



HONG KONG, CHINA

PETER PANG, Head of Delegation

Mr President, let me first of all congratulate you on your election as President of the Bank. I must next thank Turkey for graciously hosting this year's Annual Meeting and join other Governors in extending our appreciation to the Bank's management and staff for making these excellent arrangements.

I would like to take this opportunity to welcome the successful conclusion of the 8th replenishment of the Asian Development Fund (i.e. ADF IX). This managed to safeguard a provision of US\$7 billion for lending to the region's most needy economies from 2005 to 2008. As well, we support the introduction of a grant element in ADF IX which offers much needed relief to the poorest people in Asia. Notwithstanding that Asia's real GDP grew 7.3% in 2004, the fastest pace since the Asian financial crisis occurred in 1997, the distribution of income in the region remains highly uneven. The toll on human lives and the massive destruction left behind by the Tsunami attack last December reminded us that fighting poverty remain both a continuing – and daunting – task for the Bank.

While the Bank has done a commendable job in reducing poverty in the low-income economies, those members who have attained a reasonable level of development have a different set of needs. Many of them have ready access to private capital, given the abundant liquidity available in the global financial markets, so they do not turn to the Bank for lending. But the greatest challenge these emerging markets face is how to achieve a more balanced and sustainable growth in the midst of globalisation. As more economies in the region move to the middle-income category, I urge the Bank to proactively consider ways and means to help them meet the new challenges of changing times.

Sustainability of the region's future growth seems to lie in the growing trend of intra-regional trade and economic interdependence among Asian economies. Propelled by greater production sharing within the region, emerging Asia's share of world exports of merchandise goods has doubled over the past two decades from 10% in 1985 to 20% in 2003, and from 20% to 26% if Japan is included. Intra-regional trade is growing at an average of 14% a year, almost double the growth of world exports of 7.5%. It currently accounts for half of East Asian exports, up from around 30% in the mid-1980s.

While trade integration within the region is likely to grow, financial integration shows a more mixed picture. In terms of financial intermediation, meaning the flow of savings into investments, other than foreign direct investment, through the banking, debt and equity channels – the degree of financial integration is not high at all. The very substantial volume of foreign reserves accumulated in the region, amounting to more than US\$500 billion last year alone, goes mainly to the developed rather than the regional markets. When some of the capital from the

developed market is recycled back to the region, it is of a more volatile and potent nature, and it can be difficult to cope with as we saw it in the late 1990s.

There is now a common desire among economies within the region to reduce dependence on the recycling of domestic savings through the developed markets, and therefore reduce vulnerability to financial shocks, by promoting greater regional financial intermediation. A number of regional initiatives are being implemented, most notably the Asian Bond Markets Initiative under the ASEAN+3 forum. The Initiative includes studies on issues such as new securitised debt instruments, issuance of debt by international financial institutions, regional credit guarantees and enhancement facilities, and the establishment of local and regional credit-rating and credit-enhancement agencies.

Another initiative is the Asian Bond Fund project, a collective initiative led by the Executives' Meeting of East Asia-Pacific Central Banks or EMEAP comprising 11 central banks and monetary authorities in the Asia Pacific region. Like other bond-market initiatives, the ABF project portends well for market broadening and deepening. First, it introduces and promotes new fixed-income products to the Asian markets – in this case, exchange traded bond funds. Secondly, it helps improve market infrastructure; for instance, EMEAP has selected an independent index company to develop a set of brand new bond indices covering the eight EMEAP markets based on price information from active market participants. The new set of indices, by itself, will be an important piece of financial market infrastructure for the region. Thirdly, the initiative has helped accelerate tax and regulatory reforms in both the regional and domestic markets.

The Bank, with its mission as the region's development bank, is well positioned to assist the emerging market economies in Asia in meeting the challenges of globalisation by acting as catalyst for financial integration as well as coordinator for regional cooperation. In the past year, the Bank has contributed to capital market development in the region through issuance of local currency-denominated bonds in India; Hong Kong, China; Malaysia; and Singapore. More local-currency bond issuances are expected, as the discussions with the People's Republic of China, the Philippines and Thailand are under way. The Bank is also providing valuable support to the Asian Bond Markets Initiative through the former Regional Economic Monitoring Unit, which is now known as the Office of Regional Economic Integration. Mr President, your decision to expand this Office and dedicate it to regional cooperation matters is a timely and welcome move. I am sure the region as a whole will benefit, as the Bank will enhance financial stability by strengthening regional surveillance and augmenting its profile in regional cooperative initiatives.

Despite these efforts, developments, and – dare we say it – successes, there are still many challenges lying ahead of us. One-fifth of the world population is still living in poverty, and there is still room for improvement in poverty reduction. At the same time, the Bank should promote regional cooperation to achieve sustainable growth and to narrow the income gap among economies in the region. Mr President, I am confident that under your leadership, the Bank will play an even greater role in the provision of expert advice and in enhancing financial cooperation in the region. You have our unremitting cooperation and support. Thank you.