

A Korean Perspective on the Design for the proposed NEADB

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I . A Design for the proposed Northeast Asia Development Bank (NEADB)

1. A Design for the proposed NEADB was outlined by Dr. Stanley Katz, Director, NEAEF and former Vice President, Asian Development Bank

2. The object of the NEADB was to fill the Northeast Asian region's infrastructure financing gap of a projected \$5.0 billion
 - i.e., a required net foreign inflow of \$7.5 billion minus a possible supply of \$2.5 billion through existing channels such as ADB, IBRD, etc.

3. The key merit of capital formation of NEADB is as a sub-regional bank following the ADB model,
- i.e., a very small portion of paid-in capital with a large portion consisting of callable capital (e.g., ADB's 7% paid-in capital and 93% of callable capital)
 - The initial capitalization may require a bigger proportion of paid-in capital , say between 25% or more.

<Table 1> Summary of Costs and Benefits of ADB membership

The authorized capital of ADB as of 12/31/99 = \$47,597million

Paid-in capital \$3,348million(7%) + Callable capital(\$44,245million(93%))

<budgeted cost for shareholders>

<contingent liability only>

(Unit: US\$ in million)

Country	%of Bank's Capital Shares	Total Subscription	Paid-In Amount*	Callable Amount	Commercial, Development and financial benefits of being shareholder in ADB*		
					In2000 (A)	Cumulatively (B)	Loans (C)
			7%	93%			
Japan	15.93%	\$7,185	\$504	\$6,681	\$131	\$7,041	-
South Korea	5.13%	\$2,320	\$162	\$2,158	\$109	\$3,526	\$6,338
China	6.56%	\$2,970	\$208	\$2,762	\$783	\$5,492	\$10.3Bn
Mongolia	0.15%	\$6.93	\$0.49	\$6.44			

*A&B : member countries share of ADB procurement contracts for goods, related services and consulting services

C : total amount of development loans from ADB

II . Reason Why the NEADB Has Not Yet Been Established

4. The Tokyo Foundation, in its monograph series no. 7, pp38-39, pointed out the following 4 reasons for why the NEADB has not yet been established

1) lack of viable regional effort toward bilateral and/or multilateral agreements,(e.g. FTA, etc.)

2) lack of regional identity and/or leadership

3) lack of confidence among regional member countries

4) lack of external environment- building, (e.g. DPRK's nuclear problem)

5. In addition to the reasons cited above, the following 2 fundamental reasons should be taken into consideration.

- 1) Before and after entering into the war in Iraq, the U.S. and the U.K. coalition powers exerted every effort to the middle eastern oil embargo and subsequently lesser concern or support to sub-regional development financing like the NEADB.
- 2) The establishment of a Sub-regional bank such as the NEADB has not yet been fully supported even by multilateral financing institutions such as ADB, AfDB, EBRD and IADB, etc.

III. A Design of Multilateral Fund

Raising of the NEADB

6. In the by-gone days, the government of former President Kim, Dae Jung tried mainly a bilateral approach to the Democratic Peoples Republic of Korea in line with 'Sunshine Policy'.

However, the success of economic cooperation through bilateral transfer of funds is being questioned in the context of nuclear issue .

7. Therefore, the newly inaugurated government of President Noh, Moo Hyun targeted the implementation of the 'Peace and Prosperity of Northeast Asia Region'.

In line with this strategy, multilateral fund raising and cooperation for the establishment of the Northeast Asia Development Bank should be prerequisite to financing infrastructure in the region in the future.

In this respect, I would like to draw your attention to the recent remarkable NEA financial cooperation of Chiangmai Agreement of Central Bank Swap.

<Table 2> Progress on the “Chiangmai Initiative”

(as of Jan. 15, 2004)

BSA	Currencies	Conclusion Dates	Amount
Korea -Japan	USD/Won	July 4, 2001	US\$ 7 billion ¹
Japan-Thailand	USD/Baht	July 30, 2001	US\$ 3 billion
Japan-Philippines	USD/Peso	Aug. 27, 2001	US\$ 3 billion
Japan-Malaysia	USD/Ringgit	Oct. 5, 2001	US\$ 3.5 billion
China-Thailand	USD/Baht	Dec. 6, 2001	US\$ 2 billion
China -Japan	Yen/Renminbi	March 28, 2002	US\$ 3 billion equivalent
Korea -China	Won/Reminbi	June 24, 2002	US\$ 2 billion ²
Korea-Thailand	USD/Baht(Won)	June 25, 2002	US\$ 1 billion
Korea-Malaysia	USD/Ringgit(Won)	July 26, 2002	US\$ 1 billion
Korea-Philippines	USD/Peso(Won)	Aug. 9, 2002	US\$ 1 billion
China-Malaysia	USD/Ringgit	Oct. 9, 2002	US\$ 1.5 billion
Japan-Indonesia	USD/Rupiah	Feb. 17, 2003	US\$ 3 billion
China-Philippines	Renminbi/ Peso	Aug. 30, 2003	US\$ 1 billion
Japan-Singapore	USD/SG\$	Nov. 10, 2003	US\$ 1 billion
Korea- Indonesia	USD/Rupiah(Won)	Dec. 24, 2003	US\$ 1 billion
China- Indonesia	China- Indonesia	Dec. 30, 2003	US\$ 1 billion

(Total US\$ 35 billion)

1) The US dollar amounts include the amounts committed under the New Miyazawa initiative, US\$5 billion for Korea and US\$2.5 billion for Malaysia.

2) The swap requesting country could ask for dollar-local currency swap.

8. For your further information, I would like once again mention the noteworthy movements of ASEM Finance Ministers' Meeting held in Copenhagen, Denmark in July 2002, where the design of ACU (Asian Currency Unit) was officially proposed. Since then, not only APEC and ASEAN+3 (i.e. China, Japan and Korea) but also EMEAP(Executives' Meeting of East Asia and Pacific 11 Central Banks)and even ASEM have been exerting every efforts to realize both policy coordination and ABF(Asia Bond Fund) activation. This will surely be one of the most encouraging sign of environmental evolution for the design of establishing NEADB(Northeast Asia Development Bank).

The design was accelerated through recent weak floating of Key Currency, i.e. U.S. dollar and its keen influence on the respective Asian country's currency.

Looking back upon the experience of EURO Monetary Union, ASEAN plus three, i.e. China, Japan and Korea had already agreed and implemented upon Central Bank Swap Arrangement called "Chiangmai Initiative", already amounted to US\$ 35 billion as of 15 January, 2004.

Thus, next step has been taken into consideration of establishing an unified multi-currency peg floating exchange rate system which is composed of namely U.S. dollar, EURO, Japanese Yen, Yuan and Korean Won, etc.

In this respect, it is quite noteworthy that Professor Mundale of Columbia University, Nobel-Prize Winner, recently advocates “Asian Currency Area” in line with his theory of “Optimum Currency Area” for establishing ECU(European Currency Unit) in by-gone days.
Thank you for your listening.