

JAPAN

FUKUSHIRO NUKAGA, Governor

At the outset, on behalf of the Government of Japan and its people, I would like to express my deepest sorrow for the passing away of the former Prime Minister Mr. Calvo-Sotelo who had played a pivotal role in establishing democracy in Spain.

I would also like to express my sincere gratitude, on behalf of the Government of Japan, to the Government of Spain and to the people of Madrid for their wonderful hospitality. Last year, the annual meeting was held in Kyoto, the ancient capital of Japan, symbolizing our nation. Spain has produced a great number of world famous artists, including Picasso, Goya and Gaudi, and I am delighted that this year's annual meeting has been held in Madrid which is full of rich cultural heritage.

From the 15th to the 16th century, Spain led the way in the Age of Discovery, playing a pivotal role in the expansion of world trade. We may be able to say that the dramatic increase in cross-border trade and investment during that era laid the foundations for today's globalization. What is more, it is modern-day Asia that has maximized the benefits enjoyed from this progress, leading to rapid economic development.

This year, the Asian Development Bank (ADB) will embark on a new voyage with the new long-term strategic framework 2008–2020 (Strategy 2020) as its guiding compass. And it is only fitting that the new voyage will start from Spain, where globalization started, providing the key to Asia's prosperity.

As if to celebrate this new embarkation, I welcome with great delight that, prior to this annual meeting, consensus was successfully reached on the ninth replenishment of the Asian Development Fund (ADF X). While Japan is faced with a very severe fiscal condition, in light of the importance of poverty reduction in Asia, we have indicated our intention to increase our contributions to ADF by 38% in yen terms, exceeding that to the International Development Association fifteenth replenishment (IDA15). I hope that the ADF funds will be used effectively, and that Asian countries will take great strides toward achieving the Millennium Development Goals.

Current conditions and outlook for the Asia and Pacific region

Robust Asian Economy

It has been a while since Asia became the region with the world's highest economic growth. Having overcome temporary setbacks caused by the Asian currency crisis of the late 1990s, the region has now firmly established itself as one of the growth centers of the global economy. Despite the global financial turmoil triggered by the subprime problem in the latter half of last year, the average growth rate of the region was recorded at 8.7%, the highest in 20 years, buoyed by strong investment and private consumption. Looking forward, I expect the Asian region to continue to be a driving force of the global economy. Nevertheless, given the uncertainty surrounding the world economy, including the development of the subprime problem, we must also be aware of its downside risks. Furthermore, the recent hike in commodity prices, including soaring food prices, have put increased inflationary pressures on the Asian economies, and amid the rising sentiment of a slowdown of the global economy, Asian countries are confronted with the challenge of delicate handling of the economic policies.

Poverty Reduction

Against the background of steady economic growth, the number of people living in extreme poverty in the Asian region has been declining at a rate faster than that required to meet the Millennium Development Goals (MDGs). However, with still around 600 million people living under extreme poverty, the biggest challenge facing the region continues to be poverty reduction. At the same time, we are witnessing widening income disparity within a country between those groups that are benefiting from economic development and those who are not. It raises concern that this might hinder countries from maintaining social stability that is necessary for achieving sustainable economic development.

Environment and Climate Change Problems

There has also been a dramatic increase in energy consumption in the Asian region. Between 1973 and 2005, global energy consumption increased by 87%, whereas in the Asian region it soared by 289%. Also, in terms of future energy demand, there are estimates indicating that, by 2030, demand in the region will double and account for 36% of global demand. On the back of high economic growth, CO₂ emissions have also been increasing rapidly. At present, the region accounts for 29% of the world's CO₂ emissions, three times what it was 30 years ago. Asia is in a position to make a big difference to the future course of climate change. At the same time, it is also the region that is most affected by climate change. Some of the Pacific islands and many coastal cities in Asia are extremely vulnerable to rising sea levels. There are also fears of damage being sustained due to large-scale natural disasters or abnormal weather associated with climate change. Economic development that fails to take the environment into account is unsustainable. How the Asian region deals with climate change has a significant bearing on the international community, requiring a concerted effort on a global scale.

ADB's Long-term Strategic Framework (Strategy 2020) and Associated Challenges

New Long-term Strategy

I welcome the adoption of ADB's new Strategy 2020 that will guide ADB in addressing new development challenges facing the dramatically changing region by focusing primarily on achieving an Asia and Pacific region free of poverty with three specific key development agendas: inclusive growth, environmentally sustainable growth, and regional integration.

Monitoring of Individual Economies by ADB

In order to make progress in our biggest challenge of poverty reduction, it is important that each country continues its economic growth led by the private sector. To this end, it is necessary to continue to promote private sector developments, and improve the investment climate, which includes building necessary infrastructure. At the same time, we must be ready to be able to show flexibility in coping with the rapidly changing international economic situation. For example, the recent financial turmoil triggered by the subprime problem, has impacted many countries in ways that could never have been anticipated a year ago. Fortunately, the impact on the Asian region so far has been limited. We cannot, however, be lax in our preparedness. After the Asian currency crisis, Asian countries spent considerable time and energy in reforming their financial sectors, but the process is far from complete. As a development bank specializing in the Asian region, ADB needs to remain vigilant against such turmoil in the global financial markets, and to do its best to minimize the impact of such incidents, by capitalizing on its wealth of knowledge about the regional economies, and engaging in close exchange of information as well as continuing the policy dialogue with the countries in the region.

Strengthening of Capital Base

The successful conclusion of the negotiations on the ninth replenishment of the ADF will, without doubt, have a significant impact on our drive towards reducing poverty in Asia. Nevertheless, we must be mindful of the fact some of the largest populations living under extreme poverty in Asia reside in middle-income countries. While it is necessary that developing countries themselves take ownership in implementing various measures, including proper redistribution of resources, to enable everybody to share in the economic growth, ADB must be ready to meet the abundant development needs, including improvements of infrastructure, with its ordinary capital resources (OCR). Therefore, I believe it is appropriate to commence a study on the need for a future general capital increase.

Assistance to Middle-income Countries

On the other hand, some middle-income countries have steady access to the capital markets, enabling them to raise funds at reasonable rates. ADB's involvement in such countries should be differentiated, by focusing more on non-lending operations, such as providing appropriate policy advice, and limiting its lending operations to areas directly related to international public goods, including climate change, and projects that are highly effective in reducing poverty in underdeveloped regions. It will be important for ADB to increase its efforts in its own capacity building so that it can meet the various policy needs of the middle-income countries by providing high value-added policy advice.

Regional Cooperation and Integration

Promotion of regional cooperation and regional integration in Asia has played an important role, and will continue to be the key, in Asian economic development. ADB has played a pivotal role in this area in the past. For example, the Greater Mekong Subregion (GMS) program is a framework for economic cooperation that was launched in 1992, centered on the six countries of the Mekong Basin (Cambodia, the Lao People's Democratic Republic, Myanmar, Thailand, Viet Nam, and the People's Republic of China). ADB has supported this program by improving infrastructure with a focus on roads, and projects have been prepared to develop east–west, north–south and southern economic corridors stretching over multiple countries. The east–west corridor that extends over 1,500 kilometers across Thailand, the Lao People's Democratic Republic and Viet Nam has already been completed, dramatically shortening the supply chains of manufacturers operating in Thailand and Viet Nam. Over 7,000 Japanese companies have already invested in this area, and I expect that such drastic shortening of supply chains will lead to further expansion of markets and increase in investments in the region, contributing to sustained economic development, creation of jobs and subsequently to poverty reduction. I expect ADB to continue its leading role in regional cooperation and regional integration in Asia, capitalizing on its accumulated wealth of knowledge of the region.

Environmental Issues and Climate Change

In 2005, Japan hosted the Aichi “Love the Earth” Expo with global environment as its main theme. This year, Spain will host the World Expo in Zaragoza, with “Water and Sustainable Development” as the main topic. “Climate Change” will be the central theme at the G8 Summit that Japan will host in July at Toyako, Hokkaido. Japan has already announced its initiative “Cool Earth 50” in which it calls for a halving of global greenhouse gas emissions by 2050. Japan has deployed many of its outstanding environment-related technologies to a large number of countries, and intends to continue making utmost use of its initiatives and technology as best practices in the environmental sector. Nevertheless, in order to halve greenhouse gas emissions by 2050, the international community must come together and act decisively. In view of this situation, Japan set up the Asia Clean Energy Fund at ADB to support energy conservation efforts in Asian countries. We have also been collaborating with the US and the UK on setting up another multi-donor trust fund for climate change. Discussions with individual countries on the early launch of the fund are currently underway.

Response to Soaring Food Prices

As I mentioned earlier, ADB should follow its new Strategy 2020 and focus on areas where it can build on its comparative strength. But at the same time, ADB needs to demonstrate flexibility to ensure that the urgent needs of the regional countries are addressed on a timely basis.

One example is the recent rise in food prices that is causing various problems to Asian countries. Especially, the recent hike in the price of rice is hitting Asian countries particularly hard. Those in the poorest segment of the population, including the urban poor, are the ones who are the most affected. They face the risk of deteriorating living standards and malnutrition. Unless social safety nets addressing the immediate needs of the poorest are put in place, this could lead to social unrest. We expect ADB to provide appropriate policy advice and financial support to the regional countries in need.

In fact, many countries have already introduced various emergency measures. They often include measures such as export restrictions that will not only distort the price mechanism of the markets but will further exacerbate the price hike in the international markets. Subsidies that are intended to keep domestic food prices under control carry the risk of becoming a significant burden to the budget and are not sustainable over time. In particular, measures that impose a heavy burden on the budget could destabilize macro-economic conditions if they are combined with increasing inflationary pressure coming from a rise in food prices. This must be avoided at all cost, and ADB should build on its competitive strength and work closely with other multilateral institutions in providing appropriate policy advice, including exit policies from undesirable measures. I expect that ADB will engage in close policy dialogue with the countries in the region and do its utmost to make sure that the current rise in food price does not inhibit the long-term growth momentum of Asian countries.

One of the causes of the recent price hike is said to be the increase in consumption of some developing countries, representing a structural change in the demand and supply of foods. So, in the medium to long term, it is important to focus on improving the productivity of agriculture by improving irrigation and introducing better seeds. ADB should work together with its regional member countries in their effort to provide a long-term solution to this issue. We welcome the timely announcement made by President Kuroda on the soaring food price, which provided a comprehensive response by ADB on this issue, and we will give it our full support.

Organizational Management of ADB

ADB needs to constantly review its organizational and personnel policies in order to be able to respond to the changing environment and issues in Asia. Wherever necessary, bold revisions to the skill mix should be conducted, and efforts should be made to enhance human resources in such fields as climate change, energy conservation and finance. In this regard, I welcome the various initiatives on human resource strategies that have been presented by President Kuroda. The comprehensive review of human resource strategies, the adoption of flexible staff recruitment and the review of the Operations Evaluation Department (OED), which are scheduled to be implemented before the end of this year, will both strengthen ADB in terms of human resources and effectiveness of the organization. As a result of these initiatives, I hope that ADB will not only function as a financial intermediary, but also play a key role in resource mobilization and knowledge transfer.

Under the strong leadership of President Kuroda, ADB is continuing its initiatives to become a more efficient and effective organization, adapting to the changes in Asia. I expect ADB to continue to be the core institution of economic cooperation in Asia.

Conclusion

As Asia's only regional development bank, ADB has made significant contributions to economic and social development and to raising the standard of living in the Asian region.

As Asia experiences remarkable change, in order to attain and maintain prosperity for the Asia and Pacific region as a whole, we must attempt to solve many issues that need to be overcome.

Just as the pioneers who set off from Spain used to overcome many difficulties and accomplish great achievements, I hope that ADB, as Asia's multilateral development bank, will make substantial contributions to reaching our common goal of realizing an Asia and Pacific region free of poverty, by offering a direction for support to the Asian region under the new long-term

strategic framework (Strategy 2020), and by playing a pivotal role in coordinating support from various countries and institutions.