

**TAIPEI, CHINA*****FAI-NAN PERNG, Governor**

On behalf of the delegation of Taipei, China,* I would like to thank the Government and people of the host country for the generous hospitality we have received since our arrival in Shanghai, and the staff of the Asian Development Bank (ADB) who have made this meeting both meaningful and enjoyable. I would also like to extend a warm welcome to Portugal on joining ADB. We feel very much at home in Shanghai because there are nearly 600,000 citizens of Taipei, China* and several hundred companies owned by the people of Taipei, China* in this city and the nearby Kunshan and Suzhou region.

When President Chino took office, ADB made poverty reduction the overarching mission above and beyond the enormous challenges posed by the Asian financial crisis. Following the adoption of the poverty reduction strategy by the Board of Governors, President Chino has worked tirelessly to replenish ADB's financial resources and reorganize its administrative structure. There is no question in my mind that under the able leadership of President Chino, ADB will continue to play a pivotal role in steering Asia toward prosperity and social equality. The goal championed by ADB is also the very goal that my country has been striving for with great success. Without reservation, we shall continue to support sustainable and balanced development in Asia through both financial aid and technical assistance.

Now please allow me to brief you on the state of our economy. Because of global cyclical downturn, our highly open economy retrenched last year. Exports of goods and services declined, triggering a sharp fall in private investment. Private consumption was sluggish as well. As a result, the economy contracted by 1.9%. In response, given that inflationary pressures remained subdued, the central bank of Taipei, China* engaged in aggressive monetary easing to shore up the economy. Since December 2000, the discount rate has been cut on twelve occasions by a total of 262.5 basis points to a record low of 2.125%. In the past two years, NT\$720 billion worth of preferential housing loan programs have been launched. The Government also speeded up public infrastructure investment. Earlier this year, the Government took a further step by promoting a five-year tax exemption plan for manufacturing firms or related technology

* Changed by Meeting Secretariat.

services firms that wish to start a new venture or expand.

Just when the authorities' stimulus packages were gradually showing their effects, the global economy also turned around. Our economy began to recover in the first quarter of this year. High-tech industries revived, exports gathered momentum, and imports picked up because of an increase in derived demand from exports. Stock prices rebounded by more than 85% from early October to mid-April. Private consumption rose again because of the wealth effect. Private investment is expected to improve as well. Domestic and foreign research institutions predict that our economic growth rate will return to 2.5% to 3.5%. Prices remained stable. The core consumer price index edged up only 0.08% last year and is expected to climb moderately by 0.6% this year.

Our balance of payments has been in good shape. Both the current account balance and the overall balance have shown a sustained surplus. Last year, the current account surplus amounted to US\$19 billion and the overall balance posted a surplus of US\$17.4 billion. As a result, our foreign exchange reserves reached US\$133 billion at the end of this April, sufficient to meet the demand of imports for 17 months. Moreover, the level of our external public debts is negligible.

On the supply side, the engines of our long-term economic growth are capital accumulation and total factor productivity. Their respective contributions to economic growth were 39.5% and 49.2% in the past twelve years. They have profoundly transformed the economy. The share of heavy industrial and technology-intensive products relative to total manufacturing output went up from 67.5% to 81.4% between 1992 and 2001. The export structure also shifted during the same period. The share of high-tech exports leaped from 29.5% to 46.4% of total exports. Most importantly, the same high-tech exports to total exports ratio increased four percentage points from 2000 to 2001. This indicates that even during the economic downturn we still endeavored to upgrade our industries. Currently we are the world's leading supplier of 15 goods or services including IC foundries, packaging, testing, and notebook computers. We rank second in the world in the production of another 16 goods and services including IC designing and TFT-LCD. The Government and the private sector have worked together on Si-Soft, a system-on-chip project that aims at establishing a global design platform, intellectual property mall services, and innovative design industries. Si-Soft is a grand project. Its ultimate objective is to develop industries that focus on design and innovation, which will become the new backbone of our economy. In the future, based on the principle of comparative advantage, we will continue to assist our firms to explore global opportunities and to promote a knowledge-based economy to maintain our competitive edge.

On the financial front, the Government has carried out a series of financial reforms. In July last year, the Government set up the Financial Restructuring Fund to restructure problem financial institutions. The Financial Institution Merger Law lays down a legal framework for asset management companies and introduces the market mechanism to speed up the disposal of financial institutions' nonperforming assets. The law also provides incentives for financial institutions to merge. The problem of

overbanking will be alleviated gradually through mergers and acquisitions. The Financial Holding Company Law, which took effect in July last year, provides the foundation for financial institutions to achieve synergy and to provide one-stop services to the public through business integration and professional marketing. The Financial Supervision Agency Act, currently under review by the congress, will further integrate the existing system to promote sound financial development in the future.

Our economy is closely linked to the rest of Asia. Although the recent global economic slowdown has resulted in a decrease in bilateral trade, our trade with neighbors in the region still added up to US\$123.2 billion last year. Exports to Asia made up US\$64.5 billion, or 52.5% of total exports, while imports from Asia came to US\$58.6 billion, or 54.7% of total imports. Asia also accounts for the bulk of our overseas investment. By the end of last year, our direct investment in the region reached US\$96 billion. Portfolio investment and credit extended to Asia by our banks was over US\$23 billion. We also invested in and provided a revolving credit facility to the Asian Finance and Investment Corporation. In the wake of the Asian financial crisis, we actively participated in ADB's cofinancing programs and syndicated loans arranged by foreign banks. In addition, ADB has raised about US\$800 million from our bond market over the years. ADB will issue another NT\$10 billion (about US\$285 million) bonds in Taipei City. The total amount we donated to the Asian Development Fund is US\$47 million.

The reverberations of the Asian financial crisis and the September 11 terrorist attacks in the United States highlighted the worldwide influence of globalization. Both events immediately sent shock waves to the global financial markets and further weakened the global economy. Globalization is an irreversible trend. Cutting-edge information and communication technology now provides efficient and convenient access through which financial information and transactions can take place swiftly. In a financial environment characterized by speed and efficiency, a single isolated event can have an immediate and sometimes detrimental impact on the global economic and financial system.

These international incidents, therefore, serve to remind us that we should work closely together to achieve regional stability. The Asian countries should go beyond political ideology and focus on factors that may impact the regional economy. In view of the importance of international cooperation, we would like to suggest that ADB take a more active role to set up a safety net for regional stability. It can provide timely help to countries in need, prevent crisis from escalating, and greatly contribute to the economic and financial stability of Asia. In the era of globalization, it is of paramount importance to pool regional resources and to gain access to the latest technology. European countries have successfully established the European Union. They have also reached out to nonmember countries for trade cooperation. The North America Free Trade Agreement plans to expand to include all the countries in the Americas. Asian countries have also paid attention to this general trend. Free trade agreements among the ASEAN countries and some others have been advanced in recent years. However, we urge that trade agreements such as these should be expanded to include countries with great strength

in international trade. I believe that moving in this direction provides a unique opportunity to transform Asia into a major economic powerhouse in the world.

Before closing, I would like to reiterate that Taipei,China* is a founding member of ADB and has fully carried out its membership responsibilities. However, my delegation continues to protest against the unilateral alteration of our membership designation. Furthermore, I would like to call on all member countries to respect each other for the equal opportunities to host the various activities organized by ADB. Finally, may I wish the meeting every success and good health to all of you.

* Changed by Meeting Secretariat.