



JAPAN

MASAJURO SHIOKAWA, Governor

It is a great pleasure for me to address the Thirty-Fifth Annual Meeting of the Asian Development Bank (ADB). On behalf of the Government of Japan, I would first like to express our gratitude to our hosts, the Government of the People's Republic of China and the people of the city of Shanghai, for their generous hospitality.

May I also take this opportunity to extend a warm welcome to Portugal, which joined ADB last month as the 60th member.

Japan's Economy

The Japanese economy is expected to pick up in the latter half of this year as a new basis for growth is now being steadily built. In order to return to a path of sustainable economic growth, we must revitalize our industries. For that, it is essential to focus our Government's policy, such as fiscal and tax measures and deregulation, on areas with high growth potential, while at the same time maintaining fiscal discipline. To this end, Japan will announce this coming June a basic policy direction, based on economic and fiscal reforms.

On the issue of nonperforming loans, there has been some progress in their disposal and corporate restructuring, but we are determined to make further progress.

Economic Situation in the Asian Region

The Asian economies stayed sluggish through 2001, adversely affected by the terrorist attacks on September 11 in the midst of the slowdown in the United States (US) economy and the deterioration of the Japanese economy. In 2002, however, Asian economies are expected to be back on track as the recovery in the US economy gathers momentum. There are already signs of recovery in Southeast Asian economies. Besides, both the economies of the People's Republic of China and India are performing steady growth.

Nonetheless, the Asian economies still need structural reform if they are to recover and sustain growth. Also, to convert them into domestic demand-driven

economies in the medium and long term, it is essential for them to have more flexible monetary policies, to implement fiscal policies that will fully take into account long-term sustainability, and to promote the disposal of nonperforming assets.

Regional Financial Cooperation

The Asian region is highly interdependent on trade and investment. Under such circumstances, strengthening financial cooperation within the region is essential to prevent the reemergence of currency crises, while ensuring monetary and financial stability in the region. To that end, our Government will continue to implement the following three measures.

First, realize the Chiang Mai Initiative agreed upon at the ASEAN+3 Finance Ministers' Meeting in May 2000. To turn this concept into reality, we have reached bilateral currency swap arrangements so far with the People's Republic of China, Republic of Korea, Malaysia, Philippines, and Thailand. Talks on bilateral swap arrangements are currently under way with Indonesia and Singapore. We will continue to work to establish a network of bilateral swap facilities under the Chiang Mai Initiative.

Second, promote policy dialogue. In implementing the bilateral swap arrangements under the Chiang Mai Initiative, I believe it is useful for the countries in the region to exchange their economic information and share common experience through policy dialogue. Based on the agreement of the ASEAN+3 Finance Ministers' Meeting held in Honolulu in May last year, we are currently examining ways to enhance the effectiveness of regional economic reviews and policy dialogues. As the result, the ASEAN+3 members have already started to try specific ways to strengthen policy dialogue.

Third, study regional exchange rate regimes. Given the growing interdependence of the regional economies in Asia, it is useful to continue our discussion on the exchange rate regimes for the region. Currently, Asian countries and international organizations take part in collaborative research and study activities, including the exchange rate regime issue. I greatly appreciate ADB's active contribution to these activities.

Assistance to West Asia

In January this year, Japan hosted the International Conference on Reconstruction Assistance to Afghanistan in Tokyo, and led the discussion on providing Afghanistan with development and reconstruction assistance, as one of the cochairs. At the conference, Japan pledged up to \$500 million in total over two and a half years to support Afghanistan, of which \$100 million would be utilized through the trust funds that Japan has already established within the multilateral development banks. Of this, \$50 million will come as a form of grant through the Japan Fund for Poverty Reduction in ADB.

ADB has been active in supporting Afghanistan. It takes part in the operation of the Afghanistan Reconstruction Trust Fund as a member of the Management Committee. President Chino is the first head of an international financial institution to visit Kabul since the event of September 11. I look forward to ADB's firm implementation of its assistance for Afghanistan's reconstruction in close collaboration with the World Bank, United Nations Development Programme, and bilateral donors. I also appreciate the efforts of ADB to support countries surrounding Afghanistan, as well as increase its development assistance to Pakistan and the Central Asian region.

Views on Development Issues

The momentum of cooperation in the progress towards the Millennium Development Goals is growing in the international community following the agreement on the Monterrey Consensus at the United Nations International Conference on Financing for Development in Mexico.

I would like to take this opportunity to touch upon development issues with particular emphasis on capacity building in developing countries and on securing effectiveness and efficiency of aid.

We have learned from experience that effective and efficient aid can be achieved and contribute to economic growth and poverty reduction only when ownership is established, and sound policies and good governance are implemented in developing countries. Therefore, it is essential for developing countries to increase capacity and the human resources needed to implement their policies. Japan would like to give first priority to assistance to the developing countries by strengthening their institutional capacity in fiscal and financial sectors, as well as education and health care. In this context, Japan reaffirms our continued support of ADB for capacity building in developing countries.

Furthermore, to ensure the impact of development assistance, one must first be able to evaluate the results of assistance. So, on the part of borrowing countries, they should contribute to increasing aid impact by setting clearer objectives of assistance and establishing measurable evaluation indicators.

Challenges for the Asian Development Bank

Now, may I turn to the issues facing ADB.

Further Reduction of Poverty. Since President Chino took office, ADB has complied with its poverty reduction strategy and tackled this issue as the most important mission of this organization. It is essential for ADB to steadily implement poverty reduction in line with the medium-term strategy it adopted last year. Particularly for the developing countries where accomplishing the multilateral development goal is a major challenge, ADB is expected to provide further assistance not only in infrastructure-

related sectors but also in the social sector, in such areas as sanitation, health care, and education. Japan has contributed some \$150 million so far to the Japan Fund for Poverty Reduction established at ADB to provide grants to such activities as educational campaigns on HIV/AIDS and nutrition improvement for the poor and socially vulnerable. I would like to take this opportunity to announce that this year Japan will make a further contribution of approximately \$50 million to the fund.

Pursuit of Greater Efficiency and Results of Development Assistance.

Today, multilateral development banks are expected to increase the efficiency of their activities for developing countries even further and to accomplish steady results. In response to this requirement from the international community, ADB carried out a reorganization under the strong leadership of President Chino in January this year, aiming at enhancing country focus and strengthening regional cooperation in Asia. The Greater Mekong Subregion Economic Cooperation Program and the Central Asia Regional Economic Cooperation Program are two examples. Japan welcomes such timely efforts of ADB, and would like to see further efforts to deliver specific results, such as increased efficiency of ADB's operation, thus making its reorganization even more meaningful.

New Environment Policy and Inspection Policy Review. The World Summit on Sustainable Development will be held this September in Johannesburg. The ultimate goal of the summit is to achieve environmental protection and economic development both at the same time. Thus, we encourage ADB to finalize a new environment policy by then. It is also essential for ADB to strengthen its inspection function by expediting inspection procedures in the current exercise to review the Inspection Policy.

Support for Economic Globalization. Institutional capacity building and human resource development in response to economic globalization are also a major challenge in Asia. In this respect, Japan will continue to support ADB in strengthening capacity building in developing countries, such as institutional improvement with a view toward acquiring World Trade Organization membership and establishing systems to prevent money laundering.

Conclusion

In closing, I would like to point out that, as the only multilateral development bank based in Asia, ADB has made considerable contributions to regional development, to the economic growth and social progress in the region, as well as to the quality of life. I hope that ADB will continue to play the leading role in regional development and to help its developing member countries implement structural reform, thus contributing further to poverty reduction in the entire Asian region.