

## The Possible Organizational Structure and Funding Sources of A Northeast Asian Development Bank (NEADB)

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### EXISTING MULTILATERAL DEVELOPMENT BANKS

Before we discuss the establishment of a multilateral regional development bank (MRDB) in Northeast Asia, it is important to touch briefly on the International Bank for Reconstruction and Development (IBRD, the World Bank hereafter) and the existing MRDBs. The World Bank, the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD) particularly need to be discussed because these multilateral development banks (MDBs) cover the Northeast Asian region except for the Democratic People's Republic of Korea (DPRK). A new MRDB in this region must be consistent with these existing MDBs.

As one of the Bretton Woods institutions, the World Bank was established in 1944 to serve as a multilateral long-term lending institution to provide capital for countries with low savings rates and high rates of return on investment, due to either the devastation of the war or stage of development. The rationale for the establishment of the World Bank was quite clear: it was to substitute for a well-functioning private international capital market since it was believed that the interwar experience would preclude the emergence of such a private market. The World Bank was to be an official institution that would compensate for the market failure associated with inadequate private long-term lending (Ann Krueger, 1989).

Following the World Bank, the Inter-American Development Bank (IDB) was established in 1959 by the U.S. and 20 Latin American countries as the first MRDB. It is noteworthy that the idea of establishing the IDB was proposed at the First International American Conference in Washington D.C. in 1890. IDB could have been established much earlier in the absence of the World Bank, which gave a pretext to the U.S. to deflect Latin American demands for a regional bank. Escalating political resentment against the U.S. in Latin America including the Cuban revolution also adversely affected the earlier establishment of IDB. We

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should also remember that political-strategic factor was similarly of vital importance in the establishment of ADB (Lee, 1992).

The African Development Bank (AfDB) was inaugurated in 1964 by 33 African countries based on an in-depth study by the UN Economic Commission for Africa. The initiative for establishing AfDB came from politicians who were expressing aspirations toward cooperation and integration in various regional fora such as the Organization of African States. These aspirations sprang from developing countries, struggling together to find their way in a postwar order in which they seemed to be marginalized – an outcome they saw typified by the Bretton Woods organizations, in which voting power was heavily weighed in favor of the industrial countries. In support of these aspirations for regional control, AfDB was entirely owned by developing African countries until 1982. However the exclusion of non-regional industrial countries deprived AfDB of both the financial support and political advocacy which IDB found in the U.S., and ADB, in Japan.

The idea of establishing ADB originally came from Japan and was officially initiated by the UN Economic Commission of Asia and Far East (ECAFE, later renamed ESCAP). After three years of discussions under the aegis of ECAFE, ADB began operations in December 1966 with 31 member countries (of which 14 were non-regional members). It is important to note that prior to 1965, the U.S. had been at most lukewarm to the idea of an Asian bank on the grounds that the new bank would unnecessarily duplicate efforts and compete with the World Bank. The real reason, however, was that the U.S. did not want another regional bank to interfere with its development strategies which were adopted by the World Bank. The escalating war in Vietnam, however, had changed the U.S. policy priorities in the region from confrontation to peace initiatives. President Johnson called for economic development to spearhead his peace initiatives in the region in April 1965, and shortly afterward supported the proposal to establish ADB.

EBRD was established in April 1991 with 55 countries (of which 23 are the central and east European countries in which the Bank operates). The establishment of EBRD was initiated by EC summit after the collapse of the former Soviet Union in 1990. The EBRD's main mission is to foster the transition towards market-oriented economies and to promote private and entrepreneurial initiative in the countries of central and eastern Europe, including the former Soviet Union, thereby helping their economies to become integrated into the international economy.

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## ORGANIZATIONAL STRUCTURE

### Initiatives

It is important to recognize how different the political forces were in the creation and evolution of each of the above three MRDBs. These differences have contributed to contrasts in their style and performance to this day. As we have seen, the initiative for establishing IDB and AfDB came mostly from a coalition of regional developing countries. For EBRD the initiative came mainly from the EC, while in the case of ADB the original proposal came from one regional developed country – Japan followed by a strong push from the U.S. Of course, ECAFE played a vital role in formalizing the ADB idea.

The ADB case would be most relevant in initiating NEADB because the region contains enormous cultural, linguistic and ethnic diversity, in comparison with Latin America, Africa and Eastern Europe, which have more claim to being a single "region." There are already some proposals to establish a NEADB, such as those of Nam Duk Woo (former Finance Minister and Premier of South Korea) at an international meeting in Tianjin and Sung Sang Park (former President of the Bank of Korea) at last year's session of this conference. Park's notion was that a multinational bank could finance the regional development projects including petroleum and natural gas, projects requiring a huge amount of hard currency and 10-20 years of long term financing (Park, 1992). This Forum may be an effective unofficial stage to launch the idea.

Officially NEADB can also be initiated by UNDP which not only includes all NEA regional countries as its members, but has also been deeply involved in the Tumen River Area Development (TRAD). The UN Economic Commission for Africa and ECAFE were instrumental in establishing AfDB and ADB.

There is also an idea to start a NEADB with a Northeast Asian special development fund at ADB because ADB already covers major countries of the region. A special fund for the Russian Far East could also be set up at EDRB. Both funds could then be combined into one to establish a new NEADB. Building on their existing operations and expertise, ADB and EDRB would become the natural incubators of a NEADB. In any case, we should note here that the discussion and coordination with ADB and EDRB would be the first step to realize the idea of a NEADB.

In view of a speedy process of establishing EBRD, which was initiated by the EC summit, some sort of regional ministerial conference is also a possible approach.

Table 4.1 Profile of regional members in the proposed NEADB, 1990

Country or Region	Population (million)	Area (1,000km <sup>2</sup> )	GNP (\$billion)	GNP per capita (\$)
China	1,130.5	9,600	363.8	370
Liaoning	39.7	146	20.2	509
Jilin	24.8	187	8.2	331
Heilongjiang	35.4	454	13.3	375
Mongolia	2.1	1,565	1.7	522
Russia	148.3	22,229	365.9	2,467
Primorskii Krai	2.2	166	n.a.	n.a.
Khabarovsk	1.9	824	n.a.	n.a.
Amour	1.1	364	n.a.	n.a.
Sakhalin	0.7	87	n.a.	n.a.
Magadan	0.5	1,199	n.a.	n.a.
Kamchatka	0.5	472	n.a.	n.a.
Yakut	1.1	3,103	n.a.	n.a.
North Korea	21.7	125	21.0	987
South Korea	42.8	99	236.4	5,400
Japan	123.5	378	2,942.9	25,430
Taiwan	20.2	36	160.9	7,950
<b>TOTAL</b>	<b>1,489.1</b>	<b>34,032</b>	<b>4,092.6</b>	<b>2,706</b>

Sources: *World Development Report 1992*, IBRD; *Key Indicators*, ADB; *Statistical Yearbook of China*; *Roshia Kyookuto Keizai Nenkan, 1991* (Economic Almanac of Russian Far East); *Quarterly Economic Review, 1993*, EBRD.

#### Membership (region, non-region)

The regional members of a NEADB would be the People's Republic of China (China hereafter), the People's Republic of Mongolia (Mongolia hereafter), the Republic of Russia (Russia hereafter), DPRK, the Republic

of Korea (South Korea hereafter), Japan and the Republic of China (Taiwan hereafter) (see profile of these countries in Table 4.1). Inclusion of Taiwan may pose a question because of its distance from NEA region, but it cannot be overlooked as it has been already emerging as one of the important suppliers of capital for the region. Although the actual operational areas of NEADB are the Northeast Chinese provinces (Liaoning, Jilin, Heilongjiang and Inner Mongolia), Mongolia, the seven Russian Far East provinces and DPRK, membership must be applied on the basis of country.

The inclusion of non-regional members would be essential in order to broaden funding sources as well as cooperation. The regional initiative, however, should not be eroded. This must be done by limiting the share of capital contributions by non-regional member to no more than, e.g., 40% of the total as is practiced by ADB and other MRDBs. The sixteen non-regional developed countries including those in the EC, North America and Oceania, now members of ADB, are natural candidates for non-regional members.

### Structure of Decision-making

Each MRDB has a Board of Governors consisting of one representative (usually with Ministerial rank) from each member country. The Board of Governors, which meets every year and deals with important policy questions, is the highest decision making body in any MRDB. Daily bank operations are mandated by resident Boards of Directors. The size of the Board of Directors, representing the shareholding governments, should be considered carefully.

In the case of ADB, the number and composition of the Board of Directors (10 now 12 Directors with 7 from regional and 3 from non-regional countries) were based on the shares of stock holdings which, in turn, were based on GDP adjusted for population, tax revenue and exports. To elect a Director, a regional member country needed 10 % (now 8%) of the regionally-held stock, and a non-regional country needed 25% (now 17%) of the non-regional stock. Japan, Australia, India and the U.S. qualified for individual Directors to begin with (now China, Indonesia and Korea have joined them). Countries with smaller shares have to band together in "constituencies" to make up an adequate collective share.

It should be noted that ADB Charter allows each director to cast as many votes as received, so that each director represents in a fairly exact way the various countries which combined to elect him/her. If one of a director's constituencies wants to vote in a different way, his/her vote can

be split. In the case of ADB, almost all vital decisions are taken by consensus, although there have been cases of abstentions or dissents reflecting the position of one or more of the directors' constituents.

In the process of establishing ADB, the issue of allocating the voting power among its member countries was a focal point. The preparatory committee agreed to adopt a more equitable system than the one adopted by the World Bank by distributing 20% (10% in the case of the World Bank) of total voting power to all member countries equally and the remaining 80% according to the percentage of subscribed capital. As a result, the voting powers of small and poor countries are greater than their respective capital contributions. For example, the Marshall Islands, the smallest member of ADB, has the lowest capital contribution (0.003%) but its voting share is 0.387 (Table 4.2). Japan, on the other hand, holds 16.4% of the total share, but its voting power is only 13.5%.

Except probably for AfDB, none of the existing regional development banks are controlled by the regional borrowing countries. Although the regional countries hold 64% of the total voting power at ADB, OECD countries account for more than 50% of the total. The voting shares of the United States and Japan have been almost the same (13%) since the establishment of ADB. This has often interrupted smooth operations of the Bank. A good example is Japan's initiative to augment ADB's capital resources which has been quite often blocked by the U.S. (Kakazu, 1993).

It needs to be discussed carefully how far the ADB's operational principles and practices can be applied to NEADB. The share of voting power depends primarily on the share of funding contributions which, in turn, depends on the funding capacity of each country as well as the expected benefits from NEADB. As regional members, Japan, South Korea, Taiwan and China can be major contributors and could be represented by one director each, while Russia, DPRK and Mongolia may be combined into a "constituency" to share a director. Another one or two directors could represent the constituencies of the non-regional members.

### Staffing

Staffing is a sensitive issue and has to be considered in terms of: (a) competence, (b) regional allocation, (c) country allocation according to the voting shares and (d) location of the NEADB headquarters. In the case of ADB, many donor countries have requested to place their nationals in senior positions in the bank with a view to influencing policy formulation and achieving a national staff quota which is related to their share of the capital contribution. As can be seen in Table 4.3, the number of professional staff from regional developing countries was less than those

Table 4.2 Shares of subscriptions to capital stock and voting power by ADB member countries (as of 31 December 1992)

Members	subscribed capital			voting power			
	number of shares	% of total	par value of shares (\$ in thousands)	number of votes	% of total	paid-in	
						total	callable
<b>REGIONAL</b>							
Afghanistan, Rep. of	1,195	0.071	16,431	11,179	5,253	9,271	0.441
Australia	102,370	6.093	1,407,588	1,238,586	169,001	110,446	5.259
Bangladesh	18,064	1.075	218,556	218,556	29,824	26,140	1.245
Bhutan	110	0.007	1,513	1,224	289	8,186	0.390
Cambodia	875	0.052	12,031	8,181	3,850	8,951	0.426
China, People's Rep. of	114,000	6.786	1,567,500	1,379,249	188,251	122,076	5.813
Cook Islands	47	0.003	646	578	69	8,123	0.387
Fuji	1,203	0.072	16,541	14,548	1,994	9,279	0.442
Hong Kong	9,635	0.574	132,481	116,573	15,909	17,711	0.843
India	112,005	6.667	1,540,069	1,355,173	184,896	120,081	5.718
Indonesia	96,350	5.735	1,324,813	1,165,766	159,046	104,426	4.973
Japan	276,105	16.435	3,796,444	3,340,631	455,813	284,181	13.533
Kiribati	71	0.004	976	853	124	8,147	0.388
Korea, Rep. of	89,123	5.305	1,225,441	1,078,330	147,111	97,199	0.396
Lao PDR	246	0.015	3,383	2,723	660	8,322	2.679
Malaysia	48,175	2.868	662,406	582,876	79,530	56,251	0.388
Maldives	71	0.004	976	853	124	8,147	0.387
Marshall Islands	47	0.003	646	578	69	8,123	0.388
Micronesia, Fed. States of	71	0.004	976	853	124	8,147	0.397
Mongolia	266	0.016	3,658	3,218	440	8,342	0.843
Myanmar	9,635	0.574	132,481	116,573	15,909	17,711	0.388
Nauru	71	0.004	976	853	124	8,147	0.508
Nepal	2,601	0.155	35,764	31,460	4,304	10,677	1.678
New Zealand	27,170	1.617	373,588	328,735	44,853	35,246	2.220
Pakistan	38,540	2.294	529,590	466,304	63,621	46,616	0.464
Papua New Guinea	1,660	0.099	22,825	20,103	2,723	9,736	

Philippines	42,152	2.509	579,590	510,015	69,575	50,228	2.392
Singapore	6,020	0.358	82,775	72,834	9,941	14,096	0.671
Solomon Islands	118	0.007	1,623	1,430	193	8,194	0.390
Sri Lanka	10,260	0.611	141,075	124,135	16,940	18,336	1.302
Taipei, China	19,270	1.147	264,075	233,159	31,804	27,346	1.302
Thailand	24,087	1.434	331,196	291,431	39,765	32,163	1.532
Tonga	71	0.004	976	853	124	8,147	0.388
Vanuatu	118	0.007	1,623	1,430	193	8,194	0.390
Vietnam, Soc. Rep. of	6,038	0.359	83,023	65,643	17,380	14,114	0.672
Western Samoa	58	0.003	798	646	151	8,134	0.387
<b>Total Regional (Forward)</b>	<b>1,057,898</b>	<b>62.971</b>	<b>\$14,515,053</b>	<b>\$12,786,132</b>	<b>\$1,759,977</b>	<b>1,348,634</b>	<b>60.020</b>

#### NON-REGIONAL

Austria	6,020	0.358	82,775	72,834	9,941	14,096	0.671
Belgium	6,020	0.358	82,775	72,834	9,941	14,096	0.671
Canada	92,543	5.508	1,272,466	1,119,704	152,763	100,619	4.791
Denmark	6,020	0.358	82,775	72,834	9,941	14,096	0.671
Finland	6,020	0.358	82,775	72,834	9,941	14,096	0.671
France	41,178	2.451	566,198	498,218	67,980	49,254	2.345
Germany	76,534	4.556	1,052,343	925,994	126,349	84,610	4.029
Italy	31,975	1.903	439,656	386,870	52,786	40,051	1.907
Netherlands	18,147	1.080	249,521	219,574	29,948	26,223	1.249
Norway	6,020	0.358	82,775	72,834	9,941	14,096	0.671
Spain	6,020	0.358	82,775	72,834	9,941	14,096	0.671
Sweden	6,020	0.358	82,775	72,834	9,941	14,096	0.671
Switzerland	10,325	0.615	141,969	124,919	17,050	18,401	0.876
Turkey	6,020	0.358	82,775	72,834	9,941	14,096	0.671
United Kingdom	36,131	2.151	496,801	437,168	59,634	44,207	2.105
United States	267,113	15.900	3,672,804	3,231,841	440,963	275,189	13.105
<b>Total Non-Regional</b>	<b>622,106</b>	<b>37.028</b>	<b>8,553,958</b>	<b>7,526,960</b>	<b>1,027,001</b>	<b>751,322</b>	<b>35.775</b>

#### TOTALS

	1,680,004	100	\$23,069,011	\$20,313,092	\$2,786,978	2,099,956	95.795
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Table 4.3 ADB's professional staff, 1991

	All Staff	Manager & Above
Regional	395	57
DMCs	279	39
India	48	13
Philippines	41	3
S.Korea	26	2
Malaysia	24	4
Aust. & NZ	55	9
Japan	61	9
Non-Regional	203	25
U.S.	68	11
Canada	34	5
Total	598	82
DMCs	279	39
Others	319	43

Source: Asian Development Bank.

from other countries in 1991. A similar situation is seen in the case of senior positions from the manager level and above. This practice, however, needs to be carefully reviewed in the case of NEADB because professionals from outside may generally have little experience in the region.

## FUNDING RESOURCES

### Identification of the Funding Needs

The nature and funding requirements will differ depending on the Bank's main mission and prioritized activities in the region (Campbell [1], 1993). It is important to identify the funding needs by sector and activity. The assumed borrowing countries (China for Northeast China, Mongolia, Russia for the Russian Far East and the DPRK) possess common characteristics. They need to: (1) restructure their ailing state-owned large industries, including defense-related firms, in a more open market-oriented direction (restructuring and privatization); (2) expand,

rehabilitate and modernize their infrastructure; (3) expand exports of goods and services (particularly natural resource-oriented products and tourism) to earn foreign exchange ; (4) strengthen their institutional and operational capabilities for economic development, including legal, organizational and financing systems and commercial practices; (5) foster human resources through strengthening educational and training institutes; (6) improve the information and statistical data on which research and feasibility studies are based; and (7) have solid environmental programs and projects.

Privatization and export related projects can be competitively funded through the private short- and long-term financial markets and joint ventures with the private sector. Soft infrastructures such as tourist facilities, communication, some transportation facilities and power plant can be funded through BOT (build, own and transfer) principles of private/public sector cooperation or through loan guarantees. Traditional (hard) infrastructure such as roads, bridges, ports and dams are funded through capital resources, long-term co-financing schemes and floating long-term bonds. A loan currency pool system needs to be examined to reduce foreign exchange risk of the borrowers. Soft windows (grants, special funds) can be utilized for funding technical assistance such as human resource development, research, institutional improvements and environmental conservation.

### **Financial Resources**

The financial resources of NEADB that can be held, used, committed and invested will consist of the Ordinary Capital Resources (OCR) and Special Fund Resources (SFR). OCR consists of the subscribed capital, reserves, repayments, and income received on loans made and guarantees given and funds raised in the capital markets through borrowings (see Table 4.4 for the case of ADB). OCR funds, which at ADB account for more than 70% of the total lending, are mainly lent at market-determined interest rates, while the SFR funds are provided on concessional terms or as grants. As at ADB, the SFR funds will be made up largely through contributions from bilateral sources and to a lesser extent from funds set aside from the paid-in portion of the subscribed capital.

In the case of ADB, the regional initial subscribed capital of \$600 million was calculated on the basis of 0.5% of the national income of regional members. If we apply this principle to NEADB, the initial subscribed capital will be in the range of \$15 to \$20 billion. The amount is almost comparable to ADB's \$23 billion and AfDB's \$21 billion in 1992. About one-half of the total subscribed capital (\$8 to \$10 billion)

Table 4.4 The record of the Asian Development Bank, 1966 - 1992 (\$ in millions)

	1966-1992 <sup>a</sup>		1989	1990	1991	1992
<b>OPERATIONAL ACTIVITIES</b>						
<b>TOTAL LENDING (Amount)</b>			3,623.6	3,972.2	4,780.7 <sup>b</sup>	5,109.4
Number of Projects	42,458.9 <sup>b</sup>	1,103.0 <sup>b</sup>	62.0	57.0	75.0 <sup>b</sup>	65.0
<b>OCR Loans (Amount)</b>			2,260.3	2,491.7	3,433.5 <sup>b</sup>	3,954.4
Number of Loans	28,894.6 <sup>b</sup>	641.0 <sup>b</sup>	34.0	27.0	43.0 <sup>b</sup>	35.0
Disbursements	14,723.6	1,346.5	1,346.5	1,689.1	2,066.2	1,879.6
<b>ADF Loans (amount)</b>			1,363.3	1,480.5	1,347.2	1,155.0
Number of Loans	569.0	35.0	35.0	36.0	33.0	32.0
Disbursements	7,490.7	888.4	888.4	1,062.6	1,037.4	887.5
<b>A. Government &amp; Government-Guaranteed Loans (Amount)</b>			3,527.9	3,893.3	4,593.9	5,059.4
Number of Projects	41,962.6	1,062.0	51.0	50.0	62.0	64.0
<b>OCR Loans (Amount)</b>			2,170.6	2,418.8	3,246.7	3,904.4
Number of Loans	606.0	25.0	25.0	22.0	30.0	34.0
Disbursements	14,466.2	1,312.0	1,312.0	1,607.3	1,993.9	1,819.9
<b>ADF Loans (Amount)</b>			1,357.3	1,474.5	1,347.2	1,155.0
Number of Loans	564.0	33.0	33.0	34.0	33.0	32.0
Disbursements	7,476.4	886.4	886.4	1,062.1	1,032.0	881.3
<b>B. Private Sector Loans (Amount)</b>			95.7	78.8	186.8	50.0
Number of Projects <sup>c</sup>	496.3	41.0	11.0	7.0	13.0	1.0
<b>OCR Loans (Amount)</b>			89.7	72.8	186.8	50.0
Number of Loans	36.0	9.0	9.0	5.0	13.0	1.0
Disbursements	257.4	34.5	34.5	81.8	72.3	59.7
<b>ADF Loans (Amount)</b>			6.0	6.0	-	-
Number of Loans (Amount)	14.5	5.0	2.0	2.0	-	-
Disbursements	14.3	14.3	2.0	0.5	5.5	6.3
<b>Equity Investments (Amount)</b>			56.4	28.7 <sup>b</sup>	28.0	10.6
Number of Investments	174.8 <sup>b</sup>	60.0 <sup>b</sup>	15.0	15.0 <sup>b</sup>	7.0	4.0
<b>Equity Underwriting (Amount)</b>			11.2	4.3	-	5.2

Number of Commitments	7.0	2.0	1.0	-	1.0
Technical Assistance <sup>d</sup> (Amount)	3,254.6	239.2	301.6	369.5	477.7
Number of Projects	2,891.0	241.0	257.0	242.0	278.0
Co-Financing <sup>e</sup> (Amount)	13,965.5	1,277.7	1,252.5	1,436.5	3,150.5
Number of Projects	360.0	26.0	27.0	23.0	22.0
RESOURCES					
(amounts in \$ million)					
Ordinary Capital Resources					
Authorized Capital (at end of period)	23,224.0	22,111.0	23,938.0	24,160.0	23,224.0
Subscribed Capital (at end of period)	23,100.0	21,138.0	22,884.0	23,100.0	23,100.0
Borrowings (gross)	14,374.0	645.0	849.0	1,298.0	3,050.0
Outstanding Debt (at end of period)	10,961.0	6,872.0	8,215.0	9,434.0	10,961.0
Ordinary Reserve (at end of period)	3,705.5	2,314.9	2,713.1	3,219.1	3,705.5
Special Reserve (at end of period)	177.0	176.5	176.6	176.8	177.0
Gross Income	11,435.9	1,036.3	1,103.4	1,213.3	1,345.2
Net Income after Appropriation of Commissions/Guarantee Fees to Special Reserve	4,358.3	435.3	508.5	517.8	534.3
Asian Development Fund:					
Technical Assistance Special Fund:					
Total Resources (at end of period)	15,263.5	12,214.9	13,354.5	13,878.4	15,263.5
Technical Assistance Special Fund:					
Total Resources (at end of period) <sup>f</sup>	351.7	192.7	202.2	204.3	351.7
Japan Special Fund:					
Contributions (at end of period)	270.4	86.6	155.8	199.8	270.4

(a) Cumulative totals may not add due to rounding

(b) Amounts and numbers adjusted to exclude withdrawals and cancellations

(c) Projects financed from both OCR and ADF are counted only once. Cumulative number of projects excludes supplementary loans

(d) Comprising technical assistance grants and loans funded by the Bank and other sources. Regional technical assistance projects included

(e) Adjusted to reflect changes in co-financing arrangements

Source: Asian Development Bank, Annual Report, 1992.

would need to be paid within five years. The balance would be callable capital.

It is important to note here the initial size of subscribed capital usually determines the size of the total lending. For example, in the case of ADB, OCR loans, equity investments and guarantees cannot exceed the total amount of its unimpaired subscribed capital reserves and the surplus included in OCR.

With a paid-in capital of \$8 to \$10 billion within five years, \$2 to \$3 billion could be mobilized annually for loans and investments. This is a considerable sum, but it alone would fall far short of the region's legitimate capital requirements unmet by private sector lenders (Campbell [2] 1993). Other multi-laterals will have to be tapped and NEADB will have to act as the leader of lending consortia, bringing in private sector lenders that would not be there without the NEADB's intervention.

The initial subscribed capital (\$8 to \$10 billion) accounts for about 6% to 7% of the regional total current account surplus for 1992 and about 5% to 6% of the total international reserves of the three regional capital supplier countries (Table 4.5). Also the distribution of the subscribed capital between OCR and SFR funding is an important agenda item to be carefully determined.

The eligibility for SFR should be determined in terms of per capita GNP, debt repayment capacity and other special circumstances. Of the NEADB borrowing countries, Mongolia and DPRK can be classified as Group A (fully eligible for SFR); the Russian Far East as Group B (mixture of OCR and SFR); and Northeast China as Group as C (not eligible for SFR).

### **Lending Modalities**

The lending modalities depend on the operating principles of NEADB. If the Bank's priorities are for restructuring and privatizing the existing state-owned industries as in the case of EBRD, then sectoral adjustment loans (SAL), through program and sectoral loans, and private sector loans will be more important than the project loans accounting for more than 60% in the of the ADB's funding activities. (Table 4.6).

However, in view of the enormous demand for infrastructural improvements in the Northeast Asian region, project loans will likely account for 80% or more of total lending. This was the case of ADB in the 1970s. Project loans are also much easier and speedier in assessing and implementing than program and sector loans which require detailed sector policies, plan, program, and appropriate institutions to be successful.

Table 4.5 Current account balance of NEA regional countries (\$ million)

	1990	1991	1992	1990-92	International Reserves (1991)
China	1,997	13,765	10,419	36,181	43,060
Mongolia	-644	-111	-46	-801	n.a.
North Korea	-804	-517	-1,507	-2,828	n.a.
Russia	-4,600	9,200	-6,400	-1,800	n.a.
South Korea	-2,172	-8,726	-4,300	-15,198	24,460
Taiwan	10,769	11,367	7,077	29,213	82,405
Japan	35,761	72,901	11,760	120,422	68,980

Notes: North Korean balances are trade balances. Russian balances are with countries outside the former Soviet Union.

Sources: See Table 4.1 and JETRO.

Table 4.6 Shares of lending modalities of ADB (%)

	1970-81	1982-91	1970-91
	82	61.4	66.7
Project Loans	13.9	11.7	12.3
DFI and Agri. Credit	0.9	10.2	7.8
Sector Loans	2.7	14.2	11.2
TA Loans	0.5	0.3	0.3
Private Sector Loans	0	1.6	1.2
Multi-project Loans	0	0.7	0.7
Total	100	100	100

Sources: Asian Development Bank.

## SUGGESTED LOCATION

Seoul, Tokyo and Shanghai are natural candidates. Niigata-city can also be considered because it is becoming a major center in promoting Northeast Asian economic cooperation. South Korea and Japan may want to bolster their growing international image through hosting an international financial organization such as NEADB. Prerequisites for the site of NEADB headquarters are (1) stable governance, (2) host country's will and capacity to support NEADB in the long-run, (3) access to

international financial centers, (4) availability of human resources (particularly English speaking supporting staff) and (5) adequate infrastructure (particularly communication and transportation networks and housing facilities) and environmental amenities.

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