

*The Necessity and Feasibility for
Establishing the Northeast Asia Bank
for Cooperation and Development*

Dr. CHO Lee-Jay

Prof. MA Junlu

Prof. ZHANG Jianping Dr. LIU Ming

May. 11th , 2011.Tokyo

Contents

- ✦ **1. The Necessity for Establishing the NEABCD**
- ✦ **2. The Feasibility for Establishing the NEABCD**
- ✦ **3. The Financing Requirements and Management of Cross-Border Projects in Northeast Asia**
- ✦ **4. Purpose, Character and Principle of NEABCD**



1. The Necessity for Establishing the NEABCD

1.1 Meeting the Requirement of Sustainable Development of the Northeast Asia

- Important areas: energy security, green and low carbon economy, environmental protection, transportation and logistic network construction.
- NEA countries need a regional financial mechanism to provide long-term capital and give technical support, particularly in large-scale cross-border infrastructure projects.

1.2.Meeting the Large Financial Requirements in Infrastructure in Northeast Asia

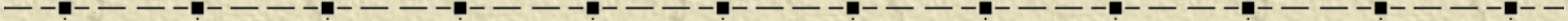

- ✦ A large amount of financing demand for the infrastructure construction
- ✦ The current multilateral financial institutions could not meet financing need
- ✦ ADB focuses on the operation of the impoverished area of Southeast and Central Asia, the investment on NEA region accounts for 4% of ADB total investment.
- ✦ WB mainly invests in the poor areas of Latin America and Africa.

1.3. Adjusting the Imbalance of Regional and Global Financial Development

- ✦ Help the member countries to setting the finance and monetary policies and strengthen supervision on the financial markets
- ✦ Develop regional bond market, increase the variety of investment assets which can be invested by governments of this region
- ✦ Absorb the large amount of foreign exchange reserves
- ✦ Ameliorate the issues of deposits-resource loss in NEA and the imbalance of international payment between NEA nations and the US.

1.4. Promoting the Economic Integration of the Northeast Asia Region

- ✦ Highly diversified economy and the resources among the countries are complimentary
- ✦ Regional trade and investment growing rapidly and more frequent economic exchanges and interdependency
- ✦ Eliminate the difference in economic aspect, promote the understanding
- ✦ Stimulate the intraregional trade and investment
- ✦ Formulize the NEAFTA and EAFTA



2. The Feasibility for Establishing the NEABCD

2.1. The Basic Credentials are Matured


- ✦ The third largest regional economy in the world
- ✦ With the largest development potential and fastest economic growth among the world.
- ✦ The total foreign exchange reserves rank first
- ✦ CJK: major capital-exporting countries
- ✦ Has formed a network production sharing structure
- ✦ FC: Regional cooperation can never be overestimated

2.2. The History of the Research and Institutional Supports of NEABCD

- ✦ Proposed in 1991, NEAEF had its first annual conference in Changchun and Tianjin, China
- ✦ In 1997, in Ulaanbaatar, became a major topic
- ✦ In 1999, the 9th annual conference in Tianjin made the topic more attractive
- ✦ 6th Ad-Hoc Committee Meetings were held for establishing the NEABCD in Tianjin, Los Angeles and Honolulu in 2008
- ✦ In 2009 the Research Center for Financial Cooperation in NEA was established at Nankai University

2.3. The Consensus on the Establishment of NEABCD

- ✦ Consensus is reached from non-government level
- ✦ CDB, CEIB, KEIB, JBIC are get involved in the research on establishment of the bank.
- ✦ Has got the supports and endorsements from some NEA governments and UNDP, EU
- ✦ China's rising provide more opportunities
- ✦ The regional and sub-regional multilateral financial institutions are able to coexist



3. The Financing Requirements and Management of Cross-Border Projects in Northeast Asia

3.1. Multilateral Development Bank is the Most Effective Channel for Financing Major Cross Border Projects

3.1.1 The Features of Major Cross Border Projects Financing


- ✦ The major cross border projects features a large amount of capital and a long investment payoff period.
- ✦ The financing of cross border projects is far beyond the capacity of mobilizing the deposit and foreign exchange of one single nation
- ✦ The sole private capitals normally do not have the capacity or will to invest
- ✦ The multinational banks have comparative advantages

3.1.2 The Financing Channel of Northeast Asia Regional Cross Border Projects

- ✦ NEA countries have no advantage to gain the capital support from current multilateral development banks.
- ✦ Most of the cross border projects of NEA region could only get very limited capital from current multilateral development banks
- ✦ NEABCD is focused on the NEA region. The bank can also become a complementation and cooperate with the current multilateral financial institutions.

3.2 Major Cross Border Projects in Northeast Asia Region and Its Financing Requirements

- ✦ A huge capital demand on the infrastructure construction
- ✦ In next thirty years, the upgrading and renovation of current energy infrastructure in the Far East Area of Russia at least need 150 billion dollar investment
- ✦ The major natural gas projects require 100 billion dollars investment, the major oil projects require 20 billion dollars investment, and the hydroelectric system construction require 8.4 billion dollars investment.
- ✦ Investment for development of Hunchun-Khasanskiy-Naenara multinational border economic cooperation zone has exceeded 10 billion dollar.
- ✦ Busan-Fukuoka ocean transportation network, channel tunnel among CKJ



4. Purpose, Character and Principle of Northeast Asia Bank for Cooperation and Development

4.1 The Purpose – To Promote the Sustainable Development of Northeast Asia Region

- ✦ Put priority on large scale cross border infrastructure construction, energy and natural resources development, energy-saving and emission-reduction, low carbon economy, environmental protection and promotion of intraregional trade and investment
- ✦ Meet the continuously capital demand of middle income country or country which gradually stepping into the middle income level.

4.2 The Character – Subregional Multilateral Policy Bank

- ✦ Accept capital contribution of NEA nations' policy banks with governmental background
- ✦ Allocate the investment capital through policy-oriented operation.

4.3 Capital Scale – Proposed 40 Billion Dollars for Initial Capital

4.3.1 The total capital amount


- ✦ Determined by taking reference to the GDP amount of all countries in NEA, while the investment demand in the region and the orientation of the Bank will also be considered
- ✦ To set the ratio of the Bank's total capital amount to the GDP amount of all countries in Northeast Asia as 0.5%.
- ✦ The Bank's total capital amount will be USD 40 billion.

4.3.2 Subscription Approach

- ✦ In order to design the paid-up capital ratio, we must not only draw the experience from other multi-lateral institutions
- ✦ Also take the financing needs and the economic strength in NEA into account.

Table 1. The paid-up and uncalled capital ratio of the major multilateral institutions

Bank	Paid-up Ratio	Uncalled Ratio
World Bank	20%	80%
Asia Development Bank	7%	93%
European Development Bank	30%	70%
American Development Bank	4.3%	95.7%
Nordic Investment Bank	10.1%	89.9%

- 
-
- ✦ The Bank's objective is to supply fund for basic facilities construction in NEA. These projects generally need huge amount of fund and take many years, thus the paid-up capital by the membership country should be as much as required.
 - ✦ With regard to the economic strength of every member country, the paid-up capital ratio will be set as 10%.
 - ✦ With the economic development and increasing financial demand, the bank could gradually increase the capital and stock.

4.4 The Principle of Share Allocation – Considering All Aspects of NEA region.

- ✦ The NEA countries are the major shareholder with a controlling stake.
- ✦ The non-regional countries and international financial institutions can also take part in.
- ✦ The share allocation of every NEA country could refer to every nation's GDP, foreign exchange reserves, foreign trade volume and their relevant growth rate, and using the synthetically weighting method.

4.5 Selection of Headquarter – Consider the Efforts and Credentials from the Candidates

- ✦ Requirements: capabilities for both domestic and external financing expansion, effective channels of international transportation and communication, low cost operational environment, and ability to provide high quality offices, living accommodations, educational facilities and feasible logistic services.
- ✦ Have strong policy support from both central and local governments of whereabouts.
- ✦ Tianjin is proposed to be the headquarter place for its previous efforts and economic development and potentials.
- ✦ Any other candidates from the region, such as from Japan and South Korea, also welcomed warmly.

4.6 Selection of Chairman of the Board and President of the Bank

- ✦ After the site selection of bank headquarter, considering the benefits of the headquarter-located country and the other countries, shareholders will select the Chairman of the board.
- ✦ The president of the bank will be recruited through a world wide open selection, and adopt the fixed-tenure appointment system



Thank you for attention!

- ✦ Room B914, Guohong BLDG No.Jia 11, Muxidi Beili, Xicheng Dist.
Beijing, 100038, P.R.China
- ✦ Tel: 86-10-63908914 Fax: 86-10-63908941
- ✦ E-mail: jpzh88@gmail.com