



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



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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

Introduction

The Paradigm Changing of Northeast Asia Regional Cooperation and Development Finance

Gang-Zhe LI

Introduction

In the post-Cold War world, the Northeast Asia^① has experienced dramatic changes in the waves of globalization. Since the 1990s, in the Northeast Asia region, relations that had been strained by crises and the mutual distrust of war and detente are being replaced by regional cooperation. In other words, although many observers choose to emphasize regional crises, steady progress is being made in pursuit of mutual cooperation, peaceful coexistence and mutual prosperity.

Though economic, personal and cultural exchange currents in Northeast Asia are expanding rapidly; the move towards community hasn't developed naturally in the international relations of this region. However, over the past 10 years, the situation in Northeast Asia has changed. The changing environment is largely the result of two factors; one of the factors is rapid economic growth in China and its accession to the WTO. Another factor is the Japan, China and South Korea accession close through the "ASEAN + 3" framework.

Informal talks between the leaders of three countries began in Manila, Philippines in November 1999, and have become normalized since 2000 year. Communication channels among the three governments have been promoted, and received the attention of this summit. What impact will increased

① In this Paper, the Northeast Asia include China (PRC), Japan, South Korea (ROK), North Korea (DPRK), Russia Federation, Mongolia 6 countries and Taiwan, Hong Kong 2 areas as the parts of China.

communication have on the region? Can these three countries become a core and can they lead the efforts at Northeast Asian regional cooperation? For now, the three countries framework is seen as different from a Northeast Asia regional cooperation framework, but that may change in the future. In any case, the three countries are thinking seriously about the issue of Northeast Asian cooperation.

On the other hand, regional economic integration of the market economies is moving ahead rapidly with a background of the globalization within the three countries. Regional trade and investment among the three countries is expanding rapidly and economic interdependence is rapidly increasing. It is possible to regard this as being a *de facto* economic integration process.

The economic scale of the Northeast Asia region accounted for about more than 20 percent of the global economy already (measuring the GDP scale and the trade scale) following the growth in the 1990s. It has quickly become one of the three poles in the global economy. Most remarkable of all, in the Northeast Asian countries, the domestic savings and the foreign reserves totals accounted for more than half of the worldwide total, because of the rapid expansion of exports among the partners. In other words, it becomes a mature relationship based on mutual respect and cooperation, in one of the "rich region" of the world.

However, because there is a large population in the Northeast Asia region and there are many developing countries nearby, a constant shortfall of financial support for regional development and cooperation is a prominent contradictory point. In other words, the big mismatch has occurred on the supply side of the financial resources. It is a very important problem that must be solved in the future for Northeast Asian regional cooperation to continue to grow.

This paper will focus to the subject of economic cooperation in the Northeast Asia region, to explain the paradigm change in Northeast Asian regional cooperation; it will examine the historic conversion evidenced by the formation of the cooperative framework between Japan, China and South Korea. It concludes by clarifying some problems on the subject of economic cooperation and Northeast Asia regional cooperation in the future.

Northeastern Asian Dynamism in the Global Economy

In the world economy system, there have been big changing from end of 20 century to beginning of 21 century. Especially, the world economy order after the Cold War has great change with the globalization. It was not only the goods, capital and persons, but also the technology and information became able to move cross border freely. Therefore, it will be the one that means conversion into the