



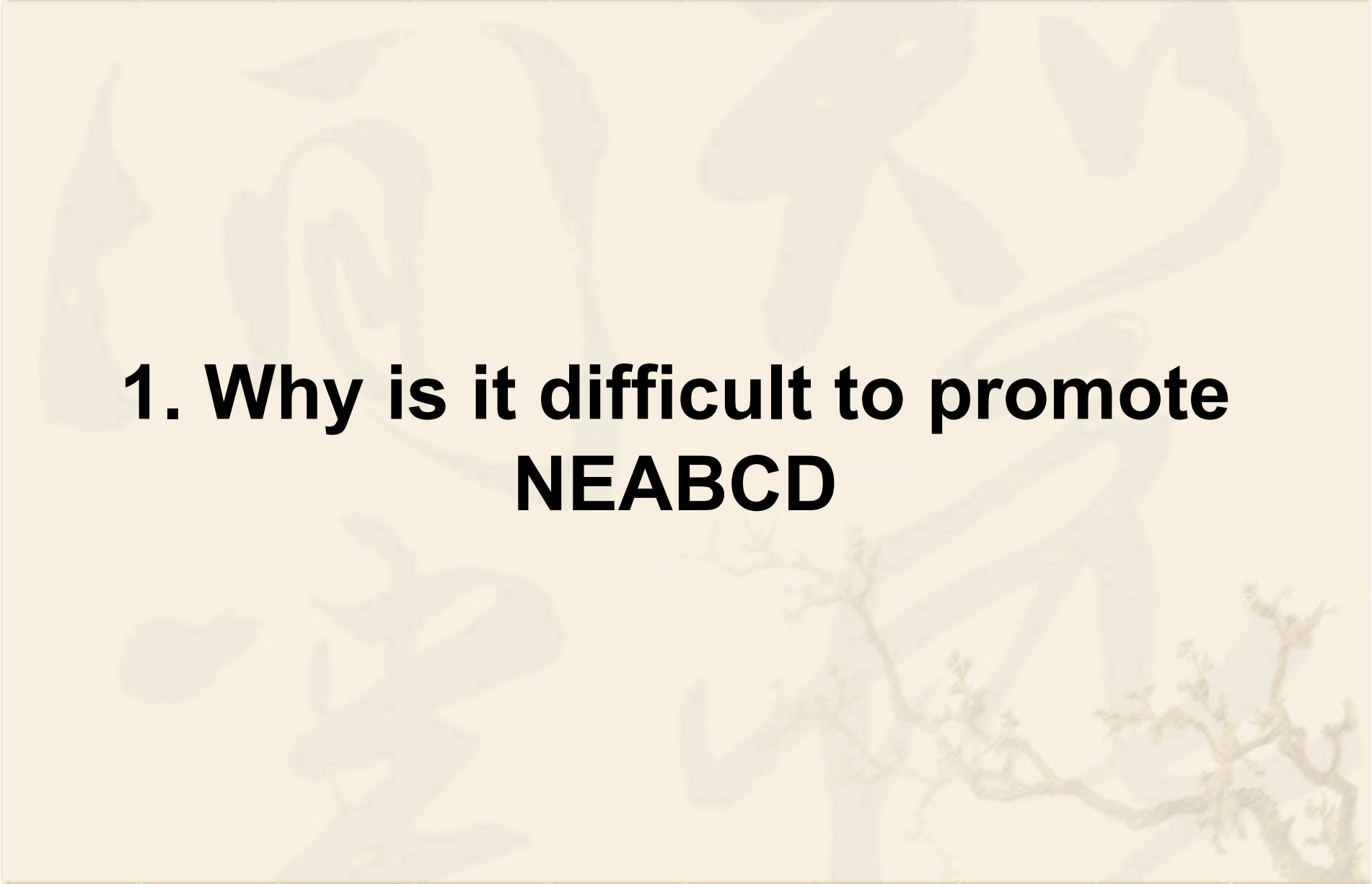

***A few issues on Establishing  
the Northeast Asia Bank for  
Cooperation and Development***

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**1. Why is it difficult to promote  
NEABCD**



## *Practical demand for NEABCD: Meeting the Large Financial Requirements in Infrastructure in NEA*

- ❖ A large amount of financing demand for the infrastructure construction
- ❖ The current multilateral financial institutions could not meet financing need
- ❖ ADB focuses on the operation of the impoverished area of Southeast and Central Asia, the investment on NEA region accounts for 4% of ADB total investment.
- ❖ WB mainly invests in the poor areas of Latin America and Africa.

# Wrong way made by Politicians

- ❖ Have to consider some of factors outside economy
- ❖ Thinking way of cold war
- ❖ Security, diplomatic concerns
- ❖ Lack of mutual trust
- ❖ Only one important economic region without any RTA
- ❖ CJK FTA
- ❖ CK FTA: behind K-US, K-EU, K-I...

# A case of Auto sector

- ❖ In 1980's German makers
- ❖ In 1990's US makers
- ❖ In 2000's Japan and Korea Makers  
paid the huge opportunity cost

Worrying about China's market environment

Worrying about Industrial hollowing effect

Worrying about technological spillover effects

## ***Right way: Promoting the Economic Integration of the Northeast Asia Region***

- ❖ Highly diversified economy and the resources among the countries are complimentary
- ❖ Regional trade and investment growing rapidly and more frequent economic exchanges and interdependency
- ❖ Eliminate the difference in economic aspect, promote the understanding
- ❖ Stimulate the intraregional trade and investment
- ❖ Formulize the NEAFTA and EAFTA

# For NEABCD

- ❖ Proposed 20 years ago
- ❖ Behind the China-Central Asia Cooperation Bank which had been declared by prime ministers in 2010

Political atmosphere worse and worse

More and more diplomatic frictions

Lasting the tradition: mistrust and fighting each other  
escape from China's cherish

Cooperation and dialogue –the only way to solve the problems

It's most difficult to open and liberalize the mind

The bank establishment should be proposed on the prime minister level



## *The History of the Research and Institutional Supports of NEABCD*

- ❖ Proposed in 1991, NEAEF had its first annual conference in Changchun and Tianjin, China
- ❖ In 1997, in Ulaanbaatar, became a major topic
- ❖ In 1999, the 9th annual conference in Tianjin made the topic more attractive
- ❖ 6th Ad-Hoc Committee Meetings were held for establishing the NEABCD in Tianjin, Los Angeles and Honolulu in 2008
- ❖ In 2009 the Research Center for Financial Cooperation in NEA was established at Nankai University

## *Capital Scale – Proposed 40 Billion Dollars for Initial Capital: a piece of cake*

*The total capital amount : USD 40 billion.*



- ❖ Determined by taking reference to the GDP amount of all countries in NEA, while the investment demand in the region and the orientation of the Bank will also be considered
- ❖ To set the ratio of the Bank's total capital amount to the GDP amount of all countries in Northeast Asia as 0.5%.

# ***Subscription Approach***

- ❖ In order to design the paid-up capital ratio, we must not only draw the experience from other multi-lateral institutions
- ❖ Also take the financing needs and the economic strength in NEA into account.

Table 1. The paid-up and uncalled capital ratio of the major multilateral institutions

Bank	Paid-up Ratio	Uncalled Ratio
World Bank	20%	80%
Asia Development Bank	7%	93%
European Development Bank	30%	70%
American Development Bank	4.3%	95.7%
Nordic Investment Bank	10.1%	89.9%

- 
- ❖ The Bank's objective is to supply fund for basic facilities construction in NEA.
  - ❖ These projects generally need huge amount of fund and take many years, thus the paid-up capital by the membership country should be as much as required.
  - ❖ With regard to the economic strength of every member country, the paid-up capital ratio will be set as 10%.
  - ❖ With the economic development and increasing financial demand, the bank could gradually increase the capital and stock.
  - ❖ One sentence: Money is enough (Bu Cha Qian)
- 

## *The Basic Credentials are Matured*

- ❖ The third largest regional economy in the world
- ❖ With the largest development potential and fastest economic growth among the world.
- ❖ The total foreign exchange reserves rank first
- ❖ CJK: major capital-exporting countries
- ❖ Has formed a network production sharing structure
- ❖ FC: Regional cooperation can never be overestimated



## **2. The Financing Requirements and Management of Cross- Border Projects in Northeast Asia**

*Multilateral Development Bank is the Most  
Effective Channel for Financing Major  
Cross Border Projects*



## *The Features of Major Cross Border Projects Financing*

- ❖ The major cross border projects features a large amount of capital and a long investment payoff period.
- ❖ The financing of cross border projects is far beyond the capacity of mobilizing the deposit and foreign exchange of one single nation
- ❖ The sole private capitals normally do not have the capacity or will to invest
- ❖ The multinational banks have comparative advantages



# *The Financing Channel of Northeast Asia Regional Cross Border Projects*

- ❖ NEA countries have no advantage to gain the capital support from current multilateral development banks.
- ❖ Most of the cross border projects of NEA region could only get very limited capital from current multilateral development banks
- ❖ NEABCD is focused on the NEA region. The bank can also become a complementation and cooperate with the current multilateral financial institutions.

# ***Major Cross Border Projects in Northeast Asia Region and Its Financing Requirements***

- ❖ A huge capital demand on the infrastructure construction
- ❖ In next thirty years, the upgrading and renovation of current energy infrastructure in the Far East Area of Russia at least need 150 billion dollar investment
- ❖ The major natural gas projects require 100 billion dollars investment, the major oil projects require 20 billion dollars investment, and the hydroelectric system construction require 8.4 billion dollars investment.
- ❖ Investment for development of Hunchun-Khasanskiy-Naenara multinational border economic cooperation zone has exceeded 10 billion dollar.
- ❖ Busan-Fukuoka ocean transportation network, channel tunnel among CKJ



### **3. Character and Principle of NEABCD**



## ***The Character – Sub-regional Multilateral Policy Bank***

- ❖ Accept capital contribution of NEA nations' policy banks with governmental background
- ❖ Allocate the investment capital through policy-oriented operation.

## *The Principle of Share Allocation – Considering All Aspects of NEA region.*

- ❖ The NEA countries are the major shareholder with a controlling stake.
- ❖ The non-regional countries and international financial institutions can also take part in.
- ❖ The share allocation of every NEA country could refer to every nation's GDP, foreign exchange reserves, foreign trade volume and their relevant growth rate, and using the synthetically weighting method.

## *Selection of Headquarter – Consider the Efforts and Credentials from the Candidates*

- ❖ Requirements: capabilities for both domestic and external financing expansion, effective channels of international transportation and communication, low cost operational environment, and ability to provide high quality offices, living accommodations, educational facilities and feasible logistic services.
- ❖ Have strong policy support from both central and local governments of whereabouts.
- ❖ Tianjin is proposed to be the headquarter place for its previous efforts and economic development and potentials.
- ❖ Any other candidates from the region, such as from Japan and South Korea, also welcomed warmly.



**4. GTI will need NEABCD**

# Greater Tumen Initiative at a Glance

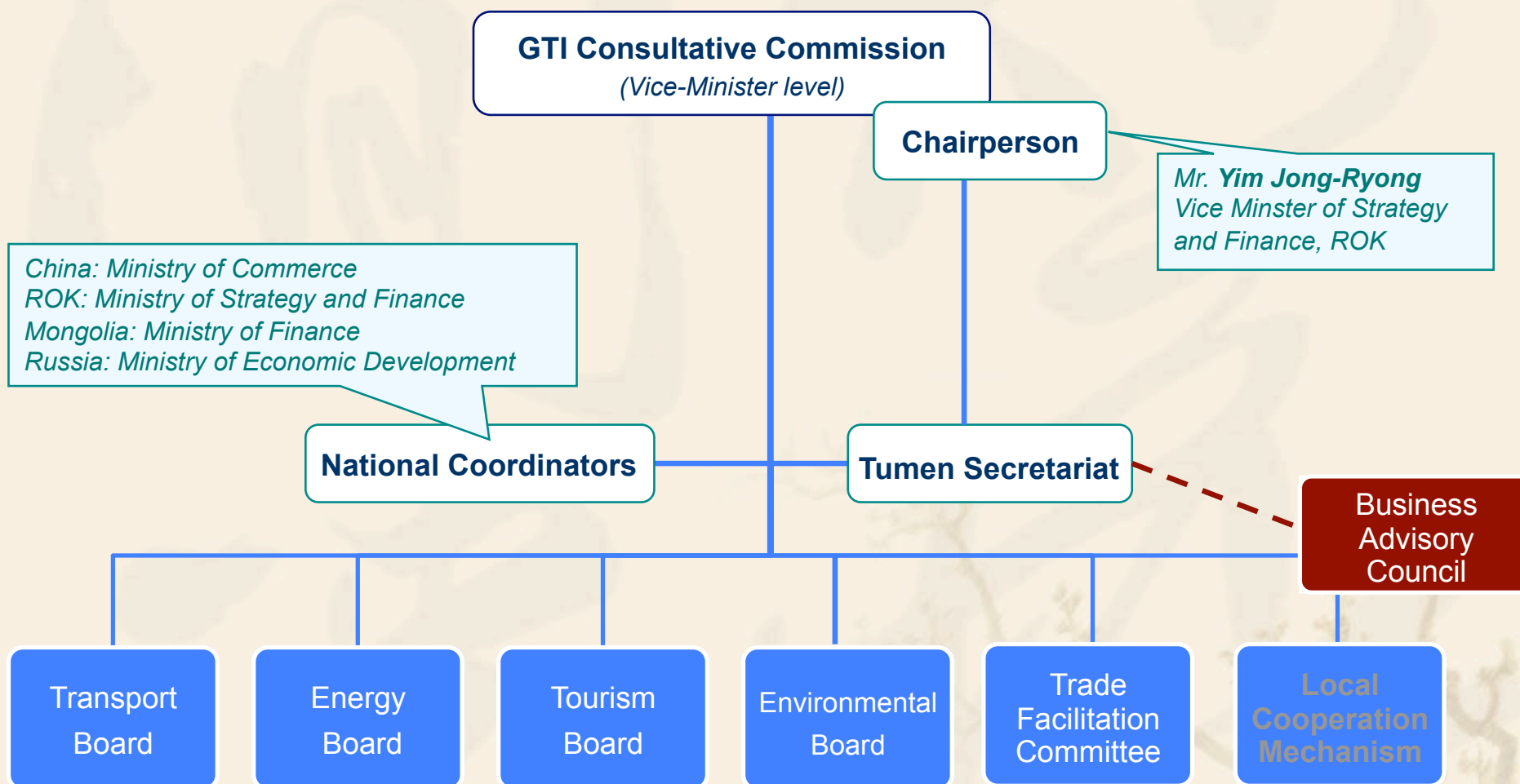
**GTI**, originally known as the **Tumen River Area Development Programme (TRADP)**, is an inter-governmental cooperation mechanism in NEA supported by United Nations Development Programme (UNDP), with four member countries: **China, Mongolia, Republic of Korea, and Russia (DPRK withdrew from GTI in Nov. 2009)**



- ❖ Increase mutual benefits and common understanding
- ❖ Strengthen economic and technical cooperation
- ❖ Attain economic growth and sustainable development



# Institutional Structure of GTI



# Progress and Challenges:

## Local Cooperation Mechanism

### ❖ Progress

- ❧ Local Development Forum (Sept. 2010, Changchun)
- ❧ Local Cooperation Mechanism Consultation Workshop (May, 2011, Yanji)
  - ❖ 9 provincial governments from NEA, incl. Niigata (Japan)
  - ❖ 4 international partners (UNDP, ADB, GIZ, and Hanns Seidel)
  - ❖ Discussion Paper was reviewed with the keenest interest
- ❧ Formal establishment of the **Local Cooperation Mechanism** (expected at the 12<sup>th</sup> CC meeting, Sept., ROK)
  - ❖ Terms of Reference is under development to include recommendations from the Workshop
- ❧ Capacity Building project for NEA Local Governments
  - ❖ Mofcom and ADB have committed financial resources.

# Progress and Challenges: Tumen Secretariat's **Budget**

## ❖ **GTI Common Fund**

- ❧ Contributed by member countries by agreed formula according to **Agreement on Understanding Concerning GTI.**
- ❧ Annual budget of \$650,000 for operational purposes
- ❧ Managed by UNDP China

## ❖ **Challenges**

- ❧ Insufficient to fully support TS's all activities
- ❧ Projects funding need to be additionally sought

# GTI's Future Prospects

## ❖ Recommendations

- ❧ Completion of the transition to independent regional cooperation organization with increased government commitment
- ❧ Upgrade of the Consultative Commission level
- ❧ Return of the DPRK or(/and) accession of Japan
- ❧ Cooperation with financial institutions (WB, ADB, national development banks) and other international, regional and bilateral organizations (UN system, GIZ, KOICA, APEC, etc.)

# My recommendation to GTI Review Project

- ❖ To promote setting-up of NEABCD
- ❖ GT region: the new start point of Cross border infrastructure



# Thank you for attention!

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