



**Teleconference on Issues of Multilateral  
Development Banks and Northeast Asia Bank for  
Cooperation and Development (NEABCD)**

26 April 2012, 14:00

Teleconference facility at Saunders Hall

College of Social Science, University of Hawaii at Manoa

Organized by the  
Northeast Asia Economic Forum

## **Questions and issues circulated in advance for the Teleconference on the Multilateral Development Banks and the Northeast Asian Bank for Cooperation and Development (NEABCD)**

1. Recent developments in multilateral development banks with special reference to the BRIC proposal for a new development bank
2. Changing goals and missions of the World Bank and Asian Development Bank
3. Review of other regional banks in terms of their missions and performance
4. Research agenda for this year's NEAEF/KIEP project on the NEABCD
5. Other matters

### **List of Participants**

**Lee-Jay Cho**, Chairman, Northeast Asia Economic Forum (NEAEF)

**Richard Dubanoski**, Former Dean of the College of Social Sciences, University of Hawaii at Manoa

**Stanley Katz**, Former Executive Vice President, Asian Development Bank (ADB)

**Chang-Jae Lee**, Senior Fellow of the Korea Institute for International Economic Policy (KIEP) and Former Chair, East Asia FTA Joint Expert Group

**Chung Lee**, Former Associate Dean of the College of Social Sciences and Professor Emeritus of Economics, University of Hawaii at Manoa

**Ghon Rhee**, Professor of Finance, Shidler College of Business, University of Hawaii at Manoa

**Li Kotetsu**, Professor of Economics, School of Future Learning, Hokuriku University, Japan

**Zhang Jianping**, Director, Department of International Regional Cooperation, Institute for International Economic Research, National Development and Reform Commission of China (NDRC)

**Kennon Breazeale**, Rapporteur, Secretary of the NEAEF

Stanley Katz, (Sarasota, Florida), Zhang Jianping (Beijing) and Li Kotetsu (Hokuriku) participated through the Skype teleconferencing facility provided by the University of Hawaii in Saunders Hall.

## Summary of Discussion

Lee-Jay Cho opened the meeting by inviting participants to present their views about recent developments in the multilateral development banks, the recent proposal by the BRICs for a new bank, and what the Northeast Asia Economic Forum needs to do this year with respect to the proposed Northeast Asian Bank for Cooperation and Development (NEABCD).

Stanley Katz outlined the BRIC proposal as he understood it from the press release issued at the recent meeting in Delhi of the BRIC group of countries (Brazil, Russia, India, and China) and South Africa. Their proposal for what they term “South-South Bank” reflects the recognition they want for their increasing economic weight in the changing global economy, with the BRIC bank as an alternative to the World Bank as a source of borrowing. We need to find out what preparatory work they have done and who has been involved in the work. Although details are lacking, it would appear that the only country that could contribute a substantial amount of capital is China, plus perhaps India. Most of the member countries would be borrowers, and thus raising capital will be a major impediment. Capital markets will probably not be very receptive to bonds issued by a bank consisting of BRIC members, South Africa and other developing countries. For most of these countries, any bank would need a “soft window” for its borrowers, and funding such a window would be very problematic in this case.

Zhang Jianping pointed out that new developments are expected from the IMF in October 2012 and some countries are looking for a new approach. The initiative for the BRIC bank came from India. The BRIC countries have very different economic systems, and it would be difficult for Russia to support the bank, although a little easier for South Africa. No background work has been carried out in China to support the proposal announced at the Delhi meeting. The five countries agreed that each country will study the proposal for a year before engaging in further discussion.

Li Kotetsu reported that the bank proposal has appeared in international news reports in Japan. Japanese officials have made no comment about it, however, and no discussion about it has appeared thus far in the Japanese media.

Lee-Jay Cho asked whether the extensive Forum network can interact with the Chinese researchers to provide some dialogue about the issue. Zhang Jianping said he will try to find out who is or will be involved in the study in China.

Lee-Jay Cho pointed out the recent division among countries in the choice of the new President of the World Bank. This reflects the feeling among some countries that the World Bank is no longer carrying out its original mission, and the resultant dissatisfaction with current leadership. He invited comments on these issues in relation to the proposal for the BRIC bank.

Stanley Katz reiterated the need of the lesser development countries for a “soft window.” The World Bank does not have the resources for a “soft window” and is thus not attractive to these countries. Many countries have already “graduated” from World Bank assistance, including Japan long ago and countries such as Malaysia and Thailand more recently. These countries would be regarded as the most creditworthy ones. The less-

developed countries today, however, do not have the necessary institutional framework to use capital effectively, hence the change in World Bank emphasis in their case, in order to promote the development of these institutions (such as banking systems, health care, and so on) The World Bank has realized that capital itself is only one part of the need. Lending over the decades for poverty reduction has not proved to be cost effective. These countries do not have planning commissions, the intellectual capital, and so on that would enable them to use capital effectively. Lending from the World Bank and the Asian Development Bank (ADB) has changed over the decades, and it is doubtful whether they will revert to the old way of lending. From the viewpoint of the less-developed countries, if there is no way for them to get long-term funding through the “soft window”, then the purpose of the bank is lost to them. In the case of Europe, there is a conflict between those who support austerity (such as Germany) and those who see pumping more money into the economy as the solution, and this is a distinctly different case from the less-developed countries.

Ghon Rhee added that the policymakers at the World Bank and the IMF may not know, at this juncture, what to do about their future direction. With regard to the proposed BRIC bank, he emphasized that the Forum needs to obtain more information about the proposal so that the Forum can determine what can be done vis-à-vis the Forum’s network and building on the past work of the Forum for the NEABCD.

Zhang Jianping pointed out that not only has the World Bank’s lending changed, but also the requirements imposed on borrowers are very complicated and problematic for them, and this does not have a positive effect on lending to less-developed countries. He did not think the United States, European Union, or Japan will react to the BRIC proposal.

Lee-Jay Cho pointed out that existing development bank rules are very old. ADB for example was founded in 1966. He invited participants to comment on whether the rules of these banks could be changed and whether some countries, such as China, might gain a more leading role to reflect its changed economic position in the region and the global economy.

Stanley Katz observed that the imbalance of shares in the ADB could be corrected, but that this issue would have to be raised by the Board of Directors of ADB. With regard to the NEABCD, a new regional bank seems feasible and would meet the region’s needs. He observed, however, that the European Bank for Reconstruction and Development (EBRD) has a special role vis-à-vis the countries formerly under the influence of the Soviet Union, but that the EBRD cannot engage in certain types of lending (for example, to public-sector enterprises), and thus is not a good model for the NEABCD.

Chung Lee raised the issue of an appropriate model to meet the needs of the Northeast Asian countries. In this regard, they might look to the OECD rather than the existing development banks. The OECD coordinates policy for the members, and coordination is needed for regionwide development. In this regard, he asked which countries in Northeast Asia, except Mongolia and North Korea, could be termed “developing” economies in need of the bank’s capital?

Stanley Katz replied that he had worked for the OECD and was not impressed by its performance in terms of coordination. Moreover, the countries that would benefit from the BRIC proposal are very diverse, have little in common, and are geographically

dispersed. These differences would make it very difficult to establish such a bank for them. By contrast, the rationale of the NEABCD is cross-border infrastructure projects that are feasible within a regional context.

Zhang Jianping observed that Russia's biggest concern now is Europe. He pointed out that a proposal had once been made for a Central Asian Development Bank, but that Russia did not take much interest. He did not think Russia will be very positive about the NEABCD but might take a positive stance on the BRIC bank proposal.

Lee-Jay Cho replied that the Forum researchers accepted from the very beginning that the NEABCD, which would focus on the Russian Far East, would have relatively limited appeal to Russian policymakers in Moscow and St. Petersburg.

Chang-Jae Lee discussed the work of the East Asia FTA Joint Expert Group and its relevance to the proposed NEABCD. The bank proposal is not on the FTA agenda for 2012, but an appropriate time to get in on the agenda might be at the 2013 meeting in South Korea.

Zhang Jianping noted that, from the Chinese viewpoint, the year 2012 would also be appropriate, since it marks the 40th anniversary of the establishment of diplomatic relations between China and Japan and the 20th anniversary in the case of South Korea.

Lee-Jay Cho invited the views of participants as to whether the BRIC bank proposal is a plus or a minus for the NEABCD proposal.

Zhang Jianping thought that the answer should be "neutral." He did not foresee any impact from the BRIC proposal on the regional bank proposal for Northeast Asia. In contrast to the Central Asian case, where it would have been difficult to set up a bank, because the per-capita incomes in borrowing countries are so low, the Forum's long-term study has shown that the NEABCD is feasible.

Stanley Katz said that it is difficult to foresee the implications of the BRIC proposal. He pointed out that the NEABCD would have one group of borrowers, whereas the BRIC bank would have another group, without much overlap. He reiterated that it would be difficult for any country to mobilize so much capital all at one time for even one new bank, much less two banks. In terms of timing and given the background work already accomplished, he felt that it would be best for the NEABCD proposal to proceed.

Zhang Jianping replied that, for China, there would be no problem in raising the initial capital, even for two banks. The more important issue is demonstrating common interests among the countries as a means of promoting the NEABCD. He also pointed out the importance of China's Ministry of Foreign Affairs and Ministry of Finance in relation to the NEABCD. The two ministries have not yet received any indication from Japan about the plan, and it would be very helpful if the Japanese government could give them some positive sign.

Lee-Jay Cho thanked the participants for their contributions and provided a brief summary of points, with particular emphasis on identifying and contacting the people who are working on the BRIC study, working on a plan for the Japanese to communicate with the two Chinese ministries, and updating the existing Forum data on the NEABCD in preparation for next year.