



The Establishment of the NEADB: A Political Approach

2006. 9.

In-Young Kim, Ph.D./Professor
Department of Political Science
Hallym University
Chuncheon, South Korea



The Necessity of NEADB

- ◆ If we had the NEADB (Northeast Asia Development Bank), we would already have enough and successful investments in the UNDP TRADP (Tumen River Area Development Project).
- ◆ The NEADB would bring closer and more stable cooperation between NEA countries and a more peaceful NEA. The NEADB will play the role of increasing mutual understanding and economic cooperation between member countries, as well as the role of financing development projects in NEA countries.



Summary of Papers (I)

- ◆ Professor Junlu Ma points out the feasibility of establishing a Northeast Asia Bank focusing on the relevant interest and consensus among NEA countries and the abundant foreign exchange reserve of NEA countries.
- ◆ He summarizes Tianjin's initiative to invite the headquarters of NEADB.
- ◆ It is necessary that the Chinese central government show its interest to establish NEADB in the world and persuade the related countries including US and Japan to participate in the establishment of NEADB. Then NEA countries shall agree on the headquarters of NEADB in Tianjin.



Summary of Papers (II)


- ◆ Dr. Jaimin Lee's paper deals with the obstacles in establishing the NEADB, as follows.
 - 1. Overlapping roles with the ADB
 - 2. Lack of consensus among related countries. Japan especially is not much interested in its establishment
 - 3. Political uncertainty in NEA
 - 4. Lack of leadership
- ◆ Dr. Lee proposes an alternative, the creation of the NEA Cooperation Fund (NEACF) as a preliminary stage of NEADB. However I am concerned that the NEACF also needs an initiative, not easily made, and NEACF does not guarantee the establishment of NEADB.



The Northeast Asian Political Situation

The main reasons for delaying the establishment of the NEADB are political barriers among NEA countries, as well as a lack of initiating country and lack of support among the related countries.

2. Aside from territorial disputes among Russia-Japan, SK-Japan, and China-Japan, there are also military tensions such as NK's nuclear development and missile launching.
3. The nuclear/missile issues that NK has brought to the fore cannot be solved easily.
4. Territorial disputes between Japan-Russia, SK and Japan, and China-Japan cannot disappear in the near future.
5. However, without an increase in economic cooperation among NEA countries, there is little room to overcome political barriers.



Japan

- ◆ A short-term perspective: Because the Japanese economy, a mature economy, is recovering from its economic depression, Japan is seeking a new investment target, such as Southeast Asia in the 1970s and 1980s. The NEA can be Japan's new investment target in the 2010s.
- ◆ A mid-term perspective: (1) Japan can diversify its investment risk by using the NEADB. (2) It will be a good opportunity for Japan to establish a superb economic cooperation network in the NEA region.
- ◆ A long-term perspective: Japan can aid NK via NEADB when Japan eventually agrees to diplomatic normalization with NK in the future.



China

- ◆ A long-term perspective: China has a great interest in establishing the NEADB, because it needs a development bank for building infrastructure in its northern Provinces. The NEADB can facilitate the regional economic cooperation of NEA and reduce the China's investment risk for NK.
- ◆ A mid-term perspective: Tianjin invited the establishment of the NEADB headquarter in October 1999 at the Tianjin Conference of the 9th Northeast Asia Economic Forum.
- ◆ A short-term perspective: China makes efforts to establish the FTA between China and ASEAN (the Association of South East Asian Nations). It holds the Olympic Games in 2008, etc. Is the building of NEADB on the list of Chinese central government's important policies?



South Korea

- ◆ A short-term perspective: President Roh Mu-Hyun will end his term at the end of 2007. If President Roh initiates the launch of the NEADB this year, or next year, he will achieve an important part of his policy, "South Korea as a Northeast Asian Business/Financial Hub". The establishment of the NEADB has been one of the few options to reach as his policy goal, "to Enhance Peace and Prosperity in the Korean Peninsula and NEA".
- ◆ A long-term perspective: The NEADB can take over the burden of SK's investment to NK, which will meet the shortage of finance to rebuild the infrastructure of North Korea when NK and SK enter the stage of close economic cooperation or economic integration.



United States of America

- ◆ The US can use the NEADB as a device to help America's policy toward NEA, for example, by strengthening economic cooperation with China and other NEA countries, and through the building of a cooperative economic institutions among NEA countries.
- ◆ There has been an opposing opinion against the establishment of the NEADB, because the NEADB's role will overlap with the role of the IBRD.
- ◆ However, the US has been consistently opposed to the establishment of new regional development banks from the beginning. In fact, at the beginning, the US had reservations about the establishment of the ADB. Insofar as the US would like to establish an economic cooperating body in which many NEA countries are involved, and if SK, China, and Japan agree to the establishment of the NEADB, the US will reverse its negative perspective about the introduction of a new development bank in Northeast Asia.
- ◆ The US had reservations about the establishment of the EBRD, and about joining it. However, once it was established, the US changed its policy, and proceeded to join the EBRD in order to continue its leadership in Europe, and out of consideration for its relationship with other European countries.



Asia Development Bank

- ◆ Discussions about the establishment of the NEADB are being watched carefully and cautiously by the ADB.
- ◆ However, there is, in fact, an opportunity for cooperation between the ADB and the NEADB, since the regions which they cover are different.
- ◆ The ADB can meet the financial needs for developing infrastructure in the NEA, introducing new special investment funds. However, if we imagine the size of the special funds, it is not enough to finance the development required in this area. The best option is for the ADB to share its know-how, technology, and experience with a newly- established NEADB.



Action Plan (I)

- ◆ 1. To make clear the plans for building the NEA infrastructure, and to publicize the amount of the necessary funds for this purpose
- ◆ 2. To specify the possible investment funds from public and private sectors for the next 10 years. It is assumed that the average annual growth for 2006-2015 will be about 5.5%. The estimate for meeting the infrastructure needs, for example, energy, roads, and telecommunications, for China, SK, NK, and Mongolia, is estimated to be US\$1,400-1,700 billion over the next 10 years.
- ◆ 3. To draw international/NEA leaders' consensus about the necessity of the NEADB. President Roh is one of the most appropriate figures to persuade NEA leaders to agree to the establishment of the NEADB. President Roh should first establish a base to raise development funds and take the initiative role in establishing the NEADB, in order to pursue his goal to make South Korea the financial hub of NEA.



Action Plan (I-1)

- ◆ 4. China, Japan, and SK can use their abundant foreign reserves to fulfill the investment needs in NEA. If South Korean, Chinese and Japanese leaders agree to the establishment of the NEADB in their summit meetings, the US and the ADB will follow the agreement and begin to participate in the NEADB.
- ◆ 5. It would be best if SK persuaded the US that the NEADB might be an effective tool in solving the nuclear and missile issues on the Korean Peninsula. After all, NK wants to join the international banking system.
- ◆ 6. To prepare persuasive and strong responses to negative opinions--that the NEADB is not necessary.



Action Plan (II)

- ◆ 1st stage (2006-2008) - the period to build the foundations of the NEADB
- ◆ 2nd stage (2009-2010) - the period to coordinate the stances of participating governments
- ◆ 3rd stage (2011-2013) - the period to establish the NEADB and have a test-run



Open Institution

- ◆ The most important point is the NEADB's transparency and openness for every country. Although NEA countries will be the main pillars of the NEADB, membership should be open to the world in order to attract further support.
- ◆ Therefore, the main constituting countries of the NEADB would be China, Japan and South Korea, as well as Russia, North Korea and Mongolia in the NEA region. The US, Canada, Australia, New Zealand, and EU should also be included as participating countries outside the NEA region.
- ◆ If some ASEAN countries are involved, the NEADB will get more support from the world. In addition, this would facilitate the involvement of the US and Japan. To attract the participation of the EU, the ADB and WB is an important step in the launching of the NEADB.