

Statement by the Governor for the Republic of China at the 44th Annual Meeting of the Asian Development Bank*

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

On behalf of the Republic of China delegation I would like to thank the government and people of Vietnam for their warm hospitality. Hanoi is not only a modern capital city but also an ancient political and cultural center with over one thousand years of history. The traditional cityscape is dotted with gleaming new buildings that stand as a testament to Vietnam's remarkable economic transformation. Like the theme of this year's meeting, Asia 2050: Pursuit of Growth, Sustainability and Well Being, the city's blend of old and new calls attention to the importance of sustainability in economic development. My special thanks go to the ADB staff for all the hard work that has gone into organizing this event.

On March 11 this year, Northeast Japan

was struck by a magnitude 9 earthquake and a devastating tsunami. Several towns and villages were swept away and many lives lost. The scene sadly reminded the people of Taiwan of the severe tremor that shook our island on September 21, 1999. In a moving display of camaraderie, they quickly mobilized rescue teams, assembled essential supplies, and began collecting relief contributions bound for Japan in the days immediately after the quake. I would like to take this opportunity to send our Japanese friends our deepest condolences for their suffering and our best wishes for the reconstruction work ahead. On the road to recovery you will not walk alone; we will be with you every step of the way.

Under President Kuroda's leadership, ADB has made significant progress both in reducing poverty in Developing Member

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Countries (DMC) and in promoting economic and financial integration among member states. Together, we have taken major strides toward the goals we set for ourselves back in 2008 under Strategy 2020: eradicate poverty, lift living standards, and improve the quality of life through sustainable growth and regional integration. I also commend the ADB management on a number of initiatives that have been taken to support education, climate change mitigation, and sustainable transportation, with promising results on the way.

In a report published by the Independent Evaluation Department last year, ADB's performance was found to be satisfactory in the areas of meeting key development objectives, delivering core sector outputs, and operational effectiveness. Overall operational quality, however, was compromised by some shortcomings related to organizational effectiveness including human resources, budget adequacy, and business process and practice.

In response, ADB has drawn up a number of plans to rectify the problems pinpointed in the report. These include establishing a reporting system on the performance of projects, introducing a pilot results scheme linking budget allocation to performance in co-financing, education and gender mainstreaming,

raising the budget and staff headcount, and promoting gender equality. We support this latest drive to improve operational efficiency and believe the measures that have been implemented are consistent with ADB's long-term strategic goals.

The recent quake in Sendai caused extensive damage in Japan but at the same time created many uncertainties for the world economic outlook. Earthquakes are a prevalent threat among many member countries. Climate change has also made our region increasingly vulnerable to extreme weather conditions. In a highly integrated world, economic disruptions caused by natural disasters are seldom confined to their countries of origin. In this regard, I believe ADB can step up its role in crisis situations by combining resources from around the region to formulate a regional disaster prevention plan and draw up guidelines for reconstruction work.

The Asian Development Outlook 2011 forecasts Developing Asia will continue to expand solidly, but highlights inflation as a growing concern among policy makers in the region. During the past year, accommodative monetary conditions in a number of advanced economies have continued to flood Emerging Asia with short-term capital that threatens

to push asset prices to unsustainable levels. In addition, growing demand from the industrialization of emerging economies and Middle East unrest have contributed to the hike in the price of crude oil. The linkage between inflationary pressures in Asia and developments elsewhere in the world underscore how closely our economies and financial markets are all connected. Taking a longer term view and as part of the Asia 2050 project, ADB also identifies scarcity of natural resources and climate change as looming challenges for Asia. There is no question in my mind that all these issues can be better addressed with closer regional economic and financial cooperation.

Following the 1997 financial crisis, regional cooperation in Asia has focused on developing Asian bond markets, establishing a regional economic surveillance system, and pooling international reserves. A great deal of progress has been made on all three fronts. The multilateralization of the Chiang Mai Initiative, the expansion of the Asian Bond Market Initiative, the creation of the ASEAN+3 Macroeconomic Research Office, and the establishment of the Credit Guarantee and Investment Facility are concrete steps that have been taken to institutionalize regional cooperation efforts.

These developments are encouraging, but there is still room for improvement. For the local currency bond markets to flourish, better regional clearing mechanisms need to be in place. Setting up indigenous rating agencies that are “on the ground” and knowledgeable about how Asian issuers manage their business would also be a refreshing change. Moreover, while the multilateralization of the Chiang Mai Initiative is a big step in the right direction, my experience tells me that the size of the reserves pool remains too small to be meaningful in a crisis situation. The application and disbursement process for emergency lending would be more coherent with the direct involvement of an evenhanded multilateral institution like ADB.

Another area where regional cooperation can be very effective is the management of volatile short-term capital flows. The impact created by large short-term capital movements can be very destabilizing to small emerging economies. I find the “big fish small pond” analogy quite fitting. When a big fish, large and volatile short-term capital from advanced economies, enters a small pond, shallow and less liquid financial markets typical of emerging economies, it causes quite a splash. The size of the recipient economy is too small to absorb the

shock. This is a difficult and highly contentious issue, but I believe we are more likely to succeed if we take collective actions. Unfettered short-term capital movements can produce excess volatility and disorderly movements in exchange rates. They are detrimental not only to financial stability but also to the development of intra-regional trade and investment. Therefore, in addition to managing international capital flows, I believe Asian countries should seriously consider setting up a formal regional exchange-rate coordination mechanism to stabilize exchange rates.

ADB has long been a staunch supporter of regional cooperation and integration. President Kuroda recently outlined his new vision for Asian Regionalism. Among the key proposals that have been put forward to further strengthen institutions for regionalism, I find the establishment of an Asian Financial Stability Dialogue and the creation of a cooperative

framework for dealing with capital flows and regional exchange rates most constructive. While I applaud these efforts, I would also like to remind ADB that these regional forums should be inclusive. The selection criteria for inclusion in any cooperative framework should be based on economic and financial considerations rather than political factors.

I would like to reiterate that the Republic of China is a founding member of ADB that has carried out her membership responsibilities fully. My delegation continues to protest against the unilateral alteration of our membership designation. I would also like to call on the ADB management and member countries to respect the principle of equal opportunity with regard to the rotation of ADB meetings and workshops among member countries.

Lastly, I wish this year's meeting every success and all the participants good health. Thank you.

