



Northeast Asia Research Institute of
Heilongjiang University

REGIONAL FINANCIAL COOPERATION OF NORTHEAST ASIA IN ERA 2Ist

**The Theory and Reality of Challenge
to Establish a NEADB**

Gang-Zhe LI Li GUO



SOCIAL SCIENCES ACADEMIC PRESS (CHINA)



Northeast Asia Research Institute of
Heilongjiang University

REGIONAL FINANCIAL COOPERATION OF NORTHEAST ASIA IN ERA 21st

The Theory and Reality of Challenge to Establish a NEADB

Gang-Zhe LI
Li GUO



SOCIAL SCIENCES ACADEMIC PRESS (CHINA)

图书在版编目 (CIP) 数据

21 世纪东北亚地区金融合作: 建立东北亚开发银行的理论与挑战 = Regional Financial Cooperation of Northeast Asia in Era 21st: Challenge to Establish a NEADB: Theory and Reality/李刚哲等著.
- 北京: 社会科学文献出版社, 2006. 2
ISBN 7 - 80190 - 969 - 0

I. 2... II. 李... III. 金融 - 国际合作 - 研究 - 东北亚 - 21
世纪 - 英文 IV. F833.1

中国版本图书馆 CIP 数据核字 (2006) 第 012158 号

Cataloguing in Publication Data

**REGIONAL FINANCIAL COOPERATION OF
NORTHEAST ASIA IN ERA 21st: The Theory and Reality of
Challenge to Establish a NEADB**
Northeast Asia Research Institute of Heilongjiang University
Gang - Zhe LI Li GUO February 2006. 2

ISBN 7 - 80190 - 969 - 0/F · 327

Published by Social Sciences Academic Press (China)

No. 10, Xianxiao Bystreet, Dongcheng District

Beijing, China

Postcode: 100005

© Published by Social Sciences Academic Press (China)

Editor: Zheng ZHANG

Cover designer: Yan - Ping WU

Printed in Beijing, China

All rights reserved. No part of this book may be reproduced by any means
without written permission from the publisher.



Professor Gang-Zhe Li

Professor of Heilongjiang University, China (2004. 9-). Senior Research Fellow of National Institute for Research Advancement (NIRA), Japan.

B. A. in Philosophy, Central University for Nationalities, China (1981-85).

Publications & Academy Papers: "Financial Cooperation in Northeast Asian and Create an Intra-Regional Money Flow System", Dong-Liang YANG (Ed), *The Current Situation and Perspective of East Asian Economic Cooperation*, Tianjin People's Press, China, 2004 (Chinese). *Five Proposals for the Establishment of a Northeast Asian Development Bank (NEADB): Towards the Japan – China – South Korea Summit*, Tokyo Foundation Press, Tokyo, Japan, 2002 (English). *East Asia Regional Economic Cooperation: China & Japan*, co-edited with Zhen-Suo WANG, Tianjin People's Press, China, 2002 (Chinese). "External Economic Policy of North Korea Trying for Market Economy"; *The Future of Korea Peninsula and International Cooperation*, edited by the Sasakawa Peace Foundation Press, Japan, 2002 (Japanese). "Northeast Asian Economic Cooperation toward 21st Century", H. Hirakawa and K. Ishikawa (Ed.), *New Economics of East Asia*, Minerva Press, Japan, 2001 (Japanese), etc.. 60 pieces of Academic papers and Columns and Opinions.



Professor Li GUO

Professor of Collage of Economics & Business Administration, Heilongjiang University, China and Vice Director of Center for Northeast Asian Studies (2003.12-), Research Fellow of Heilongjiang Academy of Social Sciences and Director of Institution for Northeast Asian Studies (1984-2003), Research leader of Northeast Asian Region Research for Heilongjiang province, Visiting Fellow of Faculty of World Economics in University of Moscow International Relation.

Graduation from Faculty of Russian Language of Science and Technology Collage of China people's Army (present changed to Luo-Yang Foreign Languages University of China people's Army, 1977.12).

Publications and Academy Papers: *Heilongjiang and Northeast Asia in 21st Century*, Heilongjiang People's Press, 2001 (Chinese). *Energy Cooperation of China with Russia on the Stretches in the Century*, co-edited, Harbin People's Press, 1999 (Chinese), etc.. 5pieces Publications, 90 pieces of Academic Papers and Research Reports. Finished 30 Projects of States and Province Level.

Editors

Gang-Zhe LI Professor of Hei-long-jiang University

Li GUO Professor of Hei-long-jiang University

Advisers

Lee-Jay CHO Chairman of Northeast Asia Economic Forum (NEAEF) and senior advisor to the president of the East-West Center in Honolulu, Hawaii, U. S. A

Hisao KANAMORI Economist, Chairman of Economic Research Institute for Northeast Asia, Japan

Sheng-Jin WANG Vice President of Ji-lin University, Changchun, China

List of contributors

Burnham O. Campbell Former Adviser of the East-West Center in Honolulu, Hawaii, U. S. A

Hiroshi KAKAZU Professor of Nihon University, Japan; Former president of Okinawa Development Bank, Japan

S. Stanley Katz Former vice president of the Asian Development Bank and senior advisor to the Northeast Asia Economic Forum at the East-West Center in Honolulu, Hawaii, U. S. A.

Lee-Jay CHO Chairman of Northeast Asia Economic Forum (NEAEF) and senior advisor to the president of the East-West Center in Honolulu, Hawaii, U. S. A.

Dock-Woo NAM Chairman of Korea Sanhak Foundation Asia Pacific Institute, Republic of Korea

Won-Suh CHOO Head of Center for Northeast Asian Studies, Korea Development Bank, Republic of Korea

Preface

In the 21st century, Northeastern Asian countries are pressed to make a historic choice.

The world economy synchronizes the globalization and regionalization. The globalization and the borderless by the market economy are developing rapidly.

The EU made reach the step which completes economic integration in Europe. In North America, the NAFTA is already formed and aims for the all-America Free Trade Agreement to be complete.

However, in Asia, especially in Northeast Asia, we couldn't find out any institutional frame of regional cooperation or regional integration in last half of century. The conception to promote sub-regional cooperation and integration by establishing a "Northeastern Asian Development Bank" and to try to aim at the development which is stable with peace in the region and is sustainable is proposed from 15 years before but has not yet been realized.

However, recognition about Northeastern Asian cooperation and the regional integration was roughly improved. The regional economic integration is developing like heterogametic.

We edit a dissertation by the famous scholar of the world for research about the "Northeastern Asian Development Bank," to publish will have an important historic meaning in case of research about Northeastern Asia cooperation and promoting actual regional economic integration.

The editors have a long-time research experience in the field of Northeastern Asia cooperation research; they published a lot of papers and books domestically and internationally. It is thought that the meaning lay in aiming at the necessity and timely of the development finance issue in it, and gathering study results so far from the research and the both sides of the practice and having a lot of readers and researchers read.

In case of this publishing, it got great support from the discretion both sides of Heilongjiang University and also professor Chuan - Jun ZHAO who is a Director of the Northeastern Asian Research Institute, he got cooperation with various advice about the publishing. We want to say appreciating. We want to say appreciating to the cooperation of every author too.

Editors

August, 2005

Foreword (i)

Lee-Jay CHO

Economic development-by harnessing the national borders the factor endowments in the developed and the less developed areas of the Northeast Asian region-would generate national as well as regional benefits both in the short and long term future. Northeast Asia is a treasure trove of resources; natural resources in the Northern developing part of Northeast Asia in terms of minerals, energy, water, forests, agriculture, and human resources; and enormous capital and advanced technology in the Southern developed part of Northeast Asia. The resource poor nations such as South Korea and Japan would derive benefits from cooperating in the development of these resources, and this requires development and construction of new infrastructures and replacing or upgrading existing ones that are currently outdated and inadequate.

Such multinational development banks as the Asian Development Bank were established to meet the challenges and conditions half a century ago, and the current management leadership structure is their legacy and reflection. The ADB's mission and focus have gradually shifted toward social issues such as alleviation of poverty in the developing countries of the South. Very little attention if any has been paid to the development of infrastructure, particularly for Northeast Asia. A new development bank is required in Northeast Asia for challenges facing the countries in this region with a new paradigm of conditions.

Infrastructure construction is an essential key to regional economic development and requires enormous capital, and the region in no way can provide such capital. The proposed Northeast Asian Development Bank would make a major contribution to the regional development objective by mobilizing capital from the global market and financing the infrastructure development. Investments in the construction of cross border infrastructure and sharing the management of its hardware and software by the participating countries as partners, for example, will enhance confidence building among the countries in the region thereby contributing to the reduction of tension and the promotion of mutual understanding. In the absence of a regional economic institution, the NEADB will become as a first step, an unobtrusive mechanism, at low cost to the region,

for capital intermediation and research, training and exchange for managing major economic transition, particularly for the developing North.

The idea of establishing the Northeast Asian Development Bank was first proposed by Dr. Hong Ma and his associates in China and independently at the Northeast Asia Economic Forum Meeting in Tianjin in 1991, Dr. Duck-Woo NAM, former Prime Minister of the Republic of Korea presented a similar proposal. Subsequently Dr. Stanley Katz, former Executive Vice President of the Asian Development Bank, and I have pursued the topic with in-depth research and discussions with leading experts and policy makers in the region. A resolution was passed at the Ninth Conference of the Northeast Asia Economic Forum in Tianjin in 1999, establishing the AD Hoc Committee for the Northeast Asian Development Bank. During the last 14 years the Northeast Asia Economic Forum has included the topic of the NEADB as part of the agenda for many of its annual conferences and workshops for examination and discussion by many experts in considerable detail and from a variety of perspectives.

This book is a compilation of papers authored by distinguished experts based on their research and ideas, and it will provide the readers with the substance and information needed to understand the background and rationale behind the proposal for the NEADB.

We hope this book will also serve as a reference book for policy makers in their thinking and deliberation for a future financial institution in this region. Professor Mr. Gang - Zhe LI and Professor Ms. Li GUO deserve our appreciation for their efforts in publishing this volume.

Foreword (ii)

Sheng-Jin WANG

Since the 1990s, regional economic integration is a trend of the global economy development. There were 250 numbers of the regional Free Trade Agreement (FTA) reported to GATT/WTO by the end of 2002. According to the statistics, the FTA to be executing at present reached 170 but was concluded since then in the 1990s in the multitude. From 1950s to 1980s, there were only 22 FTAs were concluded, while from 1990 to 1994, 21 FTAs were concluded within only 5 years, and from 1996 to 1999, 63 FTAs, and from 2000 to 2003, 60 FTAs.

There is not only increasing the FTA, but also have expansion of the area integration and the deepening of the level. At present, the EU realized expansion into the central Europe and the East Europe successfully at the same time as it attempted the deepening of the area integration and 25 countries became the members. In the North America, NAFTA were promoted by area countries and the agreement about all of the America continent FTA were promoted by 34 countries, too, and it aims at the realization in 2005.

In the East Asian region including Northeastern Asia, regional cooperation have promoted from the 1990s and achieved some results to strengthen regional economic power and the competitiveness in the world. The channel among ASEAN, China, Japan and South Korea, as the dialog and cooperation mechanism like the "10 + 3" or "10 + 1" is established and is providing the platform to discuss international cooperation issues in the East Asia. FTA between China and ASEAN develops roughly and plays an important role which promotes economic integration in East Asia. Japan is adjusting the direction of the international cooperation policy, concludes EPA with Singapore and Mexico. Japan also promotes FTA negotiation with South Korea, Thailand, the Philippines and Malaysia.

In Northeastern Asia the economic cooperation were developing roughly. The international cooperation in case of development of Tumen River Area (TRADP), too, comes to a frame agreement and a dialog among the local governments and the frame of the cooperation are elementarily established. Cooperation in energy and environment session in the area, cooperation in case of service of the social

infrastructure facilities were esteemed among the concerned countries.

However, the multilateral cooperation in Northeastern Asia still is in the early stage step and is far from the goal of building multilateral coalition in the area. Therefore, to review deeply about the basic direction, the cooperation field, the cooperation method of the economic cooperation in Northeastern Asia and so on is indispensable and agrees with the profit for the regional countries are fundamental is tactical.

In Northeastern Asia cooperation's developing, one agreed important element includes to be behind in the area finance cooperation and there is weakness of the ability of fund raising. Professor Li GUO and Professor Gang - Zhe LI came to publish this book in the editing to tell history, the present situation and the problems in case of such financial cooperation to more readers. This book compiles big financial cooperation in the Northeastern Asia, the research so far to have paid to the establishment of NEADB above all, organization structure, the fund raising, and so on, are described, being clear and the role of the concerned countries such as Japan, Korea, China in case of establishment of development bank is being described. In the field of research about Northeastern Asia cooperation, each author of this book is equipped with the perspective to the high theoretical outfit and the reality problem engaged in the research about the financial cooperation long above all. It wants to improve an interest about the Northeast Asia scholar and the expert in the relevant countries and then the citizens by the publishing of this book and for the economic cooperation in Northeastern Asia to develop roughly whole-heartedly.

CONTENTS

Preface / 1

Foreword (i) *Lee-Jay CHO* / 1

Foreword (ii) *Sheng-Jin WANG* / 1

**Introduction The Paradigm Changing of Northeast Asia Regional
Cooperation and Development Finance** *Gang-Zhe LI* / 1

Part I The Early Idea and Research for the NEADB

1. Financial Cooperation in Northeast Asia: An Overview of the Case for
a Northeast Asian Development Bank *Burnham O. Campbell* / 19
2. The Possible Organizational Structure and Funding Sources of
a Northeast Asian Development Bank (NEADB) *Hiroshi KAKAZU* / 31

Part II The Research and the Embodiment of the NEADB Conception

3. Establishing a Development Bank for Northeast Asia: Policy Issues
S. Stanley Katz / 47
4. Why Is a Northeast Asian Development Bank Needed?
Dock-Woo NAM / 56
5. A Critical Assessment of Objections to Establishing a New
Northeast Asian Development Bank *S. Stanley Katz* / 80

**Part III The Promotion Strategy and
the Policy Proposal of NEADB**

6. A Northeast Asian Development Bank?

Lee-Jay CHO and S. Stanley Katz / 93

7. The Establishment of a Northeast Asian Development Bank and
Japan's International Cooperation Policy; Proposals towards
the Japan – China – South Korea Summit

NEADB Research Team of Tokyo Foundation / 103

8. Development Financing in Northeast Asia: Demand Estimation and
Suggestions

Won-Suh CHOO / 131

9. The Establishment of NEADB is Supposed to Provide Opportunity for
Local Economic Development

Li Guo / 150

List of Figure and Table

- Figure 0 –1 The World's International Development Banks / 10
- Figure 7 –1 An Action Program for Establishing the NEADB / 130
- Figure 8 –1 Geographical Boundary of Northeast Asia / 132
- Figure 8 –2 General Schemes for Development Financing / 143
-
- Table 0 –1 Social and Economic Indicator of NEA (2003) / 3
- Table 0 –2 Trade of NEA in the World / 4
- Table 0 –3 Foreign Reserves in the NEA Countries and Areas / 5
- Table 2 –1 Profile of Regional Members in the Proposed NEADB
(1990) / 35
- Table 2 –2 Shares of Subscriptions to Capital Stock and
Voting Power by ADB Member Countries and Areas
(as of 31 December, 1992) / 37
- Table 2 –3 ADB's Professional Staff (1991) / 38
- Table 2 –4 The Record of the Asian Development Bank
(1966 ~1992) / 40
- Table 2 –5 Current Account Balance of NEA Regional
Countries and Areas / 42
- Table 2 –6 Shares of Lending Modalities of ADB / 43
- Table 3 –1 Hypothetical Allocation of Shares in New NEADB / 55
- Table 4 –1 Hypothetical Cost of Participation / 65
- Table 4 –2 Distribution of Shares of the ADB
(as of Sept. 30, 1999) / 77
- Table 4 –3 Northeast Asian Members' Shareholdings in the ADB
(as of Sept. 30, 1999) / 77

Table 4 -4	Non - regional Shareholdings in the ADB (as of Sept. 30 , 1999) / 77
Table 4 -5	Ordinary Capital Resources (as of Sept. 30 , 1999) / 77
Table 4 -6	Special Funds Resources Committed (as of Sept. 30 , 1999) / 78
Table 4 -7	ADB's Financial Activities (1966 ~1998) / 78
Table 4 -8	ADB's Resources (1966 ~1998) / 78
Table 4 -9	ADB Staff (as of Sept. 30 , 1999) / 78
Table 4 -10	Basic Indicators of Northeast Asian Countries and Chinese Taipei / 78
Table 4 -11	Hypothetical Share Allocation of Regional Members in the NEADB / 79
Table 5 -1	Summary of IBRD and ADB Financing for Infrastructure Projects in Northeast Asia (1999 ~2001) / 83
Table 5 -2	Japan , South Korea , China & Mongolia Capital Shares in ADB , IBRD & NEADB / 86
Table 5 -3	Multiplier Comparisons; Banks vs. Special Fund World Bank IDA , ADB , ADF / 89
Table 8 -1	The Outlook on Northeast Asian Countries (as of 2003) / 133
Table 8 -2	Estimated Demand for Development in the Next 20 Years (China) / 135
Table 8 -3	Plans for Private Investment in SOC in 10 Years / 136
Table 8 -4	Demand for Development in 10 Years (North Korea) / 136
Table 8 -5	Required Demand for Infrastructures / 138
Table 8 -6	Demand for Development Financing in China / 139
Table 8 -7	Demand for Development Financing in 10 Years / 140
Table 8 -8	Estimated Commissions & Interest Income from Development Financing / 142