

The 13<sup>th</sup> Northeast Asia

Economic Forum

## Development Financing in Northeast Asia

– Demand Estimation and Suggestions –

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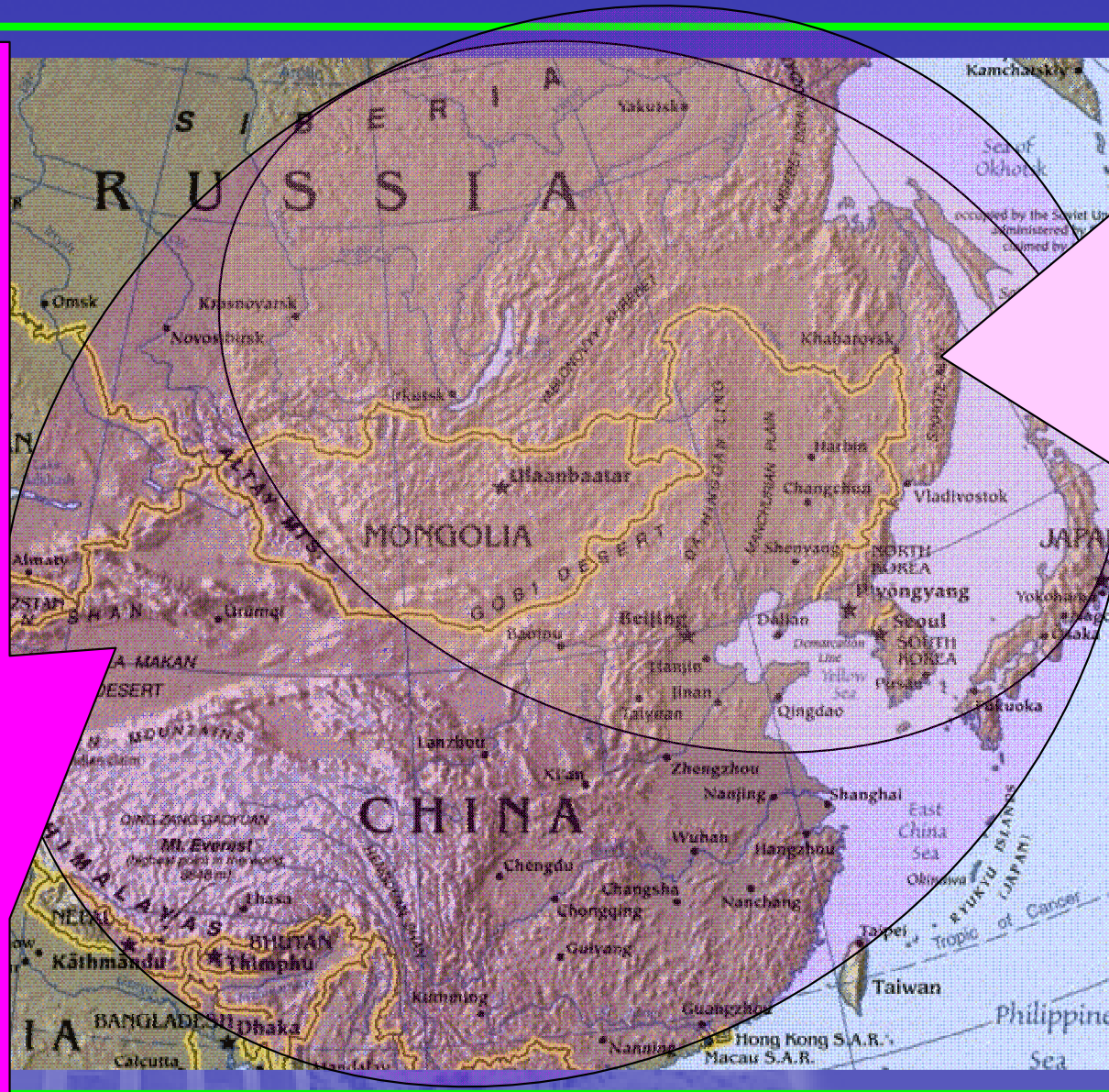
# I . Introduction



# Geographical Boundary of NEA

Including all of China

Increased growth potential for the cooperation and development within NEA



Narrow Scope

Korean Peninsula

Japan

Northeast

China & Inner Mongolia

Mongolia

Russian Far East

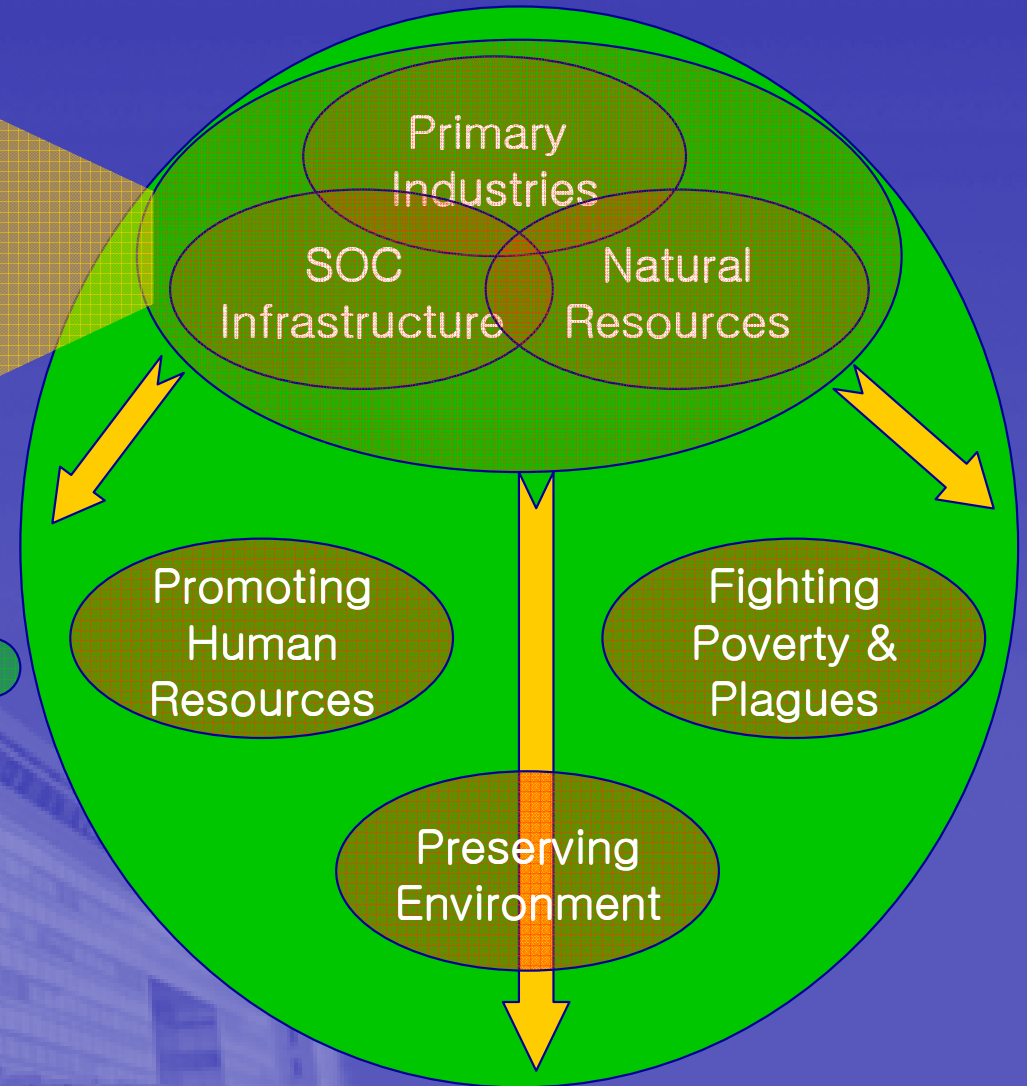
# The Outlook on NEA Countries (As of 2003)

Country	Territory (1000 km <sup>2</sup> )	Popul- ation (million)	GDP (USD100 million)	GDP <i>per capita</i> (USD)	Export (USD100 million)	Import (USD100 million)	FDI (USD100 million)	F/X Reserves (USD100mil)
S.Korea	99.7	48.0	6,052	12,608	1,938	1,788	20	1,553
N.Korea	122.8	22.5	184	818	7.8	16.1	–	–
Japan	378	127.5	42,953	33,694	4,718	3,829	93	6,633
China	9,597	1,295	14,100	1,089	4,379	4,131	527	4,082
Russia	17,075	144	4,329	3,006	1,344	817	24	732
Mongolia	1,566	2.6	11.8	460	6.3	8.3	0.8	1.3
% of the World	21.2%	25.7%	20.9%	–	16.8%	13.8%	10.2%	–

# The Scope of Development Financing

Facilitating Economic  
Development for  
Underdeveloped  
Countries

Magnified to  
MDGs (Millennium  
Development Goals)



# Development for NEA – ‘Not Easy’ but ‘Necessary’

## ▶ NEA Countries: In Different Stages of Economic Development

- Differences in Respective Political Systems, Religion, Level of Technology.
- Military Tension on the Korean Peninsula
- Other Latent Political & Military Tension among Nations (Japan–Russia, China–Japan, China–Taiwan, etc.)

## ▶ Ironies between the Condition and the Possibility

- Economic Conditions vary among Countries → Capital Flow Can Occur
- Political & Military Tensions Relaxed

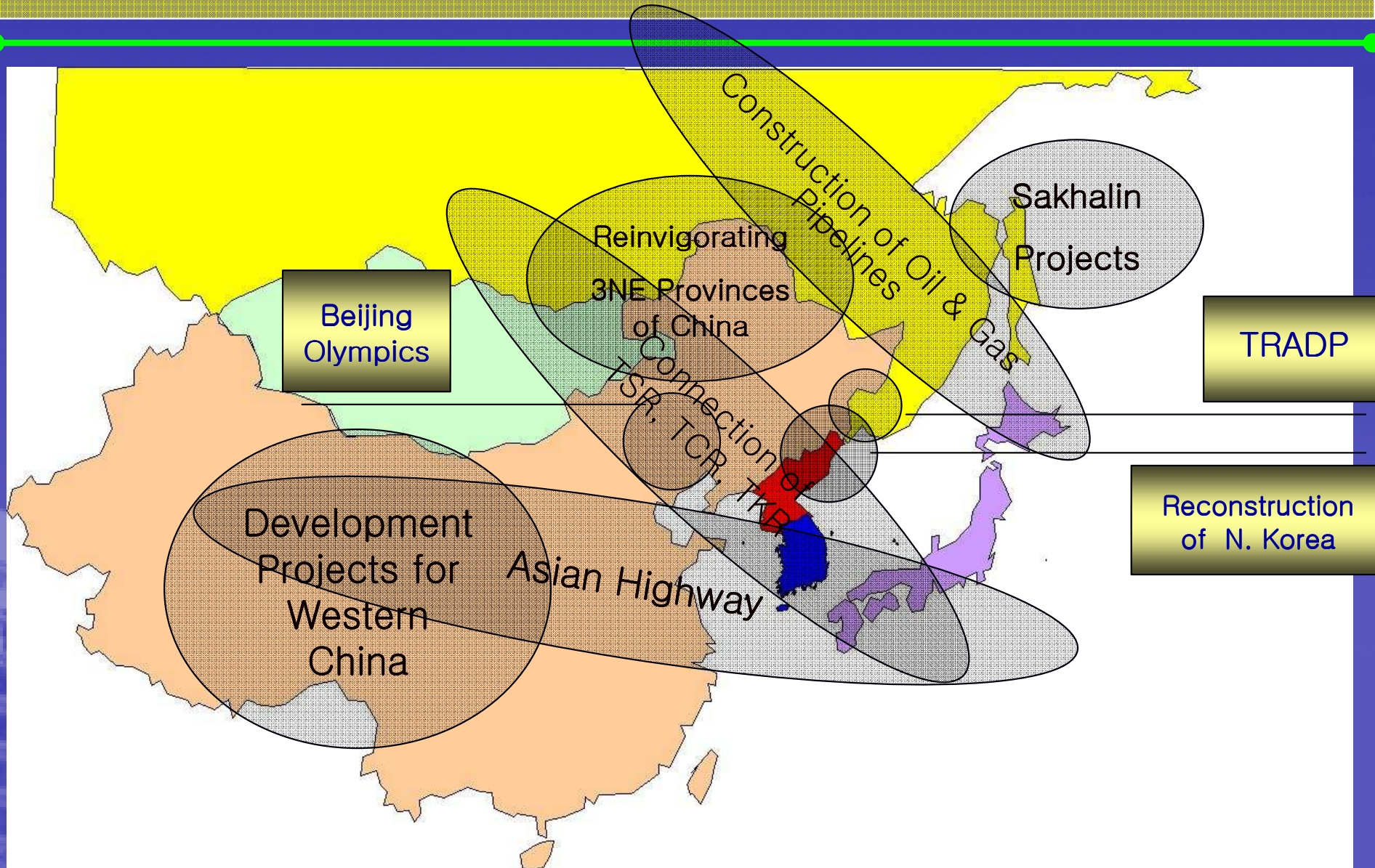


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## II. Development Demand in NEA Region



# Major Projects in NEA



# Demand for Development – China (1)

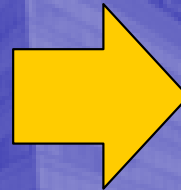
Continuous & Rapid Economic Growth (FY1978~2002)

9.4% per annum

Increasing Rate of SOC Investment over GDP

FY1991

3.5%



FY2002

6.6%

## Demand for Development – China (2)

Continuous Growth Expected for the Next 20 Years

6.5% per annum

Based on ADB's  
Estimation

Demand for SOC Investment for the Next Decade

US\$ 1,345 billion

Estimated GDP &  
SOC/GDP Ratio

# Demand for Development – South Korea

## Plans of Private Investment in SOC for the next 10 Years

(KRW trillions, USD billions)

	Amount (USD)	Proportion
Roads	109.3 (85.0)	54.9
Railways	57.2 (44.4)	28.8
Airports	6.6 (5.1)	3.3
Ports	22.5 (17.5)	11.3
Logistics	3.3 (2.6)	1.7
Sum	198.9 (154.6)	100.0%

Source : PICKO, 「Mid- and Long-term Plan for Private Investment(2002-2011)」

# Demand for Development – North Korea

## Required Infrastructures for the next 10 Years

(USD billions)

Used Methods	Amounts
Cobb – Douglas Production Function	16.1
Appropriate SOC Investment Ratio over GDP	14.3
Average	15.2

Source: KDB Analysis (2003. 9)

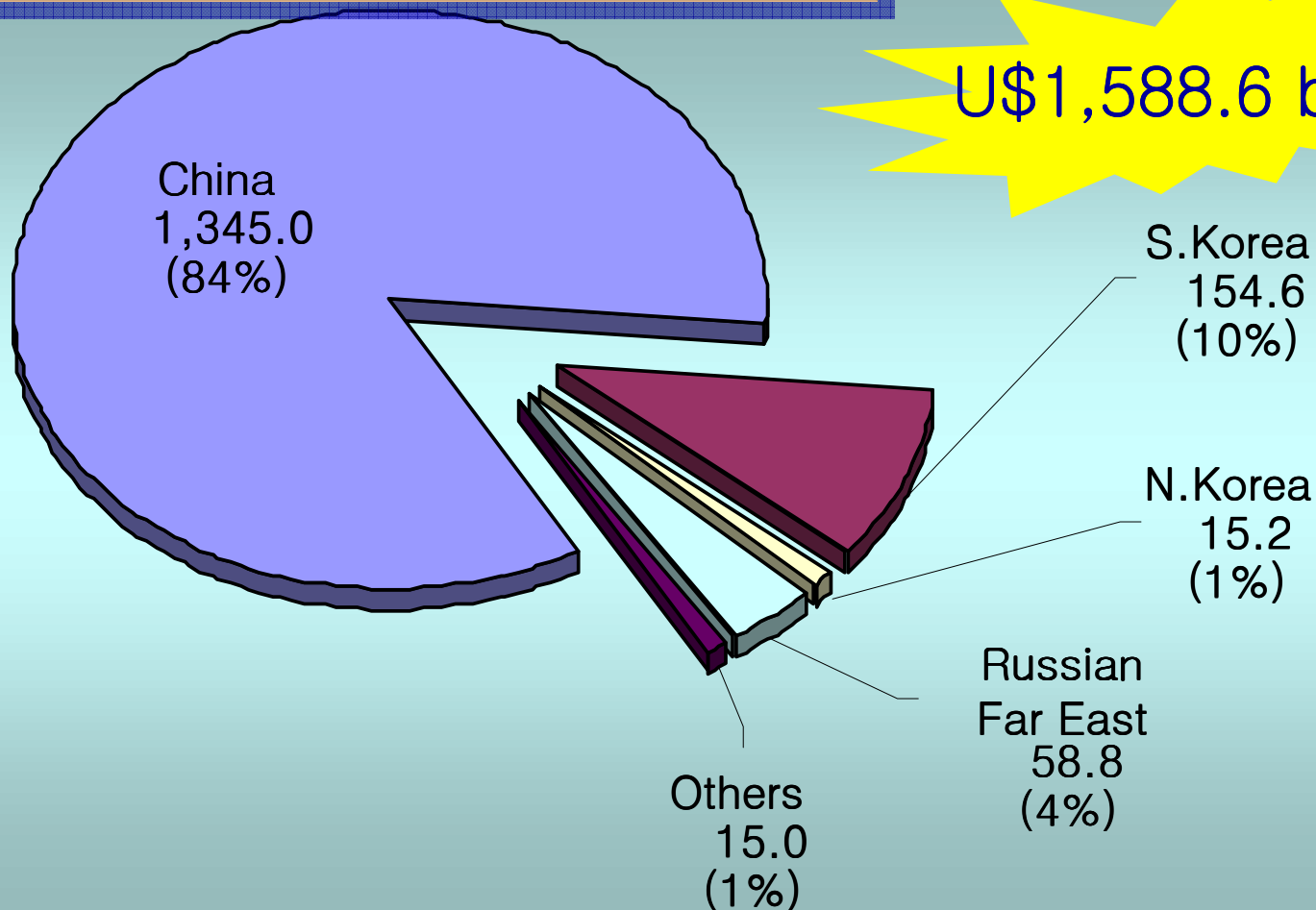
# Other NEA Projects: Russia, Mongolia, etc.

(USD billions)

Region	Detail Projects	Amounts	Remarks
Russian Far East	Far Eastern Oil Pipelines	5	
	Irkutsk Gas Pipelines	12	
	Sakhalin I · II	11	
	Sakha Project	17	
Mongolia	Millennium Road	N/A	
Other Multi-national	TSR	13.8	
	TRADP	15	
Sum		73.8	

# Demand for Development (Sum of NEA)

## Demand for the Next 10 Years



# Required Infra Demand – World Bank

(USD billions)

Region	Income Level	GDP <sup>1)</sup>	Applied Ratio <sup>2)</sup>	Required Infra Demand <i>per annum</i>
China	Middle	1,237	5.14	63.6
S.Korea	Middle	477	5.14	24.5
Russian Far East	Middle	35	5.14	1.8
Mongolia	Low	1	6.92	0.1
N.Korea	Low	17	6.92	1.2
Total	–	1,767	–	91.2

Notes : 1. GDP is as of 2002

2. Applied ratio is the rate of required infra demand over estimated GDP during 2005–2010 adapted to income level by World Bank

Reference : Marianne Fay & Tito Yepes(2003. 8)



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# III. Present Situation and Prospect

- Supply and Demand for Development Financing in NEA

# Demand for Development Financing (China)

(USD Billions)

	Market Share	2003	.. ..	2013	2004~ 2013	2014~ 2023	Total
GDP		1,410	.. ..	2,635	20,210	37,761	57,971
Investment in SOC	100.0%		.. ..	175	1,345	2,515	3,860
Government & Others	69.7%		.. ..	121	938	1,754	2,692
Domestic Financial Institutions	24.3%		.. ..	43	326	611	937
Foreigners	6.0%		.. ..	11	81	150	231

# Demand for Development Financing (Excluding China)

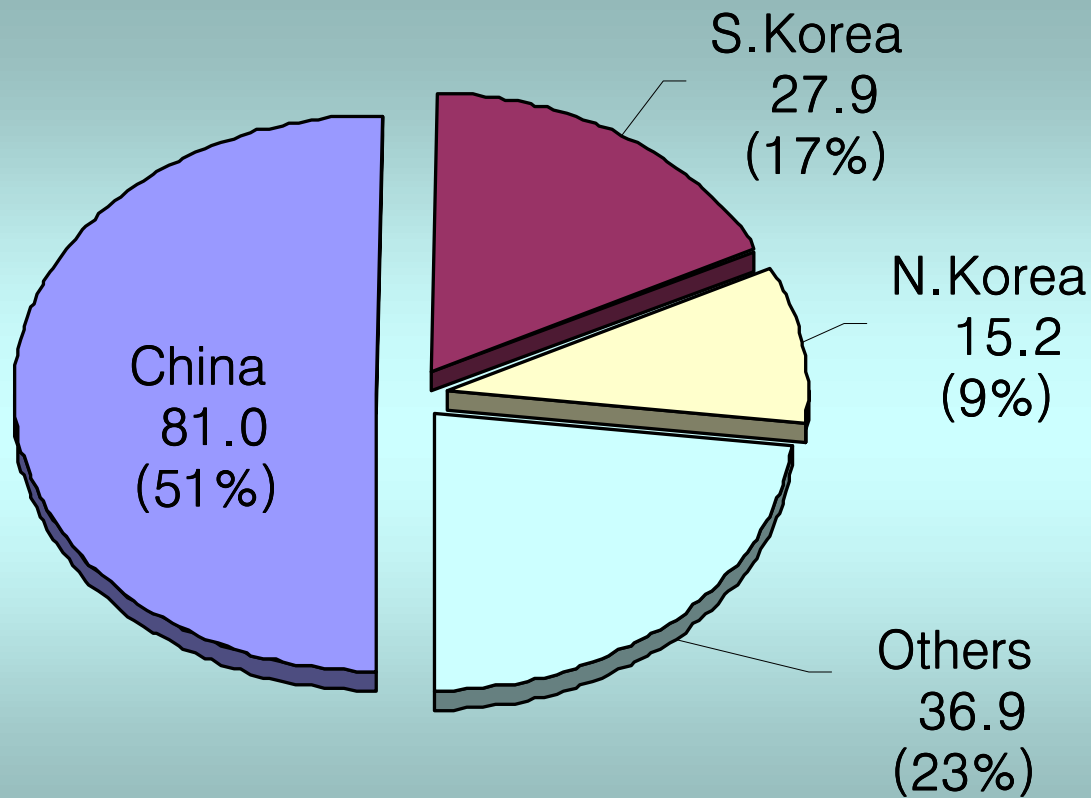
(USD billions)

Region	Total Demand for Development	Demand for Development Financing	Remarks
S.Korea	154.6	27.9	Borrowed Capital over Private Project
N.Korea	15.2	15.2	Total
Others	73.8	36.9	Half of Russian Far East, Mongolia and Other Multinational Projects
Sum	243.6	80.0	

# Demand for Development Financing (Sum)

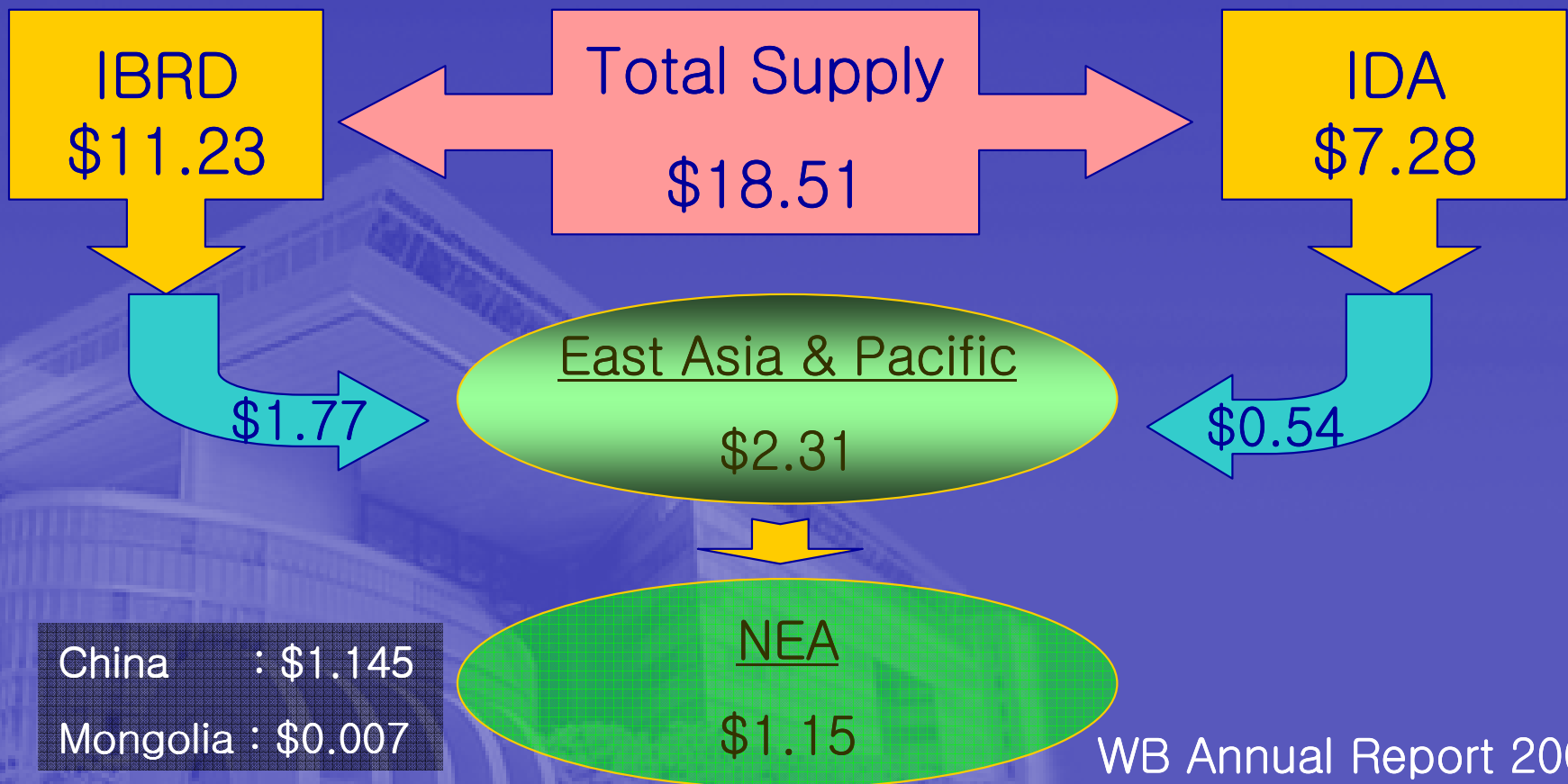
For the Next 10 Years

U\$161 billion



# Supply from Development Financing

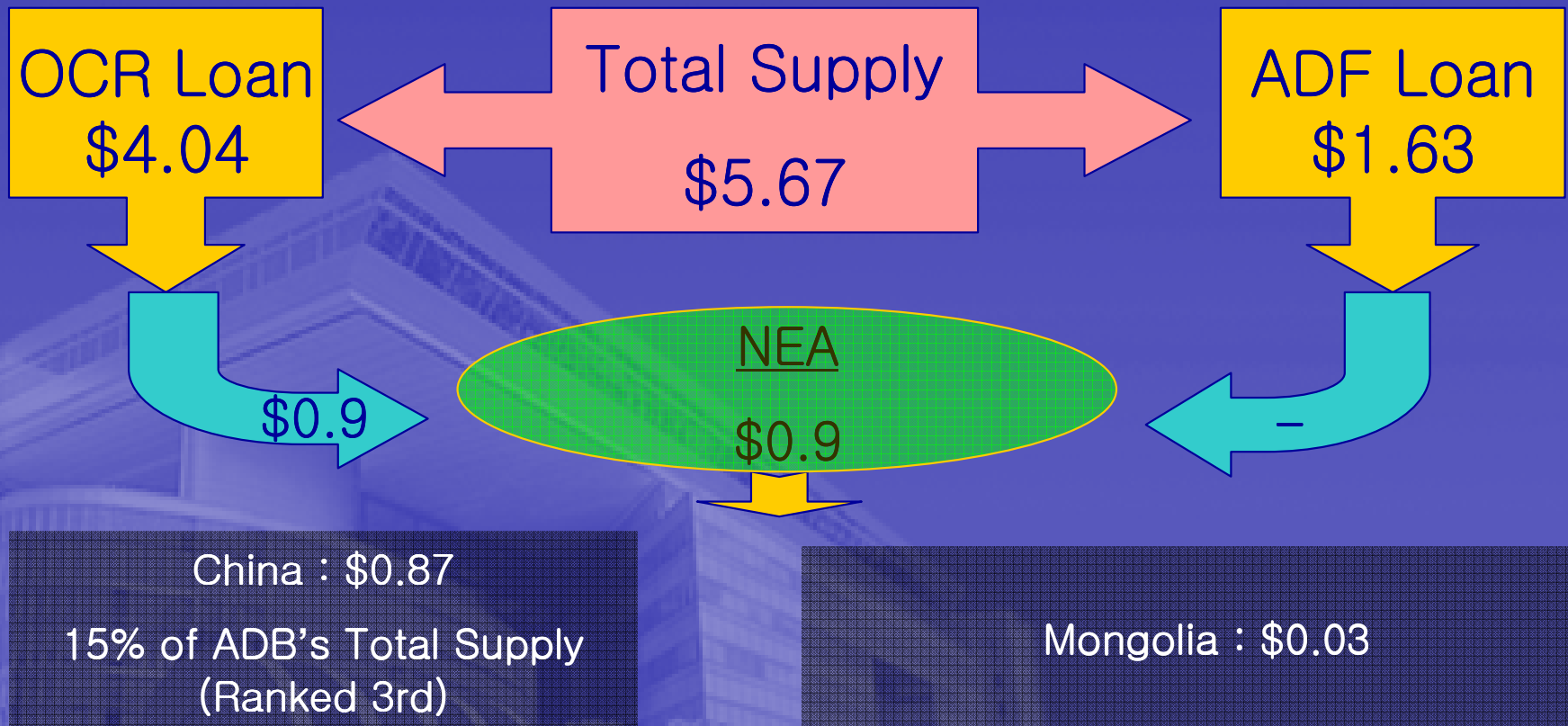
NEA Claims 6.2% of WB's Total Supply



WB Annual Report 2003

(USD billions)

15.9% of Total Supply of ADB



China : \$0.87  
15% of ADB's Total Supply  
(Ranked 3rd)

Mongolia : \$0.03

ADB Annual Report 2002  
(USD billions)

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## IV. Economic Benefits from the Activation of Development Financing

# Estimated Commissions & Interest Income

(USD billions)

	Balance of Loans	Commissions (a)	Interest Income (b)	Total Revenue (a+b)
10 Yrs.	140.9	3.2	62.9	66.1
20 Yrs.	169.1	6.4	186.2	192.6

## \* Assumptions

1. All projects guaranteed by respective governments
2. Arrangement fee & interest rates are 2% *flat* and 7.5% *per annum* respectively, based on prevailing private projects in Korea
3. Loan maturity of 16 years (including 5-year grace period)
4. 16.1 billion dollars *per annum* – financed by PF Loans



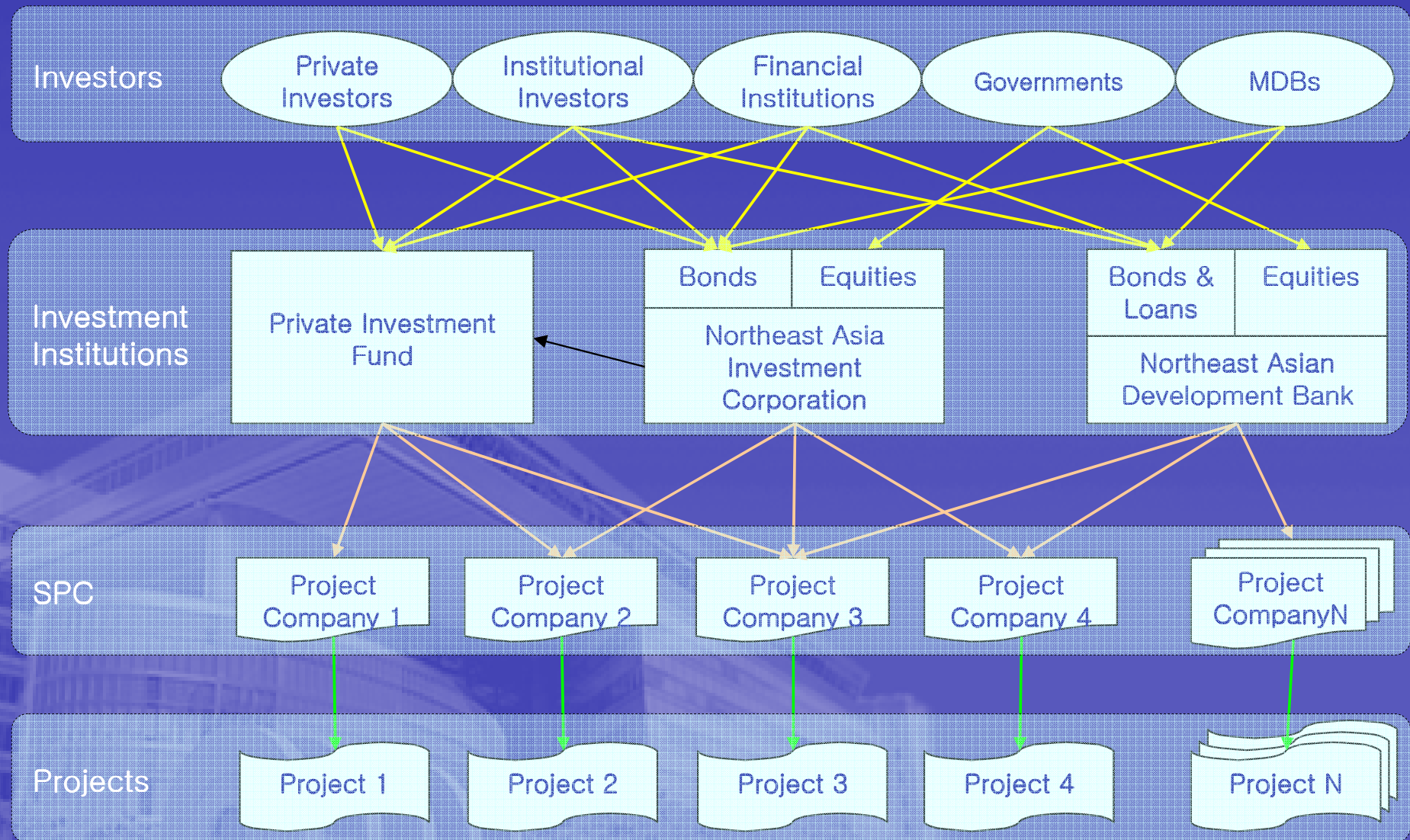
# Other Direct & Indirect Benefits

- F/X-related profits incurred from capital flows
- Additional value created by capital flows
- Enlarges employment opportunities
- Expands and streamlines the regional logistics
- Lowers the cost of energy by diversifying its sources
- Further economic benefits from arms reduction

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# V. SUGGESTED SCHEMES FOR DEVELOPMENT FINANCING

# General Schemes For Development Financing



# Utilizing Existing Development Financing Organizations

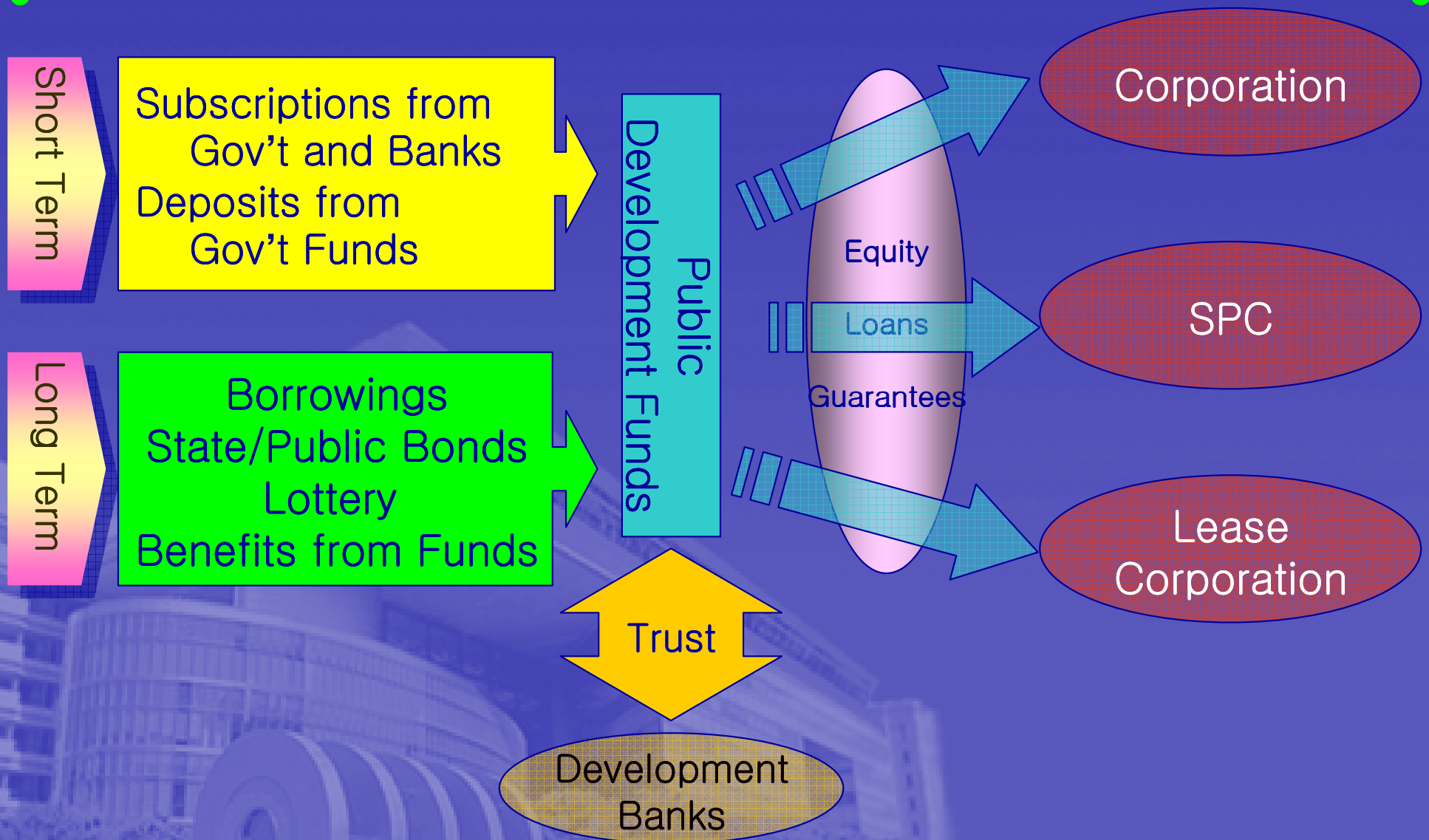
Limited in Gov't Funding for Large Scale Projects in short term

Development Financing Organizations Have **Broad Experience** in Raising Funds via Bonds & Loans

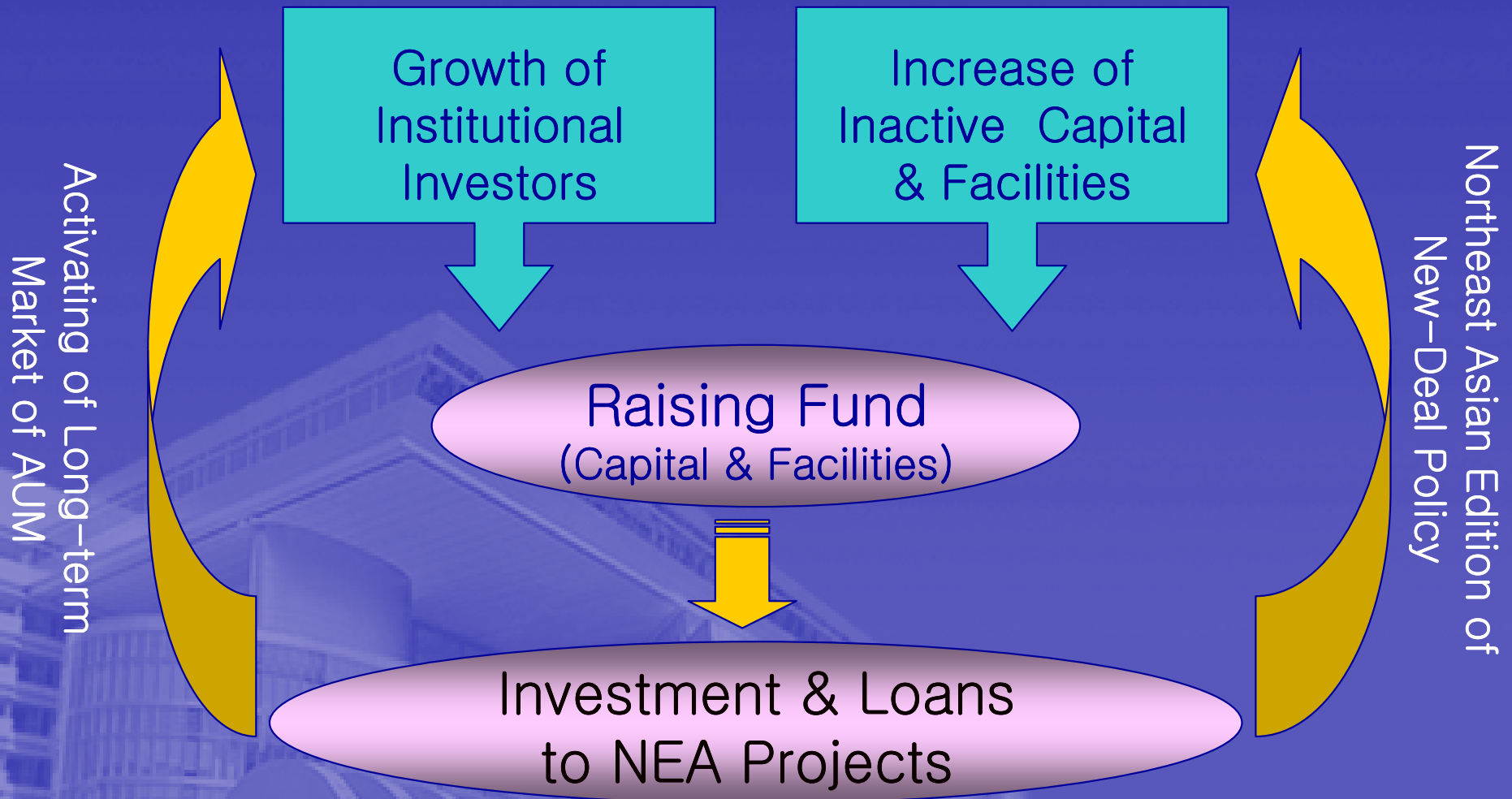
- ▶ Government-Guaranteed Bonds
- ▶ Tax Incentives to Buyers
- ▶ Bonds Underwritten by Deposits from Gov't Funds

Raising Development Financing Organizations  
as **Market Makers**

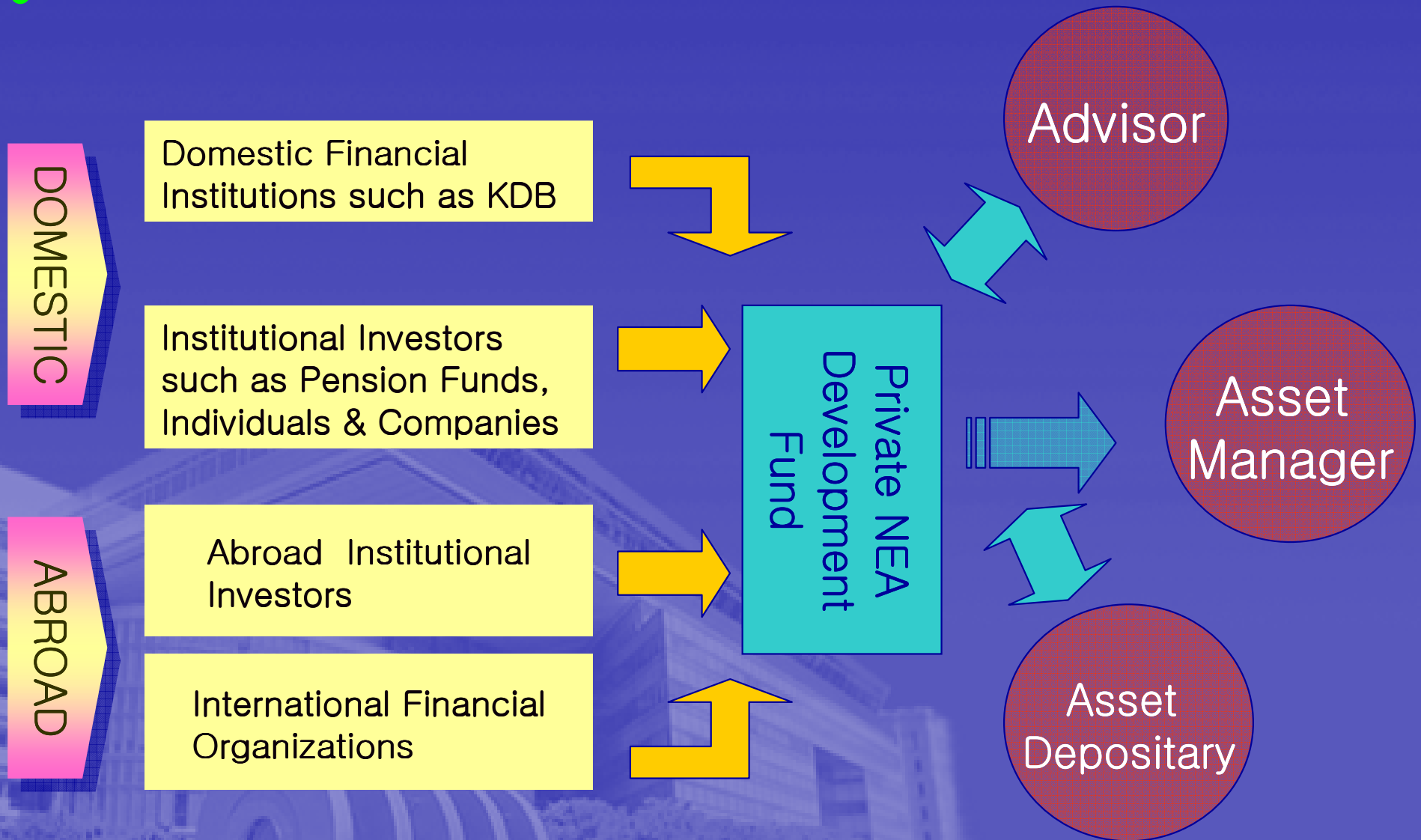
# Establishment of Public NEA Development Funds



# Expansion of Participation of Private Funds



# Establishment of Private Development Funds in NEA



# Utilization of MDBs and International Funds

Active Use of Existing MDBs / Funds

Securing Permissive Loans, Cooperation Finance of International Financial Organizations such as WB, ADB, ADF

Establishment of New Regional Financial Organizations/Funds

Establishment of Regional Financial Organizations/Funds such as NEADB or NEADF





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# V. CONCLUSIONS

# Characteristics of Development Financing Market

This market needs more than funds and willingness

## Fund Receiving Countries

### ▶ Entry Barrier

- National & Regional Gov't, Gov't-owned corporations play a key role

## Fund Providing Countries

### ▶ Launch Barrier

- Government's F/X Control
- Funding & Support difficulties due to high risk

Compromise & Deregulation Needed

# Role of Government

## Introduction

- Establishing a Cooperation System
- Developing Promising Business Opportunities
- Strengthening International Relations
- Seeking Funding Plan

## Development

- Minimizing Country Risks
- Providing Investment Incentive
- Continuing System Improvement
- Establishing NEADB

## Maturity

- Completing Advanced Financing Infrastructure
- Plans for Cooperative Development with other Financial Areas
- Creating Constant Demand

# Role of Financial Institutions

## Introduction

- Accumulating Experience through Participation in Domestic SOC Projects
- Encouraging Financial Cooperation at Home and Abroad
- Discovering New Projects and Assessing Risks

## Development

- Performing Development Financing
- Initiating the Establishment of NEADB
- Developing High Value-Added Opportunities such as Consulting

## Maturity

- Expanding Participation of Commercial Financial Institutions
- Strengthening Cooperative Loans by the NEADB

# Policy Recommendations

- Building Regional Cooperation

- Lessening of tensions
- Multilateral security cooperation

- Global Standards

- General laws, systems, financial practices

- National Consensus

- Overseas investments and financing
- Attract foreign investments and financing

- Advancements in Financial Infra

- Improvement in domestic financial environment
- Deregulation

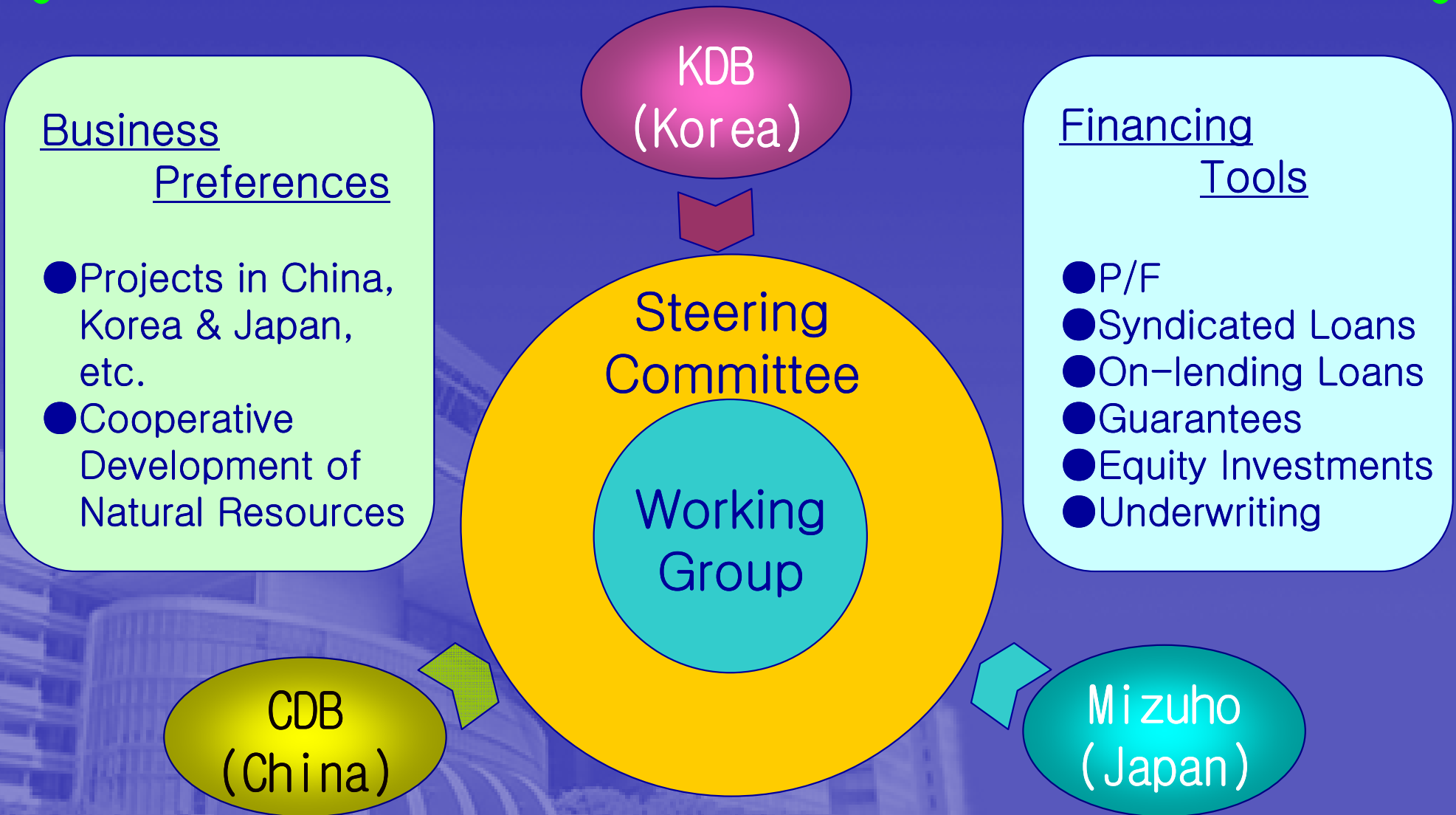
- Funding Structure

- Establishment and execution of appropriate fund system of required resources

- Human Resource Development

- Training of int'l financing experts for the region

# NADFC Launched in 2004





Thank You . . .