



**JAPAN**

**SADAKAZU TANIGAKI, Governor**

It is a great pleasure for me to address the Thirty-Seventh Annual Meeting of the Asian Development Bank (ADB). On behalf of the Government of Japan, I would like to express our gratitude to our hosts, the Government of the Republic of Korea and the people of Jeju Island, for their generous hospitality.

May I also take this opportunity to extend a warm welcome to the Grand Duchy of Luxembourg and the Republic of Palau that joined ADB last September and December, respectively.

### **Japan's Economy**

In Japan, we are now witnessing positive signs of private sector-led recovery. The structural problems that once burdened our economy—such as nonperforming loans—have started to recede, as reform efforts in both public and private sectors have started to pay off.

What our Government must do then is to establish the sustainable economic growth path by building on the reform momentum that ranges from expenditure and tax system reforms to financial system reform and deregulation, and by ensuring the vigor of the private sector and revitalizing local economies. Also, as our economy remains in a mild deflationary phase, it is essential that the Government and the Bank of Japan continue to work together to take effective and comprehensive measures to overcome this deflation.

### **Economic Situation in the Asian Region**

Supported by the recovery of exports and robust domestic consumer demand, the Asian economies, with the People's Republic of China (PRC) and India in the lead, continue to enjoy high growth. Also, increased intraregional trade and direct investments, in particular, have deepened interdependency, thus leading to autonomous growth of the regional economy.

Taking advantage of this good opportunity, each country needs to further build up foundations for strong and sustainable growth, by implementing disciplined fiscal and monetary policies and by promoting structural reforms in financial systems and an enabling environment for private sector investments.

## Regional Financial Cooperation

In recent years, the interdependency of trade and investment among Japan and the East Asian economies has been substantially increased. Now, the East Asian economies account for roughly a half of the overall value of Japan's external trade. In such circumstances, Japan believes financial cooperation in the East Asian region is an indispensable set with regional cooperation on trade and investment, and has been actively promoting the following measures, primarily through the Association of Southeast Asian Nations (ASEAN)+3 framework.

First, to establish a network of Bilateral Swap Arrangements (BSAs) under the Chiang Mai Initiative (CMI)—a regional arrangement under which the East Asian countries provide foreign currencies to a country in a currency crisis by swapping with its local currency. Japan has, thus far, concluded BSAs with the Republic of Korea, Thailand, the Philippines, Malaysia, the PRC, Indonesia, and Singapore. Combined with other countries' efforts, we now have a network of 16 BSAs that amount to US\$36.5 billion in the region. This year, the review of the CMI framework will be carried out for its further improvement. Japan is willing to take an active part in the course of discussions.

Second, to promote policy dialogue. In order for the East Asian countries to avoid economic crises and to achieve sustainable growth, it is useful for each country to understand the economic situations and policy initiatives of other countries in the region. Since April 2002, we have conducted such policy dialogue periodically within the framework of ASEAN+3. In this process, ADB has briefed us on the regional economic outlook. Such contribution of ADB should be commended.

Third, to play a leading role in materializing the Asian Bond Markets Initiative (ABMI). This Initiative aims to develop efficient and liquid bond markets in Asia, thus eliminating the mismatch of currency and maturity in regional financing, and mobilizing savings in the region for investments in the region. Vigorous discussions and studies are now under way at the six working groups of ABMI, which were established to foster deeper bond markets by having a wider variety of issuers and to develop a market infrastructure. Japan is actively contributing to each working group.

Some progress has already been made in diversifying issuers. For the first time, local currency-denominated bond issuance by international organizations such as ADB and Japan Bank for International Cooperation (JBIC) is being realized in Thailand and the PRC. JBIC and Nippon Export and Investment Insurance (NEXI) have also started to provide Japanese companies operating in Thailand with debt guarantee to help them issue baht-denominated bonds. We are looking forward to their further progress.

Furthermore, at the ASEAN+3 Finance Ministers Meeting yesterday, the Asian Bonds Online Web site (ABW) was officially launched. It was established with the support of ADB at the Working Group for Local and Regional Rating Agencies and Information Dissemination, which Japan co-chairs with Singapore. It is hoped that the

ABW will contribute to the development of Asian bond markets by serving as a one-stop clearinghouse of information on the bond issuers and bond market infrastructures in the region, thus attracting more attention of local and global investors. May I also add that ADB's contribution has been crucial in promoting the Initiative, and I hope that ADB will continue to play an active role.

In addition to this, the research to explore ways for "Further Regional Financial Cooperation" has been carried out among government officials and scholars from ASEAN+3 countries. We, coordinating with ADB, will continue such research and study in order to enhance mutual understanding on future regional financial cooperation.

### **Challenges for the Asian Development Bank**

First, we welcome the successful conclusion of the negotiations on the eighth replenishment of the Asian Development Fund (ADF), also known as ADF IX, and the securement, as a result, of US\$7 billion in concessional loans to cover 4 years beginning next year. While in Japan our fiscal situation is extremely tight, we have pledged to a contribution, which amounts to a 35.0% share, and a 13.4% increase on a yen basis.

Replenished resources must be used effectively. While we've witnessed some progress in poverty reduction in the Asian region over the last decade, the number of poor population has not dropped in many low-income countries, except for the PRC and India. Also, there is no prospect in sight for achieving the Millennium Development Goals (MDGs) in public health and education, such as the infant mortality and literacy rates.

To secure the impact of aid under such circumstances, it is essential for each developing country in the region to localize the MDGs according to the circumstance it faces—whether poverty, fiscal situation, or administrative capacity—and to achieve the localized goals as it implements its own Poverty Reduction Strategy. ADB and the donor community need to cooperate and align their strategies to the poverty reduction strategy of each developing country. Effective aid requires results-based management on both sides—ADB and donors, and the governments in developing countries. Specifically, it is essential to identify the objective of aid and establish measurable evaluation indicators, and to make sure whether or not expected results have been delivered at each stage of aid—planning, implementation, monitoring, and evaluation—for effective feedback.

In this context, we welcome the pilot program for the results-based country strategy and program, which ADB plans to start later this year.

Now, may I highlight five issues ADB needs to address.

First is to listen to the voices of the private sector, the key driver of growth, and to provide aid in a way most beneficial to private sector development.

While ADB has already focused on small and medium-sized enterprise (SME) assistance, it should be strengthened in the future. ADB has recently extended a local currency loan funded by a rupee-denominated bond in India, issued for the first time for a multilateral development bank. Japan welcomes such an instrument geared to the needs of local private corporations. ADB should also endeavor to help developing countries build an environment to attract private investments.

Specifically, it is essential to first identify impediments to private capital inflows that may exist in areas such as financial sector reform, improvements in accounting systems, building a commercial dispute resolution system, and deregulation, and then to promote reforms in these areas. Furthermore, it is also essential for ADB to analyze the reasons why public-private partnerships in infrastructure projects have not produced expected results, and to design a new strategy that fully incorporates the lessons that could be learnt from it. On this issue, Japan is currently working in collaboration with ADB and the World Bank to identify the relationship between poverty reduction and infrastructure building.

Second is to promote good governance, which is also an essential task. ADB must make a tenacious effort to help establish efficient budget execution and revenue collection systems, civil servant system with meritocracy, and impartial law enforcement and judicial systems. In this regard, we believe capacity building and human capital development for appropriate policy implementation are extremely important. Thus, in March this year, our Government provided ¥900 million as an initial contribution to the Japan Fund for Public Policy Training (JFPPT)—a fund ADB established to assist its developing member countries to build capacity for public policy management.

Third, promotion of regional cooperation. Those initiatives ADB is currently taking in the Greater Mekong region, South Asia, and Central Asia should be commended. However, to increase the relevancy and effectiveness of regional cooperation even further, building physical infrastructure alone is not enough. It is also essential to harmonize institutions and policies in such a way as to facilitate the intraregional movements of goods, people, and money.

Further, ADB should focus on how investment efficiency can be maximized on a regional level, rather than on a national level, and try to coordinate its cost sharing among member countries. Japan strongly supports ADB's leadership role, reinforced by intensifying research and study in this field.

Fourth, to intensify assistance for the reconstruction of Afghanistan, Timor-Leste, and other post-conflict countries. ADB has been active in providing assistance to Afghanistan: ADB has produced needs assessment for reconstruction and has committed to US\$1 billion assistance over a period of 4 years.

Japan also announced at the International Conference on Afghanistan in Berlin in March this year a commitment up to US\$400 million over the period of 2 years, and that

US\$30 million of this was to be used for assisting Afghanistan via the Japan Fund for Poverty Reduction (JFPR) at ADB. We hope that ADB's support of post-conflict countries will also contribute to stability in neighboring countries.

Fifth, to further advance ADB's internal reform. We welcome the effort ADB has made, under the leadership of President Tadao Chino, to increase its own operational efficiency and accountability, by reviewing its inspection function and making the Operations Evaluation Department independent.

It is hoped that ADB will continue to steadily implement the accountability and transparency-related initiatives that range from a review of the personnel management system and the launch of result-based management, to a review of the January 2002 organizational reform and a review of ADB's disclosure policy.

### **Conclusion**

ADB will soon be celebrating its 40th anniversary. Compared with the time when ADB was inaugurated, the Asia and Pacific region has recently achieved remarkable growth. At the same time, however, it remains the region with the world's largest population of the poor. We hope that, as the only regional development bank based in Asia, ADB should play an even more significant role than ever in poverty reduction. Japan will continue to support its activity.

In this context, we propose to host the Fortieth Annual Meeting of ADB in 2007 in Japan. As we seek the adoption of our bid by the Board of Governors, we appreciate your support and endorsement.