

Statement by the Governor for the Republic of China at the 46th Annual Meeting of Asian Development Bank*

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Mr. Chairman, President Nakao, 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 India for their gracious hospitality. I also join my fellow governors in thanking the ADB staff for the excellent arrangements they have made for this year's meeting. As an ancient capital, Delhi has long been the political, economic, and cultural center of India. The city's old quarters are lined with heritage buildings, historic monuments and archeological sites. After WWII, Delhi grew quickly into a thriving metropolis, a world city where tradition and modernity converge. Its selection as the venue for the 46th Annual Meeting seems particularly fitting in light of the recent leadership transition at ADB.

President Nakao is an experienced policy

maker and a prolific author. I believe under his able leadership ADB will continue to carry out its mission effectively in fostering sustainable and equitable development in Asia.

Over the years, President Nakao's predecessors have laid a solid foundation for ADB. As the capital base had been increased to US\$165 billion, development aid in loans, donations, equity investments, and technical assistance rose to US\$21.57 billion in 2012. Two recent rounds of replenishment have also added a further US\$23 billion to the Asian Development Fund (ADF). These additional resources have made a significant impact on ADB's ability to meet the immense development challenge facing Asia.

As outlined in the latest Work Program and Budget Framework, ADB will devote 90% of new public sector country operations to

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infrastructure building, education, and financial sector development between 2013 and 2015. There are also plans to scale up co-financing and raise private sector participation. We welcome these initiatives and are encouraged by the steps that have been taken to institute internal reform on governance and gender equality. These efforts have not gone unnoticed, and it must be very gratifying for the staff when ADB was named the Most Admired Knowledge Enterprise in Asia in both 2011 and 2012. The Republic of China has been supportive of ADB's endeavors. For example, from 2006 to 2012, our cofinancing with ADB amounted to approximately US\$130 million. As a responsible member of the international community, we would be happy to cooperate with ADB in a wider range of initiatives.

There are some areas, however, where ADB could perhaps have done better. The Development Effectiveness Review conducted by ADB revealed that a number of ADF projects have been either delayed or cancelled. Among the completed projects, several instances of poor execution or substandard quality have been cited. The former president confronted these issues by asking all the departments to closely monitor project quality and completion rate. He also put together a new team to strengthen

the financial management of ADB projects. We hope that President Nakao will continue to tackle these problems and ensure the operational targets are met.

Poverty reduction is the overarching goal of ADB, and over the past five decades we have made significant progress in this regard. More recently, however, our efforts have been hindered by the forces of globalization and undermined by the negative effects caused by global economic crises. It's unthinkable that about 800 million people in Asia still live on less than US\$1.25 a day, while some 1.7 billion have to survive on less than US\$2. At the same time, we are painfully aware that the gap between the rich and the poor has continued to widen in Asia. In the past two decades, the Gini coefficient for developing Asia has actually risen from 39 to 46 and stayed stubbornly high. Regrettably, although Asia has managed to maintain a robust growth rate, income inequality has persisted. The goal of alleviating poverty in the region remains elusive, but we must rise up to the challenge.

Another important function played by ADB is acting as the catalyst for regional economic and financial cooperation. Regional cooperation has been high on the agenda for many Asian countries since the time of the

1997 Asian financial crisis. After the outbreak of 2008-2009 global financial crisis, these countries have become acutely aware of the importance of regional collaboration, as more efforts and resources have been ploughed into this area than ever before. Over the past 15 years, close regional cooperation has been one of the most noteworthy achievements in Asia.

In November 2012, the ASEAN countries plus Australia, China, India, Japan, South Korea and New Zealand jointly launched the Regional Comprehensive Economic Partnership (RCEP) negotiations. This cooperative framework covers trade in goods and services, investment, economic and technical collaboration, protection of intellectual property rights and other related issues. The breadth and depth of the issues under discussion are more comprehensive than any other free trade agreements in Asia. More importantly, the RCEP agreement will contain an open accession clause to accommodate the participation, some time in the future, of ASEAN FTA partners as well as other external economic partners who are not yet ready to join at the outset.

We have also taken note of a number of positive developments related to financial cooperation. Firstly, ASEAN+3 Macroeconomic Research Office opened for business in

January 2012. Secondly, the size of Chiang Mai Initiative Multilateralization signed by ASEAN+3 reached US\$240 billion in May last year. Thirdly, the ASEAN countries invited ADB and SEACEN Centre to provide training programs and policy recommendations to member economies in the areas of financial deregulation, capital flow management, building clearing and settlement infrastructure, development of capital markets, and financial supervisory system overhaul. This collaboration, which brings together not only individual countries but also a number of multilateral institutions, represents another novel approach to region cooperation.

The Asian Economic Integration Monitor published by ADB in March identified three major risk factors facing Asia in 2013. They are below trend economic growth in the US, fragile economic recovery in Europe, and the uncertainty created by Japan's latest fiscal and monetary stimulus. These risk factors pose realistic threats to regional economic and financial stability and should not be overlooked.

More specifically, a number of advanced economies have become over reliant on monetary stimulus during the recent economic downturn because high levels of public debt reduced the room for fiscal maneuver. As

a result, highly accommodative monetary conditions have been put in place to lift stock prices, support the housing market, raise inflation expectations, and weaken the currency. The policy is designed to boost aggregate demand and economic growth.

However, jump-starting the economy with exceedingly accommodative monetary policy will not eradicate the root of the problem. Macroeconomic stimulus may be effective in the short run but it is no substitute for structural reforms. Only by boosting investment, raising the labor participation rate, increasing productivity, and liberalizing trade can the growth momentum be maintained.

At a time when some of the world's largest economies are all adopting accommodative monetary policy, global liquidity glut would only build up further and put the already fragile global financial system at risk. According to the statistics compiled by the Bank for International Settlements, the aggregate daily turnover of foreign exchange markets around the world amounted to US\$4 trillion in 2010. The vast majority of these transactions are undertaken by market participants whose decisions are based on expectations and portfolio balancing considerations. Their whims have become the main driver of short-term international capital

flows and the exchange rate movements in many countries.

Emerging economies in Asia tend to bear the brunt of the impact created by the unconventional monetary policy implemented by advanced economies. They have to live with large and volatile international capital flows as well as the accompanying wild swings in exchange rates. In particular, the increasing volatility experienced by a number of major international currencies since the end of last year has put considerable pressure on many emerging market economies, prompting many academics and commentators to issue warnings against the perils of competitive devaluation.

As international financial markets become increasingly integrated, monetary policy actions in some economies will have far reaching and sometimes negative consequences for others. Policy makers in these large and advanced nations should give some consideration to the possible spillover effects that their policy may inadvertently cause. Since many emerging market economies are major participants in the global sovereign debt markets, advanced countries could benefit from coordinating their monetary policy with emerging economies in order to promote greater economic and financial stability.

It is also imperative for countries in this region to work closer together on fundamental economic issues, especially in the area of trade. Better cooperation in the region will not only bolster development, but also support the structural reforms that will transform our economies to a new level. I believe 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.

Last but not least, I would like to reiterate that the Republic of China is a founding member of the Bank 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 the Bank.

I wish the meeting every success. Thank you.