

FORUM BRIEFER 01-30

ADB AND NORTHEAST ASIA

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The Asian Development Bank is the foremost multilateral development bank in the Asia-Pacific region. For over 30 years, ADB has financed numerous projects that changed the development path of its member countries. To date, a total of 59-member countries from within and outside the region sustain the Bank's operations in the region. The countries in North East Asia-- notably Japan, the People's Republic of China, Mongolia and the Republic of Korea --have been major players in ADB's operations both as funders and borrowers.

In 1999, ADB approved its Poverty Reduction Strategy (PRS) with the long-term goal of halving the incidence of poverty in the Asia-Pacific come 2015. In pursuing this overarching goal, three key elements are identified which serve as the catapults--rallying for pro-poor economic growth through privatization and liberalization of sectors, social development and good governance. As a result, all projects are being reoriented towards meeting the criteria to reduce poverty.

Through all these developments, North East Asia remains a key player.

JAPAN

As one of the two countries with the biggest stakes in the ADB, Japan enjoys a considerable voting power equivalent to 567,148 or 13.09% of total membership. As of April 2000, it held 15.93% of the total shares (552,210 shares), subscribed US\$7,583.94 million in overall capital and US\$ 531.11 million in paid-in capital subscription.

Japan has also maintained its position as the top contributor to the Bank's Special Funds, foremost of which is the **Asian Development Fund (ADF)**. The ADF is the Bank's mechanism for providing concessional terms to its developing member countries (DMCs) with low per capita GNP and limited debt-repayment capacity. At the end of 1999, Japan has contributed 38% or US\$6.44 billion to the total ADF (committed). For the ADF's seventh replenishment (ADF VIII) that covers the years 2001 to 2004, Japan remains the largest donor with a pledge of more than US\$1.06 billion; this round of negotiations was

concluded in Okinawa with an agreed total contribution amounting to US\$2.91 billion.

In 2000, Japan's contribution to the **ADB Institute Special Fund** (since it started receiving assistance from Japan in 1997) was Y909 million or an equivalent of US\$8.3 million aggregating its commitment to the ADB Institute to Y5.3 billion (US\$43 million) (excluding translation) by the end of 1999. The Institute primarily operates to assist DMCs in identifying suitable development strategies and its operation costs are covered by this fund.

The **Japan Special Fund (JSF)** provides grants for the purposes of project preparation and technical/policy studies of activities related to environmental protection, gender and development, private sector promotion and finance sector reform. Japan's annual contribution to the fund in 1999 totaled Y5.8 billion, of which, Y2.0 billion (US\$16.8 million) and Y3.8 billion (US\$ 31.8 million) were allocated for regular and supplementary contributions respectively. By the end of 1999, a total of US\$69.9 in the fund's coffers remained uncommitted. For 2000, the Japanese government poured in Y4.1 billion (US\$37.6 million) which was added to the fund's balance in 1999. In the same year, 113 technical assistance grants were approved valued at US\$77.1 million. These grants accounted for 38% of the total amount of approved technical assistance.

Under the New Miyazawa Initiative, the Japanese Government established the **Asian Currency Crisis Support Facility (ACCSF)** in March 1999 in response to the need for financial assistance for the recovery of the crisis-hit countries in 1997. This fund augments the financial support already given by the ADB. The ACCSF's three components- interest payment assistance (IPA), technical assistance grants and guarantees- aim to engage cofinancing/private financial resources for projects and programs. Currently, the beneficiaries of the Facility are Indonesia, Republic of Korea, Malaysia, Philippines and Thailand. Japan initially contributed Y12.5 billion (US\$104.4 million) for the IPA and technical assistance of the ACCSF. For Japan's third

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contribution to the fund, it added a fresh Y15.0 billion (US\$136.6 million). In the same year, 7 technical assistance grants was funded under the ACCSF amounting to US\$7.6 million.

Finally, the most recent Japanese-led Special Funds was approved in May 23 2000 during the Bank's 33rd Annual Meeting in Chiang Mai, Thailand. The **Japan Fund for Poverty Reduction (JFPR)** was poured in a total of Y10 billion (US\$90 million) for its institution. The JFPR is designed to finance activities that are directed at reducing poverty and to provide innovative and demonstrative impacts on poverty reduction.

PEOPLE'S REPUBLIC OF CHINA

Since joining the Bank in 1986, China has become the third overall largest shareholder (second to Japan within region) in no time. On the other extreme, China ranks second in the list of heavy borrowers drawn from the Bank's ordinary capital resources (OCR) alone. As of the end of 2000, its outstanding loans has already amounted to over US\$5 billion. Dubbed as one of the tiger cubs of Asia, it was able to careen its way out of the string of countries whose currencies, economic and social indicators tumbled during the 1997 financial crisis.

Such economic performance, together with its accession to the World Trade Organization makes China bent on pursuing massive reforms for its controlled market. ADB's patronage for the country's market liberalization arises from several of its features some of which include: 1) weak and obscure enterprise and financial sectors that have yet to generate sustainable income and employment and 2) poverty in China's inland provinces which still needs to be addressed.

It is in this light that massive projects, which are expected to compound its booming economy and promote market openness, are supported by the ADB. Currently, ADB is cheering on China's activities that deepen macroeconomic structural reforms particularly in sectors where the Bank operates. Projects are financed according to location. In 2000, for instance, the major projects that were approved included expansive railway and highways that the ADB expects to benefit poor communities in the Anhui, Guizhou and Shaanxi provinces, and a wastewater treatment and water resources project in West Henan.

Of the total loans amounting to US\$10.2 billion by the end of 2000, 48% or almost \$5 billion of China's accumulated loans went to the transport

and communications sector. The energy sector was befitting US\$1.8 billion (18%) while its agriculture and natural resources sector was only appropriated 5% of such accumulated loans. By the end of 2000, 48 of the 85 projects approved are yet to be completed.

REPUBLIC OF KOREA

One of the 31 founding members of the ADB, the Republic of Korea is the eight largest shareholder among all member countries or roughly having 5% of total shares. Aside from its shares in the ADB, its contributions to the ADF amounted to US\$77.17 million (committed), and to the Technical Assistance Fund (TASF), \$1.90 million.

Dubbed as one of the miracles of Asia, Korea was an economy to watch for with its tremendous economic performance before its quick downturn due to the 1997 crisis.

The massive setback that the Republic of Korea has suffered from the financial crisis in 1997 has altered its position to becoming one of the biggest borrowers of the Bank. Attributing such downfall to corrupt and unmanaged borrowing practices of its banks and conglomerates, an all time bailout was sought from the International Monetary Fund (IMF). In turn, the IMF estimated a loan package of \$55 billion, in which US\$4.015 billion came from the ADB.

The ADB loan came in the form of a Financial Sector Program Loan (FSPL) in 1997, which includes a US\$15 million-technical assistance loan intended to strengthen the country's financial sector. This same loan is the largest single loan ever made by the Bank. The FSPL was originally planned to be allocated in four tranches. After disbursements of the first three tranches, the country's economic performance picked up in 1999. As a result, the Korea decided not to draw the fourth and final tranche of US \$300 million. At end-2000, the Republic of Korea ranked fourth in the list of biggest borrowers (OCR- outstanding loans) in the region.

MONGOLIA

Strategically located between two countries (China and Russia) that significantly influence its economic performance and exports, Mongolia is currently wading from the strains left by the 1997 and Russian crises, plummeting prices of its main exports and political instability. Mongolia is currently staging its transition to a

market economy, a move which ADB wholeheartedly supports. Mongolia became a member of ADB in 1991.

As a result of political turmoil in 1998, ADB loans and technical assistance packages were put on hold. In 1999, ADB came up with a new operational strategy that calls for poverty reduction activities and the incorporation of good governance elements in all ADB-financed projects. The Governance Reform Program Loan was approved to stir major reforms in the country's public sector.

In 2000, Mongolia became one of the first country in the region to forge a Poverty Partnership Agreement with the ADB; this Agreement was recently reviewed viz government's actual performance. The PPA formed the basis of the ADB Country Operational Strategic Study for Mongolia (COS) finalized in May 2000 for the period 2000 to 2004.

The operational focus of ADB's Mongolia program are in five strategically selected sectors -- the financial sector to extent access to financial services beyond the national capital; agriculture sector (for its potential to generate viable small-industry employment and importance to the rural sector); the public sector (for its potential to re-orient the machinery of the Government to become more conducive to and supportive of private sector-led growth), the social sector (to maintain and improve the competitiveness of the Mongolian labor force and provide a safety net for the vulnerable); and urban development to address urban poverty.

Mongolia currently ranks 45th in shares held and has availed of US \$469.4 million worth for 25 loans as of the end of December 2000.