



# 39<sup>TH</sup> ANNUAL MEETING

## BOARD OF GOVERNORS

ASIAN DEVELOPMENT BANK

Hyderabad, India

4–6 May 2006

GS-06

### **MALAYSIA**

**Nor Mohamed Yakcop**, Governor ad interim

It is a great honor for me to address the 39th Annual Meeting of the Board of Governors of the Asian Development Bank (ADB). On behalf of the Government of Malaysia, I would like to express our gratitude to the Government of India and the people of Hyderabad for the fine arrangements and cordial hospitality extended.

### **Medium-Term Strategy**

Malaysia acknowledges ADB's role in economic development and in fostering poverty reduction in the Asia and Pacific region. I think it is only fair to say that the decline in poverty from 32% in 1990 to 22% in 2000 is to some extent attributable to ADB's support and intervention and its determined focus on poverty alleviation as its overarching goal. I note that ADB is currently embarking on the second phase of its medium-term strategy for 2006–2008. The strategy includes catalyzing investment, strengthening inclusiveness, promoting regional cooperation and integration, managing the environment, and improving governance and containing corruption. This is going to be a daunting task for ADB, since Asia is not only home to two thirds of the world's poor, it also consists of countries that are at different stages of economic development, and exhibit political and cultural differences. As a member country, Malaysia is keen to see ADB play a more significant role in helping to build a common platform to leverage these differences into strengths, thereby bringing about greater intra-regional trade and investments in the region. Nevertheless, this must be done without the developing member countries (DMCs) having to compromise their national strategic policies. This is important because ADB must play the primary role in facilitating, instead of dictating or frustrating, the achievements of DMCs' national policies.

### **Regional Cooperation and Integration**

Malaysia welcomes the focus on regionalism in the medium-term strategy. Although the scope has been limited to supporting cross-border infrastructure, monetary and financial cooperation, trade and investment and regional public goods, we are of the opinion that ADB's involvement must not be confined to merely instituting and strengthening policy, legal and regulatory frameworks, or to harmonizing the bilateral and sub-regional free trade agreements in the region. Rather, ADB's contribution is needed to provide grants and loans at concessional rates to encourage private sector participation in this integration exercise and to encourage private sector operations in less desirable markets. In this context, Malaysia foresees vast potential for development in trade and investment if the Asian automated clearing house as proposed by ADB could be established immediately.



On financial and monetary cooperation and integration, it is important to note that closer monetary arrangements are a means to promote greater real integration, en route to higher economic growth and levels of prosperity. As such, the steps taken by ADB toward developing an Asian currency unit (ACU) comprising a weighted index of Asian currencies needs to be more clearly defined, so it is not undermined by economic and financial ambiguity. Member countries ought to be fully engaged in determining the countries that need to be included in the index and in ascertaining the weights themselves. Caution is needed so the ACU is not treated as the de facto benchmark to measure the misalignment of an individual currency. The markets may eventually question the credibility of the ACU. Nevertheless, although the ACU will initially serve as an indicator to monitor the movement of Asian currencies against a regional benchmark and against other key external currencies, it would be beneficial for the DMCs if ADB could also look at the cost-benefit analysis of instituting the ACU as an international currency for the Asian region. This was how the Euro was first conceived. In fact, a study conducted by the International Monetary Fund (IMF) in 2004 contains evidence of trade gains and trade-creating effects after the introduction of the European Economic Monetary Union. Likewise, there is optimism on the potential impact of the ACU on economic and financial integration but caution must be exercised not to pursue closer monetary integration ahead of real integration.

### **Engagement with Middle-Income Countries**

I am happy to note that ADB has been actively engaging middle-income countries to be more involved in ADB operations. In this regard, Malaysia values the efforts made by ADB to participate in the recent RM500 million 5-year bond issues under Malaysia's RM3.8 medium-term note program. ADB's participation serves to create a more vibrant capital market for the further development of the Malaysia bond market. Malaysia also takes note of the cooperation by ADB with other multilateral development banks (MDBs) to harmonize consultancy and procurement guidelines, and in introducing new financing modalities for sub-sovereign borrowing to promote public-private partnership in the process of getting middle-income countries to borrow from ADB under its ordinary capital resources. ADB needs to be cautious and prudent, as sub-sovereign borrowing has greater risk than lending to sovereign governments. At the same time, ADB also needs to focus on stimulating private sector operations that will catalyze mobilization of resources from a country's reserves to generate economic activities and hence create employment and subsequently reduce poverty. Imposing too many conditions and exercising rigidity in implementation will only discourage the private sector from borrowing from ADB. Unfortunately, ADB is moving too cautiously in its private sector operations and this needs to change.

Asian economies at present have become far more robust than they were before. The opening up of the People's Republic of China and India has changed the global economic landscape dramatically. Labor- and capital-intensive modes of development have given way to productivity and knowledge-based growth. Populations have become increasingly urbanized and educated, while the middle-income group has expanded. Yet there are income disparities between rural and urban areas and between less developed and more developed regions. These are the concerns that Malaysia has addressed in our recently launched Ninth Malaysia Plan (2006-2010). In the plan, Malaysia has given greater prominence to key areas such as raising the capacity for knowledge and innovation through education and human capital development; addressing persistent socio-economic inequalities constructively and productively; improving the standard and sustainability of the quality of life, and effective execution of policies. It is our hope that ADB can play a more significant role in helping individual member countries like Malaysia to foster economic development and improve social economic inequalities without having to compromise on their national strategic policies.

Malaysia has and will continue to support ADB in all its endeavors and is looking forward to working closely with ADB and other member countries in enhancing economic growth in the region. To conclude, allow me to welcome Brunei Darussalam as a new member of ADB. On behalf of the Malaysian delegation, I would once again like to express our sincere appreciation to the Government of India and the people of Hyderabad for making the 39th Annual Meeting of Board of Governors a memorable one. I would also like to commend Mr. Haruhiko Kuroda, the President, its Directors, management and staff for the Bank's excellent performance and achievements in 2005.