Toward a New Asian Development Bank in a New Asia

Report of the Eminent Persons Group to The President of the Asian Development Bank

March 2007
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This paper has been prepared by a panel on the request of the Asian Development Bank. The views expressed in this paper are those of the authors and do not necessarily reflect the views and policies of the Asian Development Bank or its Board of Governors or the governments they represent.

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Letter of Transmission from the Chair of the Eminent Persons Group

Dear President Kuroda,

It is my pleasure to transmit to you herewith the report of the Eminent Persons Group, entitled “Toward a New Asian Development Bank in a New Asia.” It is my belief that the Group has accomplished the goals set out in its terms of reference.

The Eminent Persons Group was established in June 2006 to provide views on the future of the region and recommendations on the role of ADB. The Group studied the changes that have occurred in the region and considered the key driving forces of future development. It then developed a set of recommendations for consideration when refining ADB’s long-term strategy.

This report represents the consensus views of the Group.

The Group met four times between August 2006 and March 2007, in Frankfurt (twice), Manila, and New York. During its deliberations, it reviewed five background papers specially commissioned at its request: (1) The Challenge of Employment Creation in Developing Asia; (2) Financial Systems in Asia; (3) Public-Private Partnerships: The Next Generation of Infrastructure Finance; (4) Accelerating Rural Transformation in Asia; and (5) Prospects for Enhancing Regional Economic Cooperation and Integration in Asia. In addition, the Group benefited from special presentations on the issues of governance and environment in the Asia and Pacific region.

The Group also had the privilege of exchanging views with the Board of Directors on 29 November 2006.

I should like to thank you, President Kuroda, on behalf of the members of the Group and on my own behalf, for having entrusted us with this important task. Our work benefited from your strategic thinking about ADB’s future role, and we are all impressed by the strength of your commitment to Asia’s development.

Our special thanks go to Harinder Kohli who drafted the report under our guidance.

I wish also to record our appreciation to the other individuals who contributed over the past seven months to our process, particularly the Eminent Persons Group’s Secretariat, comprising Kazu Sakai, Christopher MacCormac, Shigeko Hattori, Joseph Zveglich, and James Zhan.

None of our work would have been possible without the extensive support we received throughout.

The Group is happy to make this contribution to enhancing ADB’s future role in Asia. We look forward to presenting our report at ADB’s 40th annual conference in Kyoto in May 2007.

Supachai Panitchpakdi
Chair, the Eminent Persons Group

Geneva, March 2007
The Eminent Persons Group

Dr. Supachai Panitchpakdi (Chair)
Secretary-General of the UN Conference on Trade and Development.

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Mr. Nobuyuki Idei
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Acronyms and Abbreviations

ADB – Asian Development Bank
ASEAN – Association of Southeast Asian Nations
EBRD – European Bank for Reconstruction and Development
FAO – Food and Agriculture Organization
GDP – gross domestic product
OECD – Organisation for Economic Co-operation and Development
PPP – purchasing power parity
UN – United Nations
UNESCO – United Nations Educational, Scientific and Cultural Organization
WHO – World Health Organization

NOTE: In this report, “$” refers to US dollars.
Executive Summary

By 2020 we envision a dramatically transformed Asia. It will have conquered widespread absolute poverty in most countries, with more than 90% of its people living in “middle-income” countries. In a dramatic turnaround from 1980 its average income per capita (in PPP terms) will be comparable to Latin America’s (if still a fraction of North America’s and Europe’s). Its share of global GDP will approach 45%, and its share of world trade, 35%. Even though in “capital surplus,” the region will remain a magnet for private capital flows. And it will become a major factor in global issues.

Tempering this overall positive picture is that some of the fastest growing countries will still have large numbers of poor people. Asia will continue to have many low-income or fragile economies with large development challenges. They will continue to require support from donors.

The Asian Development Bank (ADB) is privileged to serve Asia, the world’s most populous and fastest growing region—a region rapidly emerging from widespread poverty. Asia appears poised to complete its transformation to the next stage of development. In this transformed Asia, the traditional model of development banking—transferring outside official capital—will become redundant.

ADB is widely seen as the development bank “belonging” to the region. Trusted by countries, it has a good track record overall, particularly in infrastructure. The Bank is the institution of choice to continue delivering development assistance to Asia. But to play this desired role from now to 2020 ADB must change radically and adopt a new paradigm for development banking. The New ADB should help tackle issues critical to further development of a newly middle-income Asia by offering a more balanced blend of knowledge and financial assistance. To address the remaining pockets of poverty, its primary emphasis should be on supporting higher and more inclusive growth rather than transferring external aid. As a financial intermediary, it should connect lenders and borrowers from within the region.

The New ADB must be much more focused, driven by three complementary strategic directions: moving from fighting extensive poverty to supporting faster and more inclusive growth, from economic growth to environmentally sustainable growth, and from a primarily national focus to a regional and ultimately global focus. Its work should cover six core activities: infrastructure, financial development, energy and environment, regional integration, technological development, and knowledge management.

- Infrastructure development should be a primary instrument to promote higher and more inclusive growth, emphasizing public-private partnerships and supporting more conducive policy frameworks.
- Financial development should bring together lenders and borrowers from within the region,
ADB's ability to deliver will require greater flexibility and responsiveness by supporting the development of regional financial markets and by intermediating through its own financial operations.

- **Energy and environment** activities should concentrate on global commons issues, such as climate change, by promoting public-private partnerships and supporting the development of market instruments rather than acting as a conduit for official transfers.
- **Regional integration** must become central to the Bank’s operational activities.
- **Technological development and knowledge management** activities should pool regional knowhow, with the Bank as a platform for knowledge-sharing rather than as the primary source of knowledge. It must do so by harnessing modern technology.

ADB must realign its operations to concentrate on these six core activities. To make room for them, it must phase out other activities.

In the transition toward the **New ADB**, the Bank should:

- Continue to follow the poverty alleviation focus in low-income and fragile economies.
- Tackle the basic new challenges to countries projected to become middle-income.
- Strengthen internal ADB capabilities in the six core activities.

ADB's ability to deliver on this agenda will require far-reaching institutional changes. It will require greater flexibility and responsiveness, the ability to respond quickly to a rapidly changing environment, and a new culture of partnership with borrowers. Three areas require particular attention:

- Reducing the transaction costs associated with its assistance.
- Strengthening its institutional capacity (including the skills and size of its professional staff) to carry out the six core activities.
- Eliminating rigidities in human and budgetary resources management.

The Bank should house clusters of technical staff in regional hubs in major Asian business and academic centers, an essential step for attracting the world-class talent consistent with its new agenda.

The character of the institution and the roles of its members must evolve with changes in the economic environment. By 2020 the relative responsibilities and contributions of the regional members should reflect the new global economic realities. This would lead to more equitable burden sharing and underline more fully ADB’s Asian heritage. At the same time, ADB must retain the support of its nonregional members. These delicate but essential adjustments require strong vision and leadership from top political leaders in Asia and the rest of the world.

In realizing this vision of a **New ADB** before 2020, the Bank’s management will face many practical challenges. We believe that it can rise to these challenges by pursuing the vision set out here—to serve the Asia and Pacific region as it continues its rapid progress.
ADB in a Region of Paradoxes and Rapid Change

Since the inception of the Asian Development Bank (ADB) 40 years ago, the development landscape in Asia and the Pacific has changed fundamentally. In 1980 the Asia and Pacific region contributed roughly 20% of world gross domestic product (GDP). Then emerged the East Asian tiger economies of Hong Kong, China; Republic of Korea; Singapore; and Taipei, China—whose incomes rose dramatically thanks to outward-oriented policies and macroeconomic stability—followed by a second wave of Southeast Asian nations. Although the 1997–1998 (East) Asian financial crisis exposed weaknesses in the area’s financial markets, its effects on production in the region were short-lived.

The crisis-affected countries have mostly recovered, and the region has witnessed the economic rise of its two most populous countries: the People’s Republic of China and India. The economic expansion of these two giants has placed them, with Japan, among the world’s 10 largest economies. The region now accounts for more than 35% of world GDP in PPP terms. Strong growth and macroeconomic stability have led to impressive declines in income poverty. While 35% of people in Asia and the Pacific lived on less than $1 a day in 1990, only 19% did in 2003. The region is well on its way to achieving the Millennium Development Goal of halving the incidence of poverty by 2015.

Asia and the Pacific is, however, a region of paradoxes. It is the world’s fastest growing region, yet in 2003 it was home to about half the world’s absolute poor. It is fast becoming the manufacturing and information technology services hub of the world economy and yet has vast pools of unemployed. In Japan and the People’s Republic of China there are concerns about the rapid aging of the population, but the Philippines and Pakistan still have high population growth. The region is a very large net lender to developed countries, yet its unmet investment needs—particularly in infrastructure—are immense. Its excess savings are intermediated in the financial centers of Europe and North America because it is more efficient to do so there than in Asia’s own financial centers. Despite the paradoxes, there is no question about Asia’s remarkable progress in the past 40 years. Indeed, in many respects, the region has become an object of envy in the rest of the world. The speed and depth of Asia’s economic progress are unprecedented in world history.

Despite this shift in the region’s development environment, ADB continues to operate under the basic model set at the time of its inception. Its long-term strategic framework, prepared in the aftermath of the 1997 Asian financial crisis, emphasized a traditional development bank role. Although the long-term strategy was meant to guide the institution through 2015, it is clear in light of Asia’s obvious successes that ADB must evolve more rapidly to suit the region’s new and fast evolving economic and political
Our report projects a major transformation of the region, with the bulk of its people living in middle-income countries.

When ADB was established, the dominant need was to channel investment funds or foreign exchange from the “capital-surplus” developed countries (mainly in North America and Europe) to underdeveloped “capital-deficit” Asia-Pacific countries. But the last decade has seen a rise in foreign exchange holdings across Asia well beyond what is prudent to guard against potential financial crises. Despite the very large net outward flow of funds, the region still needs significantly higher investment to maintain rapid growth and achieve its ambitious development targets. And within this new and much more positive economic environment, many traditional development challenges remain in most countries. In addition, the region’s more successful economies face significant environmental and social issues arising from rapid growth and their present stage of development.

In line with our mandate, our report first describes a plausible scenario for Asian economies around the year 2020: it projects a major transformation of the region, with the bulk of its people living in middle-income countries (chapter 2). But despite this transformation there will still be a significant number of poor, not only in the few countries remaining low-income but also in countries that have graduated to the next level of development. Chapter 2 also outlines what in our view are the major risks and challenges that the better performing economies will need to overcome to realize the projected outcome.

Based on this portrait of Asia in 2020, chapter 3 proposes three complementary strategic directions that should drive ADB’s core activities in member countries as they approach middle-income status and continue to develop. These directions define the strategy for the New ADB. Chapter 4 then discusses how ADB will need to realign its operational priorities to carry out its mandate under the three strategic directions. This realignment will entail retaining its current core activity (infrastructure), placing greater emphasis on some recent initiatives, and adding two new activities. To make room for the new or expanded activities, it will phase out support for sectors that do not fit naturally with the three directions. This, we believe, will make ADB a more focused and stronger institution, keep it relevant to most Asian member countries well after 2020, and reinforce its credentials as a Pan-Asian institution that is evolving with its member economies.

Chapter 5 sketches the path ahead to move from ADB Today to the New ADB. It proposes a transition strategy that will allow ADB to continue to serve the current needs of its clients as it moves, in parallel, to focus more on the emerging new needs of member countries. Our report ends with a few observations on the changes needed in institutional culture and capacity, in human resource policies, in operating procedures, and in governance to achieve this vision of the New ADB.
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Transformation of Asia and the Pacific: A New Era by 2020

Asia, as reflected by ADB’s membership, is a huge and heterogeneous region—physically, socially, politically, and economically. It includes some of the world’s largest, most competitive, and most sophisticated economies such as Japan; Hong Kong, China; and Singapore. And People’s Republic of China, India, Indonesia, Republic of Korea, Malaysia, and Thailand are fast evolving into important global players. But they co-exist with small, underdeveloped, and often fragile economic systems in Afghanistan, Cambodia, Mongolia, Nepal, and many Pacific Islands.

Resurgence since 1990

The East Asian countries have largely recovered from the 1997 financial crisis. The performance of India and Pakistan has also improved significantly. Indeed, for the first time in a long while, India’s economic growth exceeds that of all East Asian countries except the People’s Republic of China. The Asia and Pacific region is once again the world’s highest growth region. While not every country affected by the crisis has yet reached the pre-1997 growth rate (in some cases clearly a result of overheating), recent growth of all these countries has been near or above 5%, and their overall combined growth rate is back to the pre-crisis level. As a result of fast economic growth and renewed efforts to address poverty, the incidence of poverty has been dropping, after a spike in some East Asian countries in the aftermath of the 1997 crisis. According to the latest World Bank study on East Asia, between 1990 and 2004 the number of poor with incomes of less than $1 a day in East Asian developing countries dropped by 300 million to about 150 million. The incidence of poverty declined from 29% to 8%. While South Asia’s performance is less impressive, the number of poor there too has begun to fall significantly. In the past few years, the overall poverty rate in the developing Asian countries has been declining by about 1% a year.

Besides the large accumulation of foreign exchange reserves, Asia’s dramatic shift of fortunes has led at least one country (the People’s Republic of China) to move from being a recipient of large amounts of concessional financing (from the International Development Association) to becoming an Asian Development Fund donor, joining the ranks of the largest bilateral donors, all within the lifespan of a generation. Large outflows of equity capital have also begun from at least two countries (India and the People’s Republic of China).

The rapid rise of the major Asian economies, particularly the People’s Republic of China and India, has also meant that they have become important in such major global issues as carbon emissions, natural resource use, and energy use and security. In the interest of both their own people and the larger global community, they

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need to confront these issues head on in the near term—and at incomes well below those when the developed countries started to address them.

Illustrating the region’s progress, figures 1 and 2 show Asia’s superior performance relative to other regions in GDP per capita and in the share of global GDP (both in PPP terms). And figure 3 shows how a region severely short of capital 40 years ago has become capital-surplus.

**Outlook for 2020: Asia’s Transformation**

Asia’s overall performance depends heavily on 5 developed and 10 developing economies, which account for most of the region’s population, GDP, trade, and savings.2 These 15 economies are estimated to have 94% of the population and 97% or more of GDP, exports, and domestic savings in 2007. At the end of November 2006 their foreign exchange reserves were $3.1 trillion (99% of Asia’s total), equivalent to 62% of total global reserves of $5 trillion.

The economic performance and prospects of the developing countries (except Bangladesh) have been superior on most fronts. They are growing fast, increasingly driven by the private sector, and they command a fast-rising share of global trade and production. The economic future of developing the Asia and Pacific region depends primarily on developments in and among these countries. ADB’s relevance as a development institution for the region will depend heavily on its ability to continue to serve their needs (in addition to those of countries still in the low-income group).

In 2006 only 4 of the foregoing 10 developing economies were estimated to have per capita incomes of less than or close to the internationally accepted threshold for low-income countries:3 Viet Nam ($685), India ($827), Pakistan ($917), and Bangladesh ($428). In PPP terms, all 10 economies (including Bangladesh) have per capita incomes of more than $2,250 a year. The World Bank projects that by 2020 at current growth rates, 95% of East Asians will live in

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2 Bangladesh; People’s Republic of China; Brunei; Hong Kong, China; India; Indonesia; Japan; Republic of Korea; Malaysia; Pakistan; Philippines; Singapore; Taipei, China; Thailand; and Viet Nam.

3 Below US$825 in 2004 dollars.
middle-income countries and fewer than 25 million of 2 billion East Asians will live below the poverty line. While the number is much higher in South Asia, the incidence of poverty in the two larger countries, India and Pakistan, is also dropping. Tempering this overall positive picture is that some countries are still home to a large number of poor people. It will take many years of concerted effort to bring these numbers down to more tolerable levels.

Asia also continues to be home to low-income and small (often island) economies where large development challenges persist: Afghanistan, Cambodia, Nepal, Tajikistan, as well as most Pacific islands. They lag behind their larger neighbors in their economic growth rate, per capita income, social indicators, and physical infrastructure, and in the quality and depth of their institutions. Their recent economic performance has been weak, and their prospects for the foreseeable future are not so good. They will continue to require strong support from the international development community.

The extension of current trends until 2020 would create a dramatically transformed Asia and Pacific region within the lifetime of the generation born just as ADB was being created. Obviously, long-term projections of economic prospects involve major uncertainties. Yet given the unprecedented success of Asia during the past 40 years and the consensus of most knowledgeable economists and business leaders, we believe that the fundamental drivers of Asia’s growth are likely to persist. The outlook through 2020 is positive.

On balance, the major economies in Asia are likely to continue to exhibit high growth rates and become largely middle-income countries that will have largely overcome absolute poverty. They will continue to become more integrated regionally and globally. They will be led by the private sector and driven by markets, with private capital flows the dominant source of external capital and with private investment also leading the way domestically. They will need significant reform of public sector institutions and strategies to ensure that the fruits of growth are widely shared. With greater cross-border trade and investment flows, well developed and robust financial systems, both national and regional, will become even more crucial to the future development and well-being of these countries. Projections prepared by ADB staff at our request envision an Asia Pacific region in 2020 that would:

- Account for more than 25% of global GDP in nominal dollar terms and as much as 45% of global GDP in PPP terms (figure 4).
- Be close to Latin America in GDP per capita, in stark contrast to 1980 when its per capita income was less than a fourth of Latin America’s.
- Have an overwhelming majority of people living in middle-income countries, with perhaps only about 10% of Asians still in absolute poverty ($1 a day).
- Be much more urban, with the majority of people living in mega or medium size cities, raising new social and environmental issues.
- Remain a “capital-surplus” region, with some countries having surplus savings while others require external (including regional) capital to achieve higher investment rates to fuel economic growth. Asia can be expected to continue to have large accumulated reserves.
- Continue to increase intraregional trade and investment, even as integration advances with the global markets for goods, services, and capital. By 2020 the Asia and Pacific region could account for about one-third of world trade, compared with the U.S. share of about one-seventh (figure 5).
- Continue to attract significant private capital flows from within the region and from the rest of the world. Barring unexpected crises,

The Asia and Pacific region is undergoing a major transformation, and this transformation is likely to be completed within a generation or so.
private flows will dwarf official flows. The region’s high domestic savings rates will reduce the need for official capital from outside the region.

- Become an even larger user of natural resources including energy, other minerals, and forest products. Human activities and economic policies in Asia will become more important for the global commons, including the environment.

There will be more multipolarity in the need for development assistance. A few countries will continue to require concessional financing. Most current developing member countries will have graduated to become eligible only for ordinary capital resources lending. And some will have graduated from ADB and become donors.

This broadly favorable outlook is plausible if there are no unexpected major crises in the world economy or political upheavals in the region. History shows that the economic environment can change unexpectedly. But based on the region’s economic record over the past 40 years, it appears capable of realizing the above vision for 2020, barring external developments beyond its control. But even if some outcomes fall short of these seemingly optimistic projections, we are persuaded that the general direction of the region’s progress is conveyed correctly. Whether they are realized in 2020 or a few years later is not material in determining ADB’s future role. The basic message is that the economic environment of the Asia and Pacific region is undergoing a major transformation, and this transformation is likely to be completed within a generation or so.

Even under the foregoing scenario, Asia’s per capita incomes in 2020 would be similar to Latin America’s and still a small fraction of those in North America and Europe (figure 6). Asia will continue to face many decades of major development challenges, if different from in the past. And depending on developments in Bangladesh and Pakistan, between 200 and 400 million Asians will still be living in low-income countries. The remaining numbers of poor in the middle-income countries may also be substantial.4

Finally, it seems that in many social indicators, including some of the Millennium Development Goals, the Asia and Pacific region (mainly South Asia) lags behind its very impressive progress in meeting the income-poverty targets. Unfortunately we were unable to find any reliable projections of the region’s likely performance in nonincome Millennium Development Goals in 2020. Therefore, we are unable to comment more definitively on this.

**Risks and Challenges**

The region’s policymakers and business leaders, as they guide their countries toward our postulated future, will face major risks and challenges. We foresee two major external risks, and

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4 For example, a poverty incidence of 10% in India translates into 120 million people.
one important risk emanating from geopolitics. The biggest near-term risk relates to the global imbalances and the nature of their unwinding. The world economy is in the middle of an unprecedented fifth year of expansion. This expansion was fueled, until recently, by unusually accommodative monetary policy (and low interest rates) in the major developed economies, by strong consumer spending, by major gains in productivity (particularly in the U.S. economy), and by a sharp growth in imports from Asia. Global economic growth has been sustained despite the spike in prices of oil and other commodities. But this growth has also resulted in record global imbalances, with the United States becoming a major debtor nation. By contrast, many Asian economies (particularly the People’s Republic of China) have accumulated massive foreign reserves.

The dominant view is that the markets can correct these imbalances in an orderly manner. But there are risks of sudden corrections or excessive adjustments in currency values, of a surge in interest rates, and of a sharp economic slowdown in the United States. In that case the world economy would suffer an unexpected setback. And Asian economies, as the most open and most dependent on exports to the United States, would be affected disproportionately. For example, opportunities to expand exports and the large private capital flows received by Asia in recent years under the very benign global economic environment might be reduced significantly.

The second potential external risk concerns a revival of protectionism in the Organisation for Economic Co-operation and Development (OECD) countries, including the United States, which led global efforts toward more open trade and financial flows. In many OECD countries, politically influential groups are lobbying for a halt to further globalization and steps to protect domestic jobs. Difficulties in concluding the Doha Round can partly be ascribed to domestic pressures in the United States and Europe.

While there appears to be no imminent danger of the present global system breaking down, risks of rising protectionism remain. If this risk materializes, Asia will be a big loser.

Perhaps the single most important unknown risk to the region’s continued economic progress relates to geopolitical developments and prospects for continuing political stability within the region. Changes in geopolitics could alter the entire economic environment. Internal political risks include possible backsliding (or a prolonged stagnation) in one of the major countries and or the collapse of some regimes because of domestic social or religious strife. Given the widespread poverty and fragile institutional and political structures in many countries, an upheaval in one big country could spill over into neighboring states.

Even if these risks are avoided or managed well, the achievement of the above 2020 vision for Asia cannot be taken for granted. Asia’s superior performance over the past 40 years has been unprecedented. For the region to outperform the rest of the world for another generation will require constant vigilance against potential threats and agile, prudent, and pragmatic economic management.

The region will need not only to continue to manage the current challenges in eradicating absolute poverty. It will also need to confront new risks and challenges arising directly from becoming a largely middle- to upper-middle-income region. We are particularly concerned about the following risks and challenges in Asia’s expected ascendance in the global economy:

- **Overconfidence.** Avoiding complacency during periods of success is perhaps the biggest qualitative challenge for national policymakers and markets. While the economies are doing unusually well and there is widespread consensus that their high growth rates are likely to continue for the foreseeable future, there is always the risk of overconfidence. Countries and businesses must not take for granted the current superior performance or assume that the optimistic projections are automatic.
- **Infrastructure bottlenecks.** Most Asian economies already suffer major bottlenecks in infrastructure services, particularly in transport, power, water, and sanitation. A common

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challenge for all countries will be to overcome these bottlenecks and to continually upgrade and expand infrastructure to meet the fast-expanding needs of more competitive economies in the global markets. Over the next 10 years Asia needs to invest $3.7–$4.7 trillion, which is at least 50% higher than the current investment rate.8 Without this, countries will not maintain the growth rates anticipated in our projections.

- **Rising disparities.** Rising disparities are not unusual during periods of rapid growth and major structural changes, and most people are benefiting from growth. But unless the rising disparities across and within countries are addressed urgently, they could ultimately threaten the political stability and social cohesion of the fast-growing countries. This in turn could result in a political backlash, bringing to power political leaders opposed to economic liberalization. Were this to happen, economic growth rates and flows of private capital to the Asia and Pacific region would suffer major setbacks.

- **Unfinished poverty agenda.** Even after countries have graduated out of low-income status, they will need to find ways to eliminate the remaining pockets of poverty. They will most likely require efforts to improve social indicators in which they still lag (including the Millennium Development Goals). And the approaches to completing this unfinished agenda may be more varied than those to overcoming extensive poverty. Achieving more inclusive growth by following economic strategies more consistent with individual countries’ comparative advantages should help meet this challenge.9

- **Financial sector development.** Asia’s financial markets lag well behind its competitiveness in manufacturing and international trade. In the more open, market-oriented, and private-sector-driven economies, well functioning and deeper financial systems will be essential for continuing economic growth and competitiveness. Developing more robust financial systems, both national and regional, is urgent. There is also the challenge, while financial markets are still evolving, of intermediating financial resources within the region from countries with excess savings to countries that are capital deficit.

- **Environmentally sustainable growth.** Asia’s fast-growing economies have become a major factor in the global demand for natural resources. Unless the resource intensity of Asian economic growth is reduced significantly, the security of supplies and prices for such products will remain an important global issue. And further climate change and unchecked environmental degradation could spell disaster for the entire world. The countries in the region face an enormous challenge in satisfying their citizen’s legitimate desire for a rapid rise in their living standards while sharing in the global efforts to protect the planet for future generations.

- **Regional and global integration.** The 2020 scenario outlined here is predicated on the integration of regional markets for goods, services, and capital. Such integration would expand “internal” markets, fuel further efficiencies in resource use, and improve competitiveness, enabling regional economies to grow faster than otherwise possible. The challenge in Asia is to facilitate and accelerate further regional integration within its political and institutional environment. Simultaneously, the region needs to expand its participation in global markets.

- **Innovation and technological development.** It is widely predicted that the global economy will be driven by knowledge and innovation. As Asian economies move to higher incomes and climb the ladder of development, their competitiveness will be determined less by low wages and harder-working labor and more by their ability to master technology and produce higher value goods and services. Accordingly, countries must give even greater emphasis to innovation, technology development, and higher education.

- **Transformation of institutions.** There is a real risk that public sector institutions, including those in the financial system, will not adjust quickly enough to meet the demands of dynamic, open, and market-driven economies. Transforming the existing institutional

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8 Centennial Group estimates (March 2007).

framework will be one of the biggest challenges facing the region. So will improving governance and the transparency of government decisionmaking at all levels. Countries must also take steps to protect intellectual property rights and uphold the rule of law.

The main challenges facing Asian policymakers thus will change very fundamentally: from fighting extensive poverty to tackling issues arising from economic success. The central issue will be: how can they best raise productivity and create better paying jobs to meet the public’s rising expectations while minimizing problems posed by rapid growth and social change? An effective shift in the focus of policy formulation and implementation in each country will pose major intellectual and bureaucratic challenges.

In addition, the expanding community of well performing nations in Asia will need to make concerted joint efforts to identify ways to spread their growing prosperity to their neighbors still lagging behind or particularly vulnerable to external or internal shocks due to their small size, landlocked status, or highly specialized economies. By 2020 several ADB borrowers today should become donors to their neighbors.

In sum, we envision a major transformation of Asia between now and 2020. ADB’s own long-term plans should be informed by the prospect of a totally transformed Asia, and the Bank must change radically to remain relevant. The key test will be whether ADB will be relevant to the developing member countries at the vanguard of this transformation (in addition to those that remain low-income even after 2020). To do so, ADB must move beyond the traditional development bank model, which will be obsolete in the new Asia, and develop a new business model.
A New ADB in a New Asia

In formulating its new long-term vision ADB must take into account three fundamental differences in the region’s economic landscape compared with that when it was established some 40 years ago.

- First, the basic concerns and priorities of policymakers will have moved from principally eradicating absolute poverty to generating and sustaining rapid and more inclusive growth, creating well paying job opportunities in adequate numbers, and improving living standards in sophisticated and complex economies—while at the same time confronting the challenges of economic success.
- Second, economic cooperation and integration within Asia, a greater role in a more integrated, competitive, and technically dynamic global economy, and contributing to the resolution of global issues will become more central to Asia’s development prospects.
- Third, ADB’s past function of transferring external capital from capital-surplus OECD countries will no longer be central in a region that itself has a capital surplus. Instead, its main value will be in combining financial assistance with the transfer of sophisticated, up-to-date knowledge and cross-country experience on major development issues—and in intermediating financial flows within the region.

In our view, the new central role of ADB will be to facilitate and stimulate more balanced growth in demand among domestic consumption, investment, and exports. It seems odd that a region that is growing fast and has an average per capita income only a small fraction of that of the developed countries is exporting large amounts of capital to them. Today, Asia (excluding Japan) has excess savings (over investment) of about 4% of GDP. Its large current account surpluses have already led to accumulated foreign reserves of more than $3 trillion, reserves still rising fast. If the region comes closer to what would be “normal” for its stage of development and have a deficit of, say, 2% of GDP, its “internal demand” (consumption and investment) would be some $400 billion higher. This is a rough estimate of the adjustment in demand desirable in the region.

The region’s ability to sustain its high growth rates for an extended period will thus depend heavily on constantly balancing demand from consumption, investment, and regional trade so that:

- The region continues to enjoy high investment rates (but without wasting the hard earned savings on building uneconomic assets).
- Different segments of society share fairly in the fruits of economic success.
- Resources (including natural resources) are used prudently to sustain growth.
- The region’s steadily rising share of the global economy does not cause retaliatory actions on the part of its main export markets.
All this will require broad adjustments. Today the growth in a few countries depends overly on investment and exports. These countries should stimulate more domestic consumption. In a larger group of countries, domestic investment and savings are below what is necessary to sustain high economic growth rates. Such countries could use additional external capital, while increasing their savings rates, to boost investment, particularly in infrastructure. This in turn would allow more of the region’s vast pool of savings to be invested in neighboring countries rather than sent to financial centers in the United States and Europe. The reliance of the region’s exports on western markets could also be gradually reduced through greater trade within the region, thus alleviating protectionist pressures in the West.

ADB can help the region promote more inclusive growth to increase the well-being of all people while raising overall demand and achieving higher growth. It can support higher investment rates wherever they are still too low. It can help develop financial markets and instruments for consumer finance. It can promote regional integration both to expand regional trade (and hence overall demand) and to facilitate the mobility of capital from capital-surplus to capital-deficit countries. And it can help achieve a more prudent and efficient use of natural resources in the context of a sustainable macroeconomic environment. ADB’s role in stimulating domestic consumption and aggregate demand is likely to be much more limited, but it should remain ready to work with other bodies with a direct mandate in these matters.

The New ADB: Focusing on Three Complementary Strategic Directions

We recommend that over the longer term the Bank’s core activities should be focused on and driven by three complementary strategic directions that would help member countries as they change their focus, by moving: from poverty reduction to inclusive growth, from growth to environmentally sustainable growth, and from a primarily national focus to a regional and global focus.

Even within these strategic directions ADB should focus on a few selected issues important to the region’s long-term development, consistent with its role as a Pan-Asian institution and with its comparative advantage either existing or to be developed.

A Sharper Focused ADB—Key to Becoming the New ADB

The foregoing developments pose a fundamental question about the nature and focus of ADB in 2020. Should it remain a “full service” development bank (say, a regional mirror image of a global institution like the World Bank). Or should it become more specialized by focusing on a limited number of issues of direct and primary concern to the majority of its members?

In our view, the choice is clear. Given ADB’s smaller size and regional orientation—and the basic differences between the needs of Asian countries and those in, say, Sub-Saharan Africa, the institution needs to specialize in issues of central importance to the region. Further, ADB assistance would be sought by its (middle-income) member countries only if it was seen as the source of the best possible advice and if the “transaction costs” were judged acceptable. These countries would have access to other sources of capital, and so ADB’s financial resources alone would not suffice, as in the past. Accordingly, ADB should change its business model and focus on a limited number of issues expected to remain central to the development efforts of a large number of its member countries in 2020. And on these issues ADB should strive to offer the very best expertise in the world.

From Poverty Reduction to Inclusive Growth

Asia’s success in reducing the incidence of absolute poverty is strongly correlated with the ability of countries to achieve and maintain fast economic growth. In many countries, rising incomes, while reducing overall poverty, have been associated with rising disparities. These disparities, left unchecked, could threaten the fragile political consensus for economic reforms, or even political stability. Increasingly, political leaders in Asian countries are searching for ways to manage this challenge, a challenge arising...
As Asian countries develop further, environmentally sustainable growth will become even more critical and should become a primary focus of ADB.

directly from their success in achieving rapid economic growth.

The solution lies in the continuation of pro-growth economic strategies—*but* with a much sharper focus on ensuring that the economic opportunities created by growth are available to all—particularly the poor—to the maximum extent possible. While markets are central in generating growth, an inclusive growth strategy incorporates economic policies and government programs that address “market failures” and permit all segments of the society to participate more fully in the new economic opportunities. The emphasis on economic growth continues since it creates the productive jobs to alleviate poverty rapidly and generates resources for programs to assist the poor.

A few Asian countries have adopted comprehensive programs to promote faster and more inclusive growth. The latest national five-year planning document of India has more inclusive growth as one of its two basic policy objectives (along with raising the economic growth rate). The concept of more inclusive growth avoids targeting any specific income groups for special treatment and instead focuses on facilitating the participation of those less well off in the expanding market opportunities. India’s 11th Plan is renewing emphasis on such areas as improving education and health, raising agricultural productivity, providing basic infrastructure services, and facilitating access of the poor to credit. These efforts should help improve many of the social indicators for which the country is off target to meet the Millennium Development Goals.

More inclusive growth is relevant to all countries, but it will become central to the Asian countries that move up the ladder of economic development and enter middle-income status. Accordingly, it will remain relevant to ADB developing member countries well beyond 2020. We recommend that helping the countries focus on more inclusive growth should become a basic objective and function of the Bank. It would also provide the Bank with an effective instrument to address the unfinished poverty agenda in the new middle-income countries. And it fits well with stimulating more balanced demand.

From Growth to Environmentally Sustainable Growth

Climate change and other concerns about environmental degradation have become a prominent global issue. Until recently, environmental issues were commonly regarded as problems for the developed countries to tackle—for three reasons. First, most environmental degradation was ascribed to the OECD countries because they were the dominant users of natural resources (including fossil energy). Second, the more developed countries had the financial, technical, and human resources to deal with the problems. And third, many developing countries felt they had a legitimate right, and could also afford, to delay tackling these issues until they had the income levels at which developed countries had started to tackle them.

These assumptions are no longer valid. Asian countries, as a result of their economic success, have become major consumers of natural resources. Indeed, they now account for a very large proportion of the incremental global demand for energy and other minerals. Consequently, Asia has already become an integral part of the problems and of any potential solutions. Equally important, climate change has become so serious and urgent that the global community cannot afford to wait any longer. It is in the self-interest of all countries, including the less-well-off countries in Asia, to solve these problems before the damage is irreversible.

In our view, it will not be possible for Asia to continue its current pace of economic progress without shifting its development strategy from economic growth to a strategy that will allow environmentally sustainable growth through 2020 and beyond. Climate change, energy efficiency, clean energy, water resource management, and deforestation at both national and regional levels deserve attention in all member countries and in ADB’s work. Again, as Asian countries develop further, environmentally sustainable growth will become even more critical and should become a primary focus of ADB.

Later in this report, we raise the issue of the “transaction costs” associated with ADB operations and point out that unless the Bank can reduce these costs, the demand for its services in the better performing countries may dry up. That

would threaten its credentials as a Pan-Asian institution and perhaps its long-term financial viability. ADB must thus promote environmentally sustainable development in ways that do not, even inadvertently, raise further the transaction costs associated with its overall operations.

**From a Primarily National Focus to a Regional and Global Focus**

We recommend that the third strategic direction driving the core ADB activities over the longer term should be promoting and facilitating regional economic cooperation and integration.

The reason for this focus is simple. Greater economic cooperation within the region would help maintain the current high rates of economic growth for a longer period than would otherwise be possible. Even larger regional markets for goods, services, and capital would improve the efficiency of resource use and enhance the region’s competitiveness. It would lead to more balanced growth by allowing more of Asia’s growth to be internally generated and thus prevent protectionist pressures in Western countries. In addition, it could help meet the legitimate aspirations of Asians to be more adequately acknowledged by the rest of the world, and for the region to play a role in the global forums that more fully reflects its economic performance and weight.

Regional cooperation has become a high priority in discussions among top political and economic leaders. Intraregional trade accounts for about 55% of the total in East Asia and intraregional foreign direct investment, almost 40%. This regional economic interaction has been market-driven, without help from any region-wide institutions specially created for this purpose, as in Europe. Asia’s regional leaders have set the political goal of moving toward even greater regional integration, while pursuing countries’ ongoing efforts to integrate even more tightly with global markets. We believe that greater economic integration within the region, if pursued in the framework of “open regionalism,” is both desirable and inevitable.

As the only multilateral development institution dedicated exclusively to Asia, ADB is well placed to assist the region in meeting the many conceptual, technical, and institutional challenges in pursuing regional integration. Fortunately, ADB has a good track record in facilitating subregional cooperation (as in the Greater Mekong subregion). This work has won the trust and confidence of member countries. ADB should build on this record and extend its assistance to broader regionwide initiatives. The objective should be to move past earlier development assistance strategies, and their country by country focus, to strategies that incorporate the regional dimension wherever appropriate.

By becoming a leader within Asia in this important area, ADB would strengthen its credentials and relevance as a Pan-Asian institution, since its work would serve the needs of all Asian countries—borrowers and nonborrowers. To retain credibility and strong commitment from all member countries in the region, the New ADB’s internal governance would also need to reflect the changing economic landscape.

We believe that there are strong complementarities among these three directions. Together, they provide the substantive foundation for keeping ADB relevant in a transformed Asia and Pacific region. In this context, we are aware that two major Asian countries are currently not members of the Bank. We have not discussed the implications of their becoming members in the context of geopolitical changes. But if this were to happen, there would also be major implications for the Bank.
Realizing the New ADB will entail a significant reordering of operational priorities between now and 2020. The Bank would retain its current core activity—infrastructure—in which it has a long track record of effective support to member countries. But it would also give much greater emphasis to three recent initiatives—in financial development, energy and environment, and regional integration—and add two new activities—technological development and knowledge management. To make room for the new and expanded activities, the realignment would phase out support for some sectors. This will require difficult tradeoffs but is essential for the long-term health and relevance of the institution.

Fortunately, ADB has already made a start toward becoming more focused under the second Medium Term Strategy adopted last year. The strategy document identified activities that the Bank would deemphasize. Our proposals here will take the Bank to the logical conclusion of this process.

Infrastructure Development

Assistance to member countries for infrastructure development has been and must remain the primary focus of ADB activities in all developing member countries. All member countries—irrespective of their income—need to give priority to infrastructure. Adequate and quality infrastructure services are absolutely essential to a country’s development and competitiveness. And providing basic infrastructure is essential to improving the social indicators in the Millennium Development Goals. ADB has correctly specialized in infrastructure development since its inception, and has accumulated considerable expertise. We believe that the borrowing countries would continue to assign the highest priority to infrastructure in ADB’s assistance strategy. While making other changes in its operational priorities, the Bank must not dilute its work in this critical area.

But as a natural evolution of its work in this bread and butter field, ADB should make four adjustments. First, it should add information and communications technology related infrastructure (such as fiber-optic cable networks and data banks) to its current definition. Such infrastructure will be as essential to an economy as road and rail networks and telephone and power systems have been in the past. Second, ADB should do much more in promoting and facilitating public-private partnerships. Without leveraging public sector contributions with private financing and management skills, Asian countries will not meet the already massive and ever-growing need for more sophisticated and more expensive infrastructure. In this regard, ADB should have a stronger capacity to advise member countries on the policy, regulatory, and institutional framework necessary to attract much
more private participation in such sectors as transport, energy, and water. Third, ADB needs to pay even greater attention to identifying, developing, and implementing regional or subregional infrastructure projects. Fourth, it should strengthen its capacity to assist member countries in developing and assessing overall infrastructure development plans and programs, and helping them generate larger pipelines of “bankable” projects.

**Financial Sector Development and Intermediation**

In much of Asia financial systems have not kept pace with the rapid growth and increasing competitiveness of manufacturing. Given the region’s large pools of savings, faster financial system development, both national and regional, is of the highest priority. Accordingly, we propose that ADB, in its operations, gives a high priority to financial sector development, along with infrastructure and sustainable development.

The major policy issues in financial sector development fall into two categories. The first concerns the “unfinished agenda” from the 1997 crisis. This agenda is of relevance not only to the countries directly hit by the crisis, but also to others, since the crisis highlighted the need for reforms to prevent similar crises in the future. The second set of policy issues requires national and regional attention to prepare the Asian countries to meet their longer-term challenges.

The longer-term policy agenda arises from the vision of a regional financial system that matches the strength, agility, and global competitiveness of the region’s manufacturing. That system should mobilize and channel, within the region, a much larger share of its twin surpluses of domestic savings and foreign exchange reserves. And it should do this in a way that simultaneously meets the region’s need for higher investments (particularly in infrastructure) and raises the returns and reduces the risks to savers. More developed and efficient financial systems would sustain rapid economic growth by deploying the region’s vast pool of capital to its most productive uses—and spur broader economic and institutional reforms, in both the public and the private sectors. ADB should help develop such financial systems at both national and regional levels, with the regional dimension gradually acquiring greater prominence as domestic systems become more robust.

The needed reforms of Asia’s financial system are qualitatively different from the past efforts aimed at public institutions. What Asia requires now are much more robust, agile, and modern institutions responding to the fast evolving and globalizing markets. Change management of institutions is both the region’s biggest need and its biggest challenge. ADB should help in transforming traditional institutions to adapt to the market-driven environment and in promoting transparency through institutional reforms, thereby enhancing market discipline. Support for institutional reforms at the national level should be combined with technical assistance at the regional level for implementing prudent norms and regulations, removing national rules and regulations that prevent the emergence of regional financial markets, and creating regional financial infrastructure.

Given the positive economic prospects of the major Asian developing countries and the anticipated developments in the region’s financial systems, the traditional intermediation role of the multilaterals in raising financing from international markets and channeling it to domestic intermediaries will gradually become redundant (except in low-income countries unable to acquire private capital, or in an unexpected crisis). But ADB can be an innovative intermediary in at least three areas, all as a conduit between regional borrowers and lenders.

The first would involve a steep increase in the pilot program already started by ADB to raise “local currency” funds by selling bonds in the countries. This program could be extended to all Asian countries with high savings rates. In addition to helping finance increased investments in priority activities, this would develop local capital markets. From a regional perspective, this program could be even more powerful if countries with very high savings rates would agree to ADB’s raising (or managing) special funds in their domestic markets for investments elsewhere in the region.

A second innovation worth considering would be to set up a joint regional facility to professionally manage a small part of Asia’s massive ($3.1 trillion) reserves. Currently, most of these
reserves are invested in government treasury bills with low yield and significant exchange risk. Some analysts estimate that in local (appreciating) currency terms, the returns from these reserves are close to zero. Given the large reserves-to-GDP ratio of many Asian countries, the current investment strategies could be costing the countries 1.5–2% of GDP each year.11

It has been suggested that ADB or other multilateral institutions consider making much better use of a portion of these reserves and channeling them into investments within the region. Such an initiative would raise many political, technical, and institutional issues, all needing careful review. But given the potential of simultaneously addressing Asia’s “savings glut,” massive international reserves, and low domestic investment rates, it appears worthwhile to seriously consider the suggestion. We endorse this idea and urge the Bank’s management to explore it with key decision makers in the region. If the countries express interest, ADB would need to explore ways to use the professional fund management experience and skills available in the private sector and develop partnerships, perhaps outsourcing fund management to one or more parties. It will also need to review and address the related issue of the mix of its own staff skills.

Third, ADB should renew efforts to make greater and more innovative use of credit enhancement facilities, including the partial risk guarantee, in promoting public-private partnerships in infrastructure. It must accelerate its internal decisionmaking and reduce transaction costs to match the timelines of the private sector. But the use of these facilities must be within parameters that protect the Bank’s preferred creditor position.

Energy and Environment

Recent debate about climate change and global warming has vividly highlighted the importance of carefully husbanding natural resources and stopping further environmental degradation, reversing it if possible. We have proposed that promoting environmentally sustainable growth should be one of the three strategic directions of ADB.

There is already a widespread consensus about the central importance of this work in the Bank’s core activities. But the topics and issues that could be covered are extensive. We have recommended that ADB become much more focused to make its policy work credible in a sophisticated region. Applying the principle of selectivity, ADB should identify a limited number of topics that would become the primary focus of work in this field.

In our view managing climate change, making efficient use of energy, and greater reliance on clean and renewable energy deserve particular attention. Also, in our view ADB’s most innovative and valuable contribution is in developing and expanding markets for trading carbon emissions. This emerging field can make a huge impact on global warming. Based in a region that is a major user of coal, ADB must play a central role in developing such trading within the region. Many experts believe that financial instruments for carbon trading could be the most important new development in the global financial markets. Its work in this field would thus be consistent with ADB’s proposed enhanced role in financial market development. The priorities mentioned here should guide ADB work at both the national and regional levels.

Technological Development and Innovation

For the Asia and Pacific region to continue to narrow the gap with global best practices and catch up with the developed economies, it must give much greater emphasis to innovation and technological development. This important area should be added to ADB’s future core activities.

Rightly considered a major manufacturing hub of consumer electronic products, Asia is starting to become a factor in basic pharmaceuticals manufacturing and research. But overall, Asia remains essentially a low-cost assembly line for products invented and designed outside the region. It needs to move upscale. To do so, it must develop world-class research and development capacities for the discovery and development of the next generation of products in such

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fields as information and communications technologies, biotechnology, clean energy, and environmental protection. In addition to these R&D efforts, the region should be more active in setting international standards.

There is an urgent need to promote and facilitate collaboration among the region's leading universities and technical institutes in each field. The region should give more attention to higher education, especially in the physical sciences (mathematics, physics, chemistry, engineering, medicine, biosciences, and natural resource management). In addition, the regional financial markets need instruments to provide risk capital to new firms, as venture capital firms do in the United States.

ADB should become an advocate for innovation and develop innovative operational products where appropriate (such as technical assistance, support for new institutions, and lending instruments for financing technology firms). It should also offer a regionwide platform for periodic stocktaking of Asia's progress and for debating national and regional policy initiatives that could accelerate progress.

Regional Integration

The objectives of ADB's work in regional cooperation and integration should be building and expanding regional collective actions and helping the region engage effectively at the global level. Regional cooperation comprises five major areas—physical connectivity, global commons, trade in goods and services, financial integration, and monetary and exchange rate coordination.

Physical connectivity is the bedrock, and one of the first elements, of economic cooperation and integration. Physical connections—particularly robust transport and communication links—are essential for moving goods, services, and people across countries. Accordingly, irrespective of which other areas of cooperation countries select, essential projects in physical connectivity must be at the center of regional cooperation programs throughout Asia. Some projects may encompass a few countries in the immediate neighborhood, others an entire subregion, and some may cut across subregions. Often, the projects start by connecting only two or three countries, gradually extending to an ever-increasing circle of countries. To facilitate early agreement and implementation for such projects, ADB would need to have the capacity to provide additional technical assistance and lending resources, on concessional terms.

Global and regional commons are a natural agenda item for regional economic cooperation. Examples of such “commons” in Asia are HIV/AIDS, avian flu, water resource management, biodiversity and environmental management, acid rain, marine resources, earthquakes, and tsunami-type natural disasters.

It would be prudent for ADB to focus its regional cooperation agenda on only a few issues. Other international institutions—UN, WHO, World Bank, EBRD—are active in these areas. In our view, ADB should take the lead on a few issues in its revealed comparative advantage—that is, issues that are primarily regional (rather than global) and within ADB’s existing competencies. Issues that are global and whose remedies involve the entire global community are best handled under the leadership of global institutions. ADB should have the capacity to selectively provide concessional lending resources for high priority global and regional commons programs.

Free trade in goods, services, labor, and capital is a primary benefit of regional cooperation and integration. Short of a global open market, a single regional market for goods, services, labor, and capital should be the goal of regional economic cooperation on trade. Asia should aim at ultimately creating a single market encompassing the major Asian economies (including the four largest countries that account for 83% of Asian GDP: Japan, People's Republic of China, India, and Republic of Korea), while following “open regionalism.”

The “spaghetti bowl” of free trade agreements must give way to a more uniform and cohesive regional free trade agreement in the near term. That should lead to a regional customs union in the not too distant a future and to a single market for at least goods, services, and capital (a single market for labor may be a distant dream). Within East Asia the Association of Southeast Asian Nations (ASEAN) and related forums are most likely to act as the core of efforts to create larger and freer regional markets. ADB should formulate and support ways to move the process ahead.

The ADB’s work in regional cooperation and integration should be building and expanding regional collective actions and helping the region engage effectively at the global level.
Financial markets in the Asia and Pacific region on their own are, by now, moving significant amounts of capital, even though the region is still far from having a single market for goods and services. The nascent regional financial markets in East Asia are a byproduct of a market-driven process of regional trade expansion, despite major regulatory and institutional impediments. Asia today is still much more integrated with international financial markets than regional markets. And also, outside the major financial centers of Hong Kong, China, and of Singapore, banking systems in Asia remain strongly oriented to domestic markets, as do the stock markets. Developing regional financial markets and improving their governance should be an essential part of ADB’s mandate in regional cooperation.

ADB should help the region pursue a bottom-up, market-driven approach to financial integration rather than a top-down “region-wide broad vision.” Regional policymakers and regulators should harmonize accounting, reporting, and regulatory standards, simplify tax and registration procedures, remove regulatory hurdles that hamper the development of financial instruments to bring together regional savers and investors across national boundaries, and develop a regional “financial plumbing or infrastructure,” with regional clearing systems and ratings agencies. These efforts would create the legal and regulatory environment for truly regional bond markets. In addition, stronger linkages should be encouraged among the four regional financial centers, perhaps to establish a network for a regional financial market. Other areas for ADB assistance would include the required “financial plumbing or infrastructure” and reviews of the regulatory frameworks of individual countries.

Monetary and exchange rate coordination. In our view, the economic and political conditions today even in East Asia are not conducive to a regional monetary union or a move toward exchange rate coordination in the near future. Even so, as trade, investment, and financial interdependence increase, the conditions for monetary cooperation will improve, and judgments on its feasibility will have to be re-examined. For this reason, it would be worthwhile to keep this issue on the agenda of regional policymakers by assigning the topic to a professional regional research institution to facilitate continuing exchanges of ideas. The ADB Institute may be an appropriate home for this work.

Knowledge Management

Most analysts believe that the world economy is in the “information age,” with the ability to master knowledge and information crucial to remaining competitive. As the only pan-Asian multilateral institution in the region, ADB should try to become the premier platform for sharing knowledge and exchanging lessons on the key economic, social development, and financial issues. The New ADB must harness to the fullest the power of the Internet and related technologies to create the desired platform for networking. ADB’s primary role in knowledge management should be to create and manage such a platform. Like the OECD, ADB could convene meetings of policymakers and experts from within and outside the region to enhance knowledge sharing and exchanges of ideas.

ADB should focus on a manageable number of topics: the policies related to inclusive growth as well as five priority activities recommended above (infrastructure development, energy and environment, financial development, technological development, and regional integration). Its inhouse knowledge and skills base should be capable of providing practical advice that is sector and project specific, and based on relevant cross-country lessons of experience. In addition, creating an inhouse databank and commissioning high-quality research on carefully selected topics would be important for its credibility and effectiveness. Consideration should also be given to creating an ADB Fellows Program—say, for 25 fellows each year—that would provide modest grants to promising young leaders in member countries to carry out research on important development issues.

We recognize that ADB faces many challenges in becoming a source of truly world-class knowledge even in the selected activities suggested here. The challenges arise from its physical location away from leading academic institutions and think tanks, its limited financial resources, difficulties in attracting and retaining in Manila a critical mass of first-rate researchers and experts, and its changing institutional
culture. Even with concerted efforts by ADB management, this goal will take many years to achieve.

In the meantime the management should consider making more effective use of the ADB Institute (located in Tokyo) by aligning its priorities and work program more closely with the Bank’s mainstream work so that it can provide the intellectual underpinning for country operations and other Bank priorities.

**Revising Priorities While Staying Focused**

We believe that the Bank needs to phase out some of its current activities to make room for the suggested new operational priorities. That will allow it to carry out truly world-class work in line with our recommendation that ADB become much more focused.

The ultimate responsibility and authority for making such decisions lies with ADB’s senior management and Board. And because we do not have sufficient knowledge to make informed judgments on the future of specific activities and work programs, we propose for management consideration three criteria for deciding which activities should be phased out and how.

First, ADB should withdraw from those sectors for which demand for its assistance is expected to decline significantly. For example, as more countries attain middle-income status, the need for ADB assistance in areas of relevance primarily in the least-developed-countries sectors will decline. As a result, demand for ADB assistance in these sectors would also decline, ultimately reaching a stage that the Bank would no longer have the economies of scale to maintain first-rate skills in those sectors. As such a stage approaches, the Bank should exit from these sectors and leave them to other global institutions whose assistance is also required in other parts of the world (such as FAO, the World Bank, and UNESCO). Second, the Bank should consider handing over its “non-core” work to other international agencies that can serve the needs of member countries equally well. And third, the Bank should phase out work in activities that are not consistent with the new priorities and in which its track record has not been as good as it had wished. For this, the reports of the Bank’s independent evaluation department could be an important input.

We commend the ADB management for having already started the process of “phase-out” under the recently approved Medium Term Strategy II, which designated a number of sectors and subsectors as low priority (Group III). We recommend that the management consider phasing out as soon as practical the low priority activities, consistent with the vision of the *New ADB*. In our view, even after exiting from activities designated as Group III, the remaining activities would still remain too large for an institution of ADB’s size. Accordingly, management should select additional activities to phase out.

*The Bank should consider handing over its “non-core” work to other international agencies that can serve the needs of member countries equally well.*
The Path Ahead: Moving Toward the New ADB

We have recommended above that over the longer term ADB should focus on three strategic directions: promoting inclusive growth, facilitating environmentally sustainable growth, and promoting regional (and global) integration. In our view, focusing on the three is critical to ADB remaining relevant to the major developing member countries even after they become middle-income. And this continuing relevance is critical to ADB’s remaining a Pan-Asian institution in 2020 and beyond, as well as to its long term financial viability.

Strategy for the Transition to the New ADB

Between now and 2020 the Bank should move gradually but steadily to the New ADB, with the pace accelerating as its major borrowers join the ranks of middle-income countries. During the transition from now to 2020, ADB will need to:

- Continue to follow the broad poverty-alleviation-focused strategy in low-income, small, and island economies that remain eligible for concessional financing.
- Focus ADB efforts on helping countries projected to become middle-income by tackling the basic challenges to achieving that status (listed in chapter 2).
- Build and strengthen ADB capabilities in the six activities that will become the core business by 2020: infrastructure development, financial development and intermediation, energy and environment, innovation and technological development, regional integration, and knowledge management.

We envisage that, over time, the relative weight of broad-based poverty alleviation would gradually decrease, as more countries emerge from extensive poverty. With the passage of time, the six core activities would become more central. Work on helping countries address the challenges of becoming middle-income should remain relevant throughout the transition.

We recognize that to some observers the foregoing division may appear too sharp. In practice, the prescriptions should not be applied too rigidly on the basis of country incomes alone. For example, even after countries have become middle-income, they would continue to have an “unfinished poverty agenda.” And issues to be tackled by countries as they approach middle-income status would also be relevant to many low-income countries. Yet, we believe that the conceptual distinctions are critical for ADB to develop a sharply focused operational strategy and a detailed road map for the transition to 2020.

The proposed strategy would allow a gradual and seamless transition to the New ADB. It would avoid abrupt disruptions in country operations and relations. And it would give the institution (and its stakeholders) more than adequate time to prepare for the new era. A clear and
explicit enunciation of this strategy and its rationale, combined with a carefully designed and executed public information campaign, would achieve the much needed buy-in of the major stakeholders.

**Transaction Costs, Institutional Capacity, and Governance**

ADB’s credibility and relevance in the region will be determined by its adopting the right agenda (outlined in the previous chapter) and its ability to deliver on this agenda in an effective and timely manner. In other words, ADB must focus not only on what it will do but also on how it will do it.

Four important areas need management attention in this context: the transaction costs associated with its assistance programs; its institutional capacity and culture—including the size and skills of professional staff—to carry out the proposed new core activities; the overall size and flexibility of its resource deployment; and the role of regional members in its governance.

**Transaction costs.** An important factor, and over time perhaps the most important factor, in the decisions of developing member countries—as they enter middle-income status and thus develop more options for obtaining external financing and technical advice—would be the transaction costs associated with doing business with ADB. Many borrower countries are already concerned that some of the operational policies and procedures of ADB are too intrusive, too slow and bureaucratic, and too onerous in the time and effort to meet them.

The Bank must find ways to reduce these costs and substantially simplify and accelerate its decisionmaking. Obviously this issue concerns all ADB borrowers, irrespective of their income. But it is especially critical in its continuing relations with the better performing clients. Unless the Bank finds effective ways to reduce transaction costs, it will run a real risk of losing its business with the clients with superior performance—and its credentials and relevance as a Pan-Asian institution.

ADB may need to reconsider its practice of applying the same policies, standards, and safeguards to all countries, irrespective of their level of development and the quality and sophistication of their institutions. One instrument for reducing the transaction costs would be to take into account more explicitly a country’s domestic capabilities when applying its policies, standards, and safeguards.

**Institutional capacity and culture.** Building ADB’s capacity to implement the vision would outlined here will be a challenge. Member countries will require much more sophisticated advice and up-to-date information and knowledge from ADB if it is to maintain its relevance. The professional excellence and cross-country experience of the staff will determine the Bank’s ability to carry out its proposed core activities and to generate demand for assistance from countries with superior economic performance.

The direction and magnitude of changes would vary by sector, but significant capacity-building appears necessary in almost all fields. Even in infrastructure the Bank will need to rebuild its technical, financial, and economic expertise to standards that would earn the respect and confidence of the clients in the more sophisticated borrower countries and the business executives interested in private-public partnerships. In the other activities where the Bank’s past activities have been limited, or nonexistent, it will need to create or very substantially enhance its permanent staff capacity.

In this context, we strongly endorse the concept of creating clusters of technical staff in regional hubs in locations other than Manila. Operating in other Asian cities that are major business and academic centers, housing a large number of professionals with similar interests, and providing more conducive living conditions would be essential to attracting world-class talent consistent with ADB’s new agenda. ADB must also make full use of new information and communications technology to overcome the drawbacks of its location in Manila.

To facilitate knowledge sharing in the region, ADB would need to attract a core staff of world-class research economists and sector experts and make large investments in data systems and information and communications technology infrastructure—to network expertise in the region and become more fluid in its day to day work.

Most basically, what is called for is a fundamental change in how the institution is seen by
In a fast-changing region, ADB needs to become much more nimble, flexible, and responsive to its clients in both the public and the private sectors: from being an imposer of an agenda specified by parties outside the region to a regional collaborator and partner. It is critical that ADB generate and reinforce the feeling among Asians that ADB is their own institution and that its primary goal is to respond to their needs as seen from their perspective.

Resource needs and flexibility. Building capacity along the foregoing lines would mean augmenting both the number and quality of professional staff, and possibly require additional budgetary resources. Recruiting and retaining staff in fields like finance would become a bigger challenge because of competition from new private sector firms such as hedge funds. Without such a buildup in the capacity of inhouse staff it would not be possible to achieve the vision of the New ADB by 2020.

Equally important, we believe that ADB needs to have greater flexibility in its budgetary and human resources policies to allow senior line managers to quickly reallocate and redeploy resources after getting approval from top management. In a fast-changing region, ADB needs to become much more nimble, flexible, and responsive. Management’s ability to redeploy resources quickly would be an important factor in the institution becoming more flexible and more responsive to changing client needs. We recommend that the Board consider giving senior Bank management greater flexibility in these areas. Such flexibility would be in return for a sharper focus on efficiency, results, and accountability on the part of management and staff.

Governance. The basic ownership structure of ADB and its governance were determined at its inception some 40 years ago, reflecting the structure of the global economy at that time. Since then there has been a significant evolution in the relative contributions to global GDP and trade and finance by different groups of countries around the world. Asian countries today play a much greater role in the global economy. Even among Asian countries, the relative economic weight of different countries has changed dramatically in the past 10 years.

The character of the institution and the relative responsibilities of its members must evolve with the changes in the economic environment for ADB to retain its credibility with the major stakeholders, especially in Asia. In the New ADB in 2020, the relative responsibilities and contributions of the regional members would need to reflect the new realities. This would lead to more equitable burden sharing, underlining more fully the Asian heritage of ADB and enhancing its credibility within the region. At the same time, to be effective in the global arena ADB must enjoy continuing support and commitment of its nonregional members. These delicate but essential adjustments will be difficult to bring about without strong vision and leadership from top political leaders in Asia and the rest of the world.

March 2007
Annex 1: The Eminent Persons Group

Dr. Supachai Panitchpakdi, Chair
Dr. Supachai Panitchpakdi is currently Secretary-General of the United Nations Conference on Trade and Development, appointed by the United Nations General Assembly. He previously served as the Director-General of the World Trade Organization from 2002 to 2005. Dr. Supachai began his professional career at the Bank of Thailand in 1974, working in the Research Department, the International Finance Division, and the Financial Institutions Supervision Department. In 1986 he was elected to the Thai Parliament and appointed Deputy Minister of Finance. In 1988 he was named Director and Advisor, and subsequently President, of the Thai Military Bank. In 1992 he became Senator. Dr. Supachai served as Thailand’s Deputy Prime Minister from 1992 to 1995, overseeing economic and trade policy. He was again appointed Deputy Prime Minister and Minister of Commerce in 1997 to handle, among other matters, the country’s financial crisis. In addition to his work on national policies, Dr. Supachai was active in shaping regional cooperation arrangements, including Asia Pacific Economic Cooperation (APEC), the Association of Southeast Asian Nations (ASEAN), and the Asia Europe Meeting (ASEM). Dr. Supachai received his Master’s Degree in Econometrics, Development Planning and his Ph.D. in Economic Planning and Development from the Netherlands School of Economics (now known as Erasmus University) in Rotterdam. In 2001 he was appointed Visiting Professor at the International Institute for Management Development in Lausanne.

Dr. Isher Judge Ahluwalia
Dr. Isher Judge Ahluwalia is currently Chair of the Board of Governors of the Indian Council for Research on International Economic Relations, where she served as Director and Chief Executive from 1997 to 2001. She is a member of the Government of India’s National Manufacturing Competitiveness Council. She was Vice Chair of the Punjab Planning Board, Chandigarh, from February 2005 to February 2007. She was also Board Chair of IFPRI from 2003 to 2006. Dr. Ahluwalia is on the boards of numerous research institutes in India, including the National Council of Applied Economic Research and the Madras School of Economics, and she is associated with a number of international research organizations, including the Global Development Network. She received her B.A. from Presidency College at Calcutta University, her M.A. from the Delhi School of Economics, and her Ph.D. from the Massachusetts Institute of Technology, all in economics. Dr. Ahluwalia’s research focuses on industrial development and economic liberalization in India. Among her publications are *Industrial Growth in India: Stagnation since the Mid-Sixties* (OUP, India, 1985), which received the Batheja Memorial Award.

**Mr. Nobuyuki Idei**

Mr. Nobuyuki Idei is Chief Corporate Advisor and Chairman of the Advisory Board of Sony Corporation. He has held those positions since 2005 after serving as Chairman and Group CEO of the company. Prior to being appointed Chairman and Group CEO in 2003, Mr. Idei held a wide variety of leadership positions at Sony, including Chairman and Chief Executive Officer, President and Representative Director, and Managing Director. He played a key role in moving Sony into the digital age and in developing and enhancing Sony’s renowned design and brand image throughout his career. Mr. Idei currently serves on the boards of Accenture and Red Herring, and has also served on the boards of Electrolux, General Motors, and Nestle S.A. In September 2006 he established Quantum Leaps Corporation, a management consultancy and think tank. Outside the private sector, he has been Counselor to the Bank of Japan since 1999 and was appointed Vice Chairman of the Japan Business Federation in 2003. He was also a member of the IT Strategy Council, an advisory committee to Japan’s Prime Minister, from 2000 to 2005. Mr. Idei received a B.S. degree in Economics and Politics from Waseda University in Tokyo in 1960. He also attended L’Institute des Hautes Etudes Internationales in Geneva, Switzerland.

**Mr. Caio Koch-Weser**

Mr. Caio Koch-Weser, Vice Chairman of Deutsche Bank Group, was State Secretary and Deputy Minister within the German Federal Ministry of Finance from 1999 to 2005. From 2003 to 2005 he was Chairman of the Economic and Financial Committee of the European Union. Mr. Koch-Weser is a member of the boards of the Bertelsmann Foundation, the Peterson Institute of International Economics, the Bruegel Institute, and the Tata Energy Research Institute. From 1973 until 1999 he held a number of high-level positions in the World Bank, notably as Division Chief for the China Program, Deputy Treasurer and Director Treasury Operations, Regional Vice President for Middle East and North Africa, and Managing Director Operations and Member of the Executive Committee. Mr. Koch-Weser studied economics and sociology in Muenster, Berlin, and Bonn.

**Dr. Justin Yifu Lin**

Dr. Justin Yifu Lin is Professor and Founding Director of the China Centre for Economic Research (CCER) at Peking University. He is Fellow of the Academy of Sciences for the Developing World. He received his PhD in economics from the University of Chicago in 1986 and is the author of 16 books, including the China Miracle: Development Strategy and Economic Reform, which has been published in seven languages, and the State-owned Enterprise Reform, which is available in Chinese, Japanese, and English. He has published more than 100 articles in refereed international journals and collected volumes on history, development, and transition. Among many of his public roles in China, Justin Yifu Lin is Vice Chairman, Committee for Economic Affairs of Chinese People’s Political Consultation Conference and Vice Chairman of the All-China Federation of Industry and Commerce. He also serves on several national and international committees, leading groups, and councils on development policy, technology, and environment. He was awarded the 1993 and 2001 Sun Yefang Prize (the highest honour for economist in China), the 1993 Policy Article Prize of Centre for International Food and Agricultural Policy at University of Minnesota, the 1997 Sir John Crawford Award of the Australian Agricultural and Resource Economics Society, the 1999 Best Article Prize of the Australian Journal of Agricultural and Resource Economics, the Citation Classic Award in 2000 (by the publisher of Social Science Citation Index), Docteur Honoris Causa of Universite D’Auvergne in France in 2004, fellow of Third World Academy of Sciences in 2005 and various other prizes.

**Dr. Lawrence H. Summers**

Dr. Lawrence H. Summers is the Charles W. Eliot University Professor at Harvard University. During 1991–2001 Dr. Summers served the U.S. Department of Treasury, rising from Under
Secretary for International Affairs to Secretary of the Treasury. Following his tenure with Treasury, he was appointed President of Harvard University, a position he held until 2006. He has been a faculty member in the economics departments of Massachusetts Institute of Technology and Harvard University. Dr. Summers received the National Science Foundation’s Alan T. Waterman Award for outstanding scientific achievement in 1987 and the John Bates Clark Medal for the outstanding American economist under 40 in 1993. In 2002 he was elected to the National Academy of Sciences, a private organization of scientists and engineers dedicated to the furtherance of science and its use for the general welfare. He earned his bachelors degree in economics from Massachusetts Institute of Technology in 1975 and his Ph.D. from Harvard in 1982. Dr. Summers has published more than 100 academic articles covering a wide range of topics including macroeconomics, public finance, labor economics, and finance.
Annex 2: Terms of Reference for the Eminent Persons Group

The Asian Development Bank’s (ADB) long-term strategic framework (LTSF) for 2001–2015 sets out a strategic framework for ADB’s actions to pursue its vision of an Asia and Pacific region free of poverty. Adopted from ADB’s poverty reduction strategy approved in 1999, the LTSF’s core areas of intervention were identified as pro-poor sustainable economic growth, social development, and good governance. The medium-term strategy I: 2001–2005 (MTS I) translated the LTSF into actionable medium-term strategies, responding to the region’s urgent development needs. The medium-term strategy II (MTS II), covering three years from 2006 to 2008, is the second in the series of the medium-term strategies within the LTSF time horizon.

Although the LTSF remains relevant in many respects, in reviewing the implementation of MTS I and in preparing MTS II, it was recognized that many factors not envisioned at the time of the LTSF’s preparation have emerged as driving forces of change in the region. While MTS II introduces strategic measures to the already identified and immediate regional challenges, ADB intends to undertake a more comprehensive midterm review of the LTSF so that it may continue to be relevant and effective as a regional development bank. In initiating this process it was proposed that a panel of eminent persons be convened to provide insights on the region’s future and their implications to the future role of ADB.

The following are the terms of reference for the external advisory panel.

To advise ADB on its priority operational challenges and opportunities within the dynamic global/regional environment, the elements essential for maintaining ADB’s operational relevance and efficacy as a regional development bank. The Panel’s final report will provide a strategic perspective that can be shared with all stakeholders and provide a basis for formulating relevant approaches for conducting a comprehensive midterm review of the LTSF.

The Panel to be constituted for the purpose of this study will consist of six persons of internationally recognized eminence and stature, who will be invited to serve in their individual capacities. The panel is expected to commence work in July/August 2006 and submit its final report to the ADB President by March 2007.

It is proposed that the Panel study and advise on the following:

- Recent key changes and prospects in the region and the main driving forces.
- Key long-term development challenges facing the region, including risks to the region’s inclusive and sustainable development, and measures to address these risks.
- Evolving global environment (including the environment for official development assistance) and implications for Asia and the Pacific.
- Recommendation on the future role of ADB as a regional development bank within the
dynamic operational environment of the Asia and Pacific region.

- Key issues that ADB needs to take into account in conducting a comprehensive mid-term review of ADB’s LTSF.
  
  As deemed necessary, the Panel, from time to time, may seek inputs from ADB stakeholders, including the members of the Board of Directors, ADB’s client countries, ADB management, and its staff.

  The Panel may examine any other aspects of the global/regional economy, and their implications for ADB’s operations, that it considers pertinent and recommend any measures it regards as in the interest of ADB and its membership.
### Annex 3: Key Indicators for Selected Asian Economies, 2007

<table>
<thead>
<tr>
<th>Country</th>
<th>Population (millions)</th>
<th>GDP (billion $)</th>
<th>GDP PPP (billion $)</th>
<th>GDP per capita ($)</th>
<th>GDP PPP per capita ($)</th>
<th>Population below $1 a day (%)</th>
<th>Exports (billion $)</th>
<th>Savings/GDP, 2004 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>157.6</td>
<td>67</td>
<td>358</td>
<td>428</td>
<td>2,273</td>
<td>36.0</td>
<td>7</td>
<td>30.6</td>
</tr>
<tr>
<td>People's Republic of China</td>
<td>1,315.8</td>
<td>2,223</td>
<td>11,694</td>
<td>1,691</td>
<td>7,153</td>
<td>16.6</td>
<td>762</td>
<td>42.2</td>
</tr>
<tr>
<td>India</td>
<td>1,103.4</td>
<td>775</td>
<td>4,282</td>
<td>703</td>
<td>3,293</td>
<td>34.7</td>
<td>100</td>
<td>22.9</td>
</tr>
<tr>
<td>Indonesia</td>
<td>222.8</td>
<td>276</td>
<td>1,146</td>
<td>1,239</td>
<td>4,387</td>
<td>7.5</td>
<td>48</td>
<td>23.8</td>
</tr>
<tr>
<td>Republic of Korea</td>
<td>47.8</td>
<td>793</td>
<td>1,145</td>
<td>16,586</td>
<td>20,796</td>
<td>2.0</td>
<td>284</td>
<td>34.3</td>
</tr>
<tr>
<td>Malaysia</td>
<td>25.3</td>
<td>131</td>
<td>341</td>
<td>5,160</td>
<td>11,468</td>
<td>2.0</td>
<td>141</td>
<td>35.2</td>
</tr>
<tr>
<td>Pakistan</td>
<td>157.9</td>
<td>118</td>
<td>476</td>
<td>750</td>
<td>2,562</td>
<td>17.0</td>
<td>16</td>
<td>23.0</td>
</tr>
<tr>
<td>Philippines</td>
<td>83.1</td>
<td>98</td>
<td>474</td>
<td>1,176</td>
<td>4,993</td>
<td>15.5</td>
<td>40</td>
<td>36.5</td>
</tr>
<tr>
<td>Thailand</td>
<td>64.2</td>
<td>169</td>
<td>626</td>
<td>2,628</td>
<td>8,482</td>
<td>2.0</td>
<td>110</td>
<td>31.2</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>84.2</td>
<td>51</td>
<td>300</td>
<td>604</td>
<td>2,987</td>
<td>32</td>
<td>32</td>
<td>32.2</td>
</tr>
<tr>
<td>Brunei</td>
<td>0.4</td>
<td>6</td>
<td>10</td>
<td>17,118</td>
<td>24,100</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hong Kong, China</td>
<td>7.0</td>
<td>178</td>
<td>265</td>
<td>25,242</td>
<td>33,146</td>
<td>289</td>
<td>32</td>
<td>32.4</td>
</tr>
<tr>
<td>Japan</td>
<td>128.1</td>
<td>4,571</td>
<td>4,214</td>
<td>35,690</td>
<td>30,532</td>
<td>595</td>
<td>26.4</td>
<td></td>
</tr>
<tr>
<td>Singapore</td>
<td>4.3</td>
<td>118</td>
<td>140</td>
<td>27,253</td>
<td>28,538</td>
<td>230</td>
<td>45.0</td>
<td></td>
</tr>
<tr>
<td>Taipei, China</td>
<td>22.8</td>
<td>346</td>
<td>719</td>
<td>15,182</td>
<td>27,685</td>
<td>198</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rest of Asia</td>
<td>308.2</td>
<td>227</td>
<td>686</td>
<td>619</td>
<td>2,565</td>
<td>15.0</td>
<td>58</td>
<td>25.0</td>
</tr>
<tr>
<td>Asia Total</td>
<td>3,670.9</td>
<td>11,459</td>
<td>26,870</td>
<td>3,122</td>
<td>7,322</td>
<td>2,939</td>
<td>30.6</td>
<td></td>
</tr>
</tbody>
</table>
By 2020 Asia will be dramatically transformed into a region that has largely conquered extreme poverty, with 90 percent of its people living in middle-income countries, and with a regional economy accounting for 45 percent of global GDP and 35 percent of world trade.

“To effectively carry out its new role in a rapidly changing Asia, the Asian Development Bank must radically change itself, and adopt a new paradigm of development banking that allows it to be responsive to the region’s evolving needs between now and 2020,” said Dr. Supachai Panitchpakdi, Secretary-General of the UN Conference on Trade and Development and Chair of the Eminent Persons Group.

The New ADB must become more focused, driven by three strategic directions:

• Moving from fighting extensive poverty to supporting higher and more inclusive growth.
• Moving from economic growth to environmentally sustainable growth.
• Moving from a primarily national focus to a regional and global focus.

The New ADB should focus on six core activities—infrastructure, financial sector development, energy and environment, regional integration, technological development, and knowledge management. A priority will be raising productivity and creating better paying jobs to meet the public’s rising expectations, while minimizing problems posed by rapid growth and social change.

To meet these goals, the New ADB will need to rebuild its technical, financial, and economic expertise to standards that would earn the respect and confidence of more sophisticated clients in borrower countries and potential partners in the private sector.