

Statement by the Governor for the Republic of China at the 43rd Annual Meeting of the Asian Development Bank*

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Mr. Chairman, President Kuroda, Fellow Governors, Ladies and Gentlemen:

On behalf of the delegation of the Republic of China, I would like to thank the Government and people of the Republic of Uzbekistan for their generous hospitality. Uzbekistan is one of the few Asian countries to have emerged from the global financial crisis unscathed. Its cautious policy stance has helped to shield the economy from a worldwide recession. Tashkent, the beautiful capital of Uzbekistan, is rich in history and culture. A major trading hub both on the ancient Silk Road and in today's central Asia, it provides the perfect setting for the annual gathering of the ADB family. I would also like to extend my sincere gratitude to the staff of ADB for their hard work in organizing this event.

Since President Kuroda took office, ADB

has been committed to promoting regional economic and financial integration. Concrete results have also been achieved in infrastructure building and poverty reduction in Developing Member Countries (DMCs). In year 2000, world leaders agreed on the Millennium Development Goals (MDGs) at the UN Millennium Summit with eradicating extreme poverty and hunger as the overriding objective. Since then, the MDGs have been at the heart of the global development agenda, and ADB has actively assisted DMCs towards the realization of MDGs before 2015. In mid-2008, ADB started pursuing Strategy 2020 with poverty reduction as the overarching goal.

Unfortunately, the global financial crisis seriously disrupted the MDG-related endeavors. According to ADB, the number of people living under the poverty threshold could increase

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by 53 million due to the projected decline in regional economic growth in 2009. To address this concern, ADB launched the US\$3 billion Countercyclical Support Facility in May 2009 to provide short-term lending to DMCs. By the end of 2009, ADB had approved US\$2.5 billion, of which US\$2 billion was fully disbursed. In addition, ADB also mobilized other resources to assist DMCs, such as capital increases, Asian Development Fund, and cofinancing. These measures have been quite effective. Nevertheless, despite some encouraging signs of a recovering global economy, ADB should continue to provide assistance as needed in order to support sustainable growth.

ADB's finance has remained healthy all along. However, the year 2009 witnessed a sharp decrease of 40% in ADB's operating income, from around US\$700 million in 2008 to US\$420 million in 2009. A total of US\$11 billion were approved for lending in 2009, but loan disbursement amounted to US\$7.9 billion, indicating room for improvement in disbursement efficiency. To ensure sound operation to facilitate the attainment of the MDGs by 2015, ADB may also need to closely monitor future interest rate movements and enhance credit evaluation.

According to ADB's Asian Development

Outlook 2010, developing Asia is on track to a robust recovery and the economic growth rate in 2010 is forecast to accelerate to 7.5%. However, there are also downside risks, namely a slower global recovery, premature withdrawal of macroeconomic stimulus measures, a sharp increase in international commodity prices, deterioration in fiscal positions, and the persistence of global imbalances. Moreover, Asia's strong recovery has attracted a resurgence of capital inflows. This challenge complicates the task of macroeconomic policy.

Indeed, as monetary easing is widely adopted amid the global financial crisis as a means to stimulate economic activity, the ensuing surge in capital inflows may result in asset bubbles; the bursting of the bubble could lead to financial instability and undermine the economy. As President Kuroda correctly pointed out in a recent speech, "the return of capital flows to the region—either by sheer size or volatility—could destabilize the recovery" and therefore "it is critical to carefully manage capital flows to the region to ward off potential asset bubbles." Last November, UNDP Regional Center for Asia and the Pacific also noted in its report *The Global Financial Crisis and the Asia-Pacific Region* that "movements of exchange rates cannot be explained by

either trade patterns or fundamentals. They are much more likely to be affected by what could broadly be called political economy factors, and perceptions of current and future power, that determine the capital flows that actually decide their values.”

Against this backdrop, at the country level, emerging economies need to adjust their monetary policies to address the disorderly movements of exchange rates. Capital controls should be considered or adopted as warranted by economic and financial conditions in order to promote financial stability. Besides efforts by individual countries, it is even more important to elevate this issue to the regional level. East Asian countries have been cooperating under the framework of regional economic surveillance to monitor short-term capital flows. However, this cooperation has seldom moved beyond information sharing. If Asian countries can stride further with concrete and coordinated actions, it will help promote regional financial stability.

Besides the monitoring mechanism of international capital flows, regional financial cooperation in Asia also encompasses Asian bond market development, financial support facility, regional economic surveillance, and exchange rate arrangements in East Asia. While

significant progress has been achieved in many fronts, more work needs to be done.

The efforts made by Asian countries to promote the Asian Bond Fund Initiative and the Asian Bond Markets Initiative in recent years have contributed to the expansion of Asian bond markets. The outstanding balance of local currency bond issuance in emerging Asia grew by 16.5% in 2009. Looking forward, we should further encourage the continued issuance of Asian bonds denominated in a basket of Asian currencies, and work to establish a regional clearing and settlement system, create a regional bond guarantee agency, and strengthen regional rating agencies in order to expedite regional financial integration in Asia.

Under the Chiang Mai Initiative, the ASEAN+3 countries began setting up bilateral swap arrangements in 2000. A lot of progress has been made since then. In February 2009, the Chiang Mai Initiative Multilateralization (CMIM) process was speeded up with the size of the reserve pool increased from US\$80 billion to US\$120 billion. The CMIM came into effect on March 24 this year. However, I believe a multilateral swap arrangement across Asia with ADB as the intermediary is the best way forward.

Loan arrangements could also be

established as an additional source of funding with agreements between ADB and the member countries with high levels of foreign exchange reserves. In fact, the International Monetary Fund approved on April 12 the expansion of the New Arrangements to Borrow, which was increased to US\$550 billion for crisis-related assistance. On April 14, ADB announced joint efforts with the ASEAN+3 to create the US\$700 million Credit Guarantee and Investment Facility. This facility, aimed at enhancing regional financial stability, has laid a solid groundwork that could be expanded in the future.

The ASEAN+3 Economic Review and Policy Dialogue Process has played a crucial role in regional economic surveillance since 2000. It aims primarily at early recognition of economic abnormality and weakness in the region and the implementation of policy responses for problem resolution or prevention, particularly in the event of a regional economic or financial crisis. In April 2010, ASEAN finance ministers approved to set up the ASEAN+3 Macroeconomic Surveillance Office in 2011 to administer the implementation of the CMIM. It resonates with another action in promoting regional economic and financial integration taken by the Macroeconomic and

Finance Surveillance Office. While these developments have turned a new page in Asian financial cooperation, I look forward to a transition from the information sharing stage to peer reviews, and further to the stage of due diligence. If we can identify economic or financial problems with a close scrutiny of crisis-hit or debtor economies, the successful combination of oversight efforts and the CMIM together will bring maximum results.

Regional exchange rate stability is conducive to promoting economic and financial stability across Asia. When exchange rates are stable, lower transaction costs and reduced uncertainty of exchange rate movements will boost growth in intra-regional trade and investment. The ASEAN+3 economies took the first step towards exchange rate coordination by agreeing to set up the Asian Bellagio Group in early 2005. I suggest that we bring the idea further and set up a formal regional exchange-rate coordination mechanism through which stable currency relationships can be established.

As the world becomes increasingly interconnected, potential crises in any economy, even a small one, may immediately have great impact across the region and the world as we have seen in the recent global financial turmoil triggered by the subprime mortgage crisis.

At this important juncture, it is all the more important to work hand in hand to shield Asian economies from external shocks. Regional cooperation at all levels and in all forms should be inclusive. All economies with adequate strength and ample financial resources should participate. Given ADB's extensive experience, highly qualified staff, advanced technology, and other valuable assets, it should take the lead in furthering cooperative relationships among member countries.

Finally, I would like to reiterate that the

Republic of China is a founding member of ADB and has fully carried out her membership responsibilities. My delegation continues to protest against the unilateral alteration of our membership designation. I would also like to call on member countries to respect each other concerning the equal opportunities of hosting meetings and workshops of ADB. Lastly, I wish the meeting every success and all the participants good health.

Thank you.