

Statement by the Governor for the Republic of China at the 45th Annual Meeting of 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 the Philippines for their warm hospitality. As the capital of the Philippines, Manila has played a key role in the political and economic development of not just this country but the entire region. It was here in 1966 that our founders came together to write the first chapter of the history of Asian Development Bank (ADB). Over time, ADB has grown considerably in both size and stature, currently boasting a membership of 67 and widely recognized as the premier development institution in Asia. Returning to our roots here in Manila this year, therefore, takes on a special significance as we review our past performance and chart our future. I would also like to extend

my sincere gratitude to the staff of ADB for their commitment to making this event a meaningful and enjoyable experience.

Under the able leadership of President Kuroda, ADB has continued to follow its long-term roadmap of Strategy 2020, a plan underpinned by inclusive economic growth, environmentally sustainable development, and regional integration. During 2011, the loans, aid and donations, equity investments, and technical assistance approved by ADB to carry out its mandates reached US\$21.72 billion in total, an increase of 26.8% over the previous year. It's also worth mentioning that ADB's efforts to enhance regional integration were augmented by a contribution of US\$150 million to the ASEAN Infrastructure Fund last year.

In order to provide further assistance to the developing member countries (DMCs) ADB has continued to expand its financial resources.

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We are pleased to see that after three rounds of negotiation, the donors of the 11th ADF Replenishment have agreed to set aside US\$12.4 billion to be deployed over four years from 2013 to 2016. More importantly, the completion of the fifth general capital increase (GCI V) tripled ADB's capital base to US\$165 billion. This substantial enhancement to ADB's lending capacity is particularly well-timed for member countries in need of additional aid following successive financial crises in the US and Europe.

Although ADB has worked tirelessly to expand the reach of its operation and the capacity of its financial resources, we don't foresee further financial expansion in the medium term following the most recent round of general capital increase. We also predict growing difficulties in securing donor funding as many advanced economies continue to struggle with budget deficits and high debt levels. Against this background, ADB has begun to increasingly focus on co-financing programs and public-private partnership (PPP) projects to tap supplementary external resources and steer away from over-reliance on equity and donor funding. With a long history of fostering PPPs, arranging co-financing, and nurturing vibrant small and medium enterprises, Taiwan has accumulated a wealth of experience that we would be happy to share with ADB and member

countries.

In the most recent issue of Asian Development Outlook (ADO 2012), ADB identified the volatility of commodity prices as a potential threat to price stability in the region. The report also warned that policymakers should be wary of the risks associated with deteriorating economic conditions in Europe and international capital flows. The report went on to recommend regional coordination as an effective tool for managing international capital flows.

During the past year, short-term international capital has continued to pour into Asia's financial markets and disrupt economic and financial stability in recipient countries. Despite the obvious disparities in economic fundamentals across many emerging economies, their exchange rates and stock indices tend to move together with a surprisingly high degree of correlation. It's not difficult to see that short-term international capital movements rather than economic fundamentals have become the main driver of movements in exchange rates and stock prices across these economies.

Asian economies need to be well prepared for external shocks caused by volatile and unpredictable international capital flows. Collective actions can deal with short-term

capital flows more effectively. Since short-term international capital flows can create tension for intra-regional exchange rate movements, Asia should set up a formal regional exchange-rate coordination mechanism. Concrete actions should be taken to ensure regional currencies reflect economic fundamentals and maintain economic and financial stability. These actions will facilitate intra-regional trade, investment, and economic integration by lowering transaction costs.

Over the past year Asia has pressed ahead with deeper financial and economic integration. There are many bright spots. The size of the Chiang Mai Initiative Multilateralization (CMIM) has grown from US\$80 billion at inception to US\$120 billion. A proposal to double it to US\$240 billion has been agreed by ASEAN+3 financial affairs officials on the eve of this year's ADB Annual Meeting. The ASEAN+3 Macroeconomic Research Office (AMRO), opened almost a year ago, officially commenced operation on January 31 this year. Efforts made by the AMRO to be formally recognized as an international institution will no doubt succeed in the near future.

Both the CMIM and the AMRO are important milestones of Asia's integration. However, the volume of foreign exchange

trading in Asian economies has grown considerably. Our experience from the 1997 Asian financial crisis would indicate that the CMIM may require further enlargement in order to deal with a region-wide financial crisis. Therefore, I would like to recommend that we take a step further to combine the functions of the CMIM and AMRO by setting up the Asian Monetary Fund (AMF). Toward that end, the AMRO will need to be vested with the authority for carrying out prudential surveillance and the power to enforce rules and regulations, while the CMIM should introduce a more inclusive membership structure and function with a higher degree of autonomy.

Economic and trade cooperation will bear the most fruit if the adopted framework is accommodating and inclusive. Regional economic and trade relations should be fostered in a progressive, fair, and open environment. We would urge ADB to invite broader participation in its efforts to promote Asian integration. Notwithstanding ideological or political differences, all economies with adequate economic strength and ample financial resources should be included.

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.