes that some element of BRI, and the most infamous example is Hambantota Port Project, which is called as debt-trap diplomacy.

And a change in government at the Malaysia, (inaudible), Pakistan, also caused some criticism or at least some scale-back of a project planned by previous governments.

But China is important for Japan historically, and also geographically, and also economically. In October 2018, Prime Minister Abe visited Beijing, and he made a speech at the Forum on Third Country Business Cooperation, and he mentioned that there is a huge opportunity for Japan-China cooperation, but also he also mentioned that the importance to follow the international standard, especially openness, transparency, and also viability of projects, and also fiscal soundness.

And these principles are very important for the success of a project. And these principles, you know, of course, one component of that FOIP, Free and Open Indo-Pacific.

And finally, I'll just briefly touch upon the digital economy. And the number one, digital economy is new, so rule-making is very important to avoid any confusion and conflict, and the Japan-U.S.-EU have started discussion. I really hope that this trilateral approach will feed to a G20 discussion in Osaka this June.

And number two, ensure free flow of data, is while respecting privacy, this is very important, and in that sense I have some concerns on the Chinese Cyber Security Act.

And number three, tax issue is also important I think, how to incorporate appropriate tax system, and my understanding is that, so far, when imposing tax on the non-resident, permanent establishment, PE, is preconditioned.

But the new digital era, maybe it's out of date for us to just require the PE as a condition for imposing tax. So the new system requires that -- actually the U.K. and France started to impose tax even without PE. So, a new idea which suits for new digital era is very much required.

So, time has come to the minute. So, I will stop here, and I'm looking forward to having the discussion later. Thanks a lot. (Applause)

MR. MELTZER: Great. Thanks, Mireya, for putting on this, you know, really timely and important panel. Thank you for the invitation to be here.

So, I'm going to focus most of my presentation on the digital trade connectivity side. But just to draw the links with infrastructure, you know, it goes without saying that, you know, one of the keys of enabling elements of any type of sort of going digital is obviously going to be infrastructure and access to the Internet in particular.

So we traditionally think about telecommunication networks, but also data centers, and servers, you know, very much become part of the scope there. And if you think about this from a development perspective as well, you know, you just have to cast your eyes over the SDGs and to see, for instance, where access to the Internet is either in itself an SDG.

So for instance, you know, goal number nine around innovation and infrastructure, but a lot of the sort of SDGs themselves, whether it's education, or healthcare, or smart cities, are very much, you know, have built into this notion of populations being online and using essentially the Internet as a means of infrastructure access as well.

And, yeah, this sort of underscores a lot of my sort of work in this space, which is this notional idea that essentially the digital phenomena is really an opportunity both for developed and developing countries and, you know, whether one thinks of this, you know, broadly in terms of the productivity enhancing benefits of digital technologies, we've had -- you know, there's some great examples about Go-Jek and GoPay, but essentially, you know, these new business models which are providing services to often unserved populations, you can think about that in the financial inclusion space as well.

You know, smart cities, and all the rest of it, but it's all premised very much on having the right infrastructure in place. And once you sort of think about the infrastructure piece, nevertheless, you know, you can have the infrastructure, but you also need the right regulations and rules to ensure that actually the infrastructure and the digital space delivers.

And so, you know, for instance you can have the Internet access, but if you don't have the policy that regulates access to the to the infrastructure to ensure competition, you're going to have essentially infrastructure that is going to be too costly for a lot of people in developing countries.

If you think about what's happening on the FinTech space, you know, you can often have, you know, large banks or overly restrictive financial regulation design for sort of brick and mortar financial sector which doesn't enable FinTech to really penetrate and provide the types of opportunities that could. You know, and even the basic e-commerce model, when you scale that to an international trade context, you need financial payment services, and you ultimately need goods to cross borders as well.

And so this also then gets to the role of regulation and international rules, and I must talk a bit about that, but obviously that's, you know, bilateral aids in APEC, it's in the G20, and it's in the WTO as well.

You know, just picking up on some of the significant opportunities. You know, this is the basic equation which is, half the world remains online, and half the world is offline, it's an increasingly mobile phenomena, and it's very much an economy-wide phenomenon. So, we should not be thinking about this simply in terms of, you know, developing an Internet sector, it's really about how broad sectors of the economy use the digital opportunity themselves, and what this means for international trade.

Just some quick data points on Internet access, you know, across regions and you see, you know, wide disparities between essentially Europe which is, you know, best-in-class to some extent in terms of expanding Internet access to its population, and where the rest of the region stand, and where really just the basic infrastructure needs are in terms of building out Internet access.

You know, ongoing definitions of what is digital trade? I won't get into that in much detail. Essentially, I think it's worth thinking about it broadly, so we're not just talking about e-commerce model where you're moving goods across borders, but it's very much about access to data, and which is enabling the provision of digital services as well.

The opportunities, there's a lot of work around trying to quantify what the benefits are, essentially, of the digital trade phenomena. You know, this is a well cited McKinsey study which estimated that global data flows were worth more, essentially, than the value of trading goods. And this was looking at this in terms of 2014 numbers.

The World Bank's done a variety of studies correlating Internet access with exports, and has continued to find, you know, significant correlations. You know, UNCTAD looked at essentially just the e-commerce component and found that e-commerce sales were about 25 trillion.

You know, I think worth noting there that, you know, this just underscores my point about what to focus on here is that this is essentially a B2B-driven phenomenon when you think about where the value really is. So, on that e-commerce side even though we interact probably regularly with Amazon, and maybe Alibaba, and the like, it's really, a lot of this is the B2B component where a lot of the opportunities lie.

And this is just some data which has been very specifically done on the U.S. side, and I really bring up this point, not just to underscore really how significant the opportunities are. In the United States 75 percent of these gains do not -- are in the non-Internet sectors of the economy, so this is not simply driven by having large Internet companies domestically.

And also, you know, the U.S. is the only country that's done this type of work domestically to work out what the policy implications are of going digital, and this is something really which other countries need to think about doing themselves more consistently.

So, the dataflow bit is particularly significant here, and this sort of just marries and maps onto the way I think it's worth thinking about digital trade more broadly, which is that we're talking about movement of data in itself, is often of trade and of goods. So, you think about for instance, you know, services, and cloud computing, and the like.

But often it also enables a lot of activity which could be domestic, and also international, whether that's around communications, HR, you know, data sharing analysis, managing JVC, which can itself lead to forms of international trade, and the like.

And I'll talk about that a bit more.

This just picks up the growth in data flows globally and so you see between 2005 and 2014 essentially global data flows really across all key regions grew approximately 45 times, and that exponential growth bears itself out in the most recent data as well.

When thinking about how this sort of maps more specifically onto how you would think about international trade, I've identified four key areas which I'll talk about in a little bit more detail.

The first one, digital platforms is probably the most intuitive, and it's the one that we've probably had some experience with. So, you're on eBay, you know, you're automatically essentially an exporter in many cases, and in fact a lot of the eBay data bears this out.

So you can see here the orange bar is businesses on eBay, and you can essentially see across developed and developing countries you are almost always exporting if you are on eBay, compared to the sort of offline comparators, you know, which are pretty low across all countries.

So in the United States' case it's 4 percent -- 97 percent, you know, and I mean even in India you get you get a similar outcome as well.

Trading services is really probably a very significant part of it, because it captures not just what's happening in the digital trade space but it's a broad phenomenon where economies are essentially going in the direction of services, adding more and more value to output, and a lot of this is being driven by the digital phenomena.

Part of this is the cloud computing space where, you know, this is a digital service provided globally, sort of, par excellence from, you know, particular data centers located globally and it's basically giving, particularly small businesses, access to computing power that was unavailable to them before.

Big data opportunities; is another area in the area of innovation, and those types of development. And here, we just pick up, I'm trying to get a handle on some of the opportunities on the services side and, you know, this basically captures this notion of digitally deliverable services which are those services which could be exported online, both at a gross and a value-added level.

And when you see, for instance in the United States' case that, you know, over 50-or-so percent of total exports are actually in digitally deliverable services, and these are services themselves, and also those embodied as value-added in goods, exports.

Digitalization of goods is another key element here, so one thinks of, for instance, the automobile industry, increasingly you are driving a car premised on data collection and use and, you know, thinking about remote control vehicles, and the like. You know, this is increasingly going to be the case, and global value chains are essentially underpinned by: I'm the IT revolution and continue to be.

So there's a lot of work going into what does the data revolution mean now for global value chains. And we can go into that in more detail in the Q&A.

But one of the challenges we're now sort of facing is this rise of data localization measures across the globe, in developed and developing countries for a range of reasons. Privacy is one that's particularly acute, but also you see for the cybersecurity broad censorship reasons, and really just forms of digital protectionism as well.

And this leads into the role for new rules and regulations to make sure that these opportunities are enabled, you know, globally. And the WTO actually has got a set of agreements between the various ways intersects with the data space, and remain relevant.

This is picking up on the effort at the moment amongst some groups of countries to do more on the digital front, but really it's in the FTA context that we're seeing the most progress.

And, you know, the Comprehensive Progressive TPP which, you know, Japan deserves a lot of credit for, for sort of picking up and running with after the U.S. pulled out of it, really had best-in-class digital commitments in it, and that agreement has now come into effect, so that's really a really significant development.

We have now the USMCA which has got actually some TPP-plus commitments on the Digital front, so it's also very good, and so we'll see if that actually gets ratified eventually, but there, the true agreements which have really made the most progress and have set the baseline, I think, for the types of rules or commitments we should be seeing on the trade front, and we've got opportunities in, you know, potential FTAs going forward, where I think you have more like-minded partners where more could be done on this front as well. So, I'll leave it at that. (Applause)

MR. LEE-MAKIYAMA: Thank you so much. It would be very hard to follow up on the previous speakers after so many good things have been said.

And I want to apologize first, because I'm a little bit short of breath because I injured my lungs recently, and the temperature change has actually a severe effect on my lungs. I might be out of breath, but I won't be out of things to say, that I can promise.

First of all, thank you so much for organizing this. I come from Europe and to speak here today. And as you've heard, my expertise has primarily been in the area trade and also not just with Europe and Asia, but generally on the trading system.

And a part of that trade is of course investment. Japan is one of the countries that have graduated towards investment-led trade, rather than export-led trade, and it has fundamentally a business logic, it's completely different than, let's say, a mercantilist country like Germany, or export-led economies that we've seen elsewhere, and most notably China.

But one thing that I want to basically connect together, the topics we heard about digital that has been perfectly addressed by Josh, but also the question around investment, is the fact that a lot of people forget the fact that actually when it comes to real fiscal spending power there are not that many countries left on the planet who actually have a fiscal policy space.

And this is very important for digital because in the end we are looking at building a new infrastructure for the digital economy across the entire value chain, and I'm thinking about 5G. And we are looking now primarily at not just a new network but we are also looking at 26 billion possible new devices going online pretty much immediately, and most of that is actually in the infrastructure.

And it's not about -- there's a lot of hype about wearables and 5G devices and 4s, but basic way of looking at it, is basically houses, factories, companies, logistics, that is the new -- well, basically the fundament of economy. And so basically what we are looking at is the infrastructure side of the investment, and the public projects that we have heard addressed before, and the digital dimension is basically intersected.

And why Japan is important in this context, it's not just because it has graduated towards investment, and it has actually money to spend, but there also much of that is actually corporate money. It is, if you look at the global -- Japan is still the world's biggest creditor. It's not China. China is actually pretty far away.

And so, in terms of actual spending in what we deem as private networks, for example, like telecoms, Japan is still going to matter.

And just of a historical note that I think is worthwhile to actually remember is that the country that really bankrolled the transformation of China is actually Japan.

If you look at the big infrastructure project, for example, in the '80s and the '90s, from building the railroads from the inlands towards the coast, so that actually China could transport its coal.

Or, the Beijing Airport; all bankrolled using basically Japanese money. And of course this has transitioned towards other markets as China can now actually finance its own. Japan has played this role before, this is not actually unique.

And if you look at, I mentioned 5G, and this is going to have a fundamental change, because this is actually not the first network that we are rolling out, but it is basically a thousand times more reliant, two hundred times faster, and we are looking at a network, basically not built for consumers. It's actually built to build regions into a tight, single integrated economy.

So, for example, you could have designers in the United States working directly and controlling the manufacturing equipment in, for example, Indonesia, and whereas actually it is directly linked to the consumers, for example, in Europe and China.

So we are actually seeing entire companies going live. Let me just explain this in a more tangible term -- tangible terms. Today companies upload, let's say, blueprints, customer lists, Excel documents, basically documents online. What we'll be seeing now with the 5G is basically a global cooperation where the control actually is in the cloud.

What does it actually mean? We need to be very, very sure about who builds these networks, who manage these networks, because if you are not certain you can basically copy/paste an entire company with the factory settings, price margins, how your entire company runs. And this is actually quite fascinating, that the entire control of the company will be existing online.

And of course that puts a complete new vulnerability to the system that some -- many people in the cybersecurity field has already identified. But also there's a commercial dependency that I think is quite interesting.

I will use Japan as an example. And Japan has now -- and turned over a hundred billion in e-commerce, some of the numbers that Josh has shown, it basically shows that if you look at the turnover of e-commerce itself, it will be a G7 country. And actually, in addition to that, it's actually growing 25 percent per year.

So you're looking at the G7 country which is growing four times faster than China. I mean every country in the world, if e-commerce was a sovereign economy, every country in the world would be lining up to sign trade agreements with it, and I'm afraid that if it refused the United States would try to invade it.

But in short, if you look at, for example, the Japanese example, it faced enormous interdependency. We are looking at 100 billion in the e-commerce, and which were actually doubled year-on-year. It's actually even faster than the average growth. But the 20 percent of the customers and of -- the sale in value is actually from China.

So, one of the interesting points that was raised, for example, in terms of taxation if you're looking at PE that we heard being discussed, if you're saying that we're going to tax on the basis of users, it basically means that China has the right to tax Rakathon. I'm not really sure that's a path we want to go down.

And, for example, France as we heard, which is basically France is one hour away from my door, back home in Brussels, and they have chosen basically that path in saying that we are going to try to tax on the basis of where the users are.

And this is really not how the International Accord on Taxation works. So that's one vulnerability and one kind of sensitivity. And also across the board, Europe and many Asian countries are infamous for the privacy concerns, and by some definition I think there is some truth in that, saying that fundamental rights in terms of right to privacy has to be protected.

The question is: what kind of safety margins do you need? And the trade agreements have been reasonably good instruments to basically scaling down on some most of the worse disproportionate efforts that have been made and put by governments in order to make sure that the data stayed localized.

But I think we're also looking at some real genuine concerns. So, for example, if you have, let's say, state-owned platforms that is vacuuming the Internet for data, we are basically looking at quite extensive knowledge that you can actually acquire about the citizen of another country.

And once again, Japan is quite unique in that regard, because Japan managed to actually have adequacy with Europe which has arguably the highest end of privacy in the world. At the same time it managed to open up towards United States by accepting the APEC CBPR protocol, which means that basically, by default, being able to talk to both mom and dad you basically created a global hub for the digital economy, at least when it comes to the policy side.

And, you know, as a child of a divorced couple, it is quite striking that you can actually speak to the both sides, and we actually need Japan in order to basically operate against each other. Basically Japan has become the interoperability protocol between the EU and the U.S.

Another dimension I will just add to this conversation is the importance of supply chain security, and there are over -- well, when I talked about the 26 billion units, I mean you can imagine the number of active components that can actually send and transmit data. It's not just about digital equipment anymore, it's refrigerators, it's actually everything that you touch, roads will be connected online, and obviously to make sure that there is no state interference and government access to the data by third countries is going to be extremely important.

And so putting this together I think it is very, very clear that we are looking at a very dark path when it comes to the digital economy. Meaning that we will have probably a few regional pools, or close enclosures of trusted partners, and I strongly believe that Japan will form one of these hubs with the Western partners.

We are talking about Europe, hopefully, at least the NATO countries, but also some of the others, and the United States, and in addition, also Australia, and much of the Southeast Asia is very much up for grabs.

And this brings to my final point. You saw the graph of the seven platforms in Indonesia, they are now 100 percent owned by the Chinese interests. That it's usually being owned by Chinese companies, not a problem, but if you are an e-commerce platform, and you basically change the domestic content of that platform towards Chinese suppliers, you're looking at a significant change, which goes more -- goes far more beyond just the ownership of those platforms.

So, the consumer, basically the Indonesian equivalent to Amazon, has now basically shifted the entire stock towards Chinese supplies rather than local supplies. There's more at stake that could create quite a lot of tensions, which is why I believe that this regionalization, or basically dividing up, or Balkanization of the digital economy is going to be inevitable.

And this is where I think we will have two standards. One basically that Prime Minister Abe was talking about, which is the data flow -- Data Free Flow with Trust amongst a group of countries that are trusted partners, which has stringent privacy as well as supply chain reviews, and on the other side you will have countries that you don't trust. And that's where the WTO comes in, because WTO basically is now, a life insurance amongst a group of countries that don't necessarily trust each other, but if we agree to a minimum standard of decency how we will behave towards each other.

And this is where we will be needing both, both the partnership amongst the trusted entities, as well as common rules of decency amongst who we can't trust. Thank you so much. (Applause)

MS. SOLÍS: Thank you so much. So much already presented. So many issues to follow up, and have panelists interact with each other, and then for the audience to ask questions. I'm going to get started while they're also putting the mics on everybody else.

And I'm going to ask questions that address both the development finance and the data governance themes that we've covered in this panel. And I'm very interested in the partnerships that Japan, or collaborations that Japan is pursuing, and I'm first of all with the United States.

I think that it was very encouraging when just last fall the United States passed the BUILD Act, and therefore it made an allocation, and it made a commitment to create the U.S. International -- International Development Finance Corporation, and that created then opportunities to work with Japan. And Toyoda also mentioned that OPIC now has an office in Tokyo and so forth.

But let me play devil's advocate here, and be a little bit contrarian, and ask all of you to not look at it from a glass half-full, but a glass half-empty.

And what I mean by this is that it's a $60-billion commitment from the United States, but when we look at the money that the Japanese Government has earmarked just in the partnership for Quality Infrastructure you're talking about 200 billion, let alone what China has committed to the Belt and Road Initiative.

So, our first question: Is this too little? But also then the question is, is this too late? In the sense that the new U.S. International Development Finance Corporation is aiming to be operational by October of this year, in the meantime the ground is shifting, these actors are already very much shaping how things are evolving. And therefore can there really be a very agile U.S.-Japan Partnership, given that the United States just recently began to get its own house in order?

So, I wonder if the panelists would like to address this question, as to how much can the United States do in the field of development finance with an eye to cooperation with Japan. Toyoda San?

MR. TOYODA: I don't think it's too late and too small, because we have private financial institutions, big private financial institutions in both in Japan, U.S. I want to say. A function of OPIC or JBIC, so that kind of policy based financial institution is a catalyst for the private capital. So, if we provide appropriate risk money to the project we can invite huge amount of private capital to the project.

Then so our function where we have leveraged, so you've mentioned about 600 -- 60 billion, and maybe 200 billion, or 110 billion for Japan's initiative; that kind of finance must be leveraged to invite the large amount of private capital. That would be the big solution.

On timing, I think now the developing countries understand the importance of quality infrastructure including transparency and debt sustainability, et cetera, et cetera. And there, I'll say, changing their (inaudible) strategy towards more -- sorry, high-quality infrastructure projects. Then it's time to provide option to that (inaudible) coming from development countries.

MS. SOLÍS: Thank you very much. Other views? Oya San?

MR. OYA: Yes. Basically I agree with Toyoda San's input. I mean, China has huge money, and Chinese Development Bank I think as I said, It's USD2.4 trillion, it's huge. So, we cannot imagine the sheer size of the funding that -- and that asset size.

But as Toyoda mentioned that the important thing is we're going to present that option, or idea. This way of infrastructure finance is possible, and the openness, and also the transparency, and also we are very careful about the political viability itself, and also debt sustainability.

So, showing and succeeding means specific concrete -- and in case; this is I think very important, and this will lead to catalyzing that private money too.

MS. SOLÍS: Very good. Anybody else, or should I move -- Nancy?

MS. LEE: I think it would be useful to move away from assessing financial strength or importance simply in terms of the volume of financing in which, you know, one actor in the world I think has the clear advantage. I think the model for most development finance institutions is essentially a commercial bank model, in the sense that their profits, the difference between their cost of capital and their returns, are essential to them, and essential to expansion, because it is their profits which add to their equity and their expansion.

And for that reason their ability to take risk is constrained, just the way a commercial bank's ability to take risk is constrained. So I think one of the principal problems with the current publicly financed institutions is their risk tolerance.

And so -- and I think that manifests itself in two ways, one is in the instruments that they deploy which, as I was describing, is almost always lending because essentially they're lending for their own account, and they need those returns in order -- for their own business models.

So they don't do a lot of equity, they don't do a lot of guarantees, they don't do a lot of risk insurance, and in order to get them to shift their shareholders, which are governments, I have to make that clear, so I think -- and this is why I was saying the U.S. and Japan, as the principal shareholders of an institution like the World Bank, need to encourage them to shift their business model, take on some more risks, they may have to do it off balance sheets, so they maintain their AAA ratings.

But that has to be part of the equation to increase their mobilization ratios. As it stands now, these institutions collectively, I'm talking about the multilaterals, mobilize one-and-a-half dollars for every dollar that they commit on their own account. That's not a really impressive mobilization ratio, and there should be a better way to use that money.

And the last thing I would say is the USDFC now has equity authority, which OPIC does not, and that equity is one of the more catalytic tools, so I think the DFC can start becoming much more catalytic in terms of the amount of private finance they mobilize.

MS. SOLÍS: Very interesting. Hosuk?

MR. LEE-MAKIYAMA: I would just add a small point when it comes to the digital infrastructure; that we need to bear in mind that we're looking primarily at private actors. And so you ask, is the glass half-full or half-empty?

And my question is: if you're a public financing institution the question you have to ask yourself: Is the glass even mine? And one of the questions I consistently come back to is the fact that the enormous liquidity of the Japanese corporates. We are looking at a market, not just in terms of being the world's number one creditor, in addition we have also half of the Japanese companies are debt-free.

Whether that actually makes sense where you have basically almost zero lending rate, I'll leave that aside, but we are looking at a complete -- I mean we are talking about access to capital in the private sector is unprecedented.

Now, we are looking at a quite aggressive rollout, and rollout 5G network costs somewhere along the lines of -- in Japan I think their estimates are around $40 billion, and that's something that Japanese can do in three years. But if you come to -- for example in the Asia-Pacific region -- if you come to -- if you come to other countries like Philippines, yes actually the access to funding is going to matter.

And in that sense I think we are going to look at both the U.S. operators, as well as the equipment manufacturers, as well as Japanese technology companies, rolling out. We're already seeing that happen. And in Philippines, China Mobile has actually applied to be the first licensee of a 5G network. So, I think the competition is on, but this is primarily about private money,

MS. SOLÍS: Very interesting. So I also found it very interesting that several of the panelists in their presentations made reference to the importance of the multilateral system, and multilateral organizations.

Nancy emphasized the fact that, you know, multilateral development banks are not really playing the role that they should in supplying infrastructure finance.

And then Hosuk also talked about the importance of the WTO as an institution that provides (inaudible) balanced relations with some trust.

But I want to ask about U.S.-Japan cooperation in the multilateral setting, one of it could be to try to, of course, reform WTO, and especially with digital commerce, but also in the area of infrastructure finance. If I remember correctly, when Japan launched the partnership for quality infrastructure there was an effort to reenergize the Asian Development Bank.

So, what is your take on: How much political will? How much ability is there from Japan and the United States to inject energy on multilateral organization and bodies? Nancy, and Oya San?

MS. LEE: Well, traditionally, the United States and Japan have worked very closely in these organizations, along with Europe. I think the partnership between the United States and Japan is particularly important now because -- for two years reasons, one is that Europe is less cohesive, to put it mildly, than it used to be, so Britain, Germany and France don't necessarily act together in a way that builds on their shareholding power.

And the second is, we have these new international institutions, like the AIIB, and the New Development Bank which, are presenting a slightly different model. So, in order to make the -- what I'll call Legacy institutions -- the force that they should be in the world, I think it is particularly important, especially as Japan is the chair of the G20 to focus on -- jointly encouraging these institutions to adapt.

And one way, in particular, apart from being more catalytic and focusing more on globalization as opposed to their own lending is, as I was saying before, to bring their public and their private tools together because a lot of what is constraining private finance in infrastructure, particularly in low-income countries, is the policy and regulatory and legal environment in these countries, that's the source, the concentrated source of risk.

If you're an infrastructure lender, or an investor, well the multilateral development banks have all kinds of expertise, technical assistance, lending tools, all kinds of experience in helping, for example, you know, electrical utilities become sovereign, so they actually pay their counterparties whatever they've committed to pay them.

So, the way it happens now, is you have project finance over here, and then you have policy-based lending over here, they aren't brought together coherently, so I think there's a -- to be fair I think the Bank, the World Bank, in particular, is trying to bring the arms together, but there's a lot of space and improvement in bringing those instruments together so that they actually are much more effective in creating the kind of environment in which private finance can flourish.

MS. SOLÍS: Oya San, and then Josh?

MR. OYA: Yes. I think most of all, the institution has a lot of things to do. And the first one is, for example, the issue of debt sustainability, and the BRI issue made it crystal clear that the debt sustainability is very important. And how to then -- this is very important, but at the same time it takes two to tango.

So, borrowing countries, debt sustainability, capability this is very important. So, IMF, World Bank can support such kind of capacity building.

And number two, quality infrastructure is very important, where Japan is then fostering it, and USA is fostering it, and identifying some standard. I mean, first of all The World Bank can contribute such kind of activity, and APEC has done a very good job, but at the G20 where Japan is going, would want to discuss such kinds of things, too. So, I think the multilateral banks can contribute to this.

And thirdly, private sector, I'd say window of the multilateral banks can do that, more specifically in case of the World Bank Group, and IFC, they're providing the money without taking government guarantee. So, as Nancy had mentioned, they can provide and contribute more, not wanting private money, but (inaudible) private money.

MS. SOLÍS: Thank you. Josh, do you have a comment?

MR. MELTZER: I guess I just want to make one observation, which is slightly a one (inaudible) one which is that when one things about the role of the U.S. and Japan, in terms of, you know, reinvigorating, and the multilateral institutions, I mean it goes without saying that the U.S., and really Japan as well are the key stakeholders in these institutions in many respects.

There has been, I think, at times, you know, in response to, I think, the range of challenges that are seen on the China front to reject so the multilateral space as being too constraining, and not really up for the task. And I think that was certainly probably the instincts of, you know, the administration last year.

Though what's been made clear, and you see this in spades if you read the National Security Strategy from 2017, the Department of Defense says this repeatedly, which is essentially that the multilateral rules, if we're thinking about trade it would be in the WTO but, you know, if you think about norms around financing it's certainly in The World Bank, and the Regional Development Banks, you know, provide key essentially baselines against which you can critique.

You know, whether it's China or other activity that you don't like, and which are vehicles for bringing on board essentially, you know, a more common action. And I do think that the U.S. has shifted on that as well.

You know, you only have to read the latest USDR Report to Congress on China's implementation with WTO commitments, to see a shift in the way they are trying to talk about the centrality of the WTO, as sort, you know, this is what we've all agreed, and this is where the departures are. So I think in many respects, you know, the multilateral system, while certainly not providing a complete answer to, you know -- because the infrastructure and trade are intermittently linked when one thinks about, you know, Belt and Road for instance.

While not providing a complete answer, is actually seen as a more and more crucial starting point for thinking about the tools and policies that are needed to sort of actually push back on China's practices that are considered harmful. And I think

Japan and the U.S. are increasingly playing a key role there.

MS. SOLÍS: I have Hosuk, and then Toyoda San?

MR. LEE-MAKIYAMA: Well, I mean, if I may just take a few seconds and bore you with the nitty-gritty of the WTO. In the '80s and the '90s, we used to have something called Accord, which is basically EU, United States, Japan and Canada, basically drawing up the rules. And then we had something called a Green Room, and which is basically 20 semi-alcoholic ambassadors to the WTO trying to figure out how to strike a deal.

And now we have de facto, a new world trade government, that's the wrong word, but English is my third language so please I apologize, please cut me some slack. We have de facto new governance which is basically centered around Japan's ability to talk to the United States and Europe. And I think it is -- it goes without saying that Europe is now currently on the stage that we can't have a direct dialogue with this administration. We don't even know who to talk to.

And I think the United States is now currently in a position where, with some justification, that actually the system doesn't work anymore. And so what we have de facto is a trilateral system, and which was announced that a trilateral coordination which is -- it has an official word -- official titled which is -- and I was at the Buenos Aires Summit, but I have -- because everyone refers to it as the Trilateral I actually --

It's not stage fright. I actually have forgotten what it's called. Global Level Playing Field, something, something, something, and basically it's EU, U.S. and Japan, and what we are looking at here is basically the understanding that if you want to reform the global system, or want to actually attract real reform out of the elephant who are in the room, which is always going to be China, these three need to work together.

And I actually wrote about it, I don't claim to have invented the trilateral; I don't even claim that the METI guys even read my reports. I would actually seriously question their judgment if they did. But one thing that I did write one year before the Buenos Aires Ministerial Conference was that, for example, if you look at telecom equipment all the manufacturers are European.

We want to have access to China. China actually is just completely uninterested in Europe, they actually want to have Japanese IP, and they want to have access to the U.S. market. So, in order to actually have a global accord, we need to have this trilateral coordination, where someone has to pay for someone else, and for that reason it makes sense.

And also, as I said before, in terms of actually being the -- frankly, I mean I don't think I would say this, but Japan is the only adult in the room at the moment. Look at the G7 leadership, look at the Europeans, it's not just about U.S., Japan is currently the only one with a long-term vision. And I'll take that before anything.

MS. SOLÍS: Thank you. Toyoda San?

MR. TOYODA: Okay. I'll touch upon MDB's important function, it is pioneering the projects. It is always, take time and effort to develop for (inaudible), the first project in a country or sector, you have to develop everything from scratch, that's the reason why many private companies avoid to participate in, I'll say, the first transaction.

In the context developing the first transaction by MDBs are literally opening up the new market for private businesses. We need to appreciate importance of the MDBs' function. And I think MDBs should allocate their resources to those important activities.

And secondly, I like to say, I'll iterate importance of capacity building cooperation as I've explained in my presentation. Japan, they're collaborating with the U.S. on capacity building support for the (inaudible) countries, now our focus is APEC, but we'd like to expand this collaboration beyond APEC regions, in that context we really like to collaborate with MDBs for capacity building support. Providing finance together with good governance in the recipient country will really solve the issue.

MS. SOLÍS: Thank you. So time is running up, and I need to bring the audience, but I have at least one or two more questions I definitely would like to ask all of you. And I want to focus now on the Japan-China dimension, because that has attracted a lot of attention as to whether -- what is the balance between competition and collaboration between these two giants of Asia?

And on the one hand I think that, you know, when you listen to what the Japanese, how they articulate their vision for quality infrastructure, they emphasize transparency, they emphasize high environmental and governance standards, they emphasize fit with long-term development strategy, financial sustainability, local hiring, all of these things seem to draw very stark contrast between what China does with its Belt and Road Initiative. So you would think, well, they're competing visions.

On the other hand, last October, as some of you alluded to, Prime Minister Abe traveled to China, and there was -- the launch of these business cooperation, Business-To-Business Cooperation in Third Countries, and I believe that 50 MOUs, or so, were signed.

So, you know, is this diplomacy by MOU. I mean, how far can these go? Some people in the media, for example, reported this as Japan signing onto the Belt and Road Initiative, and I think that's not correct. For the reasons that I mentioned before, Japan is focusing on quality infrastructure, Japan is using this as part of the broader Free and Open Indo-Pacific vision, and China has a very different vision, and with a different modus operandi.

So, is their real meat to the Japan-China business-To-Business

Cooperation? Or was this just more a symbolic gesture to try to get things on track? Toyoda San, or Oya San, or anybody what wants to take this one?

MR. TOYODA: Japan, China organized a forum which is U.S. -- China-Japan Business Corporation inside the country, and had 52 MOUs, including MOU between JBIC and MD -- No, CDB, China Development Bank signed as a forum. The objective of the forum is to promote business collaboration between Japan and China to provide, let's say, a better solution to the local needs.

That means Japan-China consolidates the advantage of both China's and Japan's companies, that means we need to provide appropriate solution to the local needs, but during the forum Prime Minister Abe clearly sent a message that project must be developed based on the international standard as you mentioned, openness, transparency, economic efficiency and fiscal soundness. That's an important part, and this is, I'll say, assumption -- but presumption for Japan-China to collaborate with each other.

MS. SOLÍS: Oya San, and then Joshua.

MR. OYA: Yes, and actually, nothing to add so much, but I mean, I'll put it in a more -- bluntly manner. So, we put condition, and we believe in such condition like openness, transparency, and the project viability, and also debt sustainability kind of things. And if Chinese side also agrees with this, if some can find, nothing happened, I think this is a good thing for Japan, and China, and also (inaudible) and the country and the business.

And then trade as I mentioned China is with country and also Japanese business, have a very deep interest for working with the Chinese cooperation. But then the finance is, I mean, provided only if these conditions are met. And I think these are good things. So, if China started to change its position and become closer to have an idea, I think these will go forward.

MS. SOLÍS: Josh?

MR. MELTZER: Yeah. I mean I think it's important that we don't just merely think as Belt and Road is somehow an old, bad proposal that needs to be pushed back on in its entirety. It's clearly got components which are really important. I mean we saw the infrastructure needs up on the board before, it's got elements which are genuinely troubling, it's geographically unfocused, and there's still a lot of work to be done on it.

So you can see with Japan's initiative, and I think with the United States initiative as well, essentially there's actually a space there for -- with money on the table for more constructive kind of engagement and dialogue, as much as there is going to be competition in that space.

In many respects, you know, this is where the trade and the infrastructure bid is deeply intertwined, because you've got -- the infrastructure in a sense is the goal but you got to get things out there and made, and a lot of it is going to be made in China and elsewhere, and so even from a cost-effective perspective, in terms of maximizing the opportunities, you're going to find that, you know, the Japan businesses who are doing infrastructure projects around Asia will be manufacturing some of the components, et cetera, in China and that's what you would expect, right, because that's how supply chains are arranged, and that's where the most cost-efficient outcomes are.

So there are real opportunities for engagement and building there, which I think you want to see, as well as getting the standards right which is what Japan will bring to the table on that.

MS. SOLÍS: And I know that there are other comments from the panel, but I'll be a terrible Moderator if I don't make room for the audience to come in. So, let's find a way, hopefully, to bring in those comments, as I ask the audience for questions.

There are microphone, so if you can raise your hand and wait for the microphone to arrive. I have Ellen here and -- we'll take two questions at a time.

MR.FROST: Thanks very much, Mireya. Ellen Frost, East-West Center. A question for Nancy Lee, and anyone else: As, you know, the ADB has long promoted regional integration, and now connectivity, and I wonder if you'd comment on the decision, in 2017, to merge the ordinary capital account with most of the Asian Development Fund, has it lived up to expectations. I think you're right about risk, equity and so forth, but this is at least a structural change. And do you think it's a good idea? And if so, could other banks -- should other banks do the same thing? Thank you.

MS. SOLÍS: Thank you. And then we can give the microphone to this person, and then we'll also have a second round of questions. Well, let's do three. Go ahead.

QUESTIONER: Okay. Good! Thank you. John Mossou with IDC (phonetics), a think tank in Paris. Actually I have two questions, one is about infrastructure. Why should we believe that the private sector, which has not been very active, in a very benign world economic environment, will be ready to take more risks in the future if things get rougher?

And my second question is about a Hosuk's perspective of having a sort of two-level governance on the Internet, with the first year for trusted partners, and then sort of WTO floor. What if there is no floor? There are lots of people in this town we believe that China does not belong in the WTO, period. And they basically wrote that last week in the compliance report. So, if there is no floor, what does become of that vision?

MS. SOLÍS: Thank you. And then if you can pass the microphone to the lady next to you?

QUESTIONER: Thank you. I'm Jeanie Wainwright, of Vietnamese Americans. My question is about digital governance, especially in the case of Southeast Asia, and you said, it was up for grab. I'm very concerned about Vietnam and it's a new cyber security law, and its emulation to what China -- the case of censorship, and also data exploitation in Vietnam. Is there a way, or suggestions for the U.S. to work with Japan, because Japan is leading in the CPTPP now? And is there a way that -- also the EU?

You are very good at that Hosuk, so would you give a proposal for what we need to do now with the U.S. in the leadership, and Japan in CPTPP, and the EU also has a lot of influence with Vietnam and trading? Thank you.

MS. SOLÍS: Great. Great questions! So, who would like to take a stab at them. Oya San?

MR. OYA: Okay. So, I will take the ADB one, and also that private exchange for such benefits. I think the ADB has a long history of proposing idea, and make a lot of contribution for connectivity in Asia. And also a good point for ADB, is ADB knows very well about the local situation.

So, I think -- I mean, today I just mentioned, or we just mentioned, IMF, World Bank, and IFC can do things, but of course in Asia, cooperation with ADB is very important, and JBIC, and also JICA have a very close connection with (inaudible), so we will work are more with ADB.

And the question regarding the private sector, is not so enthusiastic so far, again, the infrastructure investment. Why it will from now on is going to do that? I think something we have to do of course, and we are doing I think, first that recipient country itself has to improve the predictability, and the transparency of regulation, even the -- there's a project going on, but suddenly the integration hasn't been changed.

Or suddenly, the tax rule -- how should I say -- management hasn't been changed. It's very difficult, and no one would like to invest under such kind of circumstances, especially if infrastructure is a long-term business; for regulatory and that predictability is very important, but at the same time international fora, can contribute for this.

And I think APEC has already done some basic idea of correct infrastructure, by looking at that European country, was to understand what is required for making it more investable, and making it more investor-friendly kind of thing. So such kind of effort is required I think.

MS. SOLÍS: Great. Any other comments. Nancy?

MS. LEE: Well first on the question of the merging of the balance sheets. It's probably useful to make a distinction between capital stretching as it is called, and the notion of helping an institution take on more risk than it currently can. So I mean, a lot of this balance sheet merging that's being done to make a concession on non-concessional windows, and in some cases between the public finance part of the bank, and the private finance, makes a whole lot of sense in terms of increasing lending capacity.

Essentially, if you are merging balance sheets for most institutions not all, you're using the power of the non-concessional or sovereign lending sheet to expand your lending capacity, in either in the concessional lending sheet, or in the private sector. So, for example in addition to the Asian Development Bank, IDA, as part of The World Bank for the first time under the last Replenishment, the IDA18 Replenishment, can now borrow on the market to supplement the resources that IDA donors provide in the replenishment, the grant resources.

So, that's a very good thing, and it has tremendously increased the lending capacity of IDA. So, this sort of balance sheet management; and merging parts of banks in a way that's a more efficient use of capital is a very good thing to do. It's hard for these institutions to do, but it's a good thing to do.

But then you have the whole agenda of, once you have more capital, more lending capacity, how do you use it? And the kinds of things that I've been talking about are using it in ways that is in fact taking on more risk, but managing the risk in such a way that you preserve the benefits of being a highly-rated institution, which means you have to take part of those risks off your balance sheet in these off-balance sheet vehicles.

It's a totally reasonable question on private finance of infrastructure, because when you look around the world, and this is high-income countries, low-income countries, middle-income countries, most infrastructure spending is public infrastructure spending. So, it's reasonable to ask the question: how much of a benefit will one get from trying to encourage more private infrastructure?

And I would respond to that in two ways. Number one, because of technology, the changing technology, the ways of delivering infrastructure are changing dramatically. You can have off-grid infrastructure, that's both for power and for water, which is relatively small-scale infrastructure which is commercially viable.

So, you have a whole set of infrastructure projects that actually reach some of the most remote, poorest populations that the public sector either can play a relatively small role, or in some cases doesn't have to play any role if the regulatory environment is reasonable.

So that's where you want -- you should not -- there's a lot of infrastructure where it's essentially not cost recovery, profitable infrastructure, that's the realm of the public-sector, it always will be, but there's increasing opportunities for the private sector in small-scale infrastructure, that actually is very poverty reducing.

And the other quick thing I wanted to say was the benefit of the private sector for infrastructure is not just in finance, there are a lot -- there's a lot of analysis that suggests private sector is better at designing infrastructure, better at maintaining infrastructure, so that the overall cost of delivering the service, in the long run, it's actually lower with the private sector, apart from what finance they bring to the table.

And if you look on the other side, the public infrastructure spending there's a lot of evidence that it's really inefficient. So you're wasting a lot of money -- governments waste a lot of money in infrastructure spending for a whole variety of reasons, design and management. So one of the reasons you want to bring the private sector infrastructure is for the quality of the services that you get, and for the maintenance.

So it's important not just to be focused on the volume of finance that comes from the private sector, but in their role in delivering better services.

MS. SOLÍS: Thank you, Nancy. Hosuk?

MR. LEE-MAKIYAMA: Yeah, since we have the question that was directed to me first. I just want to inform a little bit about the situation in Vietnam, because I think it's serious. Vietnam enacted a Cyber Security Law last year, almost at the identical timing as it signs the CPTPP, basically, localizing all data on personal information as well as demanding that there is a legal localization; i.e. if you want to have your website available, open to Vietnamese citizens, you need to set up a subsidiary in Vietnam.

Why? So they can (1) tax you to hang you. Now how can they do that, despite actually the CPTPP discipline? Because actually trade agreements are pretty pathetic, I mean they only work amongst like-minded countries, who actually already has committed the unilateral talk, otherwise they -- they basically endeavor best-endeavor agreements.

This is the big secret that people don't know about. So which basically means that actually the exceptions in the CPTPP and the WTO are so wide, especially on national security, say you can drive up truck through it.

One example is actually my home country, Sweden, in 1973 we claimed national security on running shoes, because we were flooded by cheap shoes from Southern Europe, because we wanted to protect our local shoe industry, and so we claimed that our soldiers needed running shoes, so we claimed national security exceptions.

So, in the GATT, which was the predecessor to the WTO, the European Ambassador actually came bare foot, holding up a sign, "Sweden, don't shoot us, we come unarmed." And this is actually -- the first thing -- if actually the trade discipline doesn't work number two is radical. Number three, is actually GDP. I did an estimate of this that if it's actually fully implemented it will cost about 1.7 percent of the Vietnamese GDP.

And I can tell you, I mean I know a lot of finance ministers who will basically cut off both their arms for 0.2 percent, so 1.7 percent is going to be a considerable damage. What I talked before about the digitalization of the industry this will happen first and foremost in light manufacturing, like textile, and car parts, and light electronic; the stuff that Vietnam is good at.

So, basically if Vietnam is this night actually shut down this digital economy all the companies will basically move somewhere else, most likely back to their home countries, because if you have automation you don't need cheap labor, all you need is a good set of open trade agreements and low tariffs and good logistics so you can ship it anywhere to the world.

You're not depending on cheap labor anymore. So what is Vietnam going to do? I think the fundamental bottom line of that question is: it will be a very expensive experience for Vietnam if they decide to actually go ahead with it, because it has a huge impact on the productivity.

So, I'll just jump directly to the second question that was -- I think was addressed to me about: What if there is no floor? I think we are very briefly looking at the scenario where the United States saying, okay, we have no opportunity cost here because we don't believe in the system we might as well just scrap it, or at least -- unless it is shaped exactly as we want it, but we won't tell you how we want to have it shaped.

So you have to come up with the idea of yourself, and we've -- it puts is in a very precarious situation. In a sense, I mean the United States is in a win-win situation because if you don't believe in it, if you don't believe that you have opportunity costs, go ahead, throw it out the window.

Europe, and Japan, and many other countries on the other hand, basically believe there is an opportunity cost simply because there is an informal name on the WTO. It's basically an FTA with all the countries you can't have FTAs with. I.e. if it is the FTA with China, this is basically they bottom and ceiling as we said.

If the United States leaves is that going to be a problem? Not necessarily; if China leaves will we kick out China, then we have basically no safety nets, that's going to be a much worse scenario.

Now, people who are really deeply into this conversation, already talking about a plan B, I don't know what that is but this is relating to what we said.

And I forgot the first question, so you have to remind me. You had another question as well.

QUESTIONER: Yes U.S. and Japan Cooperation in the digital governance?

MR. LEE-MAKIYAMA: Oh, yes. U.S. and Japan digital governance, I think it belongs to a slightly bigger format, and as I said, I think Japan is the hub. I mentioned the trilateral before, and I'll just add one very -- a two-second comment on Japan-China collaboration. There is a scholar at a PLA Academy called Yang Shelton, and he said something very, very wise about actually China's collaboration with the rest of the world. You don't need trust as long you have common objectives.

And I think that is some -- in relation to third countries with a complementarity between Japan and Chinese funding, basically China is gift vouchers, China is basically a gift voucher to their overcapacity.

What Japan is an American Express Black Card; there's a great complementarity here, and if the synergies are sought, I don't know. But I don't necessarily think that we -- can't be too caricaturistic about U.S. -- sorry, Japan-China relationship. Not everything is about geopolitics or history.

MS. SOLÍS: Thank you so much. I think we can stay all afternoon. These are important issues; a fascinating conversation. But we have to stop here.

Please join me in thanking the panelists for a terrific -- this afternoon. (Applause)

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