

Eighteenth Northeast Asia Economic Forum
Session 4: Financial Cooperation in Northeast Asia
-Steps towards a Regional Financial Institution for Cooperation and Development

Busan, Korea, 26–29 August 2009

**Northeast Asian Development Finance Cooperation:
The New Bank and the Support Network**

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 3. Functions requested for which a new bank
 4. Investing and financing cross-border projects
 5. Cross-border cooperation organization

Two topics from Japan and America

JAPAN:

Hiroshi Watanabe

Former Vice-Minister of Finance for International Affairs, Japan
President and CEO, Japan Bank for International Cooperation (JBIC)

USA:

Lawrence Summers

Chair National Economic Council (NEC)

Summers read carefully Northeast Asian Development Bank proposal by Stanley Katz, at the time of Asia financial crisis in 1997.

A trend in recent years

- Northeast Asian development finance cooperation being discussed under the global economic crisis.
- Northeast Asia Economic Forum (17th meeting:Tianjin) in October, 2008.
 - Proposal on the Northeast Asia Bank for Cooperation and Development (NEABCD)
 - Establishing the Northeast Asian Financial Cooperation Research Center at Nankai University
- Northeast Asian Area Cooperation Development International Forum in June 2009
 - Proposal on “Northeast Asia Financial Corporation” (NEAFC)
 - Proposal on “Northeast Asia Development Financing Council” (NADFC)

Cooperative framework in development financial

- **Fundamental view**
 - Financial function reflecting needs in Northeast Asia
 - Existing financial institution maybe inadequate
 - What is needed in Northeast Asia is a *development financial support network*
- **Strategic construction of development financial support network**
 - development finance cooperation organizations
 - development vision & strategies

Why little investment into Northeast Asia?

- Missing 'grand design' and strategies for the Northeast Asia to construct an economic unit
 - In search of new direction
- Missing financial vehicles to upgrade physical infrastructure
 - In search of new financial mechanism

Cooperation needed!

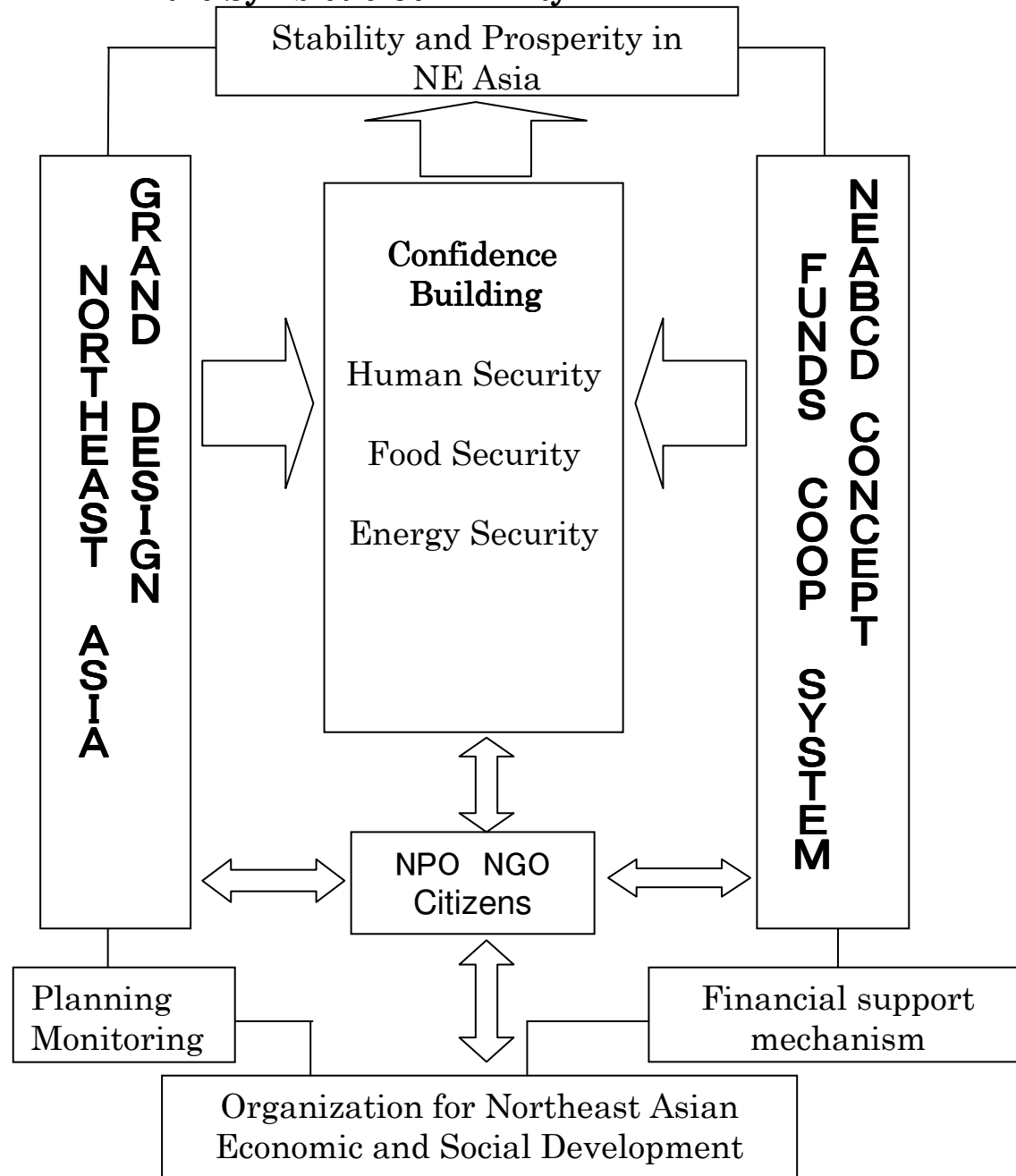
- Proposal figure 1

Proposed Institutional Framework in Northeast Asia : The Northeast Asia Symbiosis Area presents an ideal design for the future based on peace and substantial financial resources.

- Proposal figure 2

A Concept of Linked Development Financing : The theoretical outline of financial cooperation in Northeast Asia

**Figure 1 Proposed Institutional Framework in Northeast Asia:
the Symbiotic Community**



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the Symbiotic Community**

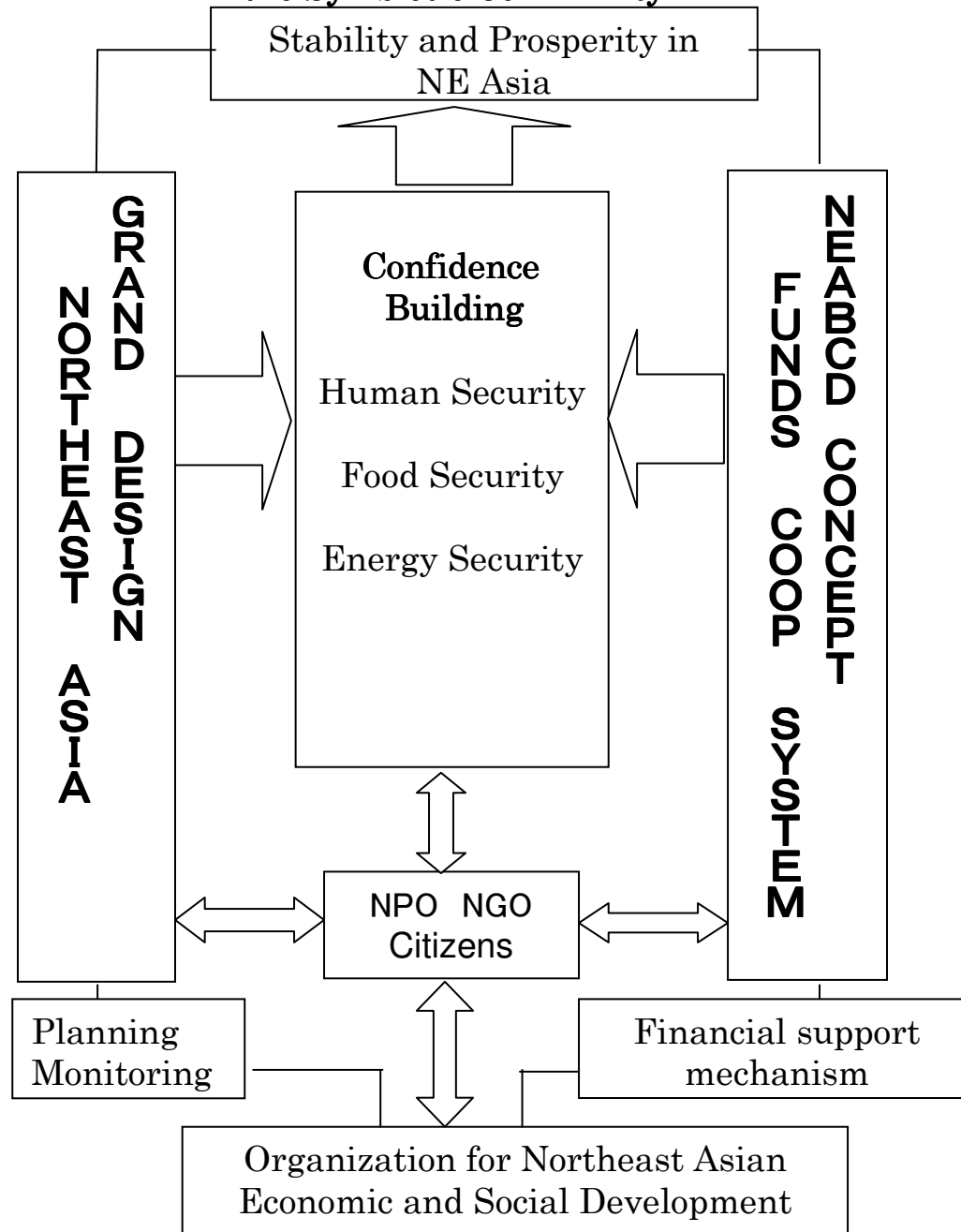


Figure 2 Proposed of Linked Development Financing

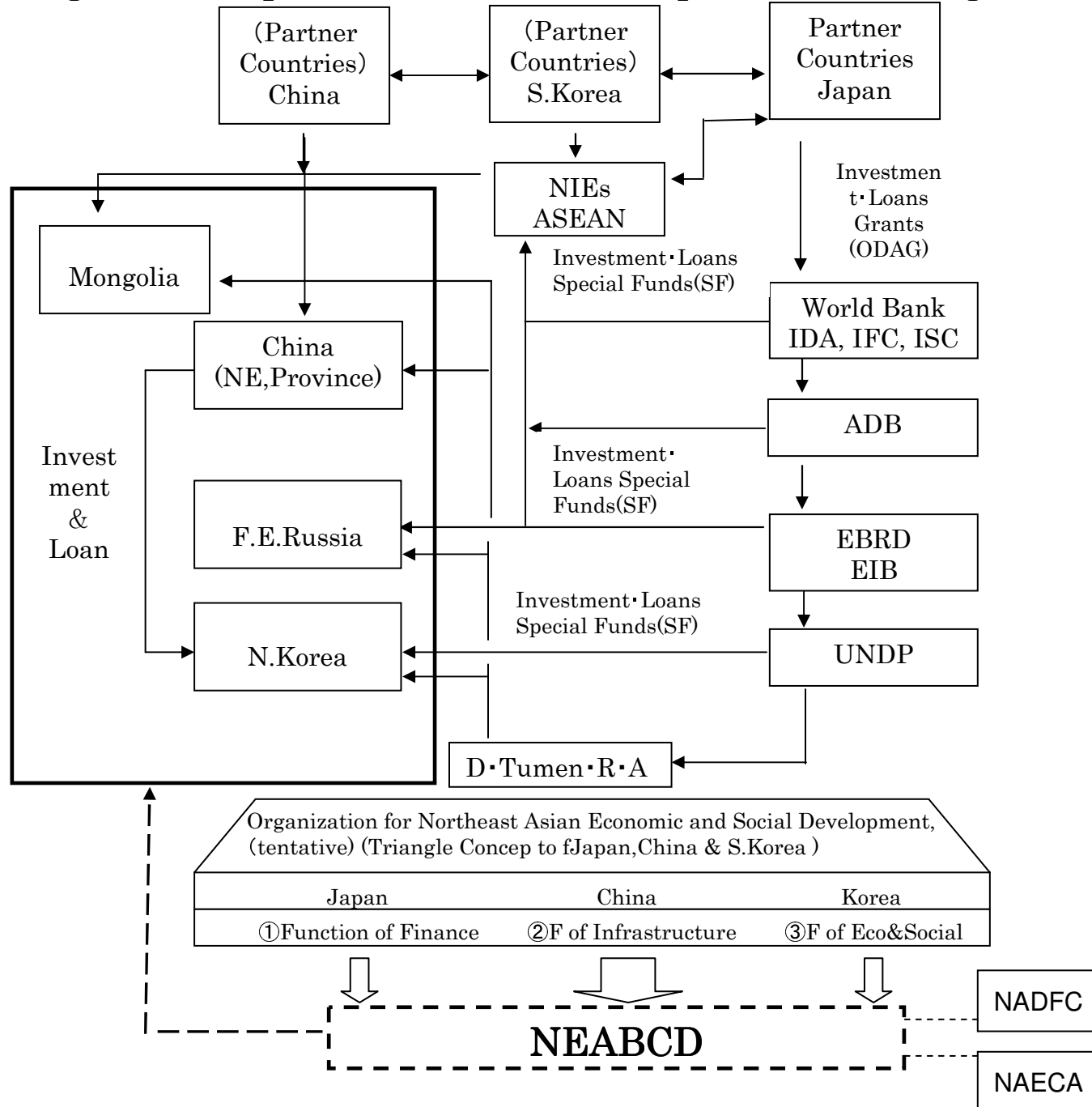
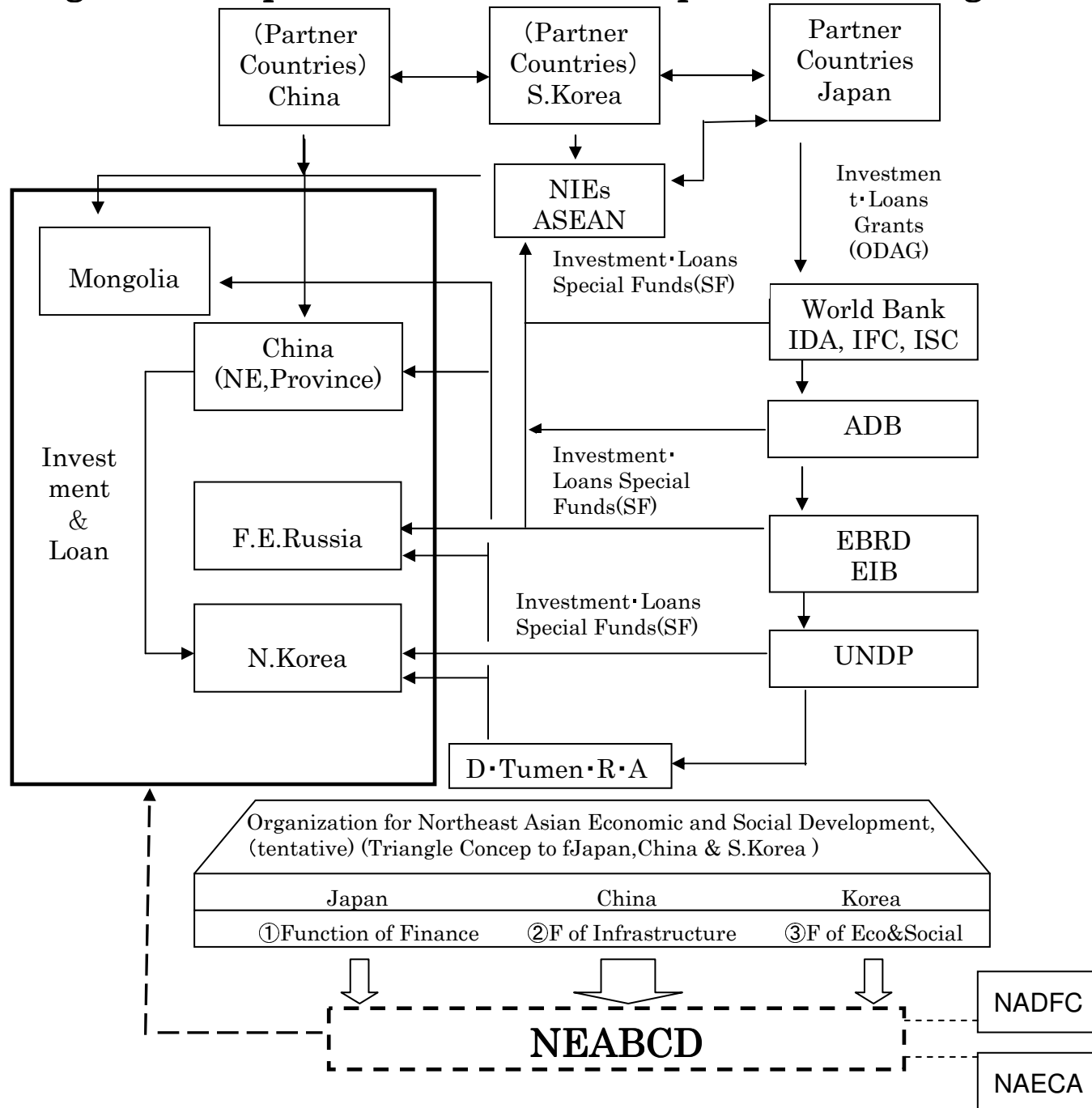
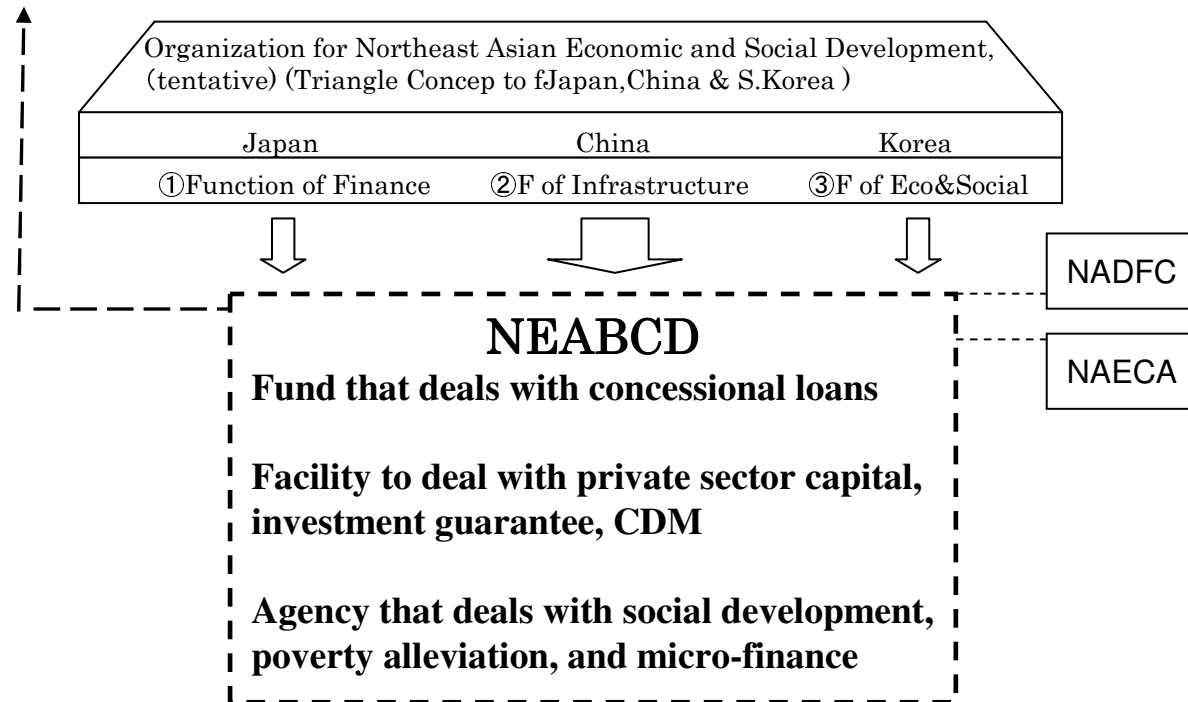


Figure 2 Proposed of Linked Development Financing



Organization for Northeast Asian Economic and Social Development



Suggestions for further discussion

1. New direction for international finance cooperation by Japan
2. Additional beneficiaries for the new mechanism
3. Functions requested for a new bank
4. Investing and financing cross-border projects
5. Cross-border cooperation organization

New direction for international finance cooperation by Japan

- International finance support of Japan focused on financial market restoration after the end of “subprime lending bubble”.
- Ultimately, Japanese economic recovery needs global demand-side recovery.
- Japanese financial assistance should go to Asian countries, which may lead the recovery of global demand.
 - Extra effects expected in Asian countries with development potentials, including the Greater Mekong Development Area, which ADB is supporting actively.

Additional beneficiaries for the new mechanism

- Japanese regional economic recovery needed
 - But cannot rely on subsidies from national government
 - Need to mobilize fund from financial markets or international sources
 - Financial methods are limited for local governments
- Can local government be beneficiaries of loans and investment from the new bank?
 - Great news if it is YES.
 - Motivation for more political support for the new bank

Functions requested for a new bank

- Functions should include not only mainstream finance, such as loans, guarantee, and investment, but also technical assistance.
- Catalyst function is also needed to urge private sector investment, since projects in Northeast Asian are large.

Investing and financing cross-border projects

- Even the World Bank and the Asia Development Bank have limited experience.
- A new bank needs to develop technique for project appraisal and supervision for investment and/or loans.
- Real-world case studies are needed for this purpose.

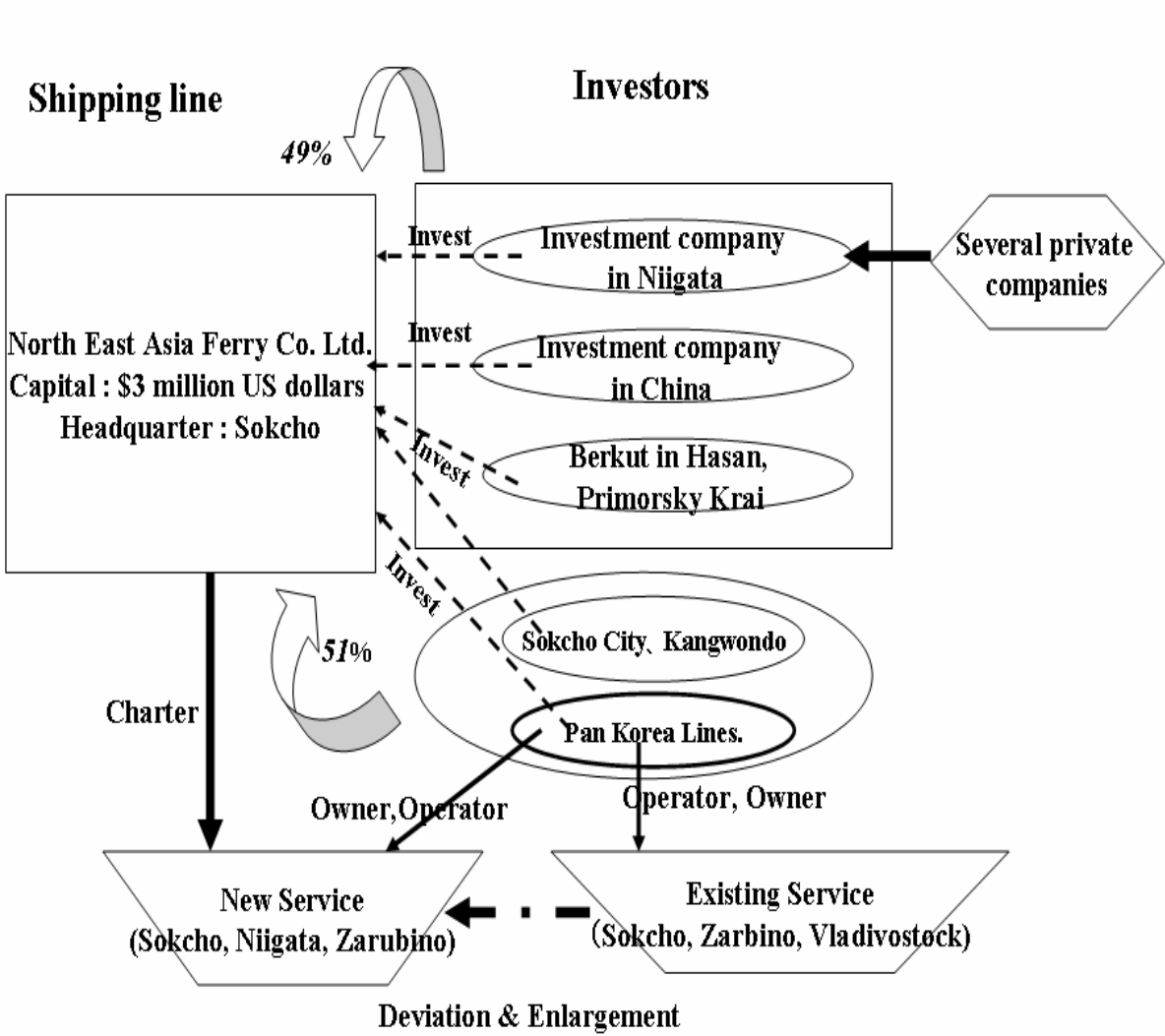
Cross-border cooperation organization

- “Cross-border cooperation organization” (EU model) for comprehensive cooperation among municipalities, nations, supranational organizations, international organizations, and international NPOs.
 - EU’s example
 - Implementation in Northeast Asia
- Real-world case study: Ferry route project across Sea of Japan / East Sea
 - Investment and financing for transportation infrastructure
 - Private-Public partnership
 - Investment from local government of four countries and private firms
 - South Korea 51%, Russia 17%, Japan 16%, China 16%
- Model case for the cross-border development initiatives such as Bu-Fu CBR for project finance

Expected service route



Organization chart



Thank you for kind attention!