


Opinions

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Northeast Asia Bank for Cooperation and Development



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Northeast Asia comprises the northeastern China, Japan, the Democratic People's Republic of Korea (DPRK), the Republic of Korea, Mongolia, and the Russian Far East. In this region the major challenge is to maintain peace and security in the Korean peninsula and narrow the diversity of economies. Especially, the DPRK is a highly controlled, closed economy without a functioning market system while the others are open in trade and inward foreign direct investment (FDI). The DPRK has yet to join global institutions, such as the International Monetary Fund (IMF), the World Bank, the World Trade Organization (WTO), as well as regional institutions, such as the Asian Development Bank (ADB).

In order to have the DPRK participate in the world economy, new infrastructure investment programs is necessary in northeast Asia to connect the DPRK with the other countries. The core of these programs is cross-border infrastructure cooperation, focusing on transport network, trade facilitation, and energy exploitation. Several authors have made various estimates on the infrastructure investment demand (Table 1). The estimated demand would give us a tentative idea about the scale of financing needs for the infrastructure development and connectivity in northeast Asia.

Table 1. Estimation of Infrastructure Demand in Northeast Asia

(Unit: Billion dollars)				
	Katz (1998)	Hiraki (2003)	Choo and Kwak (2004)	Kawai (2013)
Period	2000~15	2011~20	2001~10	10 Years
Northeastern China		61.2	63.6 ⁱ	48.8 ²
The Russian Far East		41.3	1.8 ⁱ	4.9 ²
Mongolia		4.6	0.1 ⁱ	1.7 ²
DPRK		53.1	1.2 ⁱ	5.3 ²
Cross-border				2.2 ²
Total Demand		160.1		
Annual Demand	7.5	16	66.7	62.9

Note: ¹ Choo and Kwak (2004) used World Bank's method to get the only annual demand. ² Kawai (2013) used ADB's method to get the only annual demand.

However, private investors and existing multilateral organizations cannot mobilize a large amount of external long-term financial resources for the infrastructure projects in Northeast Asia. Moreover, the DPRK has no access to any financing from multilateral development banks. The World Bank does not include the DPRK as a member; the ADB does not include the DPRK and the Russian Federation as members. To handle these problems, a new subregional multilateral development bank, Northeast Asia Bank for Cooperation and Development (NEABCD), has been suggested to be instituted. The NEABCD can thus fill the institutional and financing gap by bringing all Northeast Asian countries into multilateral cooperation. It could help to mobilize the large amount of external resources required to conduct infrastructure projects.

The major concern is that the establishment of the NEABCD is estimated to require large amounts of time and cost. Several estimates of the required capital were pinned at USD 6~40 billion. The NEABCD can raise sufficient funds in the international capital markets at low interest costs once it establishes its credibility and integrity to gain the high confidence of credit rating agencies. When the required capital is huge, the NEABCD cannot work prudently without the participation of Japan and the U.S. Tensions between the DPRK and other six-party members would prohibit the participation of potential key members if the NEABCD allows the DPRK to be a member without the latter cooperatively laying down concrete socioeconomic and political measures to solve tensions it is heavily involved in. The lack of historical cooperation for development within the area can be easily pointed to as the main reason for the delay of the bank's establishment, given the reclusive DPRK government's vehement refusal to settle tension issues with its neighbors and with the international community, according to international peace and cooperation standards.

Finally, China's plan to establish the Asian Infrastructure Investment Bank (AIIB) would be another obstacle to building the NEABCD. China will start this new regional development bank with an initial capital base of about USD 50 billion. The AIIB differs from the ADB in terms of its focus on building infrastructures rather than prioritizing poverty reduction. It is similar to the NEABCD in the sense that its aim is infrastructure investment in a targeted region. Although the primary region AIIB focuses on is the ASEAN and its neighbors, the other targeted region can be northeast Asia, which includes the northeastern China as well as the DPRK. The need of the NEABCD could be smaller to China's government.

In conclusion, the infrastructure investment demand in northeast Asia is still large because the connectivity of this region is important. Although the establishment of the NEABCD is one of the best strategies for northeast Asia's development, the agreement among the stakeholders is still difficult to make. In the worst case scenario, the AIIB could be a competitor because it specializes in infrastructure development. Feasible alternatives to the existing plan of the NEABCD should be considered seriously. Setting up trust funds to support cross-border infrastructure investment and connectivity, such as GTI, could be one alternative strategy for infrastructure development in northeast Asia. It can be fertile ground for the NEABCD if GTI works well and the DPRK goes back to doing its homework and return to GTI and join the multilateral development bank. 