

LEAKAGE

Interdisciplinary View and Asian Perspectives

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Outline

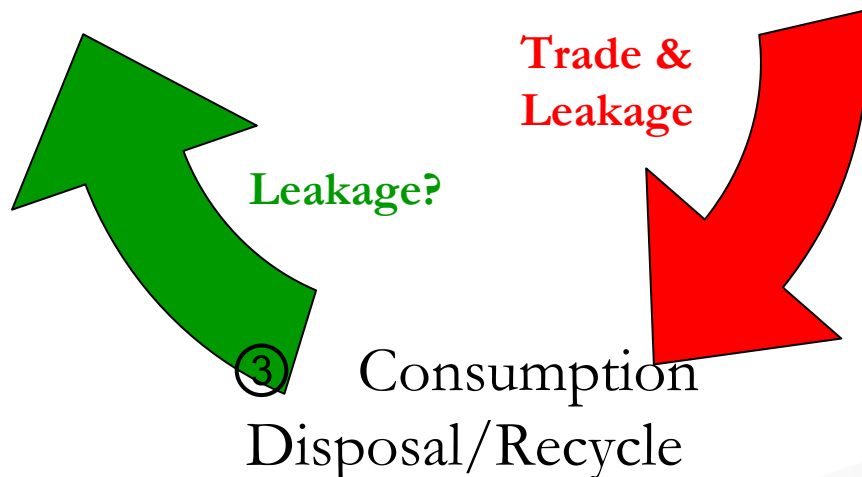
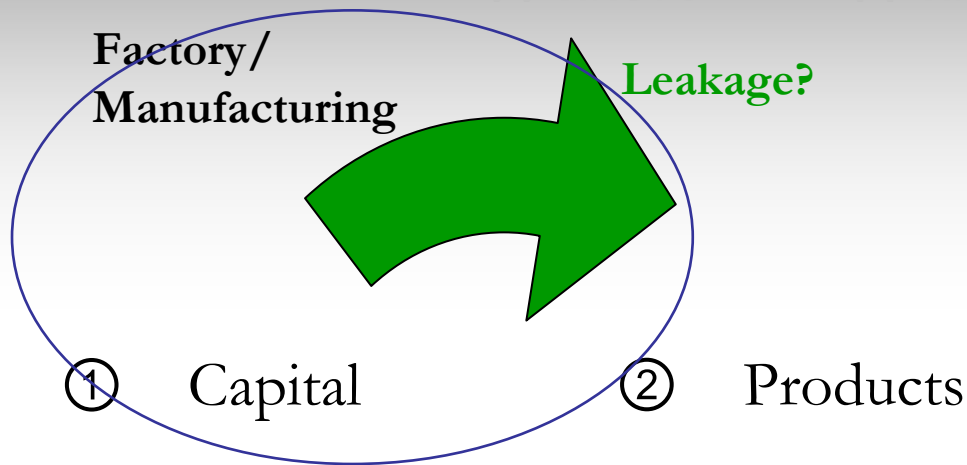
- I. Introduction – Focus on Finance
- II. Facts and figures – Economic Growth vs Finance
 - Investment and Capital Flow
 - Dynamics within Asia
- III. Proposed solutions
 - GHGs as investment criteria
 - Investors role
- IV. Conclusion

I. Introduction

Interdisciplinary view: not only broadening regional scopes, but also economic scopes and material cycle

Trade and CC concern issues

= What + Where + Who



1. Each arrow transaction could be regarded as a “**trade,**” (=material and money cycle) concerning cross boarder exchange of materials.

2. **GHGs** are emitted at every processes

3. China is keen on Recycle businesses (③), purchasing iron, aluminum, rare metals, plastics, papers etc. from overseas, incl. Japan

-> **The current leakage debate is addressing only a part of the entire scope. The idea of sectoral approach could address all steps of transactions.**

II. Facts and Figures

Economic development and trade

vs.

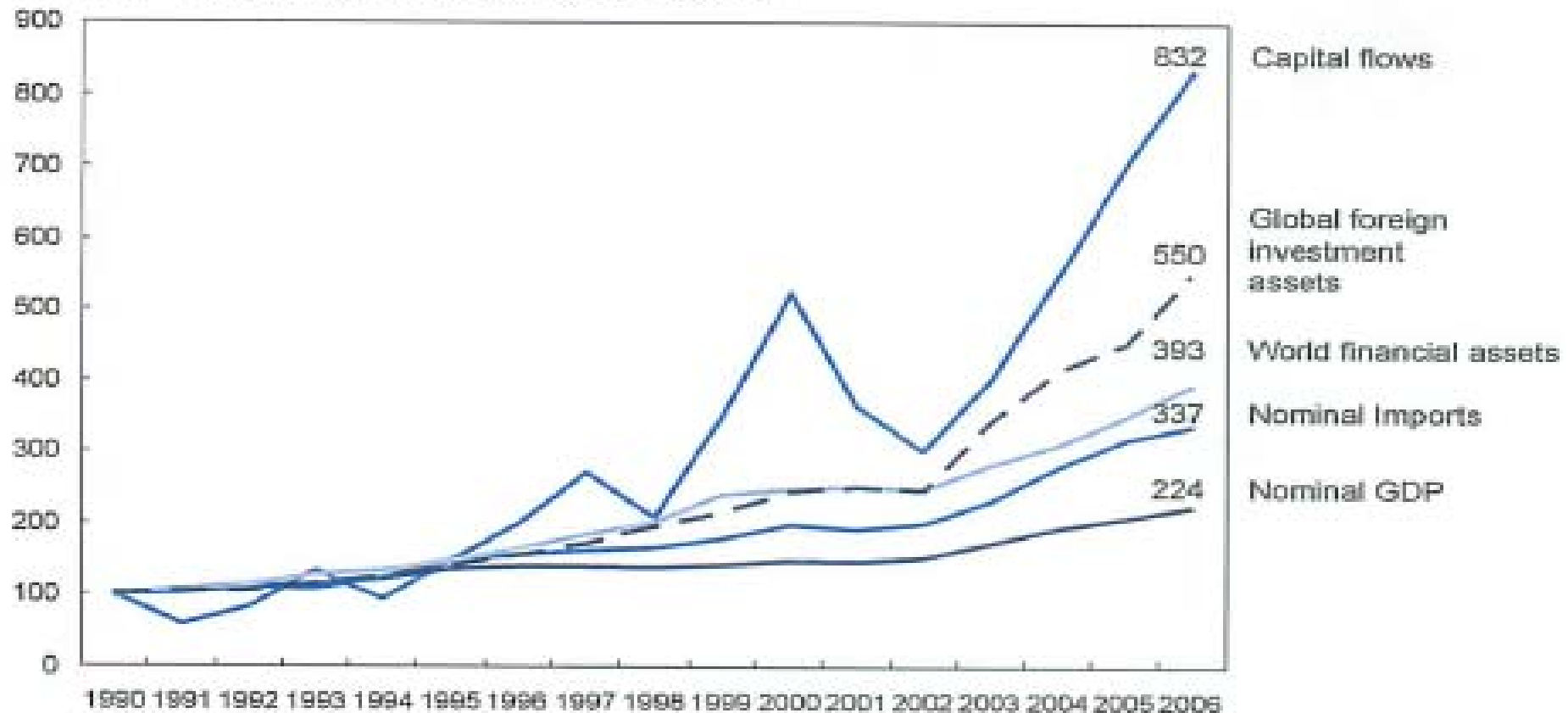
Financial market impacts

(I-1) Investment and Capital Flow

The Fastest Cross Border Transactions

CROSS-BORDER INVESTMENT ASSETS HAVE GROWN FASTER THAN WORLD TRADE, GDP, AND FINANCIAL STOCK

Indexed growth of different economic measures, 1990-2006
%, 1990 = 100%, constant 2006 exchange rate



(I-1) Investment Capital Flow Discussions

1. Typical capital investment work based on **PROJECTIONS**, its duration ranging from a few days to a few years span.
 - > greater risk for long span bonds and notes (e.g., sub-prime loan, and possibly long span carbon offset projects)
2. Capital transactions could act as **AMPLIFIERS**.
 - > Bio-fuel demand (increase of 2-3 percent)
 - > crop production demand (increase of 20-30 percent)
 - > food price increase (increase of 100-200 percent)
3. Capital (fund) liquidation and its cross border transactions are occurring much faster than trade of goods and services
 - > **In order to tackle leakage problems, it is possible that REGULATING CAPITAL MARKETS ARE MUCH SPONTANEOUS AND EFFECTIVE** (smaller inputs with greater outputs).

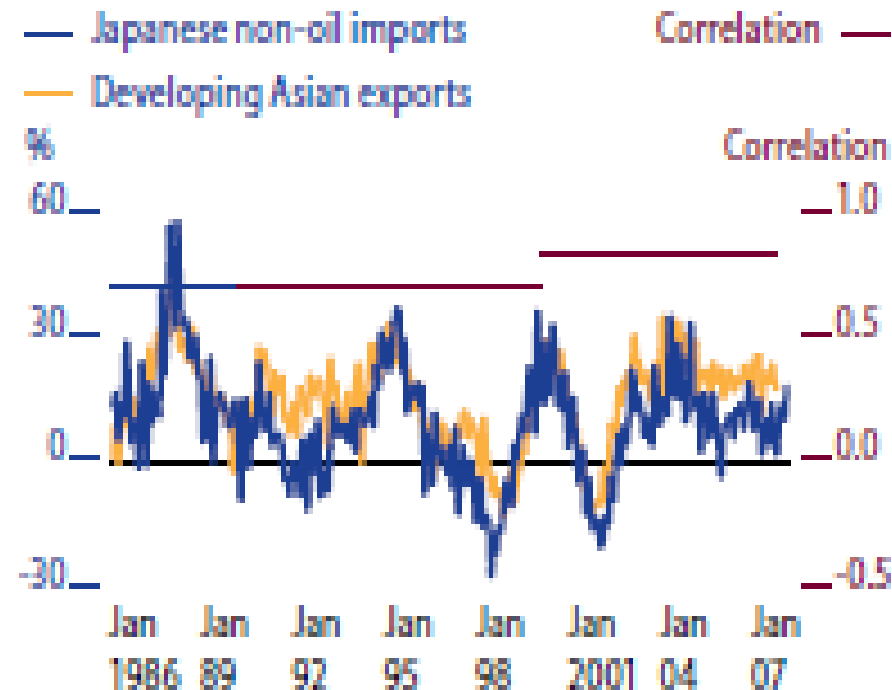
(I-2) Dynamics within Asia – Finance vs Trade

Though active intermediate product trades suggest close integration of trade within Asia, **East and Southeast Asian financial markets are much more closely integrated with the international markets than each other.**

1. Over half of Japanese trade involves intermediate goods with Asia (METI, 2007) and the number of FTAs/EPAs growing rapidly.
2. Static export shares for finished products from other Asian countries to China suggest that China has not yet asserted itself as a significant market for final goods exports (ADB 2008).

(I-2) Japan and Asia trade – close economic relationships

1.1.28 Correlations between growth in developing Asian exports and Japanese non-oil imports



Note: Developing Asian exports exclude those from Taipei, China.

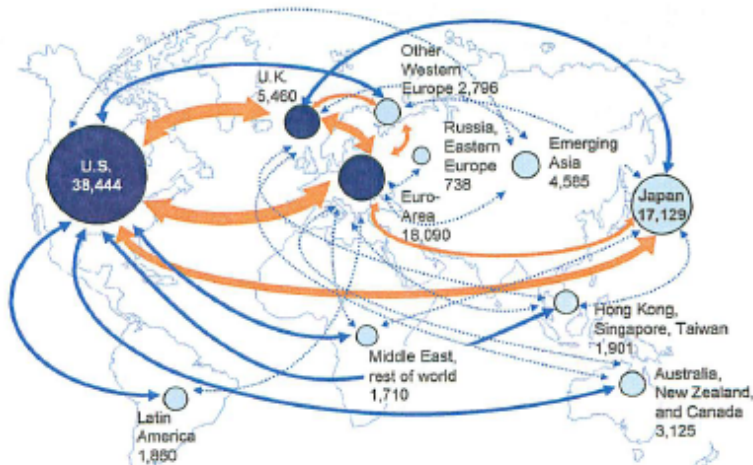
Sources: International Monetary Fund, Direction of Trade Statistics, February 2008; CEIC Data Company Ltd.; downloaded 24 March 2008.

1. FTA/EPA = freer trade is better (211 existing as of 2008 July)
 2. The WTO investment clauses are made to protect investors rights and assets
 3. FTAs/EPAs are growing rapidly
 1. Japan: 9 EPAs with 5 in the progress mainly with Asia
 2. EU: 22 EPAs with 8 in progress, mainly Europe and Middle East
 4. Priority is on the development of Asian Economic Partnership
 1. ASEAN + 3 FTA
 2. ASEAN +6 FTA
 3. FTA AP (APEC + α)
- > FTA/EPA vs ETS balance consideration = sectoral agreement

(I-2) Financial growth strong in emerging economies, closely connected to global (i.e., American and European) financial markets

THE GLOBAL WEB OF CROSS-BORDER INVESTMENTS, 1999

Lines show total value of cross-border investments between regions*
Figures in bubbles show size of total domestic financial assets, \$ billion



* Includes total value of cross-border investments in equity and debt securities, lending and deposits, and foreign direct investment.

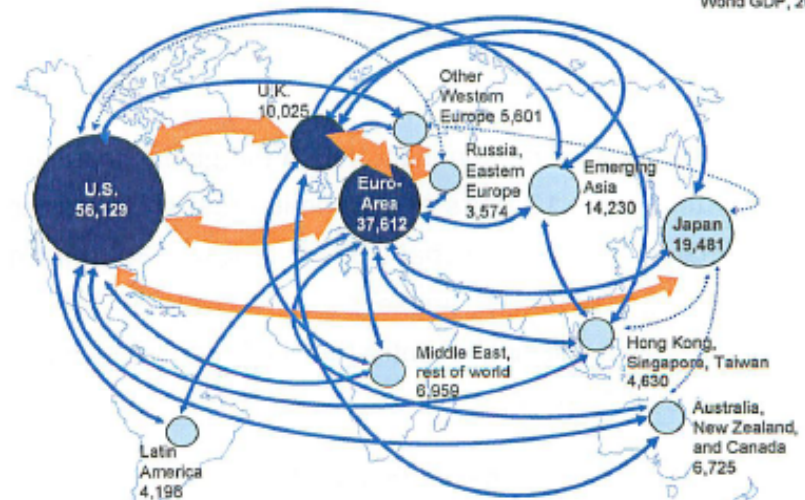
Source: McKinsey Global Institute Cross-Border Investments Database

1.

Noticeable capital increase is in Eastern Europe, Middle East, and Emerging Asia

THE GLOBAL WEB OF CROSS-BORDER INVESTMENTS, 2006

Lines show total value of cross-border investments between regions*
Figures in bubbles show size of total domestic financial assets, \$ billion



* Includes total value of cross-border investments in equity and debt securities, lending and deposits, and foreign direct investment.

Source: McKinsey Global Institute Cross-Border Investments Database

2. No ties drawn between emerging Asia and Japan

(I-2) Dynamics within Asia

Facts and Challenges – Prioritization

Quite a few Asian countries seem not comfortable addressing their own needs to others other countries, resulting in adjusting themselves to the global standard.

1. Indonesia spends inordinate amounts of resources on fuel subsidies alone, much larger than expense on health and education combined (ADB 2008).
 2. Reflecting on the expected shortages of crops this year, Thailand and several others announced taxes on crops for the supply side, their own producers, rather than the demand side, foreign consumers.
- > **Policy making capacity development** seems an urgent issue in order to address emission reduction and leakage impacts

III. Proposed Solutions

GHGs as investment criteria
and
Investors role

(III-1) GHGs as Investment Criteria

1. Equators Principle

1. Developed by private banks such as CITI, ABM, BC, WestLB
2. to meet the environmental standards of WB, and social policies of IFC (International Finance Corporation)
3. including action plan, disclosure, independent review

2. **Basel II Accord** to regulate equity capital holdings and accountability

3. **Aarhus Convention** to address environmental information disclosure and citizen participation

4. **Independent investment risk assessment** concerning EU-ETS compliance and off set efforts

(III-2) Investors Role

- Top Global Banks are comprised of American and European banks
 1. Tier 1: (BS), CITI, GS, JPM, LEH, MER, CS, DB, UBS, and Nomura
 2. Tier 2: BoA, ABN, BC, BNP, Clayon, Commerz, HSBC, ING, RBS, SG, and MQ
- > Knowing that investment activities act as amplifiers, knowing that Europe has a strong stake in financial market, would it not be worth considering financial market measures to address GHGs reduction and its responsibility distributions?

IV. Conclusion

What might work for Japan and Asia

1. **Sectoral agreements** will be able to address the less focused areas of Capital and Consumption/Recycling
2. Economic growth and poverty reduction is a higher priority for developing Asia
-> **Energy saving measures** are relatively easily accepted than ETS
3. **Financial market maturity** and its integration within Asia will create stronger Asia, potentially resulting in the regional ETSs