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JAPAN

Sadakazu Tanigaki, Governor

Introduction

On behalf of the Government of Japan, I would like to express my gratitude to our hosts, the Government of India and the people of Hyderabad, for their warm hospitality. I think that Hyderabad is an appropriate place to talk about the future of growing Asia, because it is one of the centers of the growing IT industry in India.

Japanese Economy

I am delighted that I can make a brighter announcement on the recent development of Japanese economy compared with the one I made at the last Annual Meeting in Istanbul. The Japanese economy is now enjoying stable private-sector-led growth, after succeeding in eliminating the excesses in three areas in the corporate sector that used to hamper growth, namely employment, production capacity, and debt. Thus, the ratio of non-performing loans of major banks, for example, declined from 8.4% to 2.4% between the first quarter of 2002 and the third quarter of 2005, and the real rate of economic growth reached 2.7% in fiscal 2005 and is expected to be around 2% in fiscal 2006. This is the result of structural reform in various areas promoted by the policy “without reform there will be no growth”.

At the same time, however, our fiscal situation remains extremely severe. Japan’s central and local governments, when combined, are expected to have long-term outstanding debts accounting for over 150% of GDP by the end of fiscal 2006. I am determined to pursue structural reform on the fiscal front, both in revenues and expenditures.

Challenges for Asia

In 2005, the Asian economy achieved a high growth rate of over 7%. The number of people in poverty is decreasing at a pace exceeding that needed to achieve the Millennium Development Goals (MDGs). Some indexes, however, relating to human development in the region, such as health or education, are lagging partly behind. The region also faces several challenges, including increasing energy demand, tackling environment issues, and improving the investment climate.

Regarding the MDGs, goals for some indicators, such as those on the universal primary education rate and the child mortality rate, are unlikely to be achieved. In addition, 600 million people in the region are still living in poverty. We must recognize once again that the achievement of the MDGs is still an important agenda, even in Asia.

That is not all we must address. Demand for energy in Asia has been on the rise due to rapid economic growth. Rapid urbanization has had a negative impact on the environment, making access to clean water difficult.

As for the investment climate, while the ratio of investment in Asia is by no means lower than those in most other regions, it is necessary to attract more investments for sustainable growth. Given the limited availability of public funds, fostering private investments is imperative. For that, it is essential to develop infrastructure and improve governance.

Japan's Efforts in Asia

Japan, as a member of Asia, will fully support regional actions to overcome the challenges facing Asia. We will make efforts to further strengthen solidarity among Asian countries and make Asia a prosperous region open to the outside world. I would like to highlight the five key challenges in this context.

Key Challenges in the Assistance for Asia

First, infrastructure development should contribute to broader areas of development, such as human development, although we have been addressing the issue mainly in the context of improving investment climate. We must explore an approach which might address these infrastructure needs in the new era, through (i) supporting regulatory and institutional reform in related sectors; (ii) ensuring project sustainability, including maintenance needs and further strengthening compliance with environmental and other safeguard policies such as environmental criteria; and (iii) providing assistance based on broad dialogue and cooperation with civil society and the poor in particular.

Second, energy efficiency and the use of clean energy should be promoted. This is an urgent task, particularly in Asia where some countries have scarce energy resources. Improvements to pricing policy reform and regulatory reform in the energy sector are needed.

Third, it is also important to promote private capital inflows to broader sectors. In particular, I believe that high priority should be given in the development policies of middle-income countries to mobilizing domestic resources and private capital from abroad. ADB should maintain its relevance to middle-income countries by enhancing the quality of their development policies. ADB should play a role as an institution which provides assistance for reform through promoting international environmental safeguard policies and policy dialogue.

Fourth, we would like to emphasize that good governance, including taking anti-corruption measures, is important in order to improve the investment climate in Asian countries. Governance is one of the areas the multilateral development banks (MDBs) are expected to play more active roles in, rather than bilateral donors. We urge the MDBs to cooperate with each other to support the efforts of the Asian countries to improve their governance.

Fifth, regional cooperation and integration must be promoted. Asia is a region of great diversity, both culturally and socially. The level of development varies by country, so the set of economic issues facing each country also varies. However, I am confident that efforts at regional cooperation and integration will provide us with a common platform for mutual trust and vitality. That said, it is essential for ADB to have a thorough discussion with member countries to decide on how its involvement should be in pursuing each area of regional cooperation and integration.

I think these challenges are basically consistent with the ADB's strategic priorities presented in the second medium-term strategy (MTS 2). Therefore, I welcome the recent endorsement of MTS 2.

ADB Achievement under President Kuroda

More than a year has passed since President Kuroda assumed office as the ADB president. Since then, I feel that ADB has changed very much. This is partly because the President has sent messages in his own words on what ADB should do or what challenges ADB is facing. As the result, ADB has become a more accountable institution.

With President Kuroda's energy and foresight, ADB was able to take quick and appropriate responses to the Indian Ocean tsunami, the South Asia earthquake, and avian influenza.

I must also commend ADB's initiatives to enhance the development effectiveness and efficiency of its operations. These include improvements to the disbursement ratio of the ADB portfolio and other measures to strengthen project management; the launch of new financial instruments, such as the multi-tranche financing facility, sub-sovereign lending, and local currency lending; the creation of the Office of Regional Economic Integration; and the realignment of the regional departments.

I am confident that, under President Kuroda's leadership, ADB will play a role as a core institution for future economic assistance in Asia.

Conclusion

I am particularly honored that the next annual meeting will be held in Kyoto, Japan, where I am from, on the important occasion of ADB's fortieth anniversary.

In Kyoto, every year, the famous Gion Festival has been held since the 9th century. It is said that the deity worshiped in this big festival was a guardian deity of Gion Shoja, the Indian Jetavana Buddhist Monastery in India. Also, a piece of Indian cotton textile imported into Japan in the 17th century is still now treasured, and used once a year as the ornamental screen of decorated floats at the festival. I am deeply impressed to be able to receive the baton from the country which has such a historical relationship with our country.

I hope the annual meeting in Kyoto next year will contribute to strengthening regional cooperation and further development in Asia.