

Banking Services for TRADP

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The importance Tumen River Area Development Programme (TRADP) has been increasingly recognized by Asian countries as well as the United States and Europe. It has been widely accepted that Northeast Asian regional economic development, which will benefit the people of this region, can be accomplished by utilizing the impetus of the TRADP. The Programme Management Committee for TRADP has agreed to form a "Consultant Committee for TRADP" comprised of the governments of South Korea, China, Russia, Mongolia and the DPRK according to the agreement to set up the committee signed on December 6, 1995 at UNDP offices in New York.

In November, UNDP representatives in Beijing, Seoul and Pyongyang and other interested groups of businessmen and scholars made a useful trip to the Tumen River area and found that the non-visa entry guaranteed by the DPRK was true. Indeed, they crossed the border between China and North Korea without a visa; they then visited Rajin-Sonbong in hired buses. Even though it was only a one day trip and the group returned to Hunchun the same day, it confirmed the favorable attitude of the DPRK towards TRADP. These developments underscore the need for banking services for TRADP investors and visitors.

COMMERCIAL BANKING SERVICES ARE A PREREQUISITE FOR FOREIGN INVESTMENT

Modern business activities require banking services for their daily transactions. But in former socialist countries, local currency still cannot be acquired by visiting commercial banks, and travelers checks and credit cards are not accepted. This inconvenience for travelers has been mitigated to some extent by the existence of modern hotels built by foreign investors and which accept travelers checks, credit cards and hard currencies. But these transactions in hotels are not banking services.

Modern business activities require daily payment to purchase local services, as well as local raw materials for their products. A large amount

of local currency, converted from foreign exchange holdings outside the region, must be withdrawn from local banks on a specific date in order to pay wages and salaries of local employees. These amounts cannot be converted in hotels. Indeed, hard currency brought in for investment purposes must be converted and withdrawn from local banks; otherwise the local currency must be held in a company's own safe.

The purchase of raw materials for the production process is required in remote areas. These raw material purchases must be settled by sending money orders from local banks to banks in these remote areas. These transactions, particularly across borders of the riparian countries in the Tumen River area is complicated because of different currency units and foreign exchange rates. Moreover, foreign investors must bring in hard currency to support their factory operations in the Tumen River area. But it may be difficult to exchange such hard currency for, e.g., the DPRK's currency in the Rajin and Sonbong area and other parts of the Tumen River area because of the lack of banking services there.

In the early stages, foreign investors in the Tumen River area might be exporters utilizing cheap labor and land costs. They will need letters of credit from buyers abroad through local banks. And even if they have sufficient foreign exchange for daily working capital, foreign investors may need financing from local banks when they have a temporary shortage of local currency to pay wages and salaries of local employees. Thus without commercial banking services, such export industries will have difficulty investing in the Tumen River area.

Banking services offering long term loans for factory construction utilizing local building materials will attract foreign investors in the Tumen River area. Intermediate financial services for development banks, such as the ADB, the EBRD and the World Bank are also required. The existing financial system of the development banks is not able to transfer such monies directly to infrastructure contractors. Indeed, development banks are needed to transfer money to commercial banks which hold the contractors' accounts.

PRESENT CONDITIONS OF BANKING SERVICES IN THE TUMEN RIVER AREA

Former socialist countries have little experience with market economies which deal with statistics, i.e., with prices times quantities. The capitalist market economy operates through the negotiation of prices in relation to demand and supply. When supply is low compared to demand, the price will be raised by the supplier. After settlement of the price in accordance

with the rules of supply and demand, the trade negotiation will be completed and money will be transferred from buyers to suppliers through their bank accounts.

The shortcomings of banking services in socialist economies is a result of the previously prevalent barter trade practice and government allocation of commodities. The rationing of commodities requires only retail trade at the shop level. Consumers purchase allocated commodities with petty cash. There is no wholesale trade like in the capitalist market economy. With barter trade, there was no need for banking services for such business activities. After adoption of a market economy system in Russia and China, these two countries have been successful in providing the necessary banking networks. But such services do not yet extend to the Tumen River area. And banking services in the DPRK are not yet adequate to support a market economic system.

The following banking services are needed in the Tumen River area:

- prompt exchange of hard currency into local currency;
- acceptance of travelers checks and credit cards and purchase of local currency;
- banking deposit accounts for investors in the Tumen River area;
- foreign exchange;
- cross-border monetary transactions in the riparian countries of the Tumen River area;
- ordinary banking businesses, including deposit receiving and credit financing;
- financial information centers;
- branch openings in strategic places; and
- trained local bank staff.

Payment and receipt of money is the final goal of business activities. In this sense, banking services are more important than better roads, better harbors, better railroads, and better communications. Without monetary settlement, business deals will not be completed.

PRACTICAL IMPROVEMENT OF BANKING SERVICES FOR TRADP

In view of present conditions in the Tumen River area, improvement of banking services is required. There are several alternatives. One approach would be to persuade the central banks or the ministers of finance of riparian countries to improve and modernize existing local banks. However, some scholars are pessimistic about improving banking services using local banks, because they have so little experience.

Another approach would be to invite branches of foreign banks to the Tumen River area. But without special efforts on the part of host governments, such invitations might not be accepted. Since multinational commercial banks are profit-oriented private entities, they are unlikely to set up branches where profits cannot be realized in the foreseeable future. This is different from multinational commercial banks which contribute to the economic development of developing countries through extension of services. Thus it may be difficult to persuade multinational commercial banks to open branches in the Tumen River area.

The third alternative would be to establish an entirely new "Tumen River Development Commercial Bank," TRDCB. The idea of a new bank might be supported by the governments of the PMC countries, China, South Korea, DPRK, Russia and Mongolia. TRDCB's banking services would be provided for the sole purpose of the economic development of the Tumen River area. Some experienced bankers insist that there may not be short term loss as a whole if paid-in-capital is effectively used for profitable investment in international financial markets. The profit earned might more than offset the short term loss of banking services in the Tumen River area. Thus these alternative approaches, including in particular the idea of a new bank for the Tumen River area, are worth examining not only by the multinational banking community for also by the governments of PMC countries.