

Address By
CHAIRMAN OF THE BOARD OF GOVERNORS
AND
SECRETARY OF THE TREASURY OF THE UNITED STATES
HONORABLE PAUL H. O'NEILL

It is a pleasure to welcome the Asian Development Bank, member country delegations, and honored guests to the United States and to the beautiful host city of Honolulu, Hawaii. Let me join President Bush in thanking Governor Cayetano and Mayor Harris for their warm hospitality.

I am honored to be chairing the Thirty-Fourth Annual Meeting. The Bush Administration views the Asian Development Bank as having a critical role in economic development in the Asia and Pacific region. Since its founding in 1966, the Bank and the region have undergone momentous changes. No one understands this better than my esteemed colleague, President Tadao Chino, who was involved in the founding of the Bank and is now leading the institution into the 21st century. I am honored to join President Chino in opening this meeting.

I would also like to make a few remarks as the Governor for the United States.

I am very mindful that we all live in a globalized and interconnected world economy. As Secretary of the Treasury of the United States, the world's largest economy, let me assure you that I take seriously the responsibility that the United States perform at an optimal level, for its own people and for the world. While the U.S. economy has slowed, I have full confidence in its resilience. Economic fundamentals – productivity growth, the flexibility of our labor and capital markets, and low inflation – remain strong. In addition, the United States is working to put in place macroeconomic policies supportive of growth. The Administration's proposed tax cuts will provide some stimulus now and, more importantly, increase economic efficiency to underpin long-term economic growth. The U.S. Federal Reserve has demonstrated resolutely its willingness to ease monetary conditions as needed.

Although global growth has slowed over the past year, it is important not to lose sight of the sound foundation for recovery that is already in place. Nonetheless, a healthy global economy requires all of us to perform to our full potential, and, at the moment, all of the major economies are operating below their long-term potential. It is important for Japan, after ten years of sluggish growth, to achieve strong, stable growth. We welcome Prime Minister Koizumi's recent statements indicating his commitment to reform and look forward to seeing Japan take the steps needed to trigger an enduring recovery.

East Asia's recovery from the financial crisis has been encouraging. Per capita incomes in most countries are now well above their pre-crisis level. The risk of further balance of payments crises has declined significantly as most countries have built up foreign currency reserves, reduced short-term external debt and adopted more flexible exchange regimes. Yet, like a receding tide, the decline in global demand, particularly for high technology products, has revealed more clearly the drag weak banking and corporate sectors have on growth.

In South Asia, the information technology and heavy manufacturing sectors have grown strongly. The challenge now is to provide a more supportive environment for private-led growth in other sectors. The development challenges in Central Asia are also significant. While the energy sector has been a bright spot, countries are grappling with low growth, widespread poverty, and mounting debt burdens.

Asia has become increasingly important to the global economy, accounting for about a third of global trade and receiving a third of foreign investment in developing countries. Asia has also become increasingly important to the United States. Trade and investment ties have expanded, with Asia's share of U.S. trade increasing from about 10% in 1980 to over 20% currently (excluding trade with Japan), and U.S. foreign direct investment flows into Asia rising from \$1-2 billion in the early 1980s to about \$12 billion currently.

I'm an optimist. People around the world want higher living standards – and they will get there if they are exposed to the right incentives and opportunities. The differences between living standards in adjacent countries all over the world dramatizes how important certain fundamentals are. With the right policies, there is no good reason why such drastic differences in living standards need to be permanent.

I firmly believe that we will look back at the Asian crisis as a temporary setback in one of the most amazing success stories in economic history. The fundamental factors which contributed to the "Asian Miracle" of the seventies, eighties and early nineties, are still in place:

- a commitment to sound macroeconomic policies;
- free trade and open investment policies which expose companies to international competition;
- generally low levels of taxation;
- high levels of investment in human capital through sustained public sector commitment to health and basic education;

- a strong sense of entrepreneurship; and
- a high propensity to save.

Many of these core values remain as important as ever.

Institutions such as the Asian Development Bank are well placed to help countries put in place policies to meet the new development challenges of the 21st century such as strengthening social safety nets, financial sectors, capital markets, corporate governance, and commercial legal systems. A key theme behind my ideas for reform of the multilateral development banks is that they be more focused on the objective of increased income per capita through higher productivity growth. In this regard, the Bank can help countries move toward a second generation of productivity enhancements, building on the lessons learned and on the policies that have been successful in the past. We welcome the Bank's new Private Sector Development Strategy, which the Board of Directors approved last year. While still in its early stages of implementation, it envisions a Bank that strives to promote private sector investments at every opportunity. Bank support for human capital development, including cost effective social safety nets, is an important complement for this work.

While the ADB can make an important contribution to improving governance in the region, we also need to build on internal initiatives to improve corporate governance in the ADB and other multilateral development banks, making them more responsive, open, and accountable to shareholders and taxpayers. Similarly, while the ADB and other MDBs can play a large role in helping countries increase the efficiency of investments, they also need to increase the efficiency and effectiveness of their own lending through greater selectivity, better coordination with other lenders, and more effective monitoring of performance. I look forward to working with my fellow governors and the management of the Bank to achieve these goals.