

Expert Group Meeting on Financial Issues in Northeast Asia

Cooperation and Integration for Development Finance

Summary and Conclusion

May 29, 2009

The Expert Group Meeting on Financial Issues in Northeast Asia was held on the 21st and 22nd of May 2009 in Honolulu, Hawaii, USA to tackle the overall issue of cooperation and integration of development finance for Northeast Asia.

The major outcome of the meeting was the implementation of the task set by the NEAEF in its Tianjin Declaration (28 October 2008) to continue to develop concept materials to establish a Northeast Asian Bank for Cooperation and Development (NEABCD). The bank is envisioned as a tool to attract capital for large-scale, cross-border projects, further the economic and regional integration of Northeast Asian nations and promote economic development in a socially and environmentally responsible manner.

Prior to the specific discussion of the NEABCD, the Expert Group presented and discussed broad issues, as well as technical issues, organized around three broad session topics: regional financial architecture and arrangements, financing infrastructure development projects in the region, and the issue of accelerating functional economic integration within Northeast Asia.

Several themes emerged over two days of presentations and discussion. First, the experts noted the importance for the region of institutions and governance as a catalyst for continued economic integration in the wake of the global financial crisis. Second, the experts noted the importance of currency stability and noted significant changes in trade patterns within the region in the wake of the financial crisis. Third, the experts noted the importance of considering the interests of the Northeast Asian economies that excelled in manufacturing (China, Japan and Republic of Korea) as well as the interests of the Northeast Asian economies that are resource-oriented (Russian Federation and Mongolia). The issue of DPRK's unique role was also noted. Further, it was pointed out that significant regional integration was already occurring across national borders and there were many examples demonstrated in the various presentations. Fourth, the experts discussed the major issues of the existing economic environment and the difficulty of attracting capital for cross-border projects in Northeast Asia. Several of the presentations suggested that priority programs in need of financing are projects that can deliver of energy and other resources in an environmentally and socially responsible manner to the manufacturing centers, while at the same time increasing the value-added capacity of the supply areas. Fifth, current information and data was presented to provide a best available overview of the issues facing the economic development of the entire Northeast Asia. Finally, many of the expert presentations noted that a multilateral financial institution would be a catalyst for resolving the existing bottleneck and could developed a solution within a context and framework acceptable to Northeast Asian nations.

Several experts pointed out that Northeast Asia needed to find a path to include US in future discussions, given the election of a new administration with potentially new approaches and the specific regional interests where US participation may be particularly relevant and useful. Several speakers also noted that an institution like the NEABCD would be welcome by the governments of the countries within Northeast Asia and could be an excellent response to the urgent need to efficiently mobilize capital to finance cross-border infrastructure and development projects.

The Expert Group held a lively discussion of how to encourage the process of establishing a development bank and providing a practical framework for the NEAEF to move closer to its overall goal. The Chinese researching group of the Research Center for Financial Cooperation in Northeast Asia (“the Research Center”) presented two significant draft documents as a preliminary point of discussion for the expert group: An “exploratory study” that described the potential structure for the NEABCD and a “roadmap” process document for promoting the NEABCD. The Research Center provided considerable detail that summarized the Research Center’s efforts in moving the NEABCD process forward and the preparation of the two primary documents. Mr. Wang, Former vice Mayor of Tianjin Municipal Government and the Executive Vice Chairman of the Research Center, gave a summary of the regional need the establishment of an NEABCD provided, as well as China’s view of why a regional institution is necessary. It was recognized that the NEABCD concept has a long and rich history within the NEAEF process.

Stanley Katz, former Vice President, Asia Development Bank suggested that a briefing report (briefing memo) suitable for review by the countries’ ministers. This briefing report would address and explain some of the major issues that need to be confronted. It would be important to have a document that could respond to likely potential questions regarding the value of the proposed bank. Dr. Cho suggested that there be prepared a series of reports that deal with major issues. Other multilateral institutions do not have experience in dealing with multi-country projects where more than one country carries the debt (with the notable exception of the Mekong Delta Project). Dr. Katz stated it would be good to have a technical report that deals with borrowing structure for financing multi-country projects that described financial analogs (like a New York/New Jersey tunnel financing). Dr. Katz suggested a special funds lending program for countries within Northeast Asia that cannot meet traditional (World Bank, ADB) terms. Mr. Maeda raised the issue of allowing for the ability of the institution to have a structure that allows participatory financing from other multi-lateral institutions or the private sector for cross-border projects. Further, Mr. Maeda added that NEABCD have a mechanism to allow for the participation of sub-sovereign governments and authorities; that the NEABCD could act as a catalyst to attracting other capital; and that the NEABCD could provide viability gap financing commercial banks cannot provide. Finally, Mr. Maeda stated that a preliminary list of potential projects be generate as part of the planning process for the NEABCD. The list should include the Busan-Fukuoka Cross-Border Cooperation Project and the Infrastructure project of Southern Mongolia.

There was support for organizing additional meetings of experts that could work specifically to put together a research plan and identifying research priorities for the NEABCD that would represent the many stakeholders and secure governmental support within all the potential country participants for the NEABCD. There was unanimous agreement that considerable work on

NEABCD was carried out in a short time and there was unanimous consent that works on the NEABCD and the NEABCD process should continue.