



**TAIPEI, CHINA\***

**FAI-NAN PERNG, Governor**

On behalf of the delegation of Taipei, China\*, I would like to thank the Government and people of Turkey for their hospitality, and the staff of the Asian Development Bank for their arrangements. Istanbul, the choice venue, takes on an international significance. It is at the junction of two continents where civilizations meet. We are privileged to explore its rich culture.

President Kuroda, since taking office in February, has continued the Bank's effort to rebuild tsunami-hit countries. In March, he hosted a high-level meeting to promote coordination among governments and donors involved in the tsunami rebuilding process. For longer-term plans, he aims to lead the Bank to become more customer-oriented, to act as a catalyst for greater regional economic integration, and to streamline organizational and business processes. I believe that under President Kuroda's leadership, the Bank will achieve a new milestone and continue to steer a course for sustainable growth and prosperity for Asia.

In recent years, banks in most of the countries affected by the Asian financial crisis have significantly reduced their non-performing loans. State-owned banks and financial institutions in the few other countries, however, are still experiencing difficulties. In view of this, the Bank introduced financing programs and encouraged international banks to help strengthen weaker financial systems in the region. We fully support this policy and would like to suggest that the Bank issue a set of guidelines and standards on this type of loans so that other developing member countries (DMCs) can soon benefit from it.

In addition, the Bank completed a thorough review last year, which underlined its need to head toward a more quality- and result-oriented approach to operations. Based on this review, the Bank proposed the reform agenda, aiming to enhance its organizational effectiveness, to better manage its resources, and to deliver products and services to DMCs more efficiently. We support these measures as they correspond to President Kuroda's vision. Figures showed that about one-fifth of the loan approvals by the Bank were not effectively carried out. Borrowing countries have also prepaid large portions of the Bank's loans since 2002. As a result, the Bank's outstanding loans from ordinary capital resources (OCR) dropped significantly, creating a gap between the supply and demand for the Bank's loanable funds. This might have affected the Bank's regional influence. I suggest the Bank draw up its plans based more on real needs and socio-economic conditions, thus matching President Kuroda's objective of leading the Bank to become more customer-oriented.

The tsunami, a major event of last year, devastated many countries in the region. In response, the Bank set aside US\$600 million in readily available funds and another US\$175 million in reprogrammed funding for Indonesia, the Maldives, Sri Lanka, and India. I applaud the Bank for providing such generous and timely support. My country, driven by the same compassion, has also sent relief, and supports the Asian Tsunami Fund. I believe the Bank's efforts will expedite the recovery process of those affected.

Regional currencies, beginning from the fourth quarter of last year, have surged against the US dollar due to large short-term capital inflows. Exchange rates become more volatile than can be explained by fundamentals, destabilizing the economies. To deal with excessive volatility, a number of Asian countries formed the Asian Bellagio Group. I suggest that we

---

\* Changed by Meeting Secretariat.

push this idea further and set up a formal regional exchange-rate coordination mechanism through which stable currency relationships can be established.

The idea of exchange rate coordination deserves our attention. Since the 1990s, intraregional trade and investment in Asia have been expanding. An effective exchange rate coordination mechanism not only contributes to regional economic stability but also further promotes trade and investment by bringing down transaction costs and uncertainties associated with exchange rate fluctuations.

The Asian Bellagio Group, the Chiang Mai Initiative (CMI) and the Asian Bond Fund (ABF), among others that emerged after the outbreak of the Asian financial crisis, have contributed significantly to regional financial stability. Yet, more can be done. I believe that Asian countries should engage in broader and more frequent formal policy dialogues and information exchange. The CMI can be consolidated to create a single multilateral swap mechanism across Asia with the Bank at the center to serve as the primary intermediary. This will pave the way for the Asian Monetary Fund. The ABF helps promote the Asian bond market. The sound development of this market can mitigate the double mismatch problem such as the one we had during the Asian financial crisis, but should be firmly based on domestic bond market reforms. Otherwise, Asian bonds are likely to be limited to denominations of only a few key currencies in Asia.

Most importantly, regional cooperation should be more inclusive. Countries with economic strength and adequate financial resources should be allowed to participate in the process. Moreover, as regional integration is multilateral in nature, I suggest the Bank actively establish itself as the platform for regional economic integration. Through this platform, member countries will be able to engage in more extensive cooperative relationships among one another.

I will briefly update you on the Taipei,China\* economy. For the year 2004, the GDP went up by 5.71 percent and consumer prices rose by 1.62 percent. Unemployment dropped from its peak at 5.35 percent in August 2002 to 4.15 percent this March. The balance of payments has been in good shape. Foreign exchange reserves have been building up. The private sector has maintained a net external claims position.

I would like to reiterate that Taipei,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. Lastly, I wish the meeting every success. Thank you.

---

\* Changed by Meeting Secretariat.

\* Changed by Meeting Secretariat.