

A Korean Perspective on the Design for the proposed NEADB

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Design for the proposed Northeast Asia Development Bank (NEADB)

A Design for the proposed NEADB was outlined by Dr. Stanley Katz, former Vice President of the Asian Development Bank. The object of the NEADB was to fill Northeast Asia's infrastructure financing gap of a projected US\$5.0 billion (a required net foreign inflow of \$7.5 billion minus a possible supply of \$2.5 billion through existing channels such as ADB, IBRD, etc.)

The NEADB concept follows the ADB model. That is, a very small portion of paid-in capital with a large portion consisting of callable capital. For the ADB, for example the paid in capital was 7% and 93% was callable capital. The initial capitalization may require a bigger proportion of paid-in capital, about 25%.

Table 1. Summary of Costs and Benefits of ADB membership

The authorized capital of ADB as of 12/31/99 = \$47,597million

Paid-in capital \$3,348million (7%) + Callable capital (\$44,245million(93%)

<budgeted cost for shareholders> <contingent liability only)

Unit: US\$ in million

Country	% of Bank Capital Shares	Total Subscription	Paid-In*	Callable*	Commercial, Development & Financial Benefits of Shareholders in ADB*		
					2000 (A)	Cumulatively (B)	Loans (C)
Japan	15.93%	\$7,185	\$504	\$6,681	\$131	\$7,041	
South Korea	5.13%	\$2,320	\$162	\$2,158	\$109	\$3,526	\$6,338
China	6.56%	\$2,970	\$208	\$2,762	\$783	\$5,492	\$10.3bn
Mongolia	0.15%	\$6.93	\$0.49	\$6.44			

Notes: *A&B: member countries share of ADB procurement contracts for goods, related services and consulting services; C: total amount of development loans from ADB

Reasons Why the NEADB Has Not Yet Been Established

The Tokyo Foundation, in its monograph series no. 7, pp38-39, pointed out the following four reasons why the NEADB has not yet been established:

1. Lack of viable regional effort toward bilateral and/or multilateral agreements, (e.g. FTA, etc.)
2. Lack of regional identity and/or leadership
3. Lack of confidence among regional member countries
4. Lack of a favorable external environment (e.g. DPRK's nuclear problem)

In addition to the reasons cited above, the following two fundamental reasons should be taken into consideration:

1. Before and after entering into the war in Iraq, the U.S. and the U.K. concentrated efforts on preventing a Middle Eastern oil embargo and subsequently gave lesser attention or support to sub-regional development financing efforts like the NEADB.

2. The establishment of a Sub-regional bank such as the NEADB has not yet gained support from multilateral financing institutions such as ADB, AfDB, EBRD and IADB, etc.

Design for Multilateral Fund Raising of the NEADB

Previously the government of former President Kim Dae Jung tried mainly a bilateral approach in dealings with Democratic Peoples Republic of Korea, in line with his ‘Sunshine Policy.’ However, the success of economic cooperation through bilateral transfer of funds is seriously being questioned in the context of a lack of evident progress in the nuclear issue. Therefore, the newly inaugurated government of President Noh Moo Hyun has concentrated on a strategy ‘Peace and Prosperity in the Northeast Asia Region.’ In line with this strategy, multilateral fund raising and cooperation for the establishment of the Northeast Asia Development Bank should be seen as a prerequisite for financing infrastructure in the region.

In this respect, we should turn our attention to the recent remarkable NEA financial cooperation of the Chiangmai Agreement Central Bank Swap.

Table 2. Progress on the “Chiangmai Initiative” (as of Jan 15 2004)

BSA	Currencies	Conclusion Dates	Amount
Korea-Japan	USD/Won	4 July 2001	US\$ 7 billion ¹
Japan-Thailand	USD/Baht	30 July 2001	US\$ 3 billion
Japan-Philippines	USD/Peso	27 August 2001	US\$ 3 billion
Japan-Malaysia	USD/Ringgit	5 October 2001	US\$ 3.5 billion
China-Thailand	USD/Baht	6 December 2001	US\$ 2 billion ²
China-Japan	Yen-Renminbi	28 March 2001	US\$ 3 billion
Korea-China	Won-Renminbi	24 June 2002	US\$ 2 billion
Korea-Thailand	USD/Baht (Won)	25 June 2002	US\$ 1 billion
Korea-Malaysia	USD/Ringgit (Won)	26 July 2002	US\$ 1 billion
Korea-Philippines	USD/Peso (Won)	9 August 2002	US\$ 1 billion
China-Malaysia	USD/Ringgit	9 October 2002	US\$ 1.5 billion
Japan-Indonesia	USD/Rupiah	17 February 2003	US\$ 3 billion
China-Philippines	Reminbi/Peso	30 August 2003	US\$ 1 billion
Japan-Singapore	USD/SGD	10 November 2003	US\$ 1 billion
Korea-Indonesia	USD/Rupiah (Won)	24 December 2003	US\$ 1 billion
China-Indonesia	USD/Rupiah	30 December 2003	US\$ 1 billion

Notes: 1) US dollar amounts include amounts committed under the New Miyazawa initiative, US\$5 billion for Korea and US\$2.5 billion for Malaysia. 2) The swap requesting country could ask for dollar-local currency swap.

Furthermore we should mention the noteworthy achievements of the ASEM Finance Ministers' Meeting held in Copenhagen, Denmark in July 2002, where the design of an ACU (Asian Currency Unit) was officially proposed. Since then, not only APEC and ASEAN+3 (i.e. China, Japan and Korea) but also EMEAP (Executives' Meeting of East Asia and Pacific 11 Central Banks) and even ASEM have been exerting efforts to realize both policy coordination and the activation of an Asia Bond Fund (ABF). These are some of the most encouraging signs of an environment evolving and becoming more favorable for the establishment of the NEADB (Northeast Asia Development Bank).

This change in environment was accelerated through recent weakness of the U.S. dollar and its influence on the Asian currencies. Looking back on the experience of the European Union Monetary Union, the ASEAN plus three members, namely, China, Japan and Korea agreed and implemented a Central Bank Swap Arrangement called the "Chiangmai Initiative," this already amounted to US\$ 35 billion as of 15 January, 2004. The next step is taking into consideration the establishing of a unified multi-currency peg floating exchange rate system which is composed of the U.S. dollar, the EURO, the Yen, the Yuan, the Korean Won, etc. In this respect, it is quite noteworthy that Professor Robert Mundell of Columbia University, a Nobel-Prize Winner, recently advocated an "Asian Currency Area" in line with his theory of a "monetary dynamics optimum currency areas."