

# Development Financing in Northeast Asia: Demand Estimates and Suggestion

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Internationally, the geographical boundary of Northeast Asia is yet to be clearly defined. In a narrow sense, Northeast Asia generally refers to the area encompassing the Korean Peninsula, Japan, Northeastern China (3 Northeastern provinces and Inner Mongolia), Mongolia and the far eastern region of Russia.

However, excluding the other parts of China from Northeast Asia seems inappropriate when considering the size of China's economy and the deepening economic inter-dependence and cooperation among Korea, China, and Japan including discussions with regards to the creation of a FTA among the three nations. Therefore, we will include all of China in our discussions. Doing so will provide increased growth potential for cooperation and development within Northeast Asia.



**Figure 1. Geographical Boundaries of Northeast Asia**

Northeast Asian countries make up about 20-25% of the world in terms of size and population. The region also accounts for approximately 20% of the world's GDP and exports, a number that will continue to grow.

**Table 1. Outlook of Northeast Asian Countries (as of 2003)**

Country	Territory (1000km <sup>2</sup> )	Pop. (million)	GDP (US\$100 million)	GDP per capita (US\$)	Export (US\$100 million)	Import (US\$100 million)	FDI (US\$100 million)	F/X Reserves (US\$100 million)
ROK	99.7	48.0	6,052	12,608	1,938	1,788	20	1,553
DPRK	122.8	22.5	184	818	7.8	16.1	-	-
Japan	378.0	127.5	42,953	33,694	4,718	3,829	93	6,633
China	9597.0	1,295	14,100	1,089	4,379	4,131	527	4,082
Russia	17,075.0	144	4,329	3,006	1,344	817	24	732
Mongolia	1566.0	2.6	11.8	460	6.3	8.3	0.8	1.3
World %	21.2%	25.7%	20.9%	-	16.8%	13.8%	10.2%	-

*Note:* All of Russia is included

Plans for cooperative development of Northeast Asia have been discussed by the Northeast Asia Economic Forum (NEAEF) since the early 1990s. However, discussions among the Northeast Asian countries remain at a level where there is a recognition of the need for such cooperation but also a recognition of the realistic difficulties in achieving this cooperation. The fact that the Northeast Asian countries are at different stages of economic development, coupled with the gaps and differences in their respective political systems, cultures, and the level of technological capabilities are all reasons why development is a difficult challenge. In addition, military confrontation on the Korean peninsula has yet to be resolved. Other latent political and military tensions include the territorial dispute between Japan and Russia. These situations only make it harder for regional members to join hands in closer economic cooperation.

Ironically, it is these difficulties which make cooperative development of Northeast Asia an important and urgent agenda to pursue. Since economic situations vary among the Northeast Asian countries, a “flow of capital” can occur, through which political and military tensions can be relaxed. A reduction in tensions would be conducive to promoting prosperity in the Northeast Asian region.

The current administration in South Korea is pursuing the goal of shaping Korea into a financial hub for Northeast Asia in the mid-long term. This strategy seeks to place the asset management market as the central axis while carrying forward diversified strategies to specialize in several sections of the niche market. The fact that ‘Development Financing in Northeast Asia’ is included as one of the special sections implies the importance of this matter regardless of whether Korea succeeds in becoming Northeast Asia’s financial hub.

This research aims at estimating the amount required in the development of Northeast Asia and assessing the size of the required development financing. Furthermore, it seeks to discuss how to overcome situations where there are expected to be difficulties in providing the necessary funds under the current funding system.

## **Development Demand in Northeast Asia**

Potential demand for development in Northeast Asia is tremendous. In China's case, continuous expansion of SOC infrastructure is essential to maintaining a stable economic growth in the future. Especially, demand in the rural parts of China is expected to be extensive as projects to develop the western region of China and to reinvigorate the outdated industrial facilities in the Northeastern parts are expedited. In addition, preparations for hosting the 2008 Olympic Games and the 2010 Expo are expected to exponentially increase demand for further development within China.

In North Korea's case, once the international community's aid toward North Korea gets underway following developments in the six-party talks, most of the efforts will have to go towards repairing or building basic infrastructure such as railways, roads, ports, and power plants and communication facilities.

The construction of railway lines such as the Trans-Korean Railroad (TKR), the Trans-Siberian Railway (TSR), and the Trans-China Railroad (TCR) are expected to bring economic benefits not only to South and North Korea but also to related countries like China, Russia, Mongolia, and Japan. Additionally, should the development project for the Tumen River Area (TRADP), originally initiated by the UNDP in 1991, get into full swing, we could expect economic benefits to arise for the neighboring countries. The recent launch of the Gaesung Industrial Complex and the on-going tours of Mt. Geumgang are also areas where significant demand for development can occur.

Along with China, the far eastern part of Russia is another area where developmental demand is estimated to show explosive growth. Construction of oil and gas pipelines in Siberia and Sakhalin is one of the major areas where demand is expected to arise, considering that Russia is the only country in this region with abundant natural resources. Therefore, economic cooperation in this area can benefit the development of the region as a whole. In this regard, connection of the TKR, TSR, and TCR will provide a transportation corridor for production output from China and far-eastern Russia and natural resources in Northeast Asia. Furthermore, when considering the possibilities that lie in areas such as hydroelectric power plants, power transmission facilities, and timber, there is vast demand for further development.

In other regions, the construction of the Asian Highway and Millennium Road in Mongolia are a few good examples that suggest development demand will increase as the economy grows. Korea is expected to build large-scale SOC projects to carry out its role as the logistical hub of Northeast Asia.

Here we seek to assess the amount of capital required in meeting the development demand over the next decade. Excluding Japan, a net exporter of capital, it is difficult to assess the required capital for each and every one of the development projects undertaken in China. We will use SOC investment as a percentage of total GDP as the indicator for predicting future development demand. For Russia, we have focused on assessing the capital requirements for energy development projects in the far-eastern region. Therefore, this research uses a different approach based on the distinct conditions of each nation rather

than applying a uniform standard.

China grew rapidly at an average of 9.4% GDP growth per annum until 2002. Accordingly, the rate of SOC construction investment over GDP also increased from 3.5% in 1991 up to 6.6% in 2002. If we were to assume the SOC construction investment amount based on the future prospect of economic growth estimated by the Asia Development Bank (ADB) and the SOC investment rate over recent GDP, total investment is estimated to be around 1,345 billion dollars for the next 10 years (2004-2013), and reach 3,860 billion dollars within the next 20 years (2004-2023).

**Table 1. Estimated Demand for Development in Next 20 Years for China (billion dollars)**

	2003	2004	2005	2006	2007	2008	2009
GDP	1410	1501	1598	1701	1811	1928	2052
Investment in SOC		100	105	113	121	128	137
	2010	2011	2012	2013	2004-2013	2004-2023	Total
GDP	2184	2325	2475	2635	20,210	37,761	57,971
Investment in SOC	145	155	165	175	1345	2515	3860

Note: 1) GDP growth rate is based on data of ADB (2002) “The 2020 Project: Policy Support in the People’s Republic of China” (p.17). We calculated average GDP growth rate per year as 6.45% by applying the arithmetic mean between the optimistic view 7.2%, pessimistic view 5.7%.

2) To estimate the amount of expected investment for SOC, we applied the average rate of SOC investment per GDP (6.66%) during 5 years (1997-2001).

Next, South Korea’s SOC investment demand is estimated to be around 198.9 trillion won (154.6 billion dollars) for the next 10 years according to the mid-and long-term plan for private investment (2002-2011).

**Table 3. Plans for Private Investment in SOC in Ten Years for South Korea**

	Demand for Investment		
	trillion Korean won	billion dollar	
Roads	109.3	85.0	54.9
Railways	57.2	44.4	28.8
Airports	6.6	5.1	3.3
Ports	22.5	17.5	11.3
Transportations	3.3	2.6	1.7
Total	198.9	154.6	100

*Source: PICKO, Mid-and long- Term Private Investment Projects (2002-2011)*

In the case of North Korea, according to the KDB analysis, using an appropriate SOC investment ratio over GDP and the Cobb-Douglas production function under the assumption that North Korea will show a gradual growth rate, a 'minimum' of around 15.2 billion dollars will be required to build and repair SOC infrastructure over the next ten years.

Table 4. Demand for Development in Ten Years for North Korea (billion dollars)

Methods	Amount
Using Cobb-Douglas Production Function	16.1
Using Appropriate SOC Investment Ratio over GDP	14.3
Average	15.2

To assume the capital required to fund major energy projects, we estimated the cost of each major investment. Pipeline construction in the far-eastern region would require around 5 billion dollars. Gas pipe construction in Irkutsk would cost around 12 billion dollars. The Sakhalin projects 1 and 2 would cost around 11 billion dollars, and the Sakha project mainly conducted by Korea is estimated to require around 17-25 billion dollars. The TSR will cost around 19 billion dollars of which 13.8 billion will be required within the first ten years.

In addition, the Tumen River Area Development Project (TRADP) headed by UNDP will cost 1.5 billion per annum making it 15 billion for the decade. Development projects within Mongolia are numbered until now, however, existing developments are likely to spur further demand in the future.

To summarize, development demand for SOC infrastructure within NEA is estimated to reach 1.6 trillion dollars over the next ten years, with 1.345 trillion for China, 154.6 billion for South Korea, 15.2 billion for North Korea, and 73.8 billion for far-eastern parts of Russia.

On the other hand, by using World Bank forecast that the world economy will grow by 2.7% per annum until 2010, we can also predict the size of investment demand in NEA for SOC infrastructure by extrapolating the demand for the next ten years. According to this method, which excludes Japan, demand could reach 912 billion dollars since the average

infrastructure demand in NEA was 91.2 billion dollars per annum based on 2002 GDP. We expect investment demand to increase to around 1.6 trillion dollars once we include the development demand for airports, ports, canals, and oil and gas facilities, which were not considered originally in this method.

**Table 5. Required Demand for Infrastructure** (billion dollars)

Country	Income Group	GDP	Application Ratio (% GDP)	Required Infra Demand per annum
China	Middle	1237	5.14	63.6
ROK	Middle	477	5.14	24.5
Far Easter	Middle	35	5.14	1.8
Russia				
Mongolia	Low	1	6.92	0.1
DPRK	Low	17	6.92	1.2
Total	-	1767	-	91.2

*Note:* 1) GDP is the 2002 year basis. Far Eastern Russia is 10% of all of past Russian GDP, adapted due to lack of data. 2) Application ratio is infra demand rate per estimated GDP during 2005-2010 adapted to income level by the World Bank. 3) Korea was classified as high income level, but it is more reasonable to classify it as middle income level by GDP per capita. See Marianne Fay & Tito Yepes (2003.8)

### **Present Situation and Prospect of Supply and Demand for Development Financing in Northeast Asia**

Generally, development financing refers to facilitating economic development of an under-developed nation through the provision of financial services to fund the development of primary industries, SOC infrastructures, and natural resources. This research defines development financing demand as the required funds for development projects which are not fully funded by fiscal expenditure and domestic financing. This research projects the size of the development financing business in Northeast Asia by assessing the demand for development projects in the five countries, considering the distinctive conditions of each country or region, excluding Japan.

To project the demand for development financing in China, we have broken down the providers of basic construction investment, over the past five years, by market share. Domestic financial institutions provided 24.3%, foreign investment and loans comprised 6.0%, and government and other institutions provided 69.7%. In our research, we have defined foreign investment and loans as the demand for development financing. According to this method, we can presume the total amount of foreign investment and loans to be worth 81 billion dollars over the next ten years, out of 1,345 billion dollars which is the development demand we calculated earlier.

**Table 6. Demand for Development Financing in China** (billion dollars)

	Ratio	2003	2004 ...	2013	2004-2013	2014-2023	Total
GDP		1410	1501	2635	20,210	37,761	57,971
Investment in SOC	100%		100	175	1345	2515	3860
Govt & Others	69.7%		70	121	938	1754	2692
Domestic Financial Institutions	24.3%		24	43	326	611	937
Foreign Sources	6.0%		6	11	81	150	231

The market size of private sector development projects in Korea is estimated to reach 46.7 trillion won or 36.3 billion dollars among which 33.1 trillion won or 27.9 billion dollars will probably require outside funding.

Considering the deteriorated financial situation in North Korea, we construe the entire 15.2 billion dollars as development financing demand. Also, we estimated a development financing demand of 36.9 billion dollars for the next ten years which is about 50% of the 58.8 billion dollars required for the development of far-eastern parts of Russia and 15 billion dollars for the development of the TRADP.

Total required development funds over the next ten years are estimated to reach 1,588.6 billion dollars. Development financing demand, calculated through the method used in our research, is estimated to be around 161 billion dollars or 10% of total demand.

**Table 7. Demand for Development Financing in Ten Years** (billion dollars)

Country	Demand for Development	Demand for Development Financing	Remarks
China	1,345	81.0	Foreign investment & loans
South Korea	154.6	27.9	Borrowed capital over private projects
North Korea	15.2	15.2	Total demand
Others	73.8	36.9	Half of Far Eastern Russia, Mongolia and other multinational projects
Sum	1,588.6	161.0	

In fact, the current level of aid from international financial organizations is insufficient to meet the massive development financing demand in Northeast Asia.

Demand for development projects soared in Northeast Asia after the end of World War II and the Korean War. Most of the funding was provided by aid or loans from the World Bank, the ADB, or OECD member nations. Japan was the first to make the transition from a beneficiary to a benefactor as its economy recovered and substantially grew to become a major economic power. Korea was next to be removed from the ranks of beneficiaries. Afterwards, international financial institutions started to gradually reduce their exposure in Northeast Asia with the exception of China. Development financing by the private sector towards NEA was also very limited with the exception of the recent investment into Russia's oil and gas fields.

For instance, only 6.2% or 1.15 billion out of the 18.51 billion dollars spent by the World Bank in 2003 were provided to Northeast Asia, and most of this was directed to China. In addition, the Asian Development Bank (ADB), the sole regional financial institution in NEA, does not have enough resources to cover the massive demand for development financing in this region. Only 15.9% of the 5.67 billion dollar spent by ADB was provided to NEA and again most of it went to China.

Japan, a primary provider of Official Development Assistance (ODA) in the region, provided around 700 million dollars to Northeast Asia, mainly to China. This is 7.3% and 9.3% of the total ODA provided by Japan in 2000 and 2001. In addition, ODA to developing Northeast Asian countries such as China, North Korea, and Mongolia comprised merely 4% of the overall ODA in 2000, this means that development financing support for NEA is very low.

We must also point out that international financial organizations such as the World Bank and the ADB are starting to take less interest in development projects for SOC infrastructure and natural resources. Since the inception of the new Millennium Development Goals (MDG), the World Bank is shifting its paradigm for development financing towards the development of human resources, fighting poverty and plagues, and preserving the environment. Therefore, the role of such organizations in development financing in NEA in the future is decreasing and, if such trends persist, supply shortages in development funding will be exacerbated, hampering future projects from taking place.

### **Economic Profit from the Activation of Development Financing in Northeast Asia**

What benefits can we expect from the activation of development financing in Northeast Asia? In order to address that question, we will first need to assess estimated economic profit by making some assumptions.

Since it is difficult to measure the financial risks and returns for each individual project, we need a simplified set of assumptions. First, to reduce the risk, we assume that all development projects will be guaranteed by the respective governments, and that development financing will take the form of project financing loans. Under this assumption, the average arrangement fee would be around 2% *flat* and lending rates would be around 7.5% *per annum* based on the interest and commission rates of project financing deals in Korea. In addition, we assume that principal will be repaid in equal amounts after five years of deferral and assume that 16.1 billion dollars of loans will be rolled out over the next 20 years. The timeframe for this research will be 16 years (including the five years deferred principal repayment). Under these assumptions we expect financial profits to reach 66.1 billion dollars over the next ten years and 192.6 billion dollars over the next 20 years.

**Table 8. Estimated Commissions and Interest Income from Development Financing**  
(billion dollars)

	Balance of Loans	Commissions (a)	Interest Income (b)	Total Profit (a+b)
In 10 Years	140.9	3.2	62.9	66.1



In 20 Years	169.1	6.4	186.2	192.6
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Note: 1) All the projects would be government guaranteed; 2) Arrangement fee and interest rate are 2% flat and 7.5% per annum respectively, estimated on prevailing private projects in Korea. 3) The timeframe will be 16 years including a five-year grace period. 4) 16.1 billion dollars per annum financed by PF Loans.

Moreover, only commissions and interest income is considered in this calculation. It does not include for the foreign exchange related profits incurred from the flow of capital and the additional value created by employment opportunities arising from the relocation of capital. Beside the direct economic profits, development financing will also offer various indirect benefits. It expands and streamlines the regional flow of logistics. It also lowers the cost of energy by diversifying its sources, contributing to energy security, and facilitating the overseas expansion of local corporations through the medium of development projects. If the tension between South and North Korea is relaxed through mutual cooperation in development projects, we could also expect further economic benefits from arms reduction within the region.

### **Suggested Schemes for Development Financing**

The most important factor in facilitating development financing in NEA is the formulation of a funding plan. As discussed earlier, we estimate average financing demand to be 16 billion dollars per annum over the next ten years. However, we cannot expect funding from the World Bank, ADB or bilateral ODA to be much more than 3-4 billion dollars a year. Therefore, unless there is an alternate channel of financing to fill in the void, it is likely that the development projects in NEA will run into financial difficulties.

There are many variations regarding the type of organization which will fund and manage development capital. However, we can broadly categorize them into three groups; 1) international financial organizations led by each government, 2) investment corporations in the form of semi-government management, 3) private investment funds. Realistically, governments are best positioned to support development projects. Therefore, if governments cooperate in funding regional development projects, through funds they have raised, it would be an effective model for the formation of a regional community. However, it is unrealistic to expect such a model in Northeast Asia in the short-term. Not only because of the high political risk embedded in Northeast Asia development projects but also due to the reality that there is generally a high entry barrier to such projects. Governments have a tendency to monopolize development projects (between the respective governments and public-owned corporations). Therefore, besides support in the form of ODA, such cross border flows of capital are very limited at this stage. This research uses Korea's case to seek more specific methods to raise funds for development projects as an example.

Under the current situation, Korea should first establish a base to raise and manage development funds if it wants to take the initiative in the Northeast Asia development financing market in order to pursue its objective to become the financial hub of Northeast Asia. Also, the funds should be available for injection once demand occurs, so that it could serve as a catalyst to attracting further funding from other countries.

## **Figure 2. General Schemes for Development Financing**

In this research, we leave specific discussions for later and focus on the methodology of raising funds. To raise funds we need to effectively utilize existing development financing organizations that have abundant experience in raising funds via bonds and loans. For example, these organizations can issue long-term bonds to fund development project opportunities. The bonds will be guaranteed by the government and the buyers could be given tax breaks. In addition, governments can also provide a stable channel of funding for development financing organizations by enabling the bonds to be underwritten at a lower cost using the deposits of public fund management schemes. This will help development financing organizations to play an effective role as the market maker in various projects, thus, reducing the burden of the government in the early stages.

There can be lively debate on using government funds or F/X reserves once development financing organizations successfully uncover new development opportunities. Recently, the proposed shape of Korea Investment Company (KIC) has begun to take form and, from what has been discussed, its role in development financing in NEA is below expectations since the initial capital is only around 10 billion dollars. It will also be limited in investing in SOC infrastructure which requires long term capital commitment. Northeast Asian governments argue that the current F/X reserve is not excessively high since most of them still have bad memories of the financial crises of the late 1990s. However, the combined F/X reserve of Northeast Asian countries, at the end of 2002, amounted to 1,349.2 billion dollars which accounted for 52.7% of the world's total F/X reserve. In addition, the F/X reserve of Korea, China (Hong Kong included), and Japan approach 1 trillion dollars which is 38.6% of total reserves. Thus, many view that such abundance in F/X reserves will grant them the liberty of allocating a portion of the reserves into projects with long-term investment horizons. If Northeast Asian governments allocate 1% of their 2002 F/X reserve to a Northeast Asia Investment Corporation (NEAIC, tentatively named), the initial capital will surpass 10 billion dollars. And we can likely increase the AUM (assets under management) substantially once the NEAIC issues bonds based on its solid capital base.

We could also consider it an option for each country to set up an independent organization like a 'NEA Development Fund' (tentatively named). The funds will be different from the existing EDCF funds since their use will be limited to funding development projects in NEA. In any case, investment and funding vehicles like 'Development Funds for Northeast Asia' can be developed as the primary players in development financing in NEA by raising funds through deposits from public fund management schemes and government budgets in its early stages and later diversifying its funding channels into loans, public bonds, and lotteries.

In particular, the funds raised through national and public bonds could be managed by the development financing organizations in each country where they could be directly invested or subleased to other commercial financial institutions. This approach can diversify

operational risk and expand the operational boundaries. For instance, the Germany Reconstruction Bank (KfW), which invested heavily in the East German economy after unification with West Germany, has effectively responded to large scale funding demands by subleasing funds.

In this case, development finance organizations can assess the investment value and priority among development projects, while the commercial financial institutions handle matters regarding credit status and pledge capacity. This approach is worth considering since it will enable efficient supply of funding to various parties who want to take part in NEA development projects and diversify risk at the same time.

On the other hand, we need to facilitate the participation of private capital in development projects. This will allow efficient allocation of limited capital as private investors will gauge the profitability of each investment before committing their financial resources. Investing in infrastructure funds will be attractive for institutional investors in countries like Japan, Korea, Taiwan, and Singapore who are looking for prospective investment opportunities. Moreover, the size of the long-term asset management market will grow once private capital flows into infrastructure funds and this will contribute to creating a positive chain reaction where the regional economy grows stronger through the development of Northeast Asia.

The important factor is that the involvement of private capital is carried out within the capacity of a nation's financial system and its capital market while the government provides its support where needed. For example, the government could guarantee all or a part of principal and interest payments of the funds raised by development financing organization, thus allowing development financing organizations to raise funds more efficiently by lowering the risk involved.

## **Conclusion**

Infrastructure development projects such as railway, road, energy, and power plant construction are realistically not an area for foreign capital to take part in since SOC developments are generally government-led projects. So, the size of the cross-border market in SOC development is limited.

This situation is the same not only in countries like Russia and China, who are going through a political transition but also in countries like South Korea. There is probably little need to grant participation to foreign capital when there is plenty of domestic capital. Doing so would only result in an increased load of foreign guarantees and makes the procedure more complicated.

We have problems not only with entry barriers to foreign market, but also to each government's launch barrier. In general, the government takes part in, or regulates, foreign investment and loans to manage the nation's foreign exchange exposure. However, financial activities would contract if the extent of government participation were too high. In addition, for foreign capital, it is difficult to take part in development financing with limited information because the legislation, systems, commercial customs and culture of each country are different.

Therefore, the role of each government is what is most important in promoting development financing. Government should make diplomatic efforts to relax the tensions in the area, and lessen individual country risks as much as possible by pursuing domestic political stability. It should also strive to create good market conditions by studying cases in foreign countries. In addition, it should supplement the system to lower entry barriers. These steps will help improve the investment environment by alleviating the difficulties caused by different or incomplete foreign investment systems, approval of foreign investment, remittances of investment profits, legislation related to development and language barriers.

Specifically, consensus regarding fund raising methods and system base is needed. As to the management of funds, a management model should be set up by dividing the fund into three parts: profit-making fund, development fund, and technical assistance fund.

The roles of financial institutions can be categorized as seeking demand, risk management, and fund raising and management. The most important role is to convert the extensive potential demand in the Northeast area into effective demand. Since the profitability of development financing can generally be decided by the relative size of risk, risk analysis, management, and minimizing are the keys to profitability. First, there is a need to create a database for the development businesses and collect information about the businesses and put them in order. A system for risk analysis and management is also needed. Furthermore, it is necessary to streamline the organizations that will search for new business opportunities and their support.

However, development finance organizations will need to establish a cooperative system among domestic and regional financial organizations to exchange information and pursue joint business opportunities. For instance, forming an information consortium among financial organizations from each country or building a consultative body among financial organizations from different countries that have similar operations may serve as the building block for the shaping of a proactive international financial body.

In this regard, the launch of the Northeast Asia Development Financing Council (NADFC) in May 2004, a corollary to the MOU, signed among Korea Development Bank, China Development Bank, and Mizuho Financial Holdings is a significant event. The formation of NADFC may well be an important step in regional financial cooperation depending on its activities to come. It will be one of the important tasks of governments to provide their support and take interest with regards to policies which will enable such cooperative endeavors to be successful.

Raising capital is essential in development projects. The government can take the lead in development projects or support them financially in the initial stages. However, in the long run, funds for development projects should be raised and managed by capital from the private sector, as was discussed earlier.

Having the blueprint for providing development financing to Northeast Asia does not

mean that the plan can be successfully implemented. We still need to resolve many issues regarding the financial environment of Northeast Asia to facilitate development financing in the region. In particular, we need to see a reduction of tensions on the Korean peninsula, specifically pertaining to North Korea's nuclear program. We can expect the security environment of the region and the chances for cooperation to improve if the current six-party talks, set up to resolve North Korea's nuclear issue, develop into 'a multi-lateral security council' within the Northeast Asian region.

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