THE RISE OF ASIA:
PERSPECTIVES AND BEYOND

MEMOIR OF THE PRESIDENT
OF THE ASIAN DEVELOPMENT BANK
2013–2020

TAKEHIKO NAKAO
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The author, Takehiko Nakao, is the former President of the Asian Development Bank (from April 2013 to January 2020). Currently, he is chair of the Institute at Mizuho Research & Technologies. He is also a visiting professor at the National Graduate Institute for Policy Studies and at the Graduate School of Public Policy, University of Tokyo. He was born in 1956 in Osaka, Japan. After graduating from the Faculty of Economics, University of Tokyo, he joined the Ministry of Finance in 1978. He has a master’s degree in business administration from the University of California, Berkeley (1982). In the Japanese Ministry of Finance, he held many positions, including deputy director in the Security Bureau, the Tax Bureau, and the International Finance Bureau, before working as an advisor in the Policy Development and Review Department at the International Monetary Fund from 1994 to 1997. He then rejoined the Ministry of Finance and became director of the Nonbank Financial Companies Office in the Banking Bureau, director of the International Organizations Division in the International Bureau, budget examiner (in charge of foreign affairs, the economy and industry, and economic cooperation) in the Budget Bureau, and director of the Development Policy Division in the International Bureau. After serving as minister at the Japanese Embassy in the United States from 2005 to 2007, he again rejoined the Japanese Ministry of Finance and became senior deputy director-general of the International Bureau, director-general of the International Bureau, and vice-minister of finance for international affairs (from August 2011 to March 2013).
This is an English translation of the Japanese book "Ajia Keizai wa Dokawattaka-ADB Sosai Nikki" (How Has Asia Changed? Memoir of the President of the Asian Development Bank, 2013–2020) published in June 2020 by Chuokoron-Shinsha. The content reflects my personal views, not the views of ADB, its Board of Directors, or the governments they represent. This English version has not been updated with more recent information.

I thank Chuokoron-Shinsha for giving permission to translate the book and publish it in English, and I am grateful to independent translator Hajime Sato for his exquisite work. I owe a great deal to Harumi Kodama, former Representative of ADB’s Japanese Representative Office (JRO), for reviewing the text, and to copyeditor Roo Griffiths and proofreader Maria Theresa Arago. I appreciate the continuous support provided by JRO’s Masakazu Shibata and Keiko Kawazu, and by Ushio Tashibu. I am also grateful to typesetter Joseph Manglicmot and to Anthony Victoria, who came up with the beautiful cover design.

I hope this English publication will help readers understand more about how ADB works to promote a prosperous, inclusive, resilient, and sustainable Asia and the Pacific; historical perspectives on Asian development; and remaining challenges for the region and ADB. The publication also serves as a record of events that took place during my earlier tenure as vice-minister of finance for international affairs at the Japanese Ministry of Finance.

May 2022

Takehiko Nakao
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>ABMI</td>
<td>Asian Bond Markets Initiative</td>
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<tr>
<td>ADF</td>
<td>Asian Development Fund</td>
</tr>
<tr>
<td>AEC</td>
<td>ASEAN Economic Community</td>
</tr>
<tr>
<td>AIIB</td>
<td>Asian Infrastructure Investment Bank</td>
</tr>
<tr>
<td>AMF</td>
<td>Asian Monetary Fund</td>
</tr>
<tr>
<td>APEC</td>
<td>Asia-Pacific Economic Cooperation</td>
</tr>
<tr>
<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
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<tr>
<td>ASEM</td>
<td>Asia-Europe Meeting</td>
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<tr>
<td>CAREC</td>
<td>Central Asia Regional Economic Cooperation</td>
</tr>
<tr>
<td>CMI</td>
<td>Chiang Mai Initiative</td>
</tr>
<tr>
<td>COP21</td>
<td>The 21st Conference of the Parties to the United Nations Framework Convention on Climate Change</td>
</tr>
<tr>
<td>CSIS</td>
<td>Center for Strategic and International Studies</td>
</tr>
<tr>
<td>EBRD</td>
<td>European Bank for Reconstruction and Development</td>
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<tr>
<td>ECB</td>
<td>European Central Bank</td>
</tr>
<tr>
<td>ECAFE</td>
<td>United Nations Economic Commission for Asia and the Far East</td>
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<td>EFSF</td>
<td>European Financial Stability Facility</td>
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<tr>
<td>ESCAP</td>
<td>United Nations Economic and Social Commission for Asia and the Pacific</td>
</tr>
<tr>
<td>ESM</td>
<td>European Stability Mechanism</td>
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<tr>
<td>FASID</td>
<td>Foundation for Advanced Studies on International Development</td>
</tr>
<tr>
<td>FRB</td>
<td>Federal Reserve Board</td>
</tr>
<tr>
<td>GMS</td>
<td>Greater Mekong Subregion Economic Cooperation Program</td>
</tr>
<tr>
<td>GDP</td>
<td>gross domestic product</td>
</tr>
<tr>
<td>GNI</td>
<td>gross national income</td>
</tr>
<tr>
<td>IBRD</td>
<td>International Bank for Reconstruction and Development</td>
</tr>
<tr>
<td>IDA</td>
<td>International Development Association</td>
</tr>
<tr>
<td>IFC</td>
<td>International Finance Corporation</td>
</tr>
<tr>
<td>Acronym</td>
<td>Full Form</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>ILO</td>
<td>International Labour Organization</td>
</tr>
<tr>
<td>IPCC</td>
<td>Intergovernmental Panel on Climate Change</td>
</tr>
<tr>
<td>JBIC</td>
<td>Japan Bank for International Cooperation</td>
</tr>
<tr>
<td>JETRO</td>
<td>Japan External Trade Organization</td>
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<tr>
<td>JICA</td>
<td>Japan International Cooperation Agency</td>
</tr>
<tr>
<td>MDBs</td>
<td>multilateral development banks</td>
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<tr>
<td>MDGs</td>
<td>Millennium Development Goals</td>
</tr>
<tr>
<td>NGO</td>
<td>nongovernment organization</td>
</tr>
<tr>
<td>NIEs</td>
<td>newly industrialized economies</td>
</tr>
<tr>
<td>ODA</td>
<td>official development assistance</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>SDGs</td>
<td>Sustainable Development Goals</td>
</tr>
<tr>
<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
</tr>
<tr>
<td>UNDP</td>
<td>United Nations Development Programme</td>
</tr>
<tr>
<td>UNIDO</td>
<td>United Nations Industrial Development Organization</td>
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<tr>
<td>WCO</td>
<td>World Customs Organization</td>
</tr>
<tr>
<td>WHO</td>
<td>World Health Organization</td>
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<tr>
<td>WTO</td>
<td>World Trade Organization</td>
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</table>
I spent close to 7 years in Manila as President of the Asian Development Bank (ADB), from April 2013 to January 2020. For me, the responsibilities of leading an international organization were particularly wide-ranging and significant, even compared with my 35-year-long career at Japan’s Ministry of Finance. I faced a variety of difficult issues, but at the same time it was a solid 7-year period that allowed me to learn a lot and feel a sense of fulfillment.

A view of ADB headquarters.
During my tenure, Asia’s economy grew steadily while developed countries decelerated, and the presence of emerging markets grew significantly. There were developments such as the establishment of the Asian Infrastructure Investment Bank (AIIB), led by the People’s Republic of China (PRC). It was also a time when impacts of new technologies such as the internet and artificial intelligence became clearer.

On the other hand, Asia is still home to a lot of poor people, and the development of infrastructure, such as electricity, roads, and drinking water, and access to quality education and health care remain important challenges for the region. Climate change and aging populations need to be addressed, too. Although Asia has achieved a great deal in terms of development, I felt that there were many areas in which ADB could continue to contribute.

When I left Manila on 17 January 2020, the novel coronavirus, or COVID-19, had not yet been recognized as a big problem. Subsequently, the infection spread quickly in the PRC, then to Japan, the Republic of Korea, Europe, the United States (US), and the world. In March, various countries issued stay-at-home orders and imposed restrictions on air travel. Metro Manila was also placed under a lockdown. ADB closed its headquarters, and the staff were forced to work from home.

Serious employment and economic impacts are inevitable in many countries. In this situation, ADB is actively engaged in supporting its members.

This book consists of three parts. In Part I, before getting to my time as President of ADB, as a prelude so to speak, I would like to take a look at the time when I was vice-minister of finance for international affairs at the Japanese Ministry of Finance. This was a period of nearly 2 years, from August 2011 to March 2013. As I looked back at what I did at ADB to write this book, I recognized again that my work there was connected to the experiences and relationships I had when I served as vice-minister of finance for international affairs or even earlier.

Although it is common for officials in the US to write memoirs after retirement, I think there is a culture in Japan that discourages officials from describing the actions they took while in office. This attitude can be regarded as humble and sensible. Still, I believe it is an important responsibility of officials to tell the people what the government is doing and to write things down for archive purposes and for posterity. That is particularly true for the government’s actions involving other countries. In this book, I describe
exchanges with officials of foreign governments, albeit only to an extent that should not cause trouble to those involved, based on the notes I made in my personal datebooks, among others.

Chapter 1 discusses Japan’s responses to the appreciation and the subsequent depreciation of the yen, which took up most of my time during my tenure as vice-minister of finance for international affairs. I was appointed to this role on 2 August 2011. Immediately after that, the yen reached a high of 77 yen per dollar; on 4 August, the Japanese government took decisive action and conducted a unilateral intervention in the exchange market. Furthermore, when the yen reached the postwar record of 75.32 yen per dollar, the government conducted a large-scale intervention, for 5 days between 31 October and 4 November. Starting in the fall of 2012, the yen took a turn and depreciated rapidly, and I faced the need to explain Japan’s position internationally.

Chapter 2 briefly describes other events that occurred during my tenure as vice-minister of finance for international affairs. There were many developments other than the foreign exchange issues, including responses to the European debt crisis, the direct exchange of the yen and the yuan and other financial cooperation initiatives between Japan and the PRC, the annual meetings of the International Monetary Fund (IMF) and the World Bank in Tokyo in the fall of 2012, and the Myanmar Consultative Group’s meeting to support the country’s re-engagement with the international financial community. After I became President of ADB, I often worked with Asian officials whom I had come to know during this period.

In Chapter 3, I describe my thoughts on exchange rates. I examine, among other things, how foreign exchange interventions are viewed in developed countries, and the veracity of the popular claim in Japan that the yen’s appreciation is bad and depreciation is good. At the end of this chapter, I write about the people in the world of international finance and how they work. Within this, I talk about my connection with Bank of Japan Governor Haruhiko Kuroda, who was my predecessor as ADB’s President.

In Part II, I look back on my tenure as President of ADB, which lasted nearly 7 years. During this period, I stayed up to date on the state of Asian economies, visited most of the bank’s members, and thought about ADB’s operations and strategies. In this part, I would like to share with readers what I learned from and felt during this experience.

First, Chapter 4 discusses the job of President of ADB. The President mainly has three roles: making decisions on operations, policies, and
strategies; dealing with its member governments and the media to represent ADB; and managing the organization of ADB. In fact, the third role is very important. ADB’s staff is a diverse group of people who come from various members. Without fair and merit-based hiring and personnel management, ADB would not be able to fulfill its missions.

In Chapter 5, I describe the state of Asian economies that I learned about through my work as President of ADB. Many Asian countries have continued to grow steadily, even since the global financial crisis of 2007/08. The emergence of a middle class has strengthened domestic demand, and sustainable growth is possible if appropriate policies are maintained. However, uncertainties regarding the future have emerged recently as a result of the COVID-19 pandemic and friction between the US and the PRC. There may be substantial adjustments, such as the expansion of domestic production, but I personally believe there will be no major reversal in the trend of globalization, because there are economic reasons behind this.

Chapter 6 deals with ADB’s relations with the PRC and the AIIB. I visited the PRC 16 times during my tenure. In addition to meeting with Premier Li Keqiang, I discussed various topics with successive ministers of finance during every visit. It was very interesting to exchange views with Vice Premier Liu He and Governor Yi Gang of the People’s Bank of China, whom I had known since my days at the Japanese Ministry of Finance. In 2014 and 2015, there were a lot of developments around the establishment of the AIIB, and I was often asked how ADB would respond. The AIIB was established in January of 2016. I had discussions with its president, Jin Liqun, on more than 10 occasions and we established a cofinancing partnership between the two banks.

In Chapters 7–10, I look back on my visits to ADB’s developing members in the following regional order: Southeast Asia, South Asia, Central Asia, and the Pacific. The main operation of ADB lies in providing loans to development projects in various countries, and it is an important job of the President to discuss the appropriate forms of assistance with the heads of state and ministers, as well as to observe projects on the ground. There are commonalities among ADB’s developing members: they are all trying to pursue market-oriented policies; they all strive to invest in infrastructure as well as the social sector, including education and health; and they all attach importance to the cooperative relationship with ADB. Amid difficult domestic problems, many leaders expressed their passion for development. One needs to actually visit a country to understand the weight of its history, the environment, and the actual condition in which it exists.
Chapter 11 covers my visits to developed countries in Asia and elsewhere, participation in international conferences, and interactions with the leaders of multilateral development banks such as the World Bank. Without the support of developed members, ADB cannot continue to provide effective assistance to developing countries in Asia. I learned a lot by visiting these countries. I was also fortunate to be invited to speak at some of the G20 and G7 summit meetings. These were good opportunities to show the presence of ADB and its operations in Asia to senior officials of developed countries.

Chapter 12 describes ADB’s operations and strategies in detail. Behind the establishment of ADB in 1966 was the strong desire of the people in Asia to establish an international organization that would embody the cooperation of Asian countries in concrete terms. ADB’s operations at the beginning were mainly loans for agriculture, electricity, transport, and other infrastructure but gradually extended to the social sector, to include education and health. During the Asian currency crisis, ADB provided large-scale emergency assistance. Now, as many of its members have achieved a certain level of development, ADB will not be able to fulfill its mission without reforming itself. I touch here on the reform of the balance sheet, which has greatly expanded ADB’s lending capacity.

In Part III, I reflect on the development history of Asia after World War II, based on *Asia’s Journey to Prosperity: Policy, Market, and Technology Over 50 Years*, an ADB publication that was released in January 2020, just before my term ended.

Chapter 13 addresses the important question of why Asia could develop. When ADB was established, Asia was the region with the largest number of poor people in the world, and the most pressing issue was how to secure sufficient food supplies. With the exception of Japan, which began modernizing with the Meiji Restoration in the latter half of the 19th century, it was not believed that Asia could modernize and industrialize. Why did Asia achieve strong growth when Africa and South America did not necessarily succeed? Asian countries pursued practical policies, but, beyond this, was there a unique “Asian Consensus,” different from the so-called “Washington Consensus,” a standard idea of development policies said to be promoted by the IMF and the World Bank?

Chapter 14 covers various aspects of Asia’s development so far and challenges for the future. Specifically, it discusses changes in the industrial structure, expansion of the services sector, impacts of new technologies
on employment, improvements in education and health, impacts of the
demographic structure, the system of open trade and direct investment,
progress in poverty reduction and widening income disparities, gender
equality, and climate change. Asia’s trade scheme no longer fits the “flying
geese” model with Japan in the front, as has often been described, but today
it is a network model in which each country has its own strengths.

Through my work at ADB, I was able to see and compare the
situations in various Asian countries, and I have been trying to view
the present situation in light of the past and challenges for the future.
I was also forced to think about the position of Asia in the context of ongoing
debates in the international community.

I hope that it will be helpful for the reader to learn about what
I experienced as President of ADB, or about earlier events during my tenure
as vice-minister of finance for international affairs at the Japanese Ministry
of Finance.
PART I:
PRE-ADB DAYS
Rapid Appreciation of the Yen after the Global Financial Crisis

It is clear that I spent the most time and energy during my stint as zaimukan, or vice-minister of finance for international affairs in Japan’s Ministry of Finance—from August 2011 to March 2013 (Table 1)—responding to fluctuations in the exchange rate. Initially, I confronted the appreciation of the yen; then, beginning in November 2012, I faced its depreciation (Figure 1).

Vice-minister of finance for international affairs is an undersecretary-level post in the Ministry of Finance, and entails responsibility for matters related to currency exchanges, international negotiations, and international conferences such as the G7 and the G20. At the G7 and G20 finance ministers and central bank governors meetings, the position is referred to as “deputy” (G7D or G20D). The G7D became well known during the 1980s and the 1990s, a period marked by Japan–United States (US) financial negotiations, the Plaza Accord, the Japan–US Structural Impediments Initiative, and the Asian currency crisis, with some calling it the “currency mafia.” Historically, the position of zaimukan dates back to 1904, when Korekiyo Takahashi, who had been deputy governor of the Bank of Japan (BOJ), was sent to the United Kingdom (UK) as the government’s special financial envoy and was charged to raise funds for the Russo–Japanese War by issuing bonds on the London market. In 1949, the position of zaimukan was codified in the Act for Establishment of the Ministry of Finance, and Takeshi Watanabe, who later became ADB’s first President, became the first appointee.
### Table 1: Major Events during My Time as Vice-Minister of Finance for International Affairs

<table>
<thead>
<tr>
<th>Year</th>
<th>Events</th>
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<tbody>
<tr>
<td><strong>2007</strong></td>
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<tr>
<td>10 July</td>
<td>Standard &amp; Poor’s, a US credit rating firm, announces that it is considering a major downgrade of mortgage-backed securities (the beginning of the subprime loan crisis).</td>
</tr>
<tr>
<td>22 July</td>
<td>I return to Japan from the Japanese Embassy in the US. On 24 July, I am appointed senior deputy director-general of the International Bureau in the Ministry of Finance.</td>
</tr>
<tr>
<td>23 September</td>
<td>The Federal Reserve Board (FRB) lowers its policy target rate from 5.25% to 4.75% (and eventually to 0.25% in December 2008).</td>
</tr>
<tr>
<td>26 September</td>
<td>The Yasuo Fukuda Cabinet of the Liberal Democratic Party (LDP) is established.</td>
</tr>
<tr>
<td><strong>2008</strong></td>
<td></td>
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<tr>
<td>16 March</td>
<td>Bear Stearns becomes insolvent (acquired by JPMorgan Chase &amp; Co.).</td>
</tr>
<tr>
<td>7–9 July</td>
<td>G8 Hokkaido Toyako Summit in Japan</td>
</tr>
<tr>
<td>15 September</td>
<td>Lehman Brothers files for bankruptcy.</td>
</tr>
<tr>
<td>24 September</td>
<td>The Taro Aso (LDP) Cabinet is established.</td>
</tr>
<tr>
<td>10 October</td>
<td>G7 Finance Ministers and Central Bank Governors Meeting (Washington, D.C.); Action Plan announced.</td>
</tr>
<tr>
<td>14–15 November</td>
<td>First G20 Summit (Washington, D.C.)</td>
</tr>
<tr>
<td>December</td>
<td>The FRB begins quantitative easing.</td>
</tr>
<tr>
<td><strong>2009</strong></td>
<td></td>
</tr>
<tr>
<td>2 April</td>
<td>Second G20 Summit (London)</td>
</tr>
<tr>
<td>14 July</td>
<td>I am appointed director-general of the International Bureau.</td>
</tr>
<tr>
<td>19 September</td>
<td>The Yukio Hatoyama Cabinet of the Democratic Party (DP) is established.</td>
</tr>
<tr>
<td><strong>2010</strong></td>
<td></td>
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<tr>
<td>8 June</td>
<td>The Naoto Kan (DP) Cabinet is inaugurated and Yoshihiko Noda is appointed minister of finance.</td>
</tr>
<tr>
<td>15 September</td>
<td>Japan conducts a unilateral intervention (spends 2.1249 trillion yen buying the dollar and selling the yen).</td>
</tr>
<tr>
<td><strong>2011</strong></td>
<td></td>
</tr>
<tr>
<td>11 March</td>
<td>The Great East Japan Earthquake</td>
</tr>
<tr>
<td>18 March</td>
<td>The G7 conducts a coordinated intervention (Japan spends 629.5 billion yen buying the dollar and selling the yen).</td>
</tr>
<tr>
<td>2 August</td>
<td>I am appointed vice-minister of finance for international affairs.</td>
</tr>
</tbody>
</table>
### 2011

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
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<tbody>
<tr>
<td>4 August</td>
<td>Japan conducts a unilateral intervention (spends 4.5129 trillion yen buying the dollar and selling the yen).</td>
</tr>
<tr>
<td>5 August</td>
<td>S&amp;P downgrades US Treasury notes.</td>
</tr>
<tr>
<td>8 August</td>
<td>The Statement of G7 Finance Ministers and Central Bank Governors is issued.</td>
</tr>
<tr>
<td>2 September</td>
<td>The Yoshihiko Noda (DP) Cabinet is inaugurated and Jun Azumi is appointed minister of finance.</td>
</tr>
<tr>
<td>9 September</td>
<td>G7 Finance Ministers and Central Bank Governors Meeting (Marseille)</td>
</tr>
<tr>
<td>22 September</td>
<td>G20 Finance Ministers and Central Bank Governors Meeting (Washington, D.C.)</td>
</tr>
<tr>
<td>26 October</td>
<td>Euro Summit</td>
</tr>
<tr>
<td>31 October–4 November</td>
<td>Japan conducts a unilateral intervention (spends 9.0916 trillion yen buying the dollar and selling the yen).</td>
</tr>
<tr>
<td>3–4 November</td>
<td>G20 Summit (Cannes)</td>
</tr>
<tr>
<td>10 November</td>
<td>Asia-Pacific Economic Cooperation (APEC) Finance Ministers and Central Bank Governors Meeting (Hawaii)</td>
</tr>
<tr>
<td>13 November</td>
<td>The International Monetary Fund (IMF) Managing Director Lagarde visits Japan to meet with Finance Minister Azumi.</td>
</tr>
<tr>
<td>5 December</td>
<td>Prime Minister Noda meets Premier Wen Jiabao of the People’s Republic of China (PRC) (Beijing).</td>
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### 2012

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
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<tbody>
<tr>
<td>12 January</td>
<td>US Treasury Secretary Geithner visits Japan to meet with Finance Minister Azumi.</td>
</tr>
<tr>
<td>19 February</td>
<td>Minister Azumi meets with PRC Vice Premier Wang Qishan (Beijing).</td>
</tr>
<tr>
<td>12 April</td>
<td>Minister Azumi calls IMF Managing Director Lagarde to announce a $60 billion loan to the IMF.</td>
</tr>
<tr>
<td>3 May</td>
<td>Association of Southeast Asian Nations Plus Three Finance Ministers and Central Bank Governors Meeting (Manila)</td>
</tr>
<tr>
<td>18–19 June</td>
<td>G20 Summit (Los Cabos, Mexico)</td>
</tr>
<tr>
<td>1 October</td>
<td>The Cabinet is reshuffled; Koriki Jojima becomes minister of finance.</td>
</tr>
<tr>
<td>9–14 October</td>
<td>Joint Annual Meetings of the IMF and the World Bank (Tokyo)</td>
</tr>
<tr>
<td>11 October</td>
<td>Meeting on Myanmar (Tokyo)</td>
</tr>
<tr>
<td>14 November</td>
<td>Prime Minister Noda announces the dissolution of the House of Representatives.</td>
</tr>
<tr>
<td>16 December</td>
<td>Elections for the House of Representatives are held.</td>
</tr>
<tr>
<td>26 December</td>
<td>The second Shinzo Abe (LDP) Cabinet is established; Taro Aso is appointed minister of finance.</td>
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</tbody>
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Table 1 continued

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
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<tbody>
<tr>
<td>2–4 January</td>
<td>I accompany Finance Minister Aso on his trip to Myanmar.</td>
</tr>
<tr>
<td>7–8 January</td>
<td>I attend the OECD’s WP3 Meeting (Paris).</td>
</tr>
<tr>
<td>22 January</td>
<td>A joint statement by the Japanese government and the BOJ is issued.</td>
</tr>
<tr>
<td>8 February</td>
<td>A conference call with the G7 deputies is held.</td>
</tr>
<tr>
<td>12 February</td>
<td>The Statement by G7 Finance Ministers and Central Bank Governors is issued.</td>
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<tr>
<td>15–16 February</td>
<td>G20 Finance Ministers and Central Bank Governors Meeting (Moscow)</td>
</tr>
<tr>
<td>21–24 February</td>
<td>I accompany Prime Minister Abe on his trip to the US.</td>
</tr>
<tr>
<td>28 February</td>
<td>Former ADB President Haruhiko Kuroda is presented to the Parliament as a candidate for the next governor of the BOJ.</td>
</tr>
<tr>
<td>7 March</td>
<td>Finance Minister Aso announces my candidacy for the role of ADB President.</td>
</tr>
<tr>
<td>29 March</td>
<td>I retire from the Ministry of Finance.</td>
</tr>
<tr>
<td>26 April</td>
<td>I am officially elected as President of ADB.</td>
</tr>
<tr>
<td>28 April</td>
<td>I assume my position in Manila.</td>
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**Figure 1: US Dollar–Japanese Yen Exchange Rate**
(early 2007 to early 2020)

Let us rewind the clock a bit and look at the movements of the yen–dollar rate. By June 2007, immediately before I returned to Japan after finishing my assignment as minister at the Japanese Embassy in
Washington, D.C., the yen’s depreciation had progressed to over 124 yen per US dollar. The salaries and benefits of the embassy staff were set in yen. I remember that prices in the US were much higher than those in Japan for things like the fees for the kindergarten my children attended, and medical and electricity bills. My family budget was strained because my income, received in dollars, decreased every month.

Until then, the US had been in a stable growth period called “the Great Moderation.” To prevent the economy from overheating, the Federal Reserve Board (FRB), under the successive leadership of Chairs Greenspan and Bernanke, had raised the policy interest 17 times consecutively, from 1.0% to 5.25%, between June 2004 and June 2006. Despite this, long-term interest rates (10-year Treasury rates) remained stable at approximately 4% to 5%. This, which Greenspan called a “conundrum,” also spurred economic optimism and overheating. In the meantime, the yen–dollar rate gradually moved in favor of the dollar, from about 102 yen to the dollar at the end of 2004 to 124 yen to the dollar in 2007.

However, the situation changed completely in the summer of 2007. The problem of subprime loans—housing loans for low-income earners—began to surface. In March of 2008, Bear Stearns, one of the five largest investment banks at the time, became insolvent (and was acquired by JPMorgan Chase). Then, the failure of Lehman Brothers on 15 September triggered a global financial crisis, and market forces attacked the US financial sector and some “peripheral” European countries. The real economy was also hurt: all developed countries experienced negative growth in 2008 and 2009, and there were significant impacts on emerging economies.

Within the frameworks of the hurriedly held G20 summit, G7, and International Monetary Fund (IMF) meetings, various measures were discussed and implemented one after another. These included (i) rescuing and stabilizing financial institutions by means of injection of liquidity and funds from central banks, deposit insurance, and governments; (ii) stimulating the economy through fiscal and monetary policies; (iii) supporting developing countries by mobilizing international financial institutions such as the IMF, the World Bank, and ADB; (iv) strengthening the regulatory and supervisory systems of the financial sector; and (v) strengthening the capital base of international financial institutions (including through capital increases).

I was busily occupied with related work as senior deputy director-general of the International Bureau (from July 2007 to July 2009) under Vice-Minister of Finance Naoyuki Shinohara and as director-general of
the International Bureau (from July 2009 to August 2011) under Vice-
Minister of Finance Rintaro Tamaki. Based on my experiences during this
period, I compiled the details of the above five strategies in a paper entitled
“International Response to the Global Financial Crisis” in July 2010. This
was included in a special edition of the Ministry of Finance Policy Research
Institute’s magazine *Financial Review* entitled “Beyond the Financial
Crisis,” which was edited by Professor Kazuhito Ikeo of Keio University.

In July 2008, the G8 Hokkaido Toyako Summit was held in Japan. To
prepare for it, I chaired the meetings of the G7 deputy-deputy finance
ministers (G7DDs). Several meetings were held in Japan. This was before the
global financial crisis, and the mood was still relatively normal. In Tokyo, we
met in a meeting room at the Ministry of Finance and walked together to the
Kasumigaseki Building for lunch. On another occasion, we had a meeting at
a hotel in Kyoto. I fondly recall that I gave the DD colleagues from various
countries a tour of Kiyomizu Temple and other tourist destinations.

I have a vivid memory of the G7 Finance Ministers and Central Bank
Governors Meeting, held during the Joint Annual Meetings of the IMF and
was tense, with stock prices plummeting every hour since the failure of
Lehman Brothers on 15 September. The G7DDs gathered in a room at the US
Treasury Department to finalize the text of the meeting statement. However,
the meeting was being held at the same time, and it abruptly decided that a
focused message would work better in a crisis, announcing a one-page, brief
“action plan” focused on item (i) out of the five points described above.

In November of 2008, the first G20 Summit was held in Washington,
D.C., under the leadership of the US. As the role of emerging countries in
the international financial system became apparent in 1997, in the Asian
currency crisis, the G7 countries agreed that they needed the participation in
important discussions of the major actors in this group. The G20 framework
was realized with the establishment of the G20 Finance Ministers and
Central Bank Governors Meeting in 1999. In 1999, I was responsible for the
IMF’s policies and the G7’s response to the Asian crisis as director of the
International Organizations Division in the Japanese Ministry of Finance,
and I was involved in the discussion on which countries from Asia should be
invited to the G20.

At the second G20 Summit, held in London on 2 April 2009, detailed,
specific proposals were worked out for each of the five abovementioned
international initiatives. I personally attended the Finance Ministers and Central
Bank Governors Meeting held in Horsham, a suburb of London, on 13 March,
and the summit on 2 April, to participate in working-level sessions to draft the joint statement. These were the most intense and arduous meetings I have experienced, each of them continuing late into the night or the early morning. Some were even all-nighters, lasting close to 24 hours. Looking back at it now, the international community’s cooperation at the G20 Summit following the global financial crisis was decisive, comprehensive, and specific. Moreover, the initiatives were implemented mostly as planned. I believe they contributed to reducing the damage the global financial crisis caused.

In terms of the US monetary policy in response to the crisis, the FRB rapidly reduced the policy target interest rate, beginning with a 0.5% cut on 18 September 2007, from 5.25% to 4.75%. By December 2008, the rate was down to 0.25%. At this point, when it had reduced the interest rate as low as it could, the FRB adopted a quantitative easing policy. Quantitative easing was implemented three times until October 2014. The BOJ had adopted such quantitative easing from March 2001 to March 2006, so it is safe to say that the FRB followed this example.

The yen gradually appreciated against the dollar, reflecting the rapid deceleration of the US economy, difficult conditions in the financial sector, and the easing of US monetary policy described above. The yen–dollar rate moved from about 110 yen per dollar at the end of 2007 to about 100 yen at the end of 2008, then to about 90 yen at the end of 2009. In the summer of 2010, it went as far as less than 85 yen per dollar. This means that the yen rose approximately 50% against the dollar in just 3 years, from 124 yen per dollar in June 2007.

**Exchange Interventions in September 2010 and March 2011**

On 15 September 2010, when the yen had appreciated to the highest level against the dollar since May 1995, at around 83 yen per dollar, the Japanese Ministry of Finance conducted an intervention to sell the yen and buy the dollar. This was done under the leadership of Minister Yoshihiko Noda, Vice-Minister of Finance Eijiro Katsu, and Vice-Minister of Finance for International Affairs Rintaro Tamaki. The intervention to buy the dollar was the first since March 2004, when one had been conducted under Minister Teiichi Tanigaki and Vice-Minister of Finance for International Affairs Zenbee Mizoguchi. The vice-minister of finance for international affairs is directly responsible for the exchange intervention, including negotiations with foreign authorities. As director-general of the International Bureau at the time, I supervised the Foreign Exchange Markets Division, which
conducted the actual operations. To conduct an intervention to buy the dollar, the Ministry of Finance issues short-term notes (FB) through the Foreign Exchange Funds Special Account (foreign exchange reserve), the BOJ accepts them and provides yen to the ministry, and the ministry uses the proceeds to buy the dollar. The Ministry of Finance’s Foreign Exchange Markets Division instructs the BOJ, as an implementing agency, to buy dollars in the exchange market for the Special Account.

The final instruction for the intervention was given to the BOJ at 10:30 a.m. on 15 September. The actual intervention started at 10:35 a.m., and Minister Noda revealed the intervention in an ad hoc press conference at 10:55 a.m. The amount of intervention was 2.1249 trillion yen. This was a unilateral intervention without the participation of any other G7 countries. The exchange rate was pushed back in the direction of yen’s depreciation from 82.87 yen per dollar before the intervention to about 85.50 yen per dollar.

In the next 6 months, the yen–dollar rate remained relatively stable, between 80 and 85 yen per dollar, until it registered a significant movement immediately after the Great East Japan Earthquake on 11 March 2011. At the time of the earthquake, the yen–dollar rate was 82.80 yen per dollar. Owing to speculation that the Japanese might convert foreign dollar assets to yen, or that insurance companies might convert dollars to yen to respond to the damage the earthquake had caused, the yen appreciated rapidly until it reached 76.25 yen per dollar on 17 March. That morning, I had a call with my counterpart in the Ministry of Economy, Trade and Industry, Director-General of the Economic and Industrial Policy Bureau Kenyu Adachi. We agreed that, although not having the yen weaken in the crisis had advantages in terms of importing energy to replace nuclear power, this speculative appreciation of the yen would have a major negative impact on Japanese industry. On the same day, Finance Minister Noda said, “There is a nervous movement in the market while the trading volume is low. I would like to closely monitor the market.” This was a message meant as a check against further speculation.

There were movements late in the night of 17 March to early morning on the following day. According to the entry in my datebook for that day, I arrived at the office at 4:30 a.m. Based on a suggestion by the US, Treasury Secretary Timothy Geithner and Minister Noda had a teleconference. This was followed by a discussion between Minister Noda and BOJ Governor Masaaki Shirakawa, a teleconference among the so-called G3 (Minister Noda, Governor Shirakawa, Secretary Geithner, FRB Chair Bernanke, and President Trichet of the European Central Bank (ECB)), and finally a teleconference of the G7 finance ministers and central bank governors. Thus,
a decision was made for a coordinated intervention by the G7, in which each country would sell the yen and buy the dollar and the euro without establishing a target rate. Japan began its intervention at 9 a.m. on 18 March, and Minister Noda held an ad hoc press conference.

Shortly after 10 a.m., the G7 finance ministers and central bank governors released a statement. The statement said:

“We express our solidarity with the Japanese people in these difficult times, our readiness to provide any needed cooperation and our confidence in the resilience of the Japanese economy and financial sector. In response to recent movements in the exchange rate of the yen associated with the tragic events in Japan, and at the request of the Japanese authorities, the authorities of the United States, the United Kingdom, Canada, and the European Central Bank will join with Japan, on 18 March 2011, in concerted intervention in exchange markets. As we have long stated, excess volatility and disorderly movements in exchange rates have adverse implications for economic and financial stability. We will monitor exchange markets closely and will cooperate as appropriate.”

On that day, the Ministry of Finance intervened intermittently, resulting in a total amount of 692.5 billion yen. As markets opened, an intervention was also conducted in Europe and the US. The UK—which is not a member of the euro area—and Canada also participated in the coordinated intervention. By the evening of 18 March, the yen–dollar rate had returned to the level of 81 yen per dollar. In early April, the yen depreciated until the rate surpassed the level of 85 yen per dollar, and subsequently the rate settled at a level slightly above 80 yen per dollar. I appreciated the fact that various countries took the initiative to participate in the G7’s coordinated intervention during the tense and difficult period following the earthquake.

**Intervention in August 2011, Immediately after My Appointment as Vice-Minister of Finance**

I was appointed vice-minister of finance for international affairs, taking the post from my predecessor, Rintaro Tamaki, on Tuesday 2 August 2011. Around that time, movements in the foreign exchange markets were once again causing alarm. Following the release of employment statistics in the US on 7 July, the yen–dollar rate rose from about 81 yen per dollar immediately before the release
to about 78.5 yen per dollar on 13 July, partly because of concerns about fiscal issues in the US. According to my datebook, between 13 July and the afternoon of 2 August when I received the official letter of appointment, I, as director-general of the International Bureau, had quite a few phone calls. I spoke three times with US Treasury Department’s Under Secretary Lael Brainard, twice with Assistant Secretary Charles Collins, who held an equivalent position to the director-general of the Japanese Ministry of Finance, once with Deputy Assistant Secretary Mark Sobel (when the assistant secretary was not available), and once with Bini Smaghi, a member of the ECB Executive Board, all to convey Japan’s sense of urgency on this problem. At the same time, I frequently exchanged views with BOJ Executive Directors Hiroshi Nakaso, who was in charge of international affairs, and Masayoshi Amamiya, who was in charge of planning.

On these phone calls, I conveyed to the US and ECB officials Japan’s view that the recent appreciation of the yen was not based on fundamentals but was speculative. The following is the gist of what I said. The euro has problems such as soaring yields on Greek sovereign bonds and bad assets of Spanish financial institutions. In the US, too, it is uncertain whether Congress will raise the debt ceiling. Still, the Japanese economy is in a dire situation as a result of the effects of the earthquake, and the trade balance has recently turned negative, which is highly unusual. Amid an electricity shortage caused by the shutdown of nuclear power plants, there is also growing concern about factories moving overseas and causing industrial hollowing-out. Even before the earthquake, Japan had problems such as prolonged deflation, economic stagnation, and severe fiscal conditions. In this situation, the appreciation of the yen must be considered speculative and one-sided. If it continues, we must intervene in the exchange markets. However, we are not trying to strengthen our competitiveness through intervention or to implement sustained intervention to maintain the exchange rate at a certain level.

The response to this view from the US and the ECB was as follows. The G7’s coordinated intervention on 18 March after the earthquake was based on a judgment that there had been typical disorderly movements in the exchange markets, but we believe that most recently the markets are in a normal condition, where new information is reflected in the market rates. In other words, various statistics have been released regarding the US economy in addition to the looming crisis about the debt ceiling, and the debt problems in the euro area are a fundamental problem in international markets. Recent movements in foreign exchange markets reflect the fundamentals (fundamental economic conditions such as interest rates and growth rates, balance of payments, and risk factors), and cannot be considered
disorderly. Foreign exchange intervention should be subject to consultation and agreement among the G3, who control the three major currencies: the US (dollar), the ECB (euro), and Japan (yen). Otherwise, the framework of the G7’s cooperation will be compromised. When we are asking the People’s Republic of China (PRC) and other emerging countries to increase flexibility in exchange rates and make them more market-driven, unilateral intervention by Japan, a member of the G7, would send the wrong message.

In response, I said the following:

(i) My understanding is that, even though a consultation is required before intervention, there has been no agreement that intervention is possible only when the G3 approves it in advance.

(ii) The objective of Japan’s intervention is to show the authorities’ willingness to reduce exchange rate fluctuations and counteract speculative movements in the markets. There is no target rate, and this is based on the G7’s view that excessive exchange rate fluctuations are undesirable.

(iii) In advance, close consultation is necessary, but in some circumstances countries should have the discretion to intervene without the consent of other countries.

(iv) When the euro area faced difficulties, Japan cooperated by purchasing bonds issued by the European Financial Stability Facility (EFSF), which had been established to provide loans to euro member countries, among others. Japan did so because it values the G7’s solidarity.

(v) Japan has always shown support for the US government’s actions on the issue of the debt ceiling. More importantly, Japan has not made any negative comment on the FRB’s previous interest rate cuts and quantitative easing, even though these had an effect of making the dollar depreciate against the yen.

(vi) As such, Japan has respected the judgments of the US and European authorities even when their policies have affected Japan. At this time, I would like to ask you to understand Japan’s current situation.

In any event, by Tuesday 2 August, when I was appointed vice-minister of finance for international affairs, it seemed that the US Congress would be able to pass a bill to increase the debt ceiling to avoid government fund depletion and defaults on Treasury notes, but the yen–dollar rate did not change. I called Under Secretary Brainard on the morning of 2 August, Japan Time, and asked...
her to set up a teleconference between Minister Noda and Secretary Geithner on the morning of 3 August. She agreed. As scheduled, at 7 a.m. on 3 August, Minister Noda and Secretary Geithner held a teleconference.

In the end, I had a teleconference among the G3 deputy finance ministers—Under Secretary Brainard of the US, Executive Director Smaghi of the ECB, and myself—shortly after 8 a.m. on 4 August. Then, Japan began the intervention to sell the dollar and buy the yen at 10 a.m. and Finance Minister Noda issued a statement explaining Japan’s position at 10:10 a.m.

On that day, the Ministry of Finance spent approximately 4.5 trillion yen to purchase $56.8 billion. The exchange rate, which had been 77.13 yen per dollar before the intervention, shifted to 80.25 yen per dollar in the evening. Although this was a unilateral intervention by Japan, the yen did not rise sharply thereafter, although the US Treasury bonds were downgraded immediately afterward, as I describe below. For this reason, I believe the intervention effectively checked the speculative movements.

Events Following the Intervention in August 2011: US Treasury Notes Downgraded

On 5 August, the news came that credit rating agency S&P had downgraded US bonds from AAA to AA+. During the conference call of the G7 deputy finance ministers and central bank governors, which took place from 6 a.m. to 7:30 a.m. on Sunday morning of 7 August, the main topics were the downgrade of US bonds and the situation of the euro. I pointed out the following:

(i) We should not be too disturbed by the decision of S&P, one of several rating agencies.

(ii) In fact, the fiscal restructuring measures agreed by the US Congress were a major step forward with concrete plans, and it is difficult to understand why S&P went ahead with the downgrade immediately following the development.

(iii) The US bonds were the subjects of the so-called flight to quality even during the negotiations to raise the debt ceiling and, together with the declining interest rate, this showed that the markets were not so concerned.

(iv) Japan holds a large amount of US bonds in its foreign exchange reserves but it does not see a problem with their creditworthiness and it continues to see them as an attractive investment asset.
Minister Noda subsequently expressed this confidence in US bonds at a press conference and on other occasions as well.

On Monday 8 August, beginning at 6 a.m., a conference call was held by the G7 finance ministers and central bank governors. Finance Minister François Baroin of France, which was chair of the G8 and G20 summits in 2011, moderated the conference; among the participants were Minister Noda, BOJ Governor Shirakawa, US Treasury Secretary Timothy Geithner, FRB Chair Ben Bernanke, other G7 ministers and central bank governors, ECB President Jean-Claude Trichet, and IMF Managing Director Christine Lagarde. The G7’s joint statement was announced immediately afterward, at 8:30 a.m.

The statement welcomed (i) the adoption by the US of reforms that would deliver substantial deficit reduction over the medium term; (ii) the decision of the Euro Area Summit on 21 July on a comprehensive package to tackle the situation in Greece and other countries facing difficulties raising funds, notably through the flexibilization of the EFSF; and (iii) the additional policy measures announced by Italy and Spain to strengthen fiscal discipline and underpin economic recovery and job creation.

This joint statement also mentioned the exchange rate. However, through the discussions at the deputies’ and the ministers’ meetings, the text was settled as below and no statement was included that suggested criticism of Japan’s unilateral intervention that had occurred immediately before:

“We reaffirmed our shared interest in a strong and stable international financial system, and our support for market-determined exchange rates. Excess volatility and disorderly movements in exchange rates have adverse implications for economic and financial stability. We will consult closely in regard to actions in exchange markets and will cooperate as appropriate.”

I had a bitter experience in August 2011. On Friday 19 August, I was interviewed by Jacob Schlesinger, Tokyo bureau chief of The Wall Street Journal. I thought this would be a good opportunity to explain Japan’s position to the international community. The main points of what I said were as follows, and were reflected in the photo interview article published on Monday 22 August:

(i) The recent appreciation of the yen is difficult to explain, because of the difficulties Japan has faced following the earthquake, and it does not reflect the economic fundamentals.
(ii) Japan will continue to take decisive action as necessary. While consultations with the G7 nations are necessary, we believe that unilateral intervention is not precluded.

(iii) However, we have no intention of conducting sustained intervention targeting a certain level for the exchange rate. We do not intend to intervene frequently, and we do not think it is a means to be used routinely.

(iv) With regard to the intervention on 4 August, we believe it was effective from the viewpoint of discouraging speculative movements.

(v) We welcome the recent US financial package. Our trust in US bonds has not changed, and the position of the dollar as an international currency remains unchanged.

(vi) We would also like to strengthen our relations with Asian countries.

However, when the electronic version of *The Wall Street Journal* was released on the evening of 19 August, Reuters carried an article focusing on the abovementioned item (iii). The yen, whose rate had been at approximately 76.5 yen per dollar, temporarily reached a record high of 75.95 yen per dollar against the backdrop of a sharp fall in stock prices in the New York market. (Subsequently, the record high was broken at the end of October.) My intention was to clarify Japan’s position as follows. It was not aiming for sustained intervention to stabilize exchange rates at a certain level like emerging countries such as the PRC, and, in that sense, Japan was following the G7’s view. Still, Japan did not believe unilateral intervention was precluded, and it would act decisively if necessary. In other words, it was a message of coordination with the G7 nations, and it was also intended as a show of determination that we were ready to intervene at any time, if not routinely, to discourage exchange speculation.

In this episode I learned the danger of having a part of my remarks taken out of context, and influencing market participants. The market stabilized the following week, as on Monday 22 August, the yen–dollar rate returned to the level above 76.5 yen per dollar and even exceeded 77 yen per dollar momentarily.

**Developments in the Fall of 2011: Currency Markets Shaken by the Euro Crisis**

From the latter half of August 2011, the yen–dollar rate remained in the range between 76.5 and 78 yen per dollar, and the tense situation continued,
whereby exchange markets reacted to US economic indicators, the policy stance of the FRB, and the crises related to sovereign bonds and banking sectors in the euro area.

On 2 September, the new Cabinet led by Prime Minister Yoshihiko Noda was formed to replace Naoto Kan’s Cabinet, and Jun Azumi was appointed minister of finance and succeeded Noda. Finance Minister Azumi was as young as 49 years old at the time. Prior to the appointment, he had been senior vice-minister of defense in the Kan Cabinet and then chair of the Diet Policy Committee of the Democratic Party. He was deeply interested in international finance and was very enthusiastic about his work, including international meetings and bilateral issues, which I appreciated.

Soon after, on 9 September, I accompanied Minister Azumi to Marseille to attend the G7 Finance Ministers and Central Bank Governors Meeting. On 22 September, we were in Washington, D.C. for the Joint Annual Meetings of the IMF and the World Bank. Then, on 14 October, we attended the G20 Finance Ministers and Central Bank Governors Meeting in Paris. On these occasions, Minister Azumi met with US Treasury Secretary Timothy Geithner and IMF Managing Director Christine Lagarde, among others.

At these meetings, the most important topic in the area of international finance revolved around what to do for the second round of assistance for Greece—specifically how much burden-sharing would be asked of private holders of Greek sovereign bonds—in other words, how much haircut (a reduction of the amount to be repaid to bond holders) would be made. Other topics included how to help the Spanish financial sector, and what roles European governments, the ECB, and the IMF would play to stabilize these countries. At the deputy level, too, we had numerous teleconferences and face-to-face meetings.

The G20 Finance Ministers and Central Bank Governors Meeting, held in September 2011 during the Joint Annual Meetings of the IMF and the World Bank in Washington, D.C., was attended by Finance Minister Azumi, BOJ Governor Shirakawa, BOJ Executive Director Nakaso, and myself from Japan; and Secretary Geithner, FRB Chair Bernanke, and Under Secretary Brainard from the US. From Europe, ECB’s President Trichet and Executive Director Smaghi attended, as well as Vittorio Grilli, who was chair of the Economic and Financial Committee of the EU (and formerly director-general of the Italian Treasury). The PRC was represented by Finance Minister Xie Xuren, Vice-Minister of Finance Zhu Guangyao, and Governor Zhou Xiaochuan and Assistant Governor Yi Gang of the People’s Bank of China. Thereafter, and throughout my tenure as vice-minister of finance, I often held phone conversations with Vice-Minister Zhu to discuss Japan–PRC
financial cooperation and the state of international finance. Since the PRC did not belong to the G7, I often shared with him the G7’s views on the state of the euro, for example, to the extent that would not cause a problem.

Apart from these international conferences, I visited Asian countries between the summer and winter of 2011 to introduce myself as the new vice-minister of finance for international affairs. I met finance ministers, vice-ministers, and central bank governors to discuss the world economy and the state of Asia. I visited Indonesia, Malaysia, Singapore, and Thailand from 22 to 26 August; the Republic of Korea (ROK) and the PRC from 30 August to 1 September; the Philippines from 15 to 17 November (where I gave a speech at ADB); Australia from 23 to 25 November; and Viet Nam and India from 12 to 16 December. In the Japanese embassies in various countries, assigned officials from the Ministry of Finance were working in the financial field as ministers, councilors, and secretaries, and they set up appointments for me. By the way, it is common for governments to send representatives of the finance ministry, called financial attachés, to major embassies.

During these trips, I met for the first time with Singapore’s Minister of Finance Tharman Shanmugaratnam, whom I would later meet often as the President of ADB. In the PRC, I met Vice-Minister of Finance Li Yong (now Director-General of the United Nations Industrial Development Organization (UNIDO)), Assistant Governor Yi Gang of the People’s Bank of China, and Liu He, who was deputy leader of the Central Leading Group for Financial and Economic Affairs at the time (and now vice premier). In the ROK, I met Choi Jong-ku, who was in charge of international operations at the Ministry of Economy and Finance at the time and later became chair of the Financial Services Commission. Japanese ambassadors in these countries hosted lunch or dinner for me, and I had opportunities to hear from Japanese businesspersons who worked in finance.

My idea for these visits to Asian countries was inspired by Tadao Chino, who was appointed vice-minister of finance for international affairs in the summer of 1991 and visited Asian countries first, in contrast with his predecessors, who had visited the G7 countries first. I accompanied Mr. Chino on these trips as his assistant. I think Mr. Chino had good foresight because the Asian countries rapidly attracted attention in the world of international finance, as they experienced an economic boom followed by a currency crisis in the late 1990s. Mr. Chino, who was passionate about Asia, later served as President of ADB from 1999 to 2005.

Returning to the subject of exchange markets, the yen–dollar rate after the second half of September 2011 was between 76 and 77.5 yen per
dollar, and the movements showed nervousness. There was a possibility that the appreciation of the yen might accelerate depending on the outcome of the Euro Area Summit at the end of October. The current situation and future policies were discussed in the office of Vice-Minister Katsu on 25 October, and in the office of Minister Azumi on 27 October, Japan Time. On 26 October, I had a phone call with Under Secretary Brainard, and on the night of 27 October Minister Azumi and Secretary Geithner talked over the phone.

One of the most important factors of the turmoil in the exchange markets was in the euro area, and it was the problem of sovereign bonds of Greece. The IMF and the euro member countries had put together their first aid package with a 3-year total of 110 billion euros in May of 2010, but the situation remained unstable. In September 2011, Greek sovereign bond prices dropped further, and yields in the secondary market rose to around 25% (the record high was 37%, reached in March 2012). The situation became critical and relevant parties were discussing a second aid package to be launched without waiting for 3 years.

The Spanish financial sector was also a problem. Before the global financial crisis, Spanish banks had raised funds through euro-denominated deposits and loans, and invested them in real estate, creating a bubble. The subsequent fall in real estate prices caused the problem of nonperforming loans. The fiscal deficit had also expanded to around 10% of gross domestic product (GDP), and the question was how the euro area would help inject public funds into the banks.

In the euro area, after holding several ministerial-level meetings in the fall of 2011, a summit meeting was held from 26 October to early morning of the following day, European time, and measures to tackle the above-described problems were adopted. Specific measures agreed for Greece included the following: fiscal deficit reduction through a value-added tax rate hike and pension reform; a haircut for Greek sovereign bonds (private investors would also share a burden of rescuing the government); putting together a second aid package early; raising the capital adequacy ratio of banks; and further utilizing the EFSF, which helped member countries deal with debt problems.

**Major Interventions from 31 October to 4 November 2011, and the Aftermath**

In the early morning European time on Thursday 27 October 2011, the above-described progress in stabilizing the euro was made. Nevertheless, the yen was stuck at slightly above the 76-yen-per-dollar level, and it seemed that
it could break into the 75-yen-per-dollar territory at any time. Ultimately, in the following week, we made a decision in the early morning on Monday 31 October, Japan time, when the yen reached the historic high at 75.32 yen per dollar. I called Under Secretary Brainard and sent an e-mail to ECB’s Executive Director Smaghi explaining Japan’s position. We also had BOJ’s Executive Director Nakaso contact the director-general of the Financial Markets Directorate of the ECB.

The intervention began at 10:25 a.m. that day, and Minister Azumi announced it at an ad hoc press conference at 10:45 a.m. The yen–dollar rate, which had been 75.65 yen per dollar immediately before the intervention, was lifted to 79.55 yen per dollar by 11:30 a.m. The volume of the intervention that day was 8.0722 trillion yen, the largest single-day volume up until that time. Then, from 1 to 4 November, we continued intermittent interventions to sell the yen and buy the dollar without making any public announcement, for a total volume of 1.0195 trillion yen. In the end, the total volume of the 5-day intervention was 9.0916 trillion yen, with which we bought $115.4 billion. After this intervention, the exchange rate was stable at around 78 yen per dollar until the end of the year.

The Japanese Ministry of Finance announces monthly intervention volumes once a month, and daily intervention volumes once every quarter. The total volume of the intervention from 28 October to 28 November was announced as monthly data on 30 November, so that was when the total volume of the intervention was revealed publicly. The daily volume of the intervention from 31 October to 4 November was detailed in the quarterly announcement on 7 February of the following year. At a press conference after a Cabinet meeting on 7 February, Finance Minister Azumi was asked whether it was “covert intervention.” He replied, “I have said we would take any action necessary to protect the interests of the country. We just put it into action.”

Going back to the main story, it just so happened that the G20 Summit, chaired by France, was held on 3 and 4 November in Cannes. On that occasion, the G20 Finance Ministers and Central Bank Governors Meeting and the meeting of the deputies were also held, and I attended these meetings with Minister Azumi. As a custom, finance ministers were expected to attend the summit, and I was present when Prime Minister Noda, Finance Minister Azumi, and Secretary Geithner had an informal chat. Minister Azumi also had a chat with Secretary Geithner and ECB President Trichet. The G20 Summit adopted an action plan based on a wide range of discussions on the global economic situation, individual countries’ efforts for growth, international currency systems, financial regulations, developing
countries’ issues, and climate change. The action plan included the text of the above-described G7 statement on 8 August, including the importance of the stability of exchange rates. The G20 Finance Ministers and Central Bank Governors Meeting discussed responses to the euro crisis and strengthening of the IMF’s financial base, but not exchange rates.

Soon after I returned from Europe, on 10 November, the Finance Ministers and Central Bank Governors Meeting of the Asia-Pacific Economic Cooperation (APEC) forum was held in Hawaii. I attended the meeting with State Minister of Finance Fumihiko Igarashi. In addition to Secretary Geithner and ministers of other APEC members, ADB’s President Haruhiko Kuroda was present.

I returned to Japan on the night of 11 November, and on the following morning I attended a meeting between the IMF’s Managing Director Christine Lagarde, who was visiting Japan, and Minister Azumi. They discussed the Joint Annual Meetings of the IMF and the World Bank to be held in Tokyo in the fall of 2012, responses to the euro crisis, and the strengthening of the IMF’s financial base. Minister Azumi stated that, although the euro area countries should mobilize as much of their own funds as possible, Japan was prepared to cooperate by providing a loan to the IMF from its foreign exchange reserves to enhance the IMF’s financial base so that it could respond quickly to balance-of-payments crises in the member countries. In the fall of 2008, when the global financial crisis began, Japan had contributed to the stabilization of international finance by taking an early initiative to commit $100 billion in loans to the IMF. In the end, as I describe below, Japan announced a $60 billion loan to the IMF in April of 2012.

On 27 December 2011, the US Treasury Department released a regular report on foreign exchange, which contained this text: “The United States did not support Japan’s (unilateral) intervention.” However, the market did not react to it. In early 2012, the exchange market was fairly stable.

From the Beginning of 2012 to the Fall: The Yen Stabilizes at around 80 Yen per Dollar

In January of 2012, US Treasury Secretary Geithner came to Japan with Under Secretary Brainard, meeting with Finance Minister Azumi and with Prime Minister Noda on 12 January. Prior to these meetings, I met Under Secretary Brainard over breakfast in the Orchid Room at Hotel Okura and spent an hour discussing issues that could be raised at the ministerial meeting. The issue of exchange rates came up in the meeting between Secretary Geithner
and Minister Azumi, but they discussed mostly Japan’s economic recovery process following the earthquake, the current state of the PRC economy, the response to the euro crisis, and the strengthening of the IMF’s financial base.

Minister Azumi said that Japanese firms would abide by the US sanctions imposed against Iran’s nuclear development program but were having difficulty collecting funds from their sales to Iran because of the insufficient grace period. He also mentioned the so-called Volcker Rule, proposed following the global financial crisis to strengthen financial regulations in the US. Under the proposal, speculative proprietary trading by commercial banks would be banned, but the ban excluded US Treasury Notes but not sovereign bonds, including Japan’s government bonds. He pointed out that the regulation as proposed might greatly impair the functions of the sovereign bond market, and asked for the US government’s consideration.

In 2012, the yen temporarily appreciated to the level of 76.02 yen per dollar on 1 February and the situation became tense again. However, the movement was reversed following the positive US employment numbers released on 3 February. Subsequently, the yen–dollar rate stayed mostly in a range between 78 and 83 yen per dollar until the fall. The G20 in 2012 was chaired by Mexico. A G20 Finance Ministers and Central Bank Governors Meeting was held in Mexico City in February. The summit and a meeting of finance ministers were held in Los Cabos in June, and a meeting of finance ministers and central bank governors was held again in Mexico City in November. However, I do not recall any discussion that made me nervous personally. Los Cabos is a beach resort. I remember hearing the sound of the waves from my hotel room and seeing the beautiful sunset over the Pacific Ocean.

By the way, during my first year as vice-minister of finance for international affairs (from August 2011 to July 2012), the Ministry of Finance’s key persons who were involved in foreign exchange policies and reported to me included Yasushi Kinoshita, director-general of the International Bureau; Tatsuo Yamasaki, senior deputy director-general of the International Bureau; and Masatsugu Asakawa, deputy vice-minister of finance for international affairs. Director of the Foreign Exchange Markets Division Toshio Oya, who had been in charge of the intervention in August, was appointed deputy commissioner for international affairs of the Financial Services Agency on 22 August and was succeeded by Kenta Ichikawa, who had previously been budget examiner (in charge of the Ministry of Defense) at the Budget Bureau. I also spoke frequently with Shinichi Sato, deputy vice-minister for policy planning and coordination, who was the liaison with the BOJ. Senior Deputy Director-General Yamasaki and Deputy Vice-Minister
Asakawa were of great help as they both had been director of the Foreign Exchange Markets Division and were very familiar with the technical issues of the markets.

It seems to me that Vice-Minister of Finance Eijiro Katsu believed strongly that speculative moves in the markets should be discouraged, because he had served as director of the Foreign Exchange and Money Market Division (which would later become the Foreign Exchange Markets Division) from 1995 to 1997, when Japan actively intervened in the foreign exchange market by buying the dollar. As I have written so far, I, too, believed Japan should not hesitate to intervene unilaterally if necessary. However, I also believed that such a move might backfire if the US immediately condemned it, for example, and that it was important to keep communicating with the relevant counterparts until the last minute. Because of these similar and different views, I think Mr. Katsu and I complemented each other well.

The Change of Government and the Depreciation of the Yen after the Fall of 2012

Big movements in the exchange rate in 2012 occurred after the House of Representatives was dissolved in the fall. The yen–dollar rate was at the level of 79 yen per dollar on 14 November when Prime Minister Noda of the Democratic Party announced his intention to dissolve the House. The yen depreciated to about 81 yen per dollar on 16 November when the House was dissolved, then to about 83 yen per dollar on the day after the Liberal Democratic Party (LDP) won the election on 16 December. The yen’s rapid depreciation continued as the rate moved to about 85 yen per dollar on 26 December when the Second Shinzo Abe Cabinet was established, and to about 86 yen per dollar at the end of the year.

The LDP’s Task Force for the Revitalization of Japan’s Economy released an interim policy document on 16 November 2012. This contained a strong statement regarding monetary policy:

“We will give the utmost priority to overcoming the deflation and the yen’s appreciation as early as possible. We will set a clear inflation target (2%) and, to achieve the target, create a mechanism for strengthening the cooperation between the government and the Bank of Japan with a possible amendment of the Bank of Japan Law, and promote bold monetary easing.”
It is often said that this led to the depreciation of the yen, but improvements in the fundamentals in the US and Europe at the time were also a factor.

Prior to the release of the LDP’s document, on 30 October, the Noda administration and the BOJ released a document entitled “Measures to Overcome Deflation.” This document stated:

“The government and the Bank of Japan share the view that it is extremely important for the Japanese economy to overcome deflation quickly and return to a sustainable growth path with stable prices. Together, we will make the utmost efforts to accomplish this objective... The Bank of Japan considers the ‘benchmark for the medium- and long-term price stability’ to be a positive year-on-year consumer price inflation rate of up to 2%. For the foreseeable future, the Bank will target a year-on-year consumer price inflation rate of 1% and, until we get close to achieving the target, strongly promote monetary easing by taking measures such as the substantial zero-interest-rate policy and purchasing financial assets.”

However, the LDP’s document was blunter and its inflation target was higher, at 2%. It also mentioned the move away from the strong yen and the amendment of the Bank of Japan Law.

The LDP’s election manifesto, announced on 21 November, included text similar to the 16 November document, as well as the idea of creating a “public–private partnership foreign bonds fund” to purchase foreign bonds. As it turned out, even the new Abe administration did not go through with the amendment of the Bank of Japan Law, which was criticized for its potential erosion of the independence of the BOJ, or the establishment of the public–private partnership foreign bonds fund, which, from the perspective of other countries, would have had the same effect as a dollar-buying intervention by the Ministry of Finance. Still, the LDP’s manifesto sent a strong message that it would pursue monetary easing more boldly.

On 26 December, the new Abe administration was established and Taro Aso was appointed Minister of Finance to replace Koriki Jojima, who had replaced Minister Azumi in an earlier cabinet reshuffle on 1 October. On Friday 28 December, which was the last business day of the year, a phone call between Minister Aso and US Treasury Secretary Geithner was set up. For about 30 minutes beginning at shortly before 11 p.m., Japan Time, they discussed Japan’s experience of post-bubble deflation, the economic policy of the new administration, and the fiscal policy of the US.
In January of 2013, the yen–dollar rate (middle rate) exceeded 88 yen per dollar on 7 January. I attended a meeting of the Third Working Group (WP3) of the Economic Policy Committee of the Organisation for Economic Co-operation and Development (OECD) held in Paris from 7 to 8 January and explained the policy of the new Abe administration in detail. The WP3 was established in 1961 and is attended by the deputies of finance ministries and central banks of the so-called G10 countries (the G7 plus the Netherlands, Sweden, and Switzerland) as well as representatives of the IMF and the European Commission. Until the framework of the G7 Finance Ministers and Central Bank Governors Meeting was created in 1986 (the 1985 Plaza Accord had been agreed by the G5 without Italy and Canada), the WP3 was the most important forum to discuss fiscal and monetary policies and international monetary issues, along with the International Monetary and Financial Committee (formerly known as the Interim Committee) of the IMF. On 8 January, the US Treasury’s Under Secretary Brainard, who had been absent from the WP3, called me while I was in Paris.

The UK, which was going to chair the 2013 G8 Summit, proposed a meeting to exchange views on the status of the world economy, and a G7D conference call was held on 11 January. BOJ Executive Director Nakaso and deputy governors of other central banks also participated in the conference call. With the UK Deputy Michael Elam presiding, the call began with an overview of each country’s economic situation, presented first by Charlie Bean, deputy governor of the Bank of England, and then by David Lipton, deputy managing director of the IMF. This was followed by presentations and Q&A sessions for the US, Japan, and the European Commission, in that order. Similar to the OECD’s WP3 Meeting on 8 January, participants showed a keen interest in Japan’s economic policy and movements of the exchange rates.

At this G7D conference call, I said the following:

(i) The three pillars of economic policy of the new Abe administration, which was formed on 26 December, are flexible fiscal policy, bold monetary policy, and a growth strategy through structural reform.

(ii) [After explaining fiscal policy and structural reform:] The yen has depreciated from the rate of 79 yen per dollar in mid-November to the current 89 yen per dollar, but Japan has not conducted an exchange intervention since the beginning of November 2011.
(iii) In our analysis, the depreciation of the yen reflects fundamental factors such as improved fiscal and economic conditions in the US and stabilization of the euro area.

(iv) In fact, in the euro area, the markets stabilized because of the ECB’s decision in September 2012 on a new program to purchase sovereign bonds (Outright Monetary Transactions (OMT)); the launch of the European Stability Mechanism (ESM) in October, which replaced the EFSF for permanent stability of the euro; and improvements in Greece and Spain (declining sovereign bond yields).

(v) On the other hand, Japan remains in a difficult situation, with a trade deficit following the earthquake and a deficit in the current account balance for November 2012, which was announced earlier today.

(vi) For more than 2 years, we have said that the appreciation of the yen has been excessive and speculative. We believe that the current depreciation of the yen reflects both domestic and overseas fundamentals and, in a way, is a correction of the excessive appreciation of the yen.

(vii) The objective of bold monetary easing is to counter deflation, which has long had a negative impact on the Japanese economy, and, although it has a side effect on the exchange rates, it is not intended as a competitive devaluation.

(viii) Japan announced 2 days ago that it would buy ESM bonds. The previous purchases of EFSF bonds amounted to 7% of the total amount issued, or 7 billion euros. However, all purchases of EFSF bonds were made using the liquidity of existing euro assets in foreign exchange reserves, and no conversion from the yen to the euro has been carried out, which would have led to a depreciation of the yen.

In response to these statements, the US and others said that monetary policy could be used for domestic purposes such as fighting deflation and that movements in the exchange rate could be tolerated as side effects if they were natural market movements. However, they repeatedly pointed out that monetary policy should not be used for the purpose of influencing exchange rates.

On 22 January, the Cabinet Office, the Ministry of Finance, and the BOJ released a document entitled “Joint Statement of the Government and the Bank of Japan on Overcoming Deflation and Achieving Sustainable Economic Growth.” This included a clear inflation target:
“The Bank recognizes that the inflation rate consistent with price stability on a sustainable basis will rise as efforts by a wide range of entities toward strengthening competitiveness and growth potential of Japan’s economy make progress. Based on this recognition, the Bank sets the price stability target at 2% in terms of the year-on-year rate of change in the consumer price index.”

In response, on 24 January, I sent a letter to the G7 deputies, and on 25 January I also sent it to counterparts in the PRC, the ROK, and members of the Association of Southeast Asian Nations (ASEAN). The letter’s content was similar to the statement made in the conference call on 11 January, and it explained the economic policy, inflation target, fiscal policy, and the structural policy of the new administration. With regard to exchange rates, I wrote that Japan had no intention of devaluing the yen for competitiveness and, in that sense, it was in compliance with the commitments of the G20 Joint Statement, and that exchange rate movements as a result of monetary policy to promote growth and price stability (in the case of Japan, to overcome deflation) should not be blamed. On 23 January, I stated the same in an interview with Bloomberg; The Wall Street Journal also published my comments in a large-space article.

In its editorial on 24 January, The Financial Times said the following. The risk of the outbreak of the currency war needs to be discussed based on long-term trends. Although the monetary policy hawks consider the recent depreciation of the yen against the euro as the BOJ’s market manipulation, the yen remains at a higher level than before the crisis. The strength of the euro is not the result of the BOJ’s beggar-thy-neighbor policy but rather of the ECB’s policy measures to avoid the collapse of the euro.

Joint Statement of the G7 on 12 February 2013

The yen continued to depreciate, and by the end of January the yen–dollar rate exceeded 91 yen per dollar. Around that time, the media reported comments by Japanese government officials and academics involved in policy-making, such as, “100 yen per dollar is a good level” and “If you ask me if the correction of the over-appreciation of the yen is done at the current level of around 90 yen per dollar, I’d say it’s not yet finished.” I received an urgent e-mail from US Treasury Under Secretary Brainard late at night on 30 January, Japan time. When I called her from home, she expressed serious displeasure about these comments. All I could do was repeat that, as a policy, the government was not targeting a certain level for the yen–dollar rate.
Beginning the next day, senior officials of the International Bureau of the Ministry of Finance and I went out to meet key persons in the government. We explained our position and asked them to refrain from making any comments linking the easing of the monetary policy with the depreciation of the yen, and to refer any questions about exchange rates to the Ministry of Finance. During this process, one key person retorted to me that Japan should not be criticized for the yen’s depreciation, resulting from its bold monetary policy, considering that Japan had not complained when the expansionary monetary policy in the US led to the yen’s appreciation. In response, I explained the following to him and he understood. In a sense what was said was true, but, since all countries shared a position that monetary policies to respond to financial sector crises or employment or price stability issues were good, it was wise for Japan to communicate only that the policy objective of the bold easing of the monetary policy was to overcome deflation in the country.

On 4 and 5 February, the BOJ hosted a meeting of the Bellagio Group—a group of various countries’ government officials and academics involved in international finance that met regularly. Academics from Japan, the US, Europe, the PRC, and the ROK were among the participants, and included Professor Barry Eichengreen of the University of California, Berkeley, who is famous for his international currency theory. In a paper published by the Institute for International Monetary Affairs in March 2010 (“Reforming the International Monetary System—Japan’s Perspective”), I compared the dollar, the euro, the yen, and the Chinese yuan and wrote that the dollar’s superiority as a key currency would remain unchanged in the foreseeable future for various reasons. To support this, I cited Professor Eichengreen’s well-known 2009 paper, which argued that the euro, despite being a unified currency, was limited as an international currency because each euro area country had a separate market for its sovereign bonds and thus the euro was lacking market depth and liquidity compared with the dollar.

On 5 February, I exchanged views over lunch with Director Elam of the UK Treasury, chairperson of the G7D meetings that year, who had come to Japan for the Bellagio Group meeting. Director Elam said the G7 countries were frustrated about the recent rapid depreciation of the yen. I replied that I would provide a detailed explanation of Japan’s position at the G20 Finance Ministers and Central Bank Governors Meeting scheduled for 15 February in the Russian Federation, which was hosting the G20 that year.

Nevertheless, it seemed that various countries persuaded the UK, and a G7D conference call was scheduled for 10 p.m. on Friday 8 February, Japan time, with the exchange rate issue as the main topic. As of 8 February, the yen–dollar rate had moved beyond the level of 93.5 yen per dollar.
Since this was before the G20, I did not think that a G7 statement would be discussed. However, the extraordinary, intense exchanges, which lasted 2 hours, led to a decision that a joint statement would be issued on 12 February, after the Japanese national holiday (Monday 11 January). The text was drafted during the 3 days from 9 to 11 February over the holiday weekend, and a joint statement was released on Tuesday 12 February at 7 p.m. Japan time.

During the G7D conference call, the IMF’s Deputy Managing Director Lipton offered an objective, general statement that current exchange rate movements were being driven by the influx of funds into emerging economies as a result of weak growth in developed countries and their monetary easing in response, and by the flow of funds into the euro area and emerging economies as risks in the US and Europe were reduced.

After that, various countries made critical statements about Japan, saying that the G7 should reaffirm the rules of the game, such as on adoption of the floating rate system, that the objectives of fiscal and monetary policies should be to achieve domestic equilibrium, and that recent news from Japan was contrary to the international framework for currency exchanges.

I stated the following:

(i) Japan understands the importance of the principle of supporting the exchange rate determined by the market, except when the market moves in a chaotic manner.

(ii) Recent exchange movements have basically been driven by fundamental factors such as a global risk reduction and Japan’s trade deficits. In fact, the euro is rising against the dollar. The currencies of emerging economies and stock prices, including the Dow Jones Industrial Average, are also rising, while yields on the sovereign bonds of the peripheral European countries are declining.

(iii) Japan has clearly stated that the objective of its monetary easing was to overcome deflation. Even if the yen has weakened as a result, this will have been an autonomous move in the market. The policy does not target the exchange rates.

(iv) Japan did not criticize the FRB or the ECB even when the euro weakened as a result of financial uncertainty in the euro area, or when the dollar weakened as a result of the FRB’s quantitative easing. During the global financial crisis, the yen appreciated as much as 40% against the euro in less than 6 months (from 160 yen per euro at the end of August 2008 to 115 yen per euro at the
end of January 2009) but in the past 2 months it has depreciated just 10% to 15% (from 110 yen per euro in mid-December 2012 to 125 yen per euro on 8 February 2013).

(v) Regarding the appropriate level of the exchange rate, the IMF previously said that the yen was somewhat overvalued, but in a recent analysis of the exchange rate it concludes that it is largely aligned with the fundamentals.

(vi) We do not believe at all that the recent depreciation of the yen (over 93.5 yen per dollar as of 8 February) is excessive.

BOJ Executive Director Nakaso followed me and stated that the objective of the new monetary policies, including setting the inflation target at 2%, was growth with stable prices, and the exchange rate was not a target. He added that Japan had no intention at all of starting a so-called currency war.

While many statements were critical of Japan, a European deputy said that we should not discuss exchange rate policies to avert our eyes from the economy’s vulnerabilities, and that he did not think the yen’s volatility was especially high. I was grateful for his comments. I believe his supportive statements owed partly to the fact that I had visited him and exchanged opinions face-to-face before, as well as to Japan’s support for the stabilization of the euro and cooperation on strengthening the IMF’s financial base.

After tense exchanges, the majority voiced the opinion that a joint statement of the ministers and governors should be issued. I said we should be cautious about doing that because (i) I did not see the need for the G7 to issue a statement just before the G20; (ii) the statement of the G20 would touch on exchange rates and monetary policies, so text based on that day’s discussion in the G7 could be included there; and (iii) given that our stated purpose was only to reconfirm existing principles, an unexpected G7 statement might cause the market to wonder what had happened. However, in the end I had to concede, thinking that it all depended on the text of the statement. Many representatives wanted to issue the statement on Monday 11 February but this was a national holiday in Japan and the timing might create an impression that Japan was being disregarded. Also, I needed the time to consult with the finance minister and the Prime Minister. Therefore, I strongly insisted that it be released on 12 February, and the participants accepted that plan.

Participants in this conference call included Director Elam of the UK Treasury, who chaired the meeting, Deputy Governor of the Bank of England Charlie Bean, US Treasury Under Secretary Brainard, the FRB’s Vice Chair Janet Yellen, the ECB’s Executive Director Jörg Asmussen,
Director-General (Vice-Minister) of the French Treasury Ramon Fernandez, and State Secretary of Germany’s Federal Ministry of Finance Thomas Steffen. From Japan, BOJ Executive Director Nakaso and I were on the call. Tatsuo Yamasaki, who was director-general of the International Bureau, was also listening in. Immediately after the conference call ended, the three of us discussed what to do. We agreed that text that might suggest a condemnation of Japan was unacceptable as it might disturb the foreign exchange markets, and discussed various ideas regarding what to write.

During the holidays I did have some time to go out with my family, but I had repeated mobile phone calls with Director Elam and kept exchanging the text of the draft statement using my Blackberry while I was on the move. As a result of the tense negotiation with other G7 members through Director Elam, which lasted for 3 days, the joint statement was settled to read as follows:

“We, the G7 Ministers and Governors, reaffirm our longstanding commitment to market determined exchange rates and to consult closely in regard to actions in foreign exchange markets. We reaffirm that our fiscal and monetary policies have been and will remain oriented towards meeting our respective domestic objectives using domestic instruments, and that we will not target exchange rates. We are agreed that excessive volatility and disorderly movements in exchange rates can have adverse implications for economic and financial stability. We will continue to consult closely on exchange markets and cooperate as appropriate.”

The second sentence was good for Japan, because it could be interpreted as implying that Japan’s policies had been “oriented towards meeting our respective domestic objectives.” Also, it was good that the last two sentences were reaffirmed.

Through their secretaries, I kept Finance Minister Aso and Prime Minister Abe informed on the developments during the holidays. Beginning in the morning of 12 February, I met them individually, providing explanations regarding the G7 statement and the background to it, and received their approval. The foreign exchange markets did not move much following the release of the statement at 7 p.m. Japan time, and I was relieved.

I think Director Elam of the UK was a very fair chair. Later, he left the Treasury and became an executive of the Hongkong and Shanghai Banking Corporation. Since the bank handles as part of its business the issuance of ADB’s securities and manages ADB’s idle funds, he came sometimes to
ADB in Manila with his junior staff who handled ADB’s business. I always saw him on such occasions even when I was busy, and had lunch if time allowed. This was partly because of my appreciation for his being a fair chair during the tough G7D meetings.

**February 2013: The Meeting of G20 Finance Ministers and Central Bank Governors in Moscow**

The G20 Finance Ministers and Central Bank Governors Meeting was held on 15 and 16 February 2013, in the Kremlin, Moscow. I attended it, accompanying Finance Minister Aso. Minister Aso also attended a meeting of Japan, the US, and the ECB, and met with German Finance Minister Wolfgang Schäuble and IMF Managing Director Christine Lagarde. As for the US Treasury, Secretary Geithner had left his post on 25 January and his successor, Jacob Lew, had not taken up the position yet, so Minister Aso could not meet with his US counterpart.

The night view of the illuminated Kremlin was beautiful, and Minister Aso was impeccably dressed, with his trademark Borsalino hat, a white scarf, and a blue cashmere coat. When Managing Director Christine Lagarde saw him in a meeting, she said with a smile that she had been featured in the French fashion magazine *Vogue* and Minister Aso should also be in it.

As usual, it took a long time to prepare the G20 joint statement in a drafting session. The released statement included a wide range of topics, such as measures to promote global economic growth, long-term financing for infrastructure and other investments, enhancing the functions of the IMF, financial regulatory reform, and climate finance. Regarding the currency exchange, it said:

“We reiterate our commitments to move more rapidly toward more market-determined exchange rate systems and exchange rate flexibility to reflect underlying fundamentals, and avoid persistent exchange rate misalignments and in this regard, work more closely with one another so we can grow together. We reiterate that excess volatility of financial flows and disorderly movements in exchange rates have adverse implications for economic and financial stability. We will refrain from competitive devaluation. We will not target our exchange rates for competitive purposes, will resist all forms of protectionism and keep our markets open.”
The first sentence was drafted with the PRC and other emerging countries in mind.

The Financial Times reported on 18 February Managing Director Christine Lagarde’s comment:

“The story of the currency war is overblown. Everyone is talking about their concern about the exchange rates, but it’s good news that the G20 responded with collaboration rather than conflict.”

Prior to this, on 23 January, the IMF’s Research Department Director Olivier Blanchard had said:

“The debate over the currency war is becoming too sensational. In order to recover the economy, each country should implement appropriate monetary policy, and it affects exchange rates. As long as monetary policy is appropriate, I believe the impact on exchange rates is appropriate.”

From My Retirement from the Ministry of Finance to Going to Manila for a New Post at the End of April 2013

My time as vice-minister of finance for international affairs, which had been rocked by exchange rate movements, was coming to an end. From 21 to 24 February, I accompanied Prime Minister Abe on a government plane for his trip to the US to meet President Obama. On the way back, he invited me to lunch along with Junichi Ihara, director-general of the North American Affairs Bureau of the Ministry of Foreign Affairs, and Masanori Sato, vice-minister for international affairs of the Ministry of Agriculture, Forestry and Fisheries. In the evening of Sunday 24 February, when I arrived home from the trip to the US, there were reporters waiting in front of the house. They asked for my comment, saying that there was talk that Haruhiko Kuroda would be the next governor of the BOJ and I would be the next President of ADB. I was in no position to comment, of course. BOJ Governor Shirakawa had announced on 5 February that he would resign his post on 19 March without waiting for the end of his 5-year term, which would have been 8 April of the same year.

Looking back, I had begun to feel the possibility that I might be a candidate to replace Mr. Kuroda as President of ADB around the summer of 2012, when I was being kept busy as vice-minister of finance for international
affairs. Of course, the decision had not been made at the time, and, as it turned out, it happened earlier than expected. Mr. Kuroda was presented to the Parliament as a candidate for governor of the BOJ on 28 February 2013. He officially resigned from ADB on 18 March, and, subsequently, members were asked to nominate a successor. Eventually, I was the only candidate nominated. For more than a month after Mr. Kuroda’s departure until I assumed the post on 28 April, Bindu Lohani, the ranking vice-president at the time and a Nepal-born veteran of ADB, served as Acting President.

At the same time that the government presented Mr. Kuroda as the next candidate for governor of the BOJ in the Parliament on 28 February, I began calling my counterparts in the G7 countries, the PRC, the ROK, and the ASEAN countries to ask for their support, as I planned to announce my candidacy as the next President of ADB. On 7 March, Finance Minister Aso announced that the Government of Japan was officially nominating me as a candidate. On the same day, I put out a statement indicating my vision as a candidate for President of ADB. In the statement, I emphasized the importance of encouraging private sector participation in infrastructure development and the need to strengthen ADB’s human and financial resources.

From 11 to 13 March, I traveled to Singapore, Malaysia, and Indonesia for an election campaign. In Malaysia, I was able to meet former Prime Minister Mahathir bin Mohamad. I remember this meeting well. When I asked him what was most important for economic development, Mr. Mahathir said unequivocally, “Infrastructure and education.” On 18 March, I visited the PRC’s Ministry of Finance in Beijing and participated in the deputies meeting of the PRC, Japan, and the ROK, which the PRC had initiated. On 26 March, I went to Manila to greet Amando M. Tetangco Jr., governor of the Bangko Sentral ng Pilipinas (BSP, the central bank of the Philippines), and senior officials of the Department of Finance, and had an informal lunch with ADB’s executive directors and alternate executive directors.

On Friday 29 March, I retired from the Ministry of Finance, where I had worked for precisely 35 years, and became an advisor to the ministry. On 5 April, Mitsuhiro Furusawa, who succeeded me as vice-minister of finance for international affairs, hosted a farewell cocktail party for me in his office. It began shortly after 6 p.m. My wife was also invited, and I was happy to see many of my colleagues, including Yasushi Manago, vice-minister of finance, who had joined the Ministry in the same year as I, and directors-general of various bureaus. We laughed a lot and enjoyed the speeches, including funny stories about things we had experienced together, by Mitsuhiro Furusawa as well as Tatsuo Yamasaki, director-general of the International Bureau.
For some reason, I did not feel sad. Perhaps, it was because I felt that I had worked enough. Or maybe the feeling of being relieved was stronger. Of course, it was partly because I knew that I would be President of ADB at the end of April and was bracing myself for this.

The election campaign continued in April. On 9 April, I went to Seoul to meet with Minister of Strategy and Finance Hyun Oh-seok. I also met with deputies whom I had known for a long time. From 16 to 18 April, I went to Washington, D.C. and attended the meetings of the IMF, the World Bank, the G20, and others, and greeted colleagues from various countries in the margins of these meetings before they started. I met with US Treasury Under Secretary Brainard, with whom I had numerous interactions, Assistant Secretary Marisa Lago, who would become a key counterpart after I joined ADB, the IMF’s Managing Director Christine Lagarde, former Indonesian Finance Minister Sri Mulyani, who was managing director of the World Bank, and President Luis Alberto Moreno of the Inter-American Development Bank, to discuss ADB’s challenges and other topics.

On the morning of 18 April, before the G20 Deputies Meeting began, I said hello to the representatives of various countries and went out of the building. Then, a junior member of the Japanese Ministry of Finance came for me and told me that Deputy Finance Minister of the Russian Federation Sergei Storchak, who was chairing the meeting, was asking for me. When I returned to the conference room, Deputy Minister Storchak thanked me for my contributions to the G20, and all the deputies followed with warm applause. I was quite touched by it. When I had visited Moscow at the end of August in 2012, I had lunch with Mr. Storchak at the official residence of Japanese Ambassador Chikahito Harada. He has been serving as deputy finance minister for a very long time. We were delighted to see each other again at the G20 Osaka Summit in 2019.

It was 26 April when the election period ended and I was officially selected as President of ADB, with the support of all members. I arrived in Manila in the afternoon of Sunday 28 April to assume the post. I became the ninth President of ADB. Since all the preceding presidents had been Japanese, I am often asked if it is a designated post for Japan. As Finance Minister Aso clarified in a press conference in which he nominated me, Japan had stated that it sought open and transparent elections, and had never asked other countries not to nominate candidates. I believe ADB’s presidency has always gone to Japan because it is recognized that Japan has always strongly supported ADB since its inception, in terms of both finance and policies, and because the successive presidents have made contributions to the development of ADB.
CHAPTER 2

SHOWING JAPAN’S PRESENCE IN INTERNATIONAL FINANCE

The European Debt Problem and Cooperation to Strengthen the International Monetary Fund’s Financial Base

I served as vice-minister of finance for international affairs for just 20 months, but during that time I was involved in a lot of issues in addition to those related to the foreign exchange market discussed in Chapter 1. I would like to write about some of them.

One thing I have already mentioned in the previous chapter is that difficulties experienced by Greece, Spain, and other countries in the euro area began to improve slowly as the G7 and the G20 continuously held discussions. In the end, Spain received support from the euro area to inject capital into the banks but did not receive support from the International Monetary Fund (IMF). Japan indirectly supported the euro area by using foreign exchange reserves to buy euro-denominated bonds from the European Financial Stability Facility (EFSF) and its successor, the European Stability Mechanism (ESM).

I wanted to see the state of the euro for myself, and went to Europe in the fall of 2012. During my visit, Germany’s Federal Constitutional Court ruled that the ESM was not unconstitutional. I remember it well because I heard the news with Thomas Steffen, state secretary of the German finance ministry, in his office. The building of the German Federal Ministry of
Finance, completed in 1936, is a stately, historic structure that housed the German Air Force Command during World War II. In December 2020, I traveled to Madrid and heard from Iñigo Fernandez de Mesa, secretary general of the Spanish Treasury and financial policy, and other officials that the current account and financial situation in Spain were improving faster than expected. Later, I traveled to Luxembourg and met with an old friend, Klaus Regling. He had formerly been director of the International Monetary Affairs Division of the German Federal Ministry of Finance and became the head of the EFSF and then the ESM. In Paris, I talked with Ramon Fernandez, director-general of the French Treasury.

When the euro was launched in 1999, many people were concerned about whether the member countries could cope with economic fluctuations when their economic cycles were out of sync, because they would not be able to adjust their exchange rates or monetary policy, and their fiscal policies were also restricted because they had to limit the deficit to within 3% of gross domestic product (GDP). However, the actual crisis emerged over elevated concerns about Greece and other peripheral countries, whose loose policies had caused excessive public debt, and it took the form of plunging sovereign bond prices (in lieu of exchange rates) and inability to refinance them. There was also a problem whereby the financial sector had to deal with nonperforming loans arising as a result of excessive borrowing, with governments unable to handle this problem adequately.

In both cases, the problem was caused by the large amount of money that had flowed from Germany and others to the peripheral countries in the absence of a full awareness of credit risk differences, because the common currency had eliminated the exchange risk and the markets were dominated by optimism. Before the crisis, investors who could get higher interest rates and borrowers who could borrow at lower interest rates had both been happy. But under the euro, once a problem occurred, the system could not react quickly. International budgetary transfers were basically banned, and the European Central Bank (ECB) did not have a liquidity supply function to remedy the crisis. The system also lacked the means, such as cross-border deposit insurance and public capital injections into banks. In the end, with the IMF’s support, the euro area countries had to develop credit enhancement mechanisms such as the EFSF and the ESM, and programs that would allow the ECB to purchase sovereign bonds of individual countries for reasons other than general money supply purposes.

One of my memorable tasks related to the support of the euro was the loan Japan provided to strengthen the IMF’s financial base. From 2008,
the IMF had spent money on programs to support non-EU countries such as Iceland and Ukraine and EU members that did not adopt the euro such as Latvia, Poland, Hungary, and Romania, as well as euro area countries such as Greece, Estonia, Ireland, and Portugal, and it was concerned about the lack of funds available to cope with future crises. After major countries shifted to floating rates in the 1970s, the IMF’s role had shifted to dealing with balance-of-payments issues in developing countries. As such, its support for the euro area was unexpected.

In the end, Japan decided to provide a $60 billion loan from foreign exchange reserves to the IMF, and on 12 April 2012 Finance Minister Azumi informed Managing Director Christine Lagarde of the decision. The amount was set to less than $100 billion, which Japan had provided as a loan in the fall of 2008, because we believed the euro area itself should make more efforts. Before the decision on this loan was made, I had numerous phone calls with various deputies of the G20 countries to discuss the euro area’s situation and support for the IMF. Zhu Guangyao, the People’s Republic of China’s (PRC’s) vice-minister of finance, was one of them. Finance Minister Azumi had also exchanged views on the need to support the IMF with UK Chancellor of the Exchequer George Osborne, who had come to Japan in January 2012, and with PRC Vice Premier Wang Qishan, whom Minister Azumi had met in Beijing in February. Eventually, following Japan, the PRC committed $45 billion and the UK committed $15 billion ahead of other countries. Managing Director Christine Lagarde greatly appreciated Japan’s efforts and initiative here.

Financial Cooperation between Japan and the People’s Republic of China

Japan and the PRC also made significant progress in bilateral financial cooperation. On 25 December 2011, Japanese Prime Minister Noda and PRC Premier Wen Jiabao held a summit meeting in Beijing and reached an agreement for mutual cooperation toward the development of financial markets in the two countries. The agreement called for (i) promotion of the use of the yen and the renminbi in cross-border transactions between the two countries; (ii) support for the development of markets for direct exchange between the yen and the renminbi; (iii) support for the sound development of markets for yen- and yuan-denominated bonds; (iv) development of yen- and yuan-denominated financial products and services in overseas markets by the private sector; and (v) the establishment of a Joint Working Group for the Development of Japan–China Financial Markets to promote mutual cooperation in these areas.
Regarding item (ii), direct exchange between the yen and the renminbi began in the markets in Tokyo and Shanghai in June 2012.

The importance of this agreement was reaffirmed in the meeting between Finance Minister Azumi and Vice Premier Wang Qishan in Beijing on 19 February 2012. The first meeting of the Joint Working Group was held the following day. In addition, on 7 April 2012, the Japan–China Finance Dialogue was held for the first time in a long time, with Finance Ministers Azumi and Xie Xuren, as well as deputy ministers and directors-general of departments for budgets and taxation, among others, from both sides. I fondly recall that, after lunch at a Japanese restaurant in Yotsuya, we walked with the PRC delegation led by Minister Xie along the banks of a moat filled with cheerful cherry blossom-viewing groups who were sitting and drinking there.

As vice-minister of finance for international affairs, I traveled to the PRC six times and held frequent phone conferences to discuss the details of financial cooperation, to set up the finance minister’s meeting with Vice Premier Wang Qishan, and to discuss cooperation in the G20. During this process, I held numerous discussions with Vice-Minister of Finance Zhu Guangyao and Deputy Governor Yi Gang of the People’s Bank of China, among others. The relationship of mutual trust with them became an important asset for me throughout my tenure as vice-minister of finance for international affairs and President of ADB.

The Japan–PRC financial cooperation did not progress as fast as expected, partly because of the deterioration of Japan–PRC relations in the summer of 2012. However, I believe the two sides established the basis for further discussions between Japan’s Financial Services Agency and Ministry of Finance and the PRC financial regulators. The 2011 agreement included working together for the issuance by the Japan Bank for International Cooperation (JBIC) of Panda bonds—yuan-denominated bonds issued by non-residents in the PRC and the equivalent of Samurai bonds in Japan. Technical problems, such as the standards for the preparation of financial statements in the PRC, caused a delay, but, in January 2018, Mizuho Bank and the Bank of Tokyo-Mitsubishi UFJ became the first Japanese entities to issue Panda bonds.

**Strengthening ASEAN+3’s Chiang Mai Initiative**

Within the framework of ASEAN+3 (10 Association of Southeast Asian Nations members plus Japan, the PRC, and the Republic of Korea (ROK)), I was involved in strengthening the Chiang Mai Initiative Multilateralization
(CMIM) Agreement, a mutual assistance scheme to address shortages in foreign exchange reserves during balance-of-payments crises. Preparations for reforming the CMIM were made in the deputies’ meetings held in Sendai in December 2011 and in Phnom Penh in March 2012. In Sendai, everyone stayed at a hotel in the suburban Akiu Hot Springs and, after the meeting, city officials showed us the status of reconstruction since the tsunami that had devastated the region on 11 March 2011. Someone said that such speedy reconstruction would not have been possible in their country.

The ASEAN+3 Finance Ministers and Central Bank Governors Meeting held at the ADB Annual Meeting in Manila on 3 May 2012 announced the following agreement: (i) to double the total size of the CMIM from $120 billion to $240 billion; (ii) to increase the IMF de-linked portion (the amount that can be provided as assistance without an IMF program) to 30% in 2012 with a view to increasing it to 40% in 2014, subject to a review of certain conditions; and (iii) to introduce a crisis prevention facility called the CMIM Precautionary Line.

The ministers and governors also agreed in principle to make the ASEAN+3 Macroeconomic Research Office (AMRO), which had been established as a Singapore corporation in 2011, an international organization based on an international treaty. After that, the treaty to establish it was agreed upon and ratified by the member countries, and it became an international organization in 2016.

I would like to take a look at history here. From the experience of the Asian currency crisis that occurred between 1997 and 1998, we learned that large-scale foreign currency support was necessary during a crisis, and that the IMF funds alone would not be sufficient. As early as the summer of 1997, immediately after the crisis occurred in Thailand and before problems became apparent in the ROK and Indonesia, Japan had proposed the concept of the Asian Monetary Fund (AMF). The IMF managing director at that time, Michel Camdessus, initially seemed positive about the creation of the AMF, which would complement the IMF’s financial resources. However, it was not realized because Lawrence Summers, then deputy secretary of the US Treasury, strongly opposed it, saying that the AMF would weaken the IMF’s functions and lead to moral hazards (situations where countries could obtain financing with weak conditionalities). However, the first three of the four concepts of the AMF—(i) mutual provision of foreign currencies to supplement the IMF; (ii) joint monitoring of macroeconomic conditions; (iii) technical assistance for sound policy management; and (iv) establishment
of a secretariat—were realized in the form of an agreement on the so-called Manila Framework at the deputy ministers’ meeting in Manila in November 1997.

I had returned to Japan from the IMF in July 1997 and resumed working in the (then) International Finance Bureau of the Ministry of Finance. As a director, I was preparing a bill for the integration of the Export-Import Bank of Japan (JEXIM) and the Overseas Economic Cooperation Fund (OECF) when I was ordered to help with the AMF. (Integration of the JEXIM and the OECF was realized in 1999. Now, they are separated again, as JBIC and the Official Development Assistance (ODA) Loan Department of the Japan International Cooperation Agency (JICA).) I assisted Eisuke Sakakibara, vice-minister of finance for international affairs at the time and the main proponent of the AMF, and prepared a proposal document. In September, I attended the Finance Ministers’ Meeting at the Asia–Europe Meeting (ASEM) in Bangkok and the Joint Annual Meetings of the IMF and the World Bank in Hong Kong, China, to engage in coordination with other countries. At the deputy ministers’ meeting to discuss the AMF in Manila in November 1997, in which participants decided to abandon the AMF initiative, I attended an informal gathering to draft a statement with representatives of finance ministries and central banks in Asian countries as well as Timothy Geithner, who was then assistant secretary for international affairs at the US Treasury and later became treasury secretary. We negotiated till very late at night on the joint statement of this important deputy minister-level meeting. (A deputy minister-level meeting does not always issue a statement.)

What I emphasized about the language was the need not to call the joint statement simply a statement of the deputy ministers’ meeting on a certain date but rather to give a title to the statement by naming Asia’s financial cooperation framework that would replace the AMF initiative. We looked for an appropriate word for it. As a “fund” or a “facility” sounds too formal, we agreed on a name with the word “framework”: A New Framework for Enhanced Asian Regional Cooperation to Promote Financial Stability. Participants of this so-called Manila Framework, which included the six original members of ASEAN (Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore, and Thailand), Japan, the PRC, the ROK, the US, Australia, New Zealand, Canada, and Hong Kong, China, gathered every 6 months to discuss the economic and financial situation in Asia.

The Manila Framework was dissolved in 2004, partly because the Chiang Mai Initiative (CMI) was established in 2003 after agreement was
reached at the ASEAN+3 Finance Ministers Meeting in Chiang Mai in May 2000. The CMI subsequently increased the maximum amount of foreign currencies that participants could provide in support of one another. In 2010, it transitioned to a system that allowed funds to be mobilized through a single multilateral arrangement rather than many bilateral foreign exchange agreements, and it became known as the CMIM.

I think the Manila Framework served as the cornerstone of regional cooperation mechanisms such as the CMI. In addition, I would say that all four elements of the AMF initiative were substantially realized by the establishment and strengthening of the CMIM, and by the creation of AMRO as a kind of secretariat and its transformation into an international organization. Successive vice-ministers of finance for international affairs in the Japanese Ministry of Finance have been deeply involved in ASEAN+3’s financial cooperation. Hiroshi Watanabe (currently president of the Institute for International Monetary Affairs), who served as vice-minister of finance for international affairs from 2004 to 2007, and Naoyuki Shinohara, who succeeded him, were enthusiastic about the concept of multilateralization of the CMI and the Asian Bond Markets Initiative to foster domestic capital markets in Asia. Vice Ministers Shinohara and Takatoshi Kato (who later became president of the Japan Center for International Finance) served as ADB executive directors, and are particularly knowledgeable about Asia among those who had an international career at the Ministry of Finance.

The foreign currency assistance of the CMIM has never been activated, and some have questioned its effectiveness. However, this is attributable to the fact that ASEAN countries, including less-developed Viet Nam and Myanmar, have not experienced a serious balance-of-payments crisis that would require assistance from the IMF or the CMI since establishment of the CMI in 2003. ASEAN+3 officials regularly gather to discuss appropriate policies for each country based on AMRO’s reports. That in itself has the likely effect of preventing a crisis and increasing the level of cooperation and trust among the financial authorities of participants.

The Joint Annual Meetings of the International Monetary Fund and the World Bank in Tokyo

The Joint Annual Meetings of the IMF and the World Bank were held in Tokyo during the week of 9 October 2012. During the meeting period, ministers, central bank governors, other officials, and those in the financial sector from around
the world gather to attend many IMF- and World Bank-related meetings, G20 and other international meetings, bilateral meetings, and various conferences and seminars. The 2012 meetings were originally scheduled to be held in Egypt, but Egypt declined to host them as a result of the disruptions caused by the so-called Arab Spring demonstrations in 2011. Japan volunteered to host the meetings in part to show how the country was recovering from the Great East Japan Earthquake of March 2011. In the summer of 2011, the Ministry of Finance appointed Hiroshi Naka, director of the Planning and Administration Division of the International Bureau (later vice president and auditor general of the World Bank) as the head of the preparatory secretariat. This began the preparations in earnest by mobilizing staff from local finance bureaus, etc. and getting staff on loan from private companies. As vice-minister for international affairs at the Ministry of Finance, which is the main counterpart for the IMF and the World Bank, I was overseeing the preparation of the event, with reports from Mr. Naka from time to time.

As it turned out, the event was a success beyond expectations, with official registrations alone surpassing 10,000. The main venue was the Tokyo International Forum in Yurakucho, near Tokyo Station. With the dedication of the preparatory staff and the cooperation of the police, hotels, airports, and the Tokyo Metropolitan Government, security was maintained naturally without blocking the streets. Catered foods were delicious, and we were also blessed with good weather. Finance Minister Koriki Jojima, who succeeded Mr. Azumi shortly before the meetings on 1 October, went through his schedule energetically. He met with the ROK Minister Park Jae-wan, UK Chancellor Osborne, and Secretary Geithner of the US; attended the IMF’s International Monetary and Financial Committee; and hosted a dinner at Hotel Chinzanso. In addition to the reception hosted by Prime Minister Noda, His Imperial Highness the Crown Prince (now His Majesty the Emperor) gave an address at the opening ceremony.

Many foreign visitors came to Japan for the first time or hadn’t visited in a long time. I heard comments such as, “I thought Japan had stagnated since the 1990s, so I did not expect Tokyo to be so clean and prosperous,” and “I did not expect the level of recovery and reconstruction in just a year and a half after the earthquake.” When I met the IMF’s Managing Director Christine Lagarde after the meetings, she reiterated her appreciation to Japan for hosting perfect meetings. She said that, when she left the Imperial Hotel after completing her jam-packed, 6-day schedule, the hotel staff and chefs stood in lines to send her off, and that brought tears to her eyes.
In fact, services in Japan in general are wonderful because the staff put their pride and spirit into their work. After visiting various countries’ capitals for work, I myself think Tokyo is one of the most beautiful capital cities in the world, and I am very proud of it. It is a clean and green city, in the traditions of the Edo Shogunate period (1603–1867) and the Meiji modernization (1868–1912), as well as one that has a truly contemporary feel.

**Hosting the Meeting on Myanmar in Tokyo**

On the occasion of the Joint Annual Meetings of the IMF and the World Bank in Tokyo in 2012, I chaired the Meeting on Myanmar on 11 October at the Japanese government’s conference center in Mita. Representatives from various countries and international organizations gathered, including Japan’s Finance Minister Jojima, Myanmar’s Finance Minister Win Shein, ADB’s President Kuroda, the World Bank’s Managing Director Sri Mulyani, the IMF’s Deputy Managing Director Shinohara (formerly vice-minister of finance for international affairs of the Japanese Ministry of Finance), and the US Treasury’s Under Secretary Brainard. The press release issued by the chair stated that the international community would support Myanmar’s reforms and its return to the international financial system. Five years later, when I met former Finance Minister Jojima at ADB’s Annual Meeting in Yokohama in 2017, he told me that he had forged a bond with Myanmar during this donor conference and he had been invited to Myanmar many times, and continued to make efforts to promote friendship between the two countries.

In Myanmar, progress had been made in terms of democratization, reconciliation with minorities, and economic reform, and the US eased sanctions on the use of the dollar in 2012. Following these developments, Japan was looking for ways to hold policy dialogs with Myanmar and resume ODA loans to the country. As with any financial institution, any arrears need to be resolved before lending can resume. At the meeting between Prime Minister Noda and Myanmar’s President Thein Sein in April of 2012, a basic agreement was reached on how to eliminate the arrears in Japanese ODA loans. Daikichi Momma, who was deputy director-general of the International Bureau in the Ministry of Finance at the time (and later director-general), dealt with this issue enthusiastically.

In general, rescheduling and reducing bilateral official debts (debt restructuring) are supposed to be discussed at the Paris Club, a group of creditor countries. The Paris Club countries have to act as one; individual
countries are not allowed to compromise the discipline by trying to collect just their debts or by offering concessional terms on their own. It is also customary to use the IMF’s support program as a condition for debt restructuring. Between 2002 and 2004, when I was director of the Development Policy Division, I had attended many Paris Club meetings to discuss rescheduling the debts of Indonesia and others. Based on that experience, I thought it was necessary to explain that Japan’s debt relief for Myanmar was in compliance with international conventions.

I traveled to Yangon in July 2012 and met with the officials. I then explained Japan’s position at the Meeting of Deputy Finance Ministers on Myanmar at the Asia-Pacific Economic Cooperation (APEC) Finance Ministers’ Meeting in Moscow on 30 August, as well as at the Meeting of the G7 Deputy Finance Ministers (G7Ds) in Paris on 11 September. Separately, I carefully explained to the US Treasury’s Under Secretary Brainard and French Vice-Minister Fernandez, director-general of the French Treasury and also chair of the Paris Club, that the debt relief of Japanese ODA loans would not compromise the Paris Club principles, and that, although there was no IMF support program, the IMF would be fully involved in monitoring Myanmar’s macroeconomic policy.

In the case of Myanmar, the overwhelming majority of the debt principal was Japan’s ODA loans provided before the 1970s, and this was subject to debt reduction under a resolution of the United Nations Conference on Trade and Development (UNCTAD), so it was accepted that it was not subject to the usual process of the Paris Club and that Japan could provide its own debt relief ahead of other countries. On the day after the meeting on Myanmar (12 October), I set up a meeting between the representatives of Myanmar and the head of the IMF’s responsible department, and advised Myanmar to work closely with the IMF with regard to macroeconomic policy and advancing financial sector reform. In the case of developing countries, the IMF’s seal of approval on their policies provides international credence.

In the end, measures to resolve the arrears were implemented in January 2013. Myanmar had in total 273.5 billion yen in arrears as ODA loan principal. Of that, the Government of Myanmar repaid 159.8 billion yen, which had been due in or before March 2003, to JICA, after receiving a bridge loan from a Japanese private bank. JICA then immediately extended a new budget-supporting ODA loan, which was used to repay the bridge loan. (This was in effect a rollover of the ODA loan.) The 113.7 billion yen in principal, which had been due after March 2003, was forgiven. Arrears of
interest payments were treated equally as arrears of principal payments, and all late charges for principal and interests were forgiven. In 2013, the $512 million in arrears to ADB and loans in arrears to the World Bank were also resolved by rolling them over to new ADB and World Bank loans via bridge loans provided by JBIC. This enabled JICA, ADB, and the World Bank to extend new project loans, greatly accelerating the support for Myanmar.

After Finance Minister Aso took office on 26 December 2012, following the inauguration of the Abe Cabinet, his first overseas trip, on which I accompanied him, was a visit to Myanmar from 2 to 4 January 2013. During this trip, we visited the Japanese soldiers’ cemetery and the Thilawa Industrial Park. In the capital city of Nay Pyi Taw, we met President Thein Sein. Subsequently, I had opportunities as President of ADB to meet with President Thein Sein several times. International news outlets tended to criticize him, a former army general himself, as the head of an administration propped up by the military, but he was a very mild-mannered and intelligent gentleman. I thought it was admirable that he quietly transferred power to Aung San Suu Kyi’s administration after being defeated in a democratic election he had promised.

Myanmar was absorbed into British India in 1886 as the province of Burma. Before then, it had been a Buddhist kingdom with a rich tradition. The Japanese have a special emotional connection to Myanmar because, during World War II, many Japanese soldiers lost their lives there in the Battle of Imphal, a recklessly planned operation to attack British India. Independence was achieved in 1948, but the Ne Win administration adopted isolationist, authoritarian policies based on the idea of Burmese socialism in 1962. From 1988, the country was ruled by a military regime and under sanctions from the international community. For this reason, it was one of the least developed ASEAN countries. Therefore, if appropriate economic policies and national reconciliation efforts continue in the future, the potential for growth will be high. Both the government and the private sector in Japan had a consistent desire to support Myanmar.
How Are Exchange Rates Determined?

In a way, I have been involved with the issue of exchange rates throughout my life. It was one of the important agenda items of the 1993 G7 Summit in Tokyo, which I was in charge of planning while deputy director of the International Organizations Division of the International Bureau in the Japanese Ministry of Finance. When I worked at the International Monetary Fund’s (IMF’s) Policy Development and Review Department from 1994 to 1997, the Asian emerging economies’ de facto pegging of their currencies to the dollar (fixed exchange rates), capital inflows, and economic overheating were considered as problems. During my university days (1974–1978) at the University of Tokyo, I took classes on international finance by Professors Koichi Hamada and Ryuichiro Tachi, so I have been studying such issues as the relationship between the balance of payments and exchange rates since then. I recall that my university textbooks reflected the time—the fixed exchange rate system of 360 yen per dollar had just been terminated in 1971—and the focus was not on how exchange rates were determined but on how changes in exchange rates would affect the current account balance (transactions of goods and services). When I was director-general of the International Bureau in the Ministry of Finance, I taught practical international finance every Saturday of the spring term for 2 years at the University of Tokyo.
Exchange rates are significant for those involved in international transactions. If you sign a contract to sell something for a dollar when the exchange rate is 100 yen per dollar and the yen appreciates to the rate of 90 yen per dollar, you will lose 10 yen. This is a huge burden for an exporter who is making every effort to cut costs by even a single yen. On the other hand, for importers whose contracts are in dollars, the yen’s appreciation is an advantage and depreciation a disadvantage. Of course, it is possible to hedge foreign exchange risks through forward exchange contracts, for example, but there are limits. Fundamentally, it is to everyone’s benefit to have stable exchange rates. However, since major countries shifted to a floating exchange rate system in the early 1970s, exchange rate movements can be sudden and significant.

Theories describing exchange rates include the purchasing power parity theory (exchange rates are determined so that prices are the same across countries), the flow approach (the current account balance and the capital account balance, especially the “fundamental balance,” which is the sum of the current account balance and the long-term capital account balance, affect the exchange rate), and the asset approach (exchange rates are determined to adjust the returns on financial assets in various currencies). Although each theory explains exchange rates to a certain extent, actual exchange rates do not move according to the theories.

For example, according to the purchasing power parity theory, the currency of a country with a low inflation rate should rise against that of a country with a higher inflation rate. Still, in the case of the yen, it has tended to depreciate against the dollar since the fall of 2012, even though the rate of inflation in Japan has been lower than that of the US. In fact, even at absolute levels, prices of goods in Japan in dollar terms may now be much lower than the equivalent prices in the US. According to the Big Mac index published by the British magazine *The Economist*, McDonald’s Big Mac was $5.67 in the US as of January 2020, while it was 390 yen in Japan. If the law of one price holds, the exchange rate should be 69 yen per dollar. In contrast, the actual exchange rate in January 2020 was 110 yen per dollar. Of course, the law of one price applies only to tradable goods. Still, when I travel around the world and stay at hotels and eat, I find that Japanese prices are much lower than those in the US and Europe.

I believe that purchasing power parity prevails in the long run, but, at least in the short term, exchange rate movements are, in fact, influenced by flows of capital driven by monetary policies, growth projections, and employment conditions in various countries, among other factors. The yen’s
shift from depreciation before the global financial crisis to appreciation after the crisis was said to have been influenced largely by the so-called carry trades.

That is, there were many carry trades before the crisis, in which traders borrowed yen at a low interest rate, exchanged it for the dollar, and invested in dollar assets with higher interest rates. These trades were a factor in the yen’s depreciation. However, after the crisis, these trades were reversed and the move to convert dollar assets into yen assets intensified, causing the yen to rise. In principle, a difference in interest rates (for example if the interest rate of a dollar-denominated 1-year note is 2% higher than that of a yen-denominated note) would result in the same forward spread, which is the difference between a spot exchange rate and a forward exchange rate (the yen would be 2% higher against dollar 1 year later). Therefore, if an investment is hedged on the foreign exchange risk, the return will be the same whether the asset is denominated in yen or in dollars. However, in reality, unhedged carry trades brought the yen down and up, as described above.

In the event of a major disaster such as the Great East Japan Earthquake and the recent outbreak of COVID-19, exchange rates may fluctuate significantly in an unexpected manner. The foreign exchange market used to be dominated by current account balances, but now it is capital movements, with their overwhelming scale, that drive exchange rates. Speculative activities aiming to profit from short-term currency fluctuations are making the fluctuations even bigger. In addition to the traditional margin trades, high-frequency trades using artificial intelligence can move the market significantly in an extremely short period of time.

Changes in the Thinking about the Currency Exchange System and the Responses of Emerging Economies

Let us have a brief review of the history from a theoretical point of view.

The term “trilemma of international finance” means that the three goals of (i) a stable foreign exchange rate, (ii) an independent monetary policy, and (iii) free international capital movements cannot be achieved at the same time.

In the so-called Bretton Woods system, which took shape after World War II, movements of short-term capital (goal 3) were restricted to ensure a fixed exchange rate system (goal 1) and the independence of monetary policy (goal 2). Each country built foreign exchange reserves and traded...
its own and other currencies in the foreign exchange market to balance the
demand and supply of foreign currencies, and kept its exchange rates fixed.

Japan had difficulty maintaining the foreign exchange reserves
necessary to keep the exchange rate of 360 yen per dollar. When there was
a current account deficit and the government was likely to run out of the
dollar reserves ("the ceiling of the balance of payments"), it had to adopt
austere fiscal and monetary policies to cool domestic demand and reduce
imports, instead of acquiring the dollar through capital inflows, although, in
exceptional cases, private companies were allowed to receive some "impact
loans" (private untied loans) from foreign banks. The IMF was a mechanism
through which member countries could borrow from one another to bolster
their foreign exchange reserves when they faced difficulties in their balance
of payments, with a condition that they tighten their fiscal and monetary
policies. In the early 1960s, Japan signed agreements for two conditional
loans (standby credits) with the IMF, but, as it turned out, it did not have to
actually draw on them.

In 1971, the Nixon administration of the US stopped exchanging
dollars held by foreign governments for gold, which led to the collapse of the
Bretton Woods system and the transition of major currencies to the floating
rate system. This can be described as a system that gives priority to goals 2 and
3 of the trilemma. Until the 1980s, an approach was implemented that pursued
the stability of exchange rates (goal 1) to some extent, through international
policy coordination (a compromise on goal 2) and coordinated interventions
such as the Plaza Accord in 1985. However, as international capital movements
became more active and grew in scale, that, too, became difficult. Since the
1990s, the dominant thinking has been that countries should aim to stabilize
foreign exchange rates by adopting stable and appropriate economic policies
or, in other words, by "putting one’s house in order."

In developed countries, over time, interventions in the foreign
exchange market ceased to be seen as a means for routine use. The IMF has
also changed: it is now an organization that deals mainly with balance-of-
payments problems in emerging and developing countries. Europe, on the
other hand, has adopted a common currency, the euro. This is a system that
completely abandons the independence of monetary policy (the European
Central Bank (ECB) decides the policy mainly to stabilize prices throughout
the region), completely fixes the exchange rates within the region (with the
common currency), and completely frees the movement of capital within the
region. This means that goals 1 and 3 are fully met and goal 2 is completely
abandoned.
The international financial and exchange systems evolved to
promote not only multilateral free trade and the liberalization of current
transactions, but also the liberalization of domestic financial sectors and
international movements of capital. As a benefit of these changes, new
companies and developing countries gained the ability to obtain more funds
faster and to achieve higher growth. Today, it would not be possible to restrict
capital movements as the Bretton Woods system did; nor is it desirable. This
is especially true for developed countries. On the other hand, under the
current international system, exchange rate fluctuations have become more
significant and volatile. Rapid capital movements have caused more crises,
such as the Asian currency crisis of 1997/98, the global financial crisis of
2007/08, and the European debt crisis that began in late 2009. There is also
a tendency to funnel more profits into the financial sector than into the
industrial sector.

As for emerging and developing economies, after the Asian
currency crisis, there were some changes in the thinking with regard to
currency exchange policies. On the one hand, Asia’s developing countries
recognized that the reckless inflow of funds—which ignored exchange
risks—was the result of the fact that their currencies had been effectively
pegged to the dollar. Based on that recognition, they allowed their currencies
to move more flexibly in response to market developments. At the same
time, however, many developing countries are actively pursuing so-called
macroprudential policies that pay more attention to capital inflows/outflows
and asset prices and employ such tools as increasing or decreasing banks’
reserve requirement for their foreign currency borrowing (capital inflow
restrictions using price mechanisms) and changing the regulation of the ratio
of down payments for mortgage loans.

In addition to the more flexible foreign exchange policies, the
macroprudential policies for monitoring and controlling short-term capital
movements together with liberalization of capital transactions are now part
of the IMF’s standard prescription for emerging and developing economies.
Needless to say, liberalization of capital transactions (inward foreign direct
investments and portfolio investments, borrowing from foreign countries,
investments and lending in foreign countries) should be carried out in stages
after careful assessment of whether the conditions are right, including the
status of the domestic financial sector. This is a point that Japan emphasized
after the Asian currency crisis. When I worked in the IMF’s Policy
Development and Review Department from 1994 to 1997, before the crisis,
the IMF was considering effectively forcing member countries to liberalize
not only current transactions (trade in goods and services and transfers of incomes such as interest rates and dividends) but also capital transactions, by amending the Articles of Agreement and making it an obligation of member countries. A lot has changed since then.

In reality, many emerging and developing economies are still trying to stabilize their currencies through certain levels of interventions in order to avoid excessive fluctuations in exchange rates that may cause credit concerns. Therefore, if we are to describe the current system of those countries in the framework of the trilemma, capital inflows and outflows are basically free but monitored and may be suppressed by policy if necessary; and monetary policy is independent but may be affected and changed by capital inflows and outflows. In other words, the trilemma’s goals 2 and 3 are basically satisfied but with restrictions, and goal 1, the stability of the exchange rate, is not completely abandoned.

Capital inflows and outflows in response to changes in developed countries’ monetary policies are a source of anxiety for developing countries, especially emerging economies. In fact, emerging economies around the world, including those in Asia, faced capital inflows and currency appreciation caused by developed countries’ lowering of interest rates and quantitative easing following the global financial crisis. At G20 meetings when I was vice-minister of finance for international affairs, finance ministers and central bank governors of emerging economies expressed their opinion that developed countries should conduct their monetary policies with greater consideration for the impacts of these on other countries. The quantitative easing measures in the US and Europe after the crisis were necessary to avoid the collapse of the financial system and to support growth, and they were good for emerging and developing economies as well. However, the discontent of those countries is also understandable.

On the other hand, after I became the President of ADB, and after Federal Reserve Bank (FRB) Chair Bernanke testified in Congress in May of 2013 that the quantitative easing would be scaled back, currencies of emerging economies such as Indonesia and India fell sharply, in the fall of the same year. Although the current account and fiscal deficits in Indonesia and India were mentioned as the cause, the policies of these countries had not been especially unhealthy, considering that emerging economies in general tend to borrow more domestically and internationally to support a high level of investment for growth. In the end, the foreign exchange markets in these countries regained stability. Still, this was an episode that showed emerging and developing economies being shaken by the monetary policy of developed countries.
Is a Foreign Exchange Intervention a Policy Option?

Now, is foreign exchange intervention an option for a developed country like Japan? My position is that foreign exchange intervention should not be off the table as a policy option, as I have written and as I have acted in fact, as vice-minister of finance for international affairs in the Japanese Ministry of Finance. When it is clear that speculative movements are causing exchange rates to fluctuate excessively and causing significant harm to the stability of economic activities, even unilateral intervention cannot be ruled out. Of course, even in such a case, prior consultations within the G7 framework would be necessary, and it would be better if a coordinated intervention could be arranged.

From my experience as vice-minister of finance, I feel that the currencies of major countries have recently been reacting strongly to the monetary policy stances of countries. I believe Japan’s interventions have been effective in discouraging speculation, but the yen–dollar exchange rate has been affected greatly by these monetary policies. Fundamentally, there is no reason for exchange rates to move significantly when interest rates move by as little as 0.25% or the central bank’s money supply (base money) increases or decreases slightly. Still, in reality, exchange rates do move that way, partly because of speculation.

With regard to developed countries at least, the current dominant view in the world of international finance is that monetary policy in each country can be freely used to stabilize prices (including avoiding deflation), to maximize employment, and to respond to crises (providing liquidity to financial institutions), but exchange rates (especially their levels, not necessarily short-term fluctuations) should basically be left to market forces. Is this dualistic idea correct?

If we look at the history of fiscal policy and monetary policy after World War II, we notice that the way of thinking has been changing gradually. First, the mainstream idea was to use fiscal policy to counter economic fluctuations, in accordance with Keynesian theory. Then, questions were raised about its effectiveness (By how much can it make the economy grow?) and efficiency (Is the expansion of public works a productive investment?), and the role of monetary policy shifted from a subordinate one to a dominant one. Then again, more recently, the effectiveness of monetary policy came into question, and the importance of fiscal policy is being emphasized.

The positive view of foreign exchange intervention as a policy option may become popular again in the world in the future. If we are to treat intervention as a policy option, for example when the Japanese government
intervenes by buying the dollar and selling the yen, it would be more effective if the Ministry of Finance and the Bank of Japan (BOJ) were to cooperate to avoid “sterilization”—that is, to keep the yen’s money supply increased after buying the dollar and selling the yen. However, difficult questions remain about actually using intervention as a policy option, such as what exchange rate conditions warrant it, when to intervene, and whether an intervention can be carried out without criticism from the other country because, unlike monetary policy, it always involves a currency of another country.

By the way, I would like to point out that Japan’s foreign exchange interventions have not caused losses overall. On the contrary, they have actually made significant profits.

Japan’s foreign exchange reserves used for foreign exchange intervention were worth $1.32 trillion at the end of 2019. Some of them are held as gold- and euro-based assets, but most are held as dollar-denominated US Treasury notes. Also, most of the foreign exchange reserves are assets held by the Foreign Exchange Funds Special Account of the Ministry of Finance, and some are foreign currency assets of the BOJ. As the dollar has been bought since the yen–dollar rate was 360 yen per dollar, there have been foreign exchange losses, but the profits based on interest rate differences between the yen and the dollar have been bigger than that. So, overall, management of the foreign exchange reserves has been profitable. (Some of the interest rate differences owe to the fact that dollar assets have longer terms than yen borrowings.) Some of the profits are transferred from the Foreign Exchange Funds Special Account into the government’s general account to help the country’s finances. Looking at the balance sheet of the Foreign Exchange Funds Special Account as of 31 March 2019, the amount of total assets exceeded liabilities by 25.25 trillion yen. This is a net figure after deducting 6.73 trillion yen for the foreign exchange loss and 44.32 trillion yen for the cumulative total of transfers to the general account. It shows that, as a whole, the foreign exchange reserves have been making significant profits.

In the unilateral interventions on 4 August and 31 October to 4 November of 2011, conducted when I was vice-minister of finance, Japan spent a total of 13.6045 trillion yen to buy $172.2 billion, so, on average, Japan bought dollars at the rate of 79 yen per dollar. If we convert $172.2 billion using the rate at the end of 2019, which was 110 yen per dollar, the value in yen increases to 18.942 trillion yen. This means that, at that point, the transactions had generated a foreign exchange gain (unrealized gain) of 5.3375 trillion yen. In general, it is said that speculation plays a
role in stabilizing prices when it makes money (except in the case of market manipulation), because it means buying something at low prices and selling it at higher prices. In this sense, it could be said that the interventions in 2011 contributed to exchange rate price stabilization, and also made significant profits, as long as foreign currency assets are evaluated at the current yen–dollar rate. Of course, intervention is done to counter speculative market movements and it is not a speculation for profit.

**Is the Depreciation of the Yen a Good Thing?**

Having said all of this, I sometimes think that, in Japan, too much attention is paid to exchange rates, and there is an unwarranted belief that the depreciation of the yen is a good thing. In the US, sometimes the auto industry complains that the yen is too weak, but, as a whole, people seem to believe that a strong dollar is more likely to strengthen confidence in the dollar and make it easier to raise funds from the world. In discussions, US officials do complain when the yen depreciates rapidly, but they do not seem to prefer a weaker dollar. Europeans are also not too nervous about exchange rates, perhaps because of the large market size of the euro area. On the other hand, some say the Japanese are sensitive because Japan is highly dependent on exports, but the ratio of exports of goods to gross domestic product (GDP) was 14.8% in 2018—higher than the 7.8% of the US but not too high from a global perspective.

Indeed, a depreciation of the yen allows exporters to increase the volume of sales by lowering the dollar prices of exported goods. It also has an effect of replacing imports with domestic products, which will be positive for production and employment. Even if the quantity is the same, export revenues increase in terms of yen, and the valuation of investment returns and foreign assets also go up in terms of yen. Japanese companies report corporate profits in yen in their financial statements, so, when the yen depreciates, stock prices on the Tokyo Stock Exchange tend to rise in response. Conversely, a rapid or excessive appreciation of the yen is clearly undesirable.

However, the sensitivity of the export volume to exchange rates has been less than it used to be, as Japanese firms have increased overseas production. Even if the yen weakens, the impact on domestic production and employment would be limited. The yen’s depreciation also means that Japanese products are bought abroad at lower prices, although this depends on each company’s price strategy. Moreover, the lower the yen, the higher the
prices of imports and the costs of overseas travel, which is a disadvantage for consumers. In fact, a weaker yen causes the Japanese people’s purchasing power and comparative income to decline in dollar terms. I believe that the appreciation of the yen after the Plaza Accord in 1985 not only led to stimulation of the economy through the expansionary fiscal and monetary measures taken to counter negative impacts of the yen appreciation but also increased the Japanese people’s purchasing power and made them feel they were richer than Americans, which stimulated consumption and investment. This eventually brought about a bubble. Conversely, a weak yen and the resulting loss of purchasing power could have a negative effect on domestic demand.

Japan’s GDP per capita in the 1990s was higher than that of the US. However, in 2018, Japan’s GDP per capita was $39,000 and much lower than that of the US, which was $63,000. This reflects not only the exchange rate but also the overall weakness of the Japanese economy. However, it is a fact that, when the yen depreciates, the calculated dollar-denominated income falls, even if the income stays the same in yen. It is becoming increasingly difficult for companies and universities to attract talented foreign people to work for them with Japanese salaries. If the yen’s purchasing power falls, the cost of acquiring blue-chip companies overseas also increases.

The real trouble for a country lies in a scenario whereby its currency and sovereign bonds are sold and the currency depreciates and bond prices fall; this makes it more difficult to repay foreign currency borrowings and leads to further depreciation of the currency and higher interest rates on new sovereign bonds. This, in turn, makes it more difficult to finance fiscal deficits and to issue new bonds to repay existing debts. In such a scenario, the balance sheets of firms and financial institutions would be damaged and a financial crisis could occur. In addition to the rise in import prices, people would try to exchange their own currency for tangible goods, and that could lead to severe inflation.

Now is an era in which companies and people are both required to operate on an international stage. In particular, Japan has limited growth potential, given its declining and aging population, if what we do and think is limited within our borders. In fact, Japanese companies that operate internationally now look at foreign exchange rates from a global perspective, apart from the impact on yen-denominated earnings. I think it would be better for Japanese society as a whole to change its views on exchange rates, and move away from simply welcoming the yen’s depreciation and fearing its appreciation.
How Conference Calls Are Conducted

I would like to digress a bit and explain about the conference calls I have mentioned many times. Because of the time difference, many G7 and other international conference calls are scheduled to take place early in the morning in the US, around noon in Europe, and late at night in Japan. When I was talking to just one person over the phone, I would make the call in the usual way and use the microphone and speaker to allow others, such as senior colleagues of the Ministry of Finance and a note-taker, to listen to the conversation. It seemed to me that my counterparts often did the same. I talked most frequently over the phone with US Treasury Under Secretary Brainard. Often times, I called her from home and received her calls at home at night in Japan. In such cases, I would take notes myself during the phone conversation and, if necessary, later tell a junior official what had transpired (called a “debrief”) and ask the official to write an official memo.

When the finance minister participated in a call, we would have a professional interpreter join under a nondisclosure agreement, just as he or she would for a face-to-face meeting. In the past, there had been cases where the staff of the Ministry of Finance acted as interpreters. However, such staff are no match for trained interpreters in terms of the ability to hear everything the counterpart says and to translate at sufficient speed. For a long time, we engaged the same interpreter for meetings involving the finance minister. Her translation was amazingly accurate because she was familiar with technical terminology and the subject matter.

When we had conference calls of G7 deputy finance ministers (G7D) involving many participants, we would normally call a number specified by the US Treasury Department and enter the AT&T conference call system. When someone joined the call, a chime would sound and the person would introduce himself or herself. There were times in the past when only deputy finance ministers attended G7D conference calls. When I was vice-minister of finance for international affairs, central banks including the ECB were part of the circle, and, from the BOJ, Executive Director Nakaso, who was in charge of international affairs, participated. The IMF was most frequently represented by Deputy Managing Director Lipton. Therefore, the participants would include 7 from the finance ministries, 7 from the central banks, and representatives of the ECB, the IMF, and the European Commission, so the total number would be close to 20.

When this many people were on the call, there was more noise of turning paper and the like, and it became difficult to guess who was speaking by voice and accent alone. We were supposed to identify ourselves by the
first name every time we spoke, for example “This is Takehiko from Tokyo,” but many forgot to do that when the discussion became heated. I could mostly guess who was speaking based on what was said, but sometimes I had to ask a junior official who was present by passing a note that read, “Who was that?” To state your country’s position and make an impact in such a situation, one needs the courage to muscle into a conversation, a good sense of timing, and an ability to make clear and convincing statements. In my case, I was saved by my experience of chairing the meetings of G7 deputy deputy finance ministers (G7DD) as senior deputy director-general of the International Bureau and the fact that I had a lot of acquaintances through that. I think it would have been really tough without these experiences.

When I was vice-minister of finance, Chishiro Matsumoto, deputy director of the International Organizations Division, and Daisaku Kihara, deputy director of the Foreign Exchange Markets Division, made perfect memos (records) of these conference calls quickly. They would not have been able to write such memos without a clear understanding of the subject matter of the discussion. When you are trying to say something, you use your brain to think about how to say it, so you can’t completely follow what other speakers are saying. To make a persuasive argument, you have to have a good understanding of what has been discussed in the previous meetings, based on the records. I also think that meeting memos are useful for sharing necessary information within the Ministry of Finance and as an archive for the future. That is why I was eager to create meeting memos for the record.

COVID-19 has made it difficult to gather in person, and the IMF and G20 ministerial meetings are shifting to video conferencing. However, the G7D and G7DD conferences still seem to be conducted as traditional conference calls. I wonder if they will adopt video conferencing at some point, whereby participants can see each other. When I think about seeing the faces of many people in a conference that takes place across different time zones, sometimes early in the morning and sometimes late at night, I feel that would be more tiring.

An advantage of conference calls is that you can reduce international travel. During my tenure as vice-minister of finance, and even before then, I traveled abroad countless times. Many of the trips were to Washington, D.C., New York, London, Paris, and other European cities. A typical flight would take about 12 hours each way. On a flight out of Japan, I would spend half of the time reading documents and making preparations and the remaining half eating and sleeping. In many cases, flights arrive in Washington, D.C. before noon and in Europe in the afternoon. The meeting might start soon after my
arrival and continue until late at night, so I would not be able to function properly if I didn’t eat or sleep on the flight. There were many meetings where only one person from each country was allowed. If I got sleepy in such a meeting, I would not be able to communicate Japan’s interests and might not be able to recall afterwards what was discussed.

Overseas business trips are troublesome because of the time difference and the time required to travel, but I think there is a great benefit to a meeting where participants can see each other’s facial expressions and feel the mood in the room.

Preparing Joint Statements

I would also like to write about the preparation of joint statements at international conferences. In any country, documentation is extremely important in the work of the government. For a communiqué, or a joint statement as it is referred to in Japan, which is released at the end of an international conference, each country is very particular about every single word. The energy that is expended is probably unimaginable for those who are not involved. Even if the language seems boring, there is a long drafting session behind it, and governments take the content of the statement seriously. Deputy ministers handle the drafting session of a statement at a ministers’ meeting, but parts of it may be delegated to their deputies, depending on the meeting’s importance. Following the global financial crisis, a lot of discussions at the G20 summit and finance ministers and central bank governors meetings dealt with financial regulations, and the Financial Services Agency’s deputy commissioner for international affairs and division directors participated in the drafting sessions for such topics.

Starting with the preparations for the Tokyo G7 Summit in 1993, I participated in countless G7, G20, Asia-Pacific Economic Cooperation (APEC), and IMF committee drafting sessions. I often chaired these sessions, preparing the first drafts and pulling together the opinions of participating countries. Through this experience, I gained some wisdom about what kinds of expressions can be used to achieve compromise when there are disagreements over the language. For example, instead of using “will,” we may use “consider.” If that doesn’t do, then use “consider the possibility of” or even “prepared to consider the possibility of.” In Japan, there is a term “Kasumigaseki literature,” referring to the peculiar language bureaucrats use. Kasumigaseki is a part of central Tokyo where government agencies
are located. The language used in drafting joint statements might be called “communiqué literature.”

A colleague at the Ministry of Finance once asked me if I instinctively liked preparing communiqués—but of course I didn’t. I just wanted the drafting sessions, which sometimes went on all night, to finish quickly. Although I traveled to various countries, on many of my business trips I was confined to the hotel where the conference took place, or a room in the building of the IMF or the host government. Even now, when I think about the time spent that way, I feel the onset of a headache rather than nostalgia. Also, I am fully aware that skills in communiqué literature are not very useful in any other place.

People Involved in International Finance

I hope the reader will allow me to digress a bit more. I took over the position of President of ADB from Mr. Kuroda. Looking back at my career at the Japanese Ministry of Finance, I realize that I had often been in a position to receive guidance from him. In general, people in the so-called international field of the Ministry of Finance, even if they are loaned to international organizations or assigned to other departments at some point in their career, come back to the International Bureau or the Office of the Vice-Minister of Finance for International Affairs. After a while, you are no longer sure when you worked with a particular person because there are many occasions on which you might have worked together. As I have mentioned, I also shared many experiences with those who did similar jobs at the BOJ and in other countries’ governments, and I feel that personal trust among us was built over a long time.

By the way, US Treasury Under Secretary Lael Brainard, who was my counterpart during my tenure as vice-minister of finance for international affairs at the Japanese Ministry of Finance and as President of ADB, had been an associate professor of economics at the Massachusetts Institute of Technology. She was a senior White House official in the Clinton administration and served as the President’s sherpa (personal representative) at the G8 Kyushu-Okinawa Summit in 2000. I had seen her during that time, as I was the head of the division in charge of the G7 finance ministers and central bank governors meeting. Later, she moved on to the Brookings Institution when the Republican administration of George W. Bush took over. I visited her for a discussion when I was working at the Japanese Embassy in Washington, D.C. Under the Democratic administration of Barack Obama, she became
under secretary of the Treasury for international affairs. She is married to Kurt Campbell, assistant secretary of state for East Asian and Pacific affairs, who was in charge of issues relating to Japan at the State Department. During my tenure as vice-minister of finance, she and I called each other from home many times, and sometimes I heard her little daughter calling her in the background. When I met her after I became President of ADB, I brought Japanese sweets I had bought at Narita Airport as a token of my apology to her daughter for calling her mother at home so often. She was quite pleased. In June 2014, she became a member of the FRB’s Board of Governors.

I had known Charles Collins, assistant secretary of the US Treasury, as a former IMF economist. Mark Sobel, deputy assistant secretary, is not a political appointee but a career official of the Treasury, and he was my counterpart for more than 20 years, from when I was preparing for the G7 Tokyo Summit in 1993 and during the G8 Kyushu-Okinawa Summit in 2000. I had known Bini Smaghi, executive director of the ECB, since he was in charge of the G7 at the Italian Treasury under Director-General Mario Draghi in the 1990s.

In Japan, the BOJ’s Executive Directors Nakaso and Amamiya, both of whom would later become deputy governors, were college mates of mine at the University of Tokyo. I used to chat with them in the hallways of the Faculty of Economics. Even considering the fact that we were all in the field of international finance, I feel that this shows what a very small world we live in.

When we get together, whether I am with my colleagues from the Ministry of Finance or with foreign officials, we often talk about shared experiences and interesting episodes—the times when we worked together on difficult issues and navigated disagreements while representing the interests of our respective countries. I think that whether these episodes become a good or a bitter memory depends on whether your counterparts represented the national interest in a dignified and reasonable way, whether you felt that they were fair, and whether they were magnanimous enough to understand others’ position. I have the utmost respect for opponents who happened to be on the other side of an issue but represented their position admirably.

Getting back to my relationship with Mr. Kuroda, I had the opportunity to talk with him first between 1982 and 1984, when I was in charge of research on tax systems of foreign countries in the Research Division of the Tax Bureau. Mr. Kuroda was deputy director of the Indirect Tax Policy Division, and then deputy director in the Planning and Administration Division. He would ask me about tax reform of the Reagan administration in the US and the value-added
tax of various countries. Mr. Kuroda was a young and spirited bureaucrat then, but he also had an air of a scholar, and he often smiled and told jokes. At one time, we went out together to sing karaoke.

From the late 1980s to the early 1990s, I worked with Mr. Kuroda again in the Tax Bureau. During this time, I moved from the International Tax Division, which dealt with tax treaties and foreign tax credit, etc., to the Income Tax Policy Division, and then to the Research Division as deputy director. I was involved in reforms of the income tax and the introduction of the now-abolished national land value tax (to check the land price hike). Mr. Kuroda was director of the International Tax Division, and moved to the Income Tax Division around this time. He was also involved in the preparation of the land value tax bill, so we had a lot of contact.

When Mr. Kuroda was deputy vice-minister of finance for international affairs for a year beginning in 1992, Japan was the host of the G7 Tokyo Summit in 1993 and also chaired various meetings, including the G7 Finance Ministers and Central Bank Governors Meeting. I was involved in the preparation of these events as deputy director of the International Organizations Division, so I was effectively under the direction of Mr. Kuroda. In particular, I remember the work of preparing the G7 finance ministers’ report on structural problems for the Tokyo Summit. Following the decision to issue such a report, Mr. Kuroda chaired the G7DD several times in Paris and elsewhere starting in 1992. The G7DD discussed investment-saving balances, fiscal deficits, aging of the population, and health-care costs. I attended the G7DD as an administrative assistant and as the only junior official. When a meeting was held over a meal, I had difficulty hearing what was being said and struggled to take notes.

I learned a lot from both the process and the actual discussions of this G7DD. I used it as a model when I worked on the draft of the Finance Ministers’ Declaration for the G8 Kyushu-Okinawa Summit in 2000 as director of the International Organizations Division. I did the same when I was similarly involved in the G7DD for the Finance Ministers’ Declaration at the G8 Hokkaido Toyako Summit in 2008 as senior deputy director-general of the International Bureau.

Speaking of preparing for the G8 Summit in 1993, another thing I remember well is the G7 Deputy Finance Ministers Meeting held at the Miyako Hotel in Kyoto in April 1993. Again, I was allowed to enter the room as a note-taker and administrative assistant. I was the only person other than the seven deputy finance ministers. The meeting was held in a small room over a dinner of Japanese cuisine, chaired by Tadao Chino, who was
vice-minister of finance for international affairs at the time. It was attended by US Treasury Under Secretary (later Secretary) Lawrence Summers, Director-General Jean-Claude Trichet of the French Treasury, and Director-General Mario Draghi of the Italian Treasury—both of whom would later become president of the ECB—and Deputy Minister Horst Köhler of Germany, who would later become the IMF’s managing director and German President. They discussed the international financial system after the dissolution of the Soviet Union and Japan’s economic policy after the collapse of the bubble, among other things. Around this time, the US repeatedly demanded a significant expansion of Japanese public works. Looking back now, it was one of the rare occasions when all the big figures of the so-called “currency mafia” were in the same room.

When Mr. Kuroda was director-general of the International Finance Bureau under Vice-Minister of Finance for International Affairs Eisuke Sakakibara from 1997 to 1999 and then vice-minister of finance for international affairs from 1999 to 2003, I successively held the positions of director of the International Organizations Division; budget examiner in the Budget Bureau in charge of budgets for foreign affairs, the economy and industry, and economic cooperation; and director of the Development Policy Division. Therefore, Mr. Kuroda gave me guidance on many tasks, such as the IMF’s aid program for Asia after the Asian currency crisis, the Asian Monetary Fund initiative, Japan’s aid to Asian countries including debt relief, the G7’s discussions on Japan’s economic policy after Japan’s financial crisis in the late 1990s, and preparation for the G8 Kyushu-Okinawa Summit in 2000.

There are many different types of bureaucrats in the Ministry of Finance. Mr. Kuroda was an academic type who liked intellectual activities such as reading and writing books. As an administrative officer, I felt that he was swift in making decisions, did not get ruffled easily, and had a sense of humor. He is one of the most inspiring senior colleagues that I have worked with. I was fortunate to have been able to serve as President of ADB after Mr. Kuroda, and to entrust the position to Masatsugu Asakawa, the former vice-minister of finance for international affairs, who was a colleague of mine in the international field in the Ministry of Finance. He was deputy vice-minister when I was vice-minister of finance for international affairs, and I had the pleasure of working with him on many occasions.
PART II:
SEVEN YEARS WITH ADB
CHAPTER 4

THE PRESIDENT OF ADB HAS THREE ROLES

Arriving in Manila

On 26 April 2013, it was announced that I was elected President of ADB with the support of all members. I arrived in Manila 2 days later, on 28 April. Chief Advisor to the President Tomoyuki Saisu, who had come from the Ministry of Finance and served Mr. Kuroda, and Senior Advisor Mio Oka, who had come to ADB from the Japan International Cooperation Agency (JICA), accompanied me for dinner. On Monday 29 April, I was hurriedly briefed by various departments on administrative matters, and on Tuesday 30 April, I left for ADB’s Annual Meeting in Delhi, India. I had been familiar with the work of ADB to a certain extent through my work at the Ministry of Finance. Still, it was a tough first week. Right out of the gate, I attended the Annual Meeting, and for 5 straight days I met with ministers and other representatives of almost all members (see Figure 2) as well as heads of financial institutions, delivered a speech at the plenary meeting, held media interviews, and attended various seminars.

After returning from India, my job as President began in Manila. In May, I attended the Asia-Pacific Water Summit in Chiang Mai, Thailand, and met with Prime Minister Yingluck Shinawatra on 29 May. On 3 June, I met with Secretary of Finance Cesar Purisima of the Philippines, and on 5 June, President Benigno Aquino III at the Malacañang Palace. In June, I made official visits to Canada, Papua New Guinea, and Australia. In July, I visited Germany, France, the UK, and Mongolia.
Figure 2: The 68 Members of the Asian Development Bank as of 31 December 2019

- Advanced economies and/or graduated developing members.
- Field Office

Nonregional Members (19 countries)
- Austria, Belgium, Canada, Denmark, Finland, France, Germany, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States

Nonregional Members (19 countries)
- Austria, Belgium, Canada, Denmark, Finland, France, Germany, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States
The work at headquarters was also busy, with meetings with various departments continuing from morning to evening almost every day. In the end, in 7 years, I visited most of the 68 members, including developed countries in Europe and the US, in 131 trips over 743 days in total. This means I was traveling for 2 full years. In particular, at the beginning of my tenure, I tried to visit as many members as possible, and to do so quickly. So, for example, in 2014, I traveled 24 times for 131 days. I sometimes visited several countries in a single trip, such as Bhutan and India, and Azerbaijan and the Kyrgyz Republic. Looking back, I am amazed that I was physically capable of doing this. Living in Manila and visiting Asian countries, I became aware of the vitality of Asia that I had not seen from Japan.

In terms of housing, at first I stayed at the Shangri-La Hotel near ADB headquarters. I had visited Manila several times on business before, but on these trips I had just attended conferences, and I had never seen the city at my leisure. The residence I chose was an apartment in Bonifacio Global City, a newly developed, green city. The apartment was surrounded with call center buildings and high-rise apartments, as well as shopping malls, restaurants, and Japanese convenience stores. From the top of the building, on the 53rd floor, I could see through the windows the lush greenery of the historic Manila Golf and Country Club and Forbes Park, Manila’s premier residential area, and the sun setting over Manila Bay in the distance. As the Philippines had been a colony of Spain and the US, I often felt the traditions of these countries in the way of life, especially that of the wealthy.

The people of the Philippines were kind and made my life in Manila enjoyable. There are many good restaurants in Manila these days, including those offering Spanish, Chinese, and Japanese cuisines. Frankly, I thought the eating environment was better than in Washington, D.C., where I had lived twice. Since I depended on the housekeeper to cook, and it was difficult to find ingredients, I could not shop in the neighborhood and cook on weekends, which I had done regularly in Tokyo. On the other hand, I was very fortunate to be able to play tennis at the nearby Polo Club (which was established by US military officers in 1909) on Saturdays and golf at the Manila Southwoods Golf & Country Club (to which I took out a membership) in the suburbs on Sundays.

My family joined me after 3 months. My eldest son, who had been in Grade 7, and my second son, who had been in Grade 4, finished their first term in Japan and transferred to an international school in Manila, whose academic year began in September. I think it was a challenge for them at first, to be thrown into an English-speaking environment.
A Day in the Life of ADB’s President

Based on the records in my datebook, I will describe what I did in a day, from when I got up in the morning until I went to bed at night. This is from Monday 11 February 2019.

I woke up at 7:15 a.m. I quickly washed my face and changed clothes, then went to the dining room at 7:30 a.m. Overlooking Laguna Lake to the southeast of Manila through one window and Manila Bay to the west through the other window, I ate a simple breakfast of toast, orange juice, coffee, and papaya. Fresh papaya is readily available in the Philippines.

I went down to the ground floor of the apartment at 8 a.m. A police officer was waiting for me. Three police officers, named Pablo, Argil, and Leo, took care of my security in rotation. The car was a bulletproof Toyota Land Cruiser. The Philippines had become much safer than in the 1990s, and I never felt unsafe, especially in my neighborhood and in Ortigas district, where ADB headquarters is located. Still, just in case, the President’s car was a heavy one equipped with armor that could withstand machine guns and land mines. The car drove through the rich, gated residential community of Forbes Park, then onto Epifanio de los Santos Avenue, known simply as EDSA to the residents. I arrived in the Office of the President on the eighth floor of ADB headquarters at 8:30 a.m. This office consisted of a desk and a PC and a cabinet near it, a large suite of furniture to meet with guests, and a conference room that could accommodate about 20 people. The entire office was about 55 square meters, or 590 square feet.

I checked the e-mails in the office and immediately responded to the urgent ones. Since I could use my ADB e-mail address from the PC I used at home, I often read and sent e-mails involving countries in different time zones from there. In the morning, I was scheduled to meet with two ADB executive directors to discuss the division of work between the Management and the Board of Directors. So, I invited Secretary Eugenue Zhukov and General Counsel Christopher Stephens and was briefed on the current situation.

From 9 to 10:30 a.m., I attended a meeting with ADB’s Advisory Group on Climate Change and Sustainable Development, which was held about once a year. I explained ADB’s efforts and exchanged views with the group. This group was chaired by Hoesung Lee, professor at Korea University and chair of the Intergovernmental Panel on Climate Change (IPCC), which assesses the effects of greenhouse gases. In addition, Dadi Zhou, director general emeritus of the Energy Research Institute of the National Development and Reform Commission of the People’s Republic of China (PRC), and Yukari Takamura, professor at the University of Tokyo,
participated in the meeting in Manila. The following members joined via video: Jeffrey Sachs, professor at Columbia University; Leena Srivastava, professor at The Energy and Resources Institute (TERI), India; Andrew Steer, president and CEO of the World Resources Institute (formerly of the World Bank); Dame Meg Taylor, secretary general of the Pacific Islands Forum; and Laurence Tubiana, CEO of the European Climate Foundation.

I met with ADB Executive Director Philip Rose of the UK at 10:30 a.m. and Alternate Executive Director Paul Dominguez of the Philippines at 11:30 a.m. to discuss reforms that would delegate to the Management the authority to approve some individual projects—that is, to allow the Management to proceed without having to consult with the Board of Directors for project financing of a certain amount or less—while giving the Board more opportunities for strategic discussions. I kept discussing this reform for about 2 years, but, in the end, we could not reach a conclusion before I left.

At noon, I had lunch in the President’s Dining Room with the Advisory Group on Climate Change and Sustainable Development. ADB had a skilled chef who served lunch consisting of an appetizer, soup, the main dish, and desserts. Wine was not available. However, such a meal was scheduled only about once a week. Normally, I would quickly eat a burger, a sandwich, or a bowl of noodles in my office.
At 1:30 p.m., the Private Sector Operations Department briefed me on whether the private sector projects in Myanmar adequately covered the areas where minority ethnic groups lived.

At 2 p.m., I held an informal meeting, called a “tea session,” with members of the Board of Directors. As a candidate to replace Stephen Groff, ADB’s vice-president from the US, who had left the organization, I recommended Ahmed Saeed, who was also from the US and had experience in government and investment banks. The Board of Directors has the authority to appoint the six vice-presidents, but the President informally informs them in advance of the candidate he or she recommends, and the Board makes a formal decision at a later meeting. Normally, the Board of Directors meets in its meeting room from about 10 a.m. to noon, between once a week and three times a week. The President chairs the meeting. When the President is away on a trip, a vice-president may chair a meeting to approve individual projects. Board meetings on important matters such as ADB’s strategy, policy, or budget are scheduled when the President is in Manila.

From 2:30 to 4 p.m., I hosted a Management Committee Meeting in my office. The committee consisted of the President; the vice-presidents; the secretary; the general counsel; the director general of the Strategy, Policy, and Partnerships Department (hereinafter “director general in charge of strategy”); the director general of the Economic Research and Regional Cooperation Department (“director general in charge of research”); and the director general of the Sustainable Development and Climate Change Department. Meeting every 2 weeks or so, members of this committee discussed pending issues in their respective departments and the outcomes of business trips, among others. Under President Kuroda, the committee tended to meet to make decisions. When I became President, I made it a free forum for exchanging views on pending issues, and it always went on longer than scheduled, about an hour and a half or 2 hours. However, it was very meaningful in terms of sharing information early on important issues, listening to others’ opinions, and conveying my own feelings.

From 4:30 to 5:30 p.m., I discussed with Chief Advisor Yoichiro Ikeda the personnel evaluation of senior officials, which I had to do myself.

I left the office at 5:30 p.m. Traffic was often congested on the way home, and it took about 45 minutes. I often listened to music on the radio and took a nap in the car.

From 6:30 p.m. to 7:30 p.m., I had dinner at home, and chatted with my family. I rarely scheduled dinner meetings in Manila, so I ate at home, unlike when I traveled abroad. This was a habit I had kept since I became
a senior-level official at the Japanese Ministry of Finance. After dinner, I would read and work in my study while listening to jazz or classical music CDs on a desktop stereo, watch TV, or exchange e-mails. I aimed to go to bed before midnight.

**Setting ADB’s Policies and Strategies**

During my term, I came to believe that the job of ADB’s President consisted of three roles. The first is to take responsibility for the day-to-day operations of ADB, and to review and determine its policies and strategies for the future. The second role is to represent ADB to the authorities of its members and the media. The third role is to manage the organization and internal issues, as head of the agency. Perhaps the same is the case for the CEO of a corporation.

On the first role, I will describe specific operations and strategies in the following chapters. Here, I would like to recall and describe the main challenges I faced as President of ADB.

One was the expansion of the lending capacity. After the global financial crisis of 2008, the G20 and other groups actively discussed the idea that multilateral development banks such as ADB should play a larger role in infrastructure investment and climate change countermeasures. In response to such international trends, ADB had to expand its lending capacity and enhance its development effectiveness. This was a big change from the prevailing thought before the global financial crisis, that multilateral development banks should limit their operations to a minimum and the private sector should be mobilized for infrastructure development. This meant that we had to grow our operations to meet expectations, which was an excellent challenge to have.

We were also called upon to develop a new strategy. In a new international environment, we needed to clarify the long-term strategy for the future role of ADB and to build the support of our members.

Another issue was the response to the Asian Infrastructure Investment Bank (AIIB). The AIIB was launched in January 2016 and this presented us with the questions of how to interpret this development, how to position ourselves, and what stance we should communicate publicly. In short, the position I took was that ADB cooperates with the AIIB including through cofinancing appropriate projects.

In areas such as budget and loan planning, long-term strategies that affect the future, capital requirements for future lending, interest rate
policy, risk management, research in general, and human resources and organizational management, which I will describe later, I ended up being more hands-on than I had intended. External factors created new problems, of course, but, in one respect, as I worked as President every day, I began to see issues that should be dealt with. Also, as I gained more knowledge of ADB’s operations, I began paying attention to more work items and became more involved.

A leader must be cautious about micromanagement so as not to demoralize the staff. However, as an English saying goes, “The devil is in the details.” You won’t get the big picture without knowing the details of the operations. I think my management style was to be hands-on—that is, to be involved directly with the issues I thought were important—and, in some cases, to hash out all the details before making a decision. In the Japanese Ministry of Finance, when I was a section chief in charge of research on foreign tax systems at the Research Division of the Tax Bureau in my 20s, the division director regularly asked me various questions on issues ranging from US tax reforms under the Reagan administration, to value-added taxes in Europe, to theories on the optimal tax mix. It felt rewarding that the division director in his 40s—who seemed quite senior to me at the time—took an interest in what I was doing, and I was proud when I was able to provide a good answer after doing the necessary research. At ADB, too, I thought asking questions was an expression of interest and respect for the staff, but some might have felt that it was challenging.

Some of the staff seemed to think that I had read through all the papers they had prepared in advance. This was a beautiful misunderstanding. In fact, in most cases, this is what I did: I read the paper’s executive summary with the staff on the spot; I then asked what was the purpose of the paper or the meeting (whether they were asking for my approval, asking for my input, or trying to provide information to me, etc.). Then I further read what needed to be scrutinized on the spot. Then I made use of my knowledge and experience and asked more questions to deepen my understanding, and finally I made my decision. I didn’t have much time to read documents in advance, and I wanted someone to provide an explanation and discuss with me when I read something and had questions. For important issues, sometimes we had multiple discussions in my office.

If my hands-on involvement added value, this was partly the fact that I could see the entire picture of ADB because, as President, I was the only person to cover all areas, including the sovereign operations of the five regional departments, nonsovereign operations, treasury and accounting,
sector and thematic groups, economic research, and strategy. Second, thanks to my experience at the Japanese Ministry of Finance, I understood international trends in discussions at the G7 and G20, what the leaders and finance ministers of various countries were looking for, and what the parliaments of these countries cared about. In addition, I often felt that it was useful to have been in charge of exchange rates, foreign exchange reserves, debt issues in developing countries, budgets, and taxation. Research was an area in which I had an early interest and experience.

Of course, I did not do everything hands-on. When the six vice-presidents and various directors general prepared proposals and asked for my approval, I often approved them as is and thanked them. In particular, I rarely had any comment on individual projects and programs, including loans, grants, equity investments, and guarantees, handled by the five regional departments (South Asia, Central and West Asia, East Asia, Southeast Asia, and the Pacific) and the Private Sector Operations Department.

I ventured to give comments and instructions for large policy-based loans (budget support loans), projects that were likely to have a considerable number of abstentions or opposing votes at the meeting of the Board of Directors, and projects in which nongovernment organizations (NGOs) were concerned about the environmental impacts and relocation of residents. When we extended large policy-based loans to Mongolia and Pakistan in cooperation with the International Monetary Fund’s (IMF’s) balance-of-payments assistance, I invited the staff to my office, beginning in the project preparation stage. I sought clarifications on the IMF’s views on the current economic state of the subject countries, the amount of cofinancing the IMF was seeking, ADB’s assessment of lending risks, and details of the policy conditions.

In any case, all difficult projects and new ideas were discussed in my office. It was a difficult task to give necessary instructions and make the final decision based on the exchanges that took place there. Although individual projects and important matters went through the Board of Directors, as President I had the responsibility of putting together specific proposals. When I was vice-minister of finance for international affairs at the Japanese Ministry of Finance, there were some aspects that made me feel somewhat less responsible: the vice-minister of finance—the top career official in the Ministry of Finance—handles most matters related to organizational and internal management, so I could concentrate on specific policies on international finance and talks with other countries. Also, even in the operational field for which I was responsible, I would bring important matters to the finance minister for his or her approval.
By the way, at ADB, I had three senior advisors (including one chief advisor) in the President’s Office. The position requires intelligence, mental and physical toughness, and good character. The senior advisors select matters that should be brought to my attention, are briefed in advance by the respective departments, and provide necessary advice. The role of the chief advisor is the most crucial. The chief advisor is the President’s right-hand person, who, on top of the abovementioned functions of senior advisors, must pay attention to the President’s schedule and accompany him or her on all business trips. Fortunately, during my term as President, I had the dedication and support of Tomoyuki Saisu, Naoya Jinda, and Yoichiro Ikeda, all my junior associates from the Japanese Ministry of Finance in their early 40s. Currently, Mr. Saisu is a division director in the Budget Bureau and Mr. Jinda is a division director in the Tax Bureau in the Ministry of Finance. Mr. Ikeda continues to support my successor, Mr. Asakawa. When I left ADB, the other two senior advisors to the President were Niny Khor from Malaysia, who holds a PhD in economics, and Sameer Kamal from Pakistan, who holds a master’s degree in environmental engineering. During my 7-year tenure, I was also assisted by Ehsan Khan, Lei Lei Song, Mio Oka, and Yoshie Shibata.

Dealing with Member Authorities as the Representative of ADB

Regarding the second function of ADB’s President, being its chief representative, it was of foremost importance to establish good relations with leaders and ministers of developing countries receiving assistance, to understand the needs of each country, and to make ADB’s operations effective. As mentioned above, I traveled numerous times to meet with Presidents, Prime Ministers, and other heads of state; finance ministers who handled relations with ADB (ministers of the economy or the central bank governor in some countries); ministers in charge of individual sectors like infrastructure and education; and central bank governors.

Before traveling, I would learn the following facts about the country I was visiting and commit them to memory: its relationship with ADB; the status of ADB’s lending and technical assistance; and its economic situation such as the population, population growth rate, gross domestic product (GDP) per capita, fiscal balance, balance of payments (exports, imports, travel balance, remittances from workers abroad, capital inflows), foreign exchange reserves, shares of employment and GDP by each sector (generally, the higher the share of agriculture, the less developed the country), trade
partners and the details of exports and imports, social indicators on education and health, and recent economic developments such as whether the currency was depreciating and whether the decline in the prices of natural resources had led to a significant decrease in government revenues. When I worked at the IMF in the 1990s, I had traveled to various countries to prepare support programs, and that experience proved useful.

In my case, I also spent time studying the history and political situation of each country. To understand and respect the country and empathize with the priorities and concerns of its leaders, I think it is essential to learn or try to learn the country’s history and politics. When a senior foreign official meets with Japanese leaders, the impression of that person would be completely different if he or she knew to some extent about, for instance, the Nara period (AD710–794), the Sengoku (warring provinces) period (AD1467–1615), and the Meiji Restoration (AD1868).

When I visited a country, those receiving me often planned visits to historical and cultural heritage sites. In countries with which the Japanese are unfamiliar, like Turkmenistan and Azerbaijan, I visited world heritage sites that were particularly eye-opening. Museums nowadays are set up very well: exhibitions are easy to view and easily engage visitors’ interest. If you are fortunate enough to be guided by the curators, you can get a glimpse of the real history that cannot be learned from a book. I sometimes asked for a visit to a museum.

I did not get nervous meeting with finance ministers because they were my counterparts, so to speak, and the topics of discussion were limited to economic policies and ADB’s support. However, I got somewhat nervous when I met a President or a Prime Minister, because they usually had a strong personality as a national leader and I was not always sure what they would be interested in. It could be domestic politics, economic policy, or an international issue. I would, of course, listen to what they had to say, but at the same time I had to share ADB’s concerns and opinions and create a relaxed mood without being rude. If they thought it was not interesting or there was nothing to gain from talking with me, this would not be good for ADB.

Since its establishment in 1966, ADB has supported projects in various countries with loans and grants, and, fortunately, I felt that the contributions of ADB in terms of both finance and knowledge had been highly appreciated. Many leaders engaged more in discussion with me after I discussed the economy of their respective country based on my experience and knowledge gained during my time at the Ministry of Finance and the IMF, including on the impacts of developed countries’ monetary policies,
how to correct income disparities, and how to respond to the information technology revolution.

ADB has field offices in almost all members, and, in larger offices in Jakarta, Beijing, Dhaka, Ha Noi, Delhi, and Islamabad, there are as many as 60–90 staff members. Having the field offices discuss various issues with relevant authorities on a daily basis also helps build trust.

Takeshi Watanabe, the first President of ADB, often told the staff to “listen to what they have to say before trying to teach them.” It is the local officials who are most aware of the strengths and weaknesses of their country. ADB’s staff should listen to them carefully before giving advice.

Furthermore, since its inception, ADB has been seen as playing the role of “family doctor,” to be consulted first whenever there is a problem. Now, ADB lends more money to many Asian countries than the World Bank does, and it has accumulated a large amount of expertise. It now has the capability to act more like a “national core hospital.” Nevertheless, it tries to continue to be the family doctor, helping members as quickly and sincerely as possible when there is a problem. As a result of these efforts and approaches, members have a sense of affinity toward ADB.

Personally, I tried to put myself closer to the members as much as I could. For example, ADB acted as quickly as possible to respond to Typhoon Haiyan in the Philippines in November 2013, the earthquake and tsunami in Sulawesi, Indonesia, in September 2018, several hurricanes that hit the Pacific countries, the troubles in Central Asia caused by the fall in the price of natural resources, and the influx of refugees from Myanmar into Bangladesh. We mobilized budget support loans and grants or amended already-approved loans so they could be reallocated for emergency relief.

In light of the fact that ADB projects were said to take too long to prepare and implement, we accelerated the process by revising the procurement processes and transferring some authority to field offices, among other things. I told the staff that, instead of thinking about why we couldn’t do something, we should provide truly necessary assistance even if we had to change our internal rules. If assistance cannot be provided quickly when a member is in trouble, ADB, which was established to support developing countries, would lose its reason to exist.

Of course, the President’s function to represent ADB in a visit to a developed member or at an international conference is also important. Developed members are supporters of ADB that use their taxpayers’ money to provide capital and funds necessary to assist developing countries in Asia. Careful consultation with them is essential. I also attended all of the IMF/
World Bank spring meetings and their joint annual meetings in the fall, and participated in various meetings and seminars held on these occasions, including meetings of the heads of multilateral development banks such as the World Bank and the Inter-American Development Bank. I also attended the World Economic Forum’s annual meetings in Davos every year. I was also invited to the G20 and G7 summits and ministers’ meetings and asked to speak.

**Dealing with the Media**

Dealing with the media is also an important task for the President as a representative of ADB. When I went to Sri Lanka in June 2014, a press conference had not originally been scheduled. I thought that ADB’s assistance strategy would be of interest to the local media and had it arranged. The notice went out just a day before, but about 30 reporters came, with a few TV cameras. After this, I always held a press conference when I visited a developing member country.

A frequent source of controversy is whether the procedures and compensation for the relocation of residents in the construction of dams and roads were sufficient. ADB has established a policy to safeguard the environment and the community from the negative effects of projects. Impacts of a project on the environment and the community (residents) are carefully evaluated in advance by the Sustainable Development and Climate Change Department, along with the regional department, and mitigating measures (compensation, relocation sites, etc.) are reviewed with the government and implemented. If residents or an NGO raise a problem, the Office of the Special Project Facilitator will go to the site to consult with the residents. Warren Evans, ADB’s special project facilitator, is a veteran who used to be the World Bank’s director in charge of the environment. If a problem remains unresolved, the Office of the Compliance Review Panel and the Compliance Review Panel, an independent panel consisting of several academics and experts that reports directly to the Board of Directors, assess whether ADB has complied with its safeguard policy and advise the Board to take corrective action if necessary. This process, known as the Accountability Mechanism, was developed over a long time and I think it works well.

I also put substantial personal efforts into news releases. Before visiting a developing member country, we prepared a draft news release, around two pages long, which included information on the persons I was
about to meet, the economic situation of the country, including economic growth and results of structural reform, ADB’s assistance so far and strategies for future assistance, and planned visits to project sites, etc. We would then modify the language during the trip and, if possible, add photos of the meetings. We would distribute the finalized news release at a press conference and then publish it on ADB’s website. In addition to its original purpose of addressing the media, this work was valuable in organizing the talking points for the upcoming meetings and in sharing information with the local ADB staff and those in charge of the country at headquarters, and as an information archive for the future.

During my term as President, I was interviewed by many international media outlets, including CNN, the BBC, Bloomberg, Reuters, The Wall Street Journal, and The Economist, and media outlets of other countries such as Japan, the PRC, and Germany. ADB Director General of the Southeast Asia Department Ramesh Subramaniam, who was from India, told me that he often watched NHK (a Japanese public broadcasting company) English-language international broadcasts. The news covered a wide range of topics and was objective, he said. I also think media companies in Japan generally benefit from a large number of staff journalists and take care in producing meaningful articles and programs.

The most common questions asked by the media related to the growth rate of the Asian economy, the impact of developed countries’ policies after the 2008 global financial crisis, the relationship between ADB and the AIIB, and our stance on lending to the PRC.

Managing the Organization of ADB

The third role, of being responsible for organizational and internal management, is actually quite difficult. ADB’s staff is a diverse group of people from across the bank’s 68 members. Among the more than 3,500 employees, there are about 1,300 international staff who can be assigned to any country, and most of them have a master’s degree or more. Others are called national staff and administrative staff, and they basically stay in one country. The national staff are hired from the most educated talent pool in each country. In Manila and field offices, they play an important role in communicating with government officials, preparing projects, and developing statistics. The administrative staff are assistants and secretaries without whom the organization would not function.
Figure 3: Asian Development Bank Organization Chart
(as of 31 December 2019)

1 The Board of Directors currently consists of 12 Directors from Australia, Canada, the People’s Republic of China (PRC), France, Germany, India, Indonesia, Japan, the Republic of Korea (ROK), Malaysia, the Philippines, and the US.

2 Under regional departments, 29 field offices located in 29 countries
I made it a rule to visit ADB’s field office whenever I visited a developing member country, and to find an opportunity to exchange views with the staff. ADB has field offices in 29 developing countries and representative offices in Washington, D.C., Tokyo, and Frankfurt. In addition, it recently opened liaison offices in small countries in the Pacific. In 2019, it opened a small office in Singapore to support private sector operations.

ADB cannot fulfill its mission without fair and merit-based hiring and human resource practices and effective organizational management. Figure 3 shows senior staff and departments. Just looking at this, you can see that many countries are represented in ADB’s staff. Table 2 shows the breakdown by nationality of the international staff. Japan has the most, with 152, but the staff come from many countries. Many from the US, the UK, Australia, and Canada were actually born in Asia, such as in India and the PRC. Their areas of expertise are diverse, including economics, business, accounting, law, international relations, engineering, and the environment. There are quite a few PhDs and many have undergraduate degrees with a lot of experience, but the majority have a master’s degree.

Table 2: Member Contributions to the Asian Development Bank
(as of 31 December 2019)

<table>
<thead>
<tr>
<th>Ordinary Capital Resources (capital share, voting power share)</th>
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<tr>
<td>Japan (15.6%, 12.8%), United States (15.6%, 12.8%), People’s Republic of China (6.4%, 5.4%), India (6.3%, 5.4%), Australia (5.8%, 4.9%), Indonesia (5.4%, 4.6%), Canada (5.2%, 4.5%), Republic of Korea (5.0%, 4.3%), Germany (4.3%, 3.8%), others (30.4%, 41.5%)</td>
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<th>Asian Development Fund (cumulative contribution)</th>
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<tr>
<td>Japan (38.1%), United States (13.8%), Australia (7.9%), Canada (6.0%), Germany (5.7%), United Kingdom (5.0%), France (4.2%), others (19.3%)</td>
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<th>International Staff (1,291 as of 31 December 2019)</th>
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<tbody>
<tr>
<td>Japan (152), United States (143), India (92), United Kingdom (81), Australia (78), Republic of Korea (75), People’s Republic of China (65), Canada (56), Philippines (48), France (45), Germany (44), Pakistan (42), Indonesia (30), others (340)</td>
</tr>
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Many Japanese who come to work at ADB have international work experience at the World Bank; United Nations agencies; JICA; the Japan Bank for International Cooperation (JBIC); private financial institutions; technology firms; Japan’s Ministry of Land, Infrastructure, Transport and
Tourism; and the Ministry of Agriculture, Forestry and Fisheries. There are also employees on loan from companies and government agencies such as the Ministry of Finance, the Ministry of the Environment, and the Board of Audit of Japan. As of January 2020, 50 Japanese women were working at ADB. Although the Japanese are often said to be quiet, as far as the Japanese working in ADB were concerned, they did not fit the stereotype at all: they had a great deal of international experience and were used to expressing themselves clearly.

Kengo Sakurada, president and CEO of Sompo Holdings (now chair of the Japan Association of Corporate Executives), came to work at ADB in the 1990s as a loaned employee. In an interview article, he described what happened at the welcome lunch. He said, “I don’t know anything yet, so I look forward to learning from you,” which is a typical humble thing to say in Japan. Then, a German economist with a PhD in economics who joined ADB at the same time said, “I believe I have experience and knowledge that you do not have, so I would like to contribute to the team by doing work that adds value.” It made quite an impression on Mr. Sakurada (Nihon Keizai Shimbun, Evening Edition, 1 February 2018). He also said he was inspired by women’s leadership at ADB and by the human resource management based on merit and output. Japanese-style personnel management has some advantages, but, unlike in the high-growth period of the past, Japan and Japanese companies face an uncertain future, and global competition will only get more intense. In this situation, I believe Japan must utilize diverse talents from different backgrounds and promote exceptional individuals who can create value through their work.

The hiring and appointment of all staff come under the authority of the President, according to the ADB Charter (a treaty ratified by members). In fact, I was deeply involved and made substantial decisions in the hiring and promotion of heads of departments/offices and deputy heads. It was ultimately up to me to approve personnel decisions for division directors and below, but, if I became too involved, it would have been unfair, because I did not know all the staff to the same extent. Too much authority on personnel matters also leads to an environment where staff are less likely to speak up. Therefore, for these personnel decisions, I basically relied on the judgment of the director general of the Budget, Personnel, and Management Systems Department and vice-presidents.

When ADB was established, it had only one vice-president, and that position was held for a long time by Krishna Moorthi, formerly of India’s Ministry of Finance. He had also been involved in the establishment
of ADB. Now, there are six vice-presidents. In the chronological order of appointment, they come from Indonesia, India, Australia, the Netherlands, the PRC, and the US. Vice-presidents are recruited in the following manner. Recommendations are solicited from governments in a specific region (Europe, North America, or Asia) or by private human resource consultants. Candidates are then shortlisted and interviewed by the President, who then recommends one candidate for approval by the Board of Directors. As the number of staff increases and operations become more diverse, with the President traveling often, it is very important that the President is supported by competent vice-presidents. For the areas for which the six vice-presidents are responsible, please see Figure 3.

Vice-President Stephen Groff, who is from the US, was appointed in October 2011 under President Kuroda, and I recommended him to be reappointed twice. For a long time, until February 2019, he was in charge of ADB operations in East Asia, Southeast Asia, and the Pacific. He graduated from Yale University and Harvard University’s graduate school. When he was young, he saved up for his tuition on a fishing boat in Alaska and went to the Philippines with the US Peace Corps. He is an experienced development specialist who worked as a staff member at both ADB and the Organisation for Economic Co-operation and Development (OECD). In March 2019, he became the governor of the National Development Fund of Saudi Arabia.

Entry-level recruitment is based on the Young Professionals Program, in which several to about a dozen young people who have recently obtained a master’s degree or PhD are hired every year. A majority of the new hires, however, are experts in their 30s or 40s who already have some professional experience. When a post becomes vacant, it may be filled through an internal promotion or transfer. ADB may also accept applications and recommendations from other international organizations and private companies, gathers information from various sources, and interviews the candidates several times before hiring.

In the case of an internal promotion or transfer, when a position becomes available because the incumbent has retired or left the organization or has been transferred to another position based on his or her wishes, interested staff can apply for the position themselves. Then, a screening panel will be formed, depending on the level of the position, and the panel interviews the candidates and makes the decision. In many Japanese organizations, including the Ministry of Finance, employees can state their wishes regarding their next post, but most personnel changes are regular transfers and decided top-down. This is quite different from ADB’s way. ADB’s system has the advantage
of being fair and transparent. On the other hand, if a person is satisfied with his or her current position, the system gives no incentive to move to another position and reduces opportunities for other, younger, staff. For the individual, too, it is a disadvantage to miss opportunities to learn about other operational areas, and this may ultimately reduce the productivity of the organization as a whole. I personally feel very fortunate that, through the periodic transfers in the Ministry of Finance, I was able to work in various fields.

As President of ADB, I carried out the following reforms in the area of human resource management:

(i) To improve personnel mobility, encouraged employees who have stayed in one post for a long time to move to another department.
(ii) Increased inter-departmental transfers and transfers between field offices and headquarters.
(iii) Made new hires for the position of director or higher on a fixed 3-year term basis and scrutinized performance.
(iv) Introduced 360-degree feedback for those in the position of director or higher.
(v) Filled vacancies faster by starting recruitment before posts became available, based on a certain likelihood.
(vi) Engaged subject matter experts from private companies on an assignment basis.
(vii) Made personnel evaluations more effective by linking them to staff’s own goals and their compensation. In an environment where the international staff were provided with individual offices from the beginning, I also increased training to enhance the communication and leadership capabilities of directors general and directors.

When I considered hiring or promoting staff, I was not concerned about their nationality. Education had nothing to do with promotion, either. What mattered was whether the person had the ability to do the job, as well as integrity and enthusiasm for development, had new ideas, communicated well with junior staff and colleagues, and demonstrated leadership skills.

Meanwhile, gender equality, in terms of increasing the proportion of women in the workplace, is an international goal. With regard to international staff, ADB aims to have 40% of positions filled by women, whereas the current figure is 37%. Two of the six vice-presidents are female, and, when I left ADB, six of the senior staff at the level of director general were female. ADB has many jobs related to infrastructure construction, and the fact that fewer women...
tend to major in engineering at universities and graduate schools is a constraint. Still, there are more women now in such fields. Many female candidates apply for ADB positions such as environmental and social safeguard specialists, legal counsel, economists, and accountants. The organization’s goal is not to give preference to women on account of their gender but to provide assistance to developing countries. However, we have a policy of prioritizing female candidates if their qualifications are the same as those of male candidates.

Whenever we invited scholars and experts to a symposium or chose panelists to be on stage, I made sure to include at least one woman. When women doing prominent work are featured in public, they can serve as role models and encourage younger women. This practice also shows the organization’s efforts with respect to gender equality. When I see a meeting with only men on the Japanese news, I’ve come to reflexively feel uncomfortable, regardless of the context and the nature of the meeting.

Countries accord operational privileges and immunities to international organizations, based on the latter’s charters. For example, international organizations are not taxed, and national authorities cannot easily enter their premises. Employees cannot be sued for actions on the job, and their salaries are tax-exempt. However, the US has an unusual citizenship-based tax system and taxes its citizens regardless of where they are, and reserved its right to do so when it joined ADB. As such, American employees of ADB pay US income taxes. Japan, which has a residence-based tax system, also reserved the right to tax Japanese nationals (residing in Japan) when it joined ADB, and Japanese employees in the Tokyo office are subject to taxation.

There is something I realized after becoming President. If a staff member commits misconduct on the job, ADB can take civil action, such as terminating their employment, but a criminal penalty cannot be imposed. Meanwhile, if a public official in a country commits bribery or embezzlement, the person is subject not only to disciplinary dismissal but also to a criminal penalty, such as imprisonment, depending on the seriousness of the crime. International organizations could voluntarily waive their privileges and immunities, bring a charge to the court in the relevant country, and entrust the case to the criminal justice system. However, this would not be a good precedent. If you think about it, criminal penalties are only possible where there are prosecutors, defense attorneys, courts, “due process of law,” and prisons. Fortunately, there was no such serious misconduct during my term as President, but it is clear that it is even more important to maintain discipline when you have such privileges and immunities.
Discipline is also important with regard to salaries and pensions. International organizations tend to have less oversight by parliaments, the media, and the public than do national governments. Although the employees are carrying out difficult work outside of their home countries, and ADB needs to compete with private companies and other international organizations to hire competent people, it must not forget the basic reality that it is helping poor people in developing Asia with funds paid by taxpayers of members who may be facing budget- and pension-related difficulties. It is the responsibility of the Management to value and respond to the trust given to ADB by governments and taxpayers. During my term, I somewhat restrained salary growth, reexamined and changed benefits, and reformed the pension plan to apply a defined contribution plan for staff members who joined ADB in or after October 2017. In a way, these reforms were the most nerve-wracking tasks for me.

In addition, in terms of organizational management, I spent time and energy updating and streamlining the information technology (IT) and data management systems, strengthening the business continuity plans, developing mechanisms to handle various types of harassment, preventing discrimination against LGBT+ people, and ensuring effective utilization of the findings of the Independent Evaluation Department.

Shirin Hamid, principal director of the Office of Information Systems and Technology and a native of Singapore, played a significant role in the IT and data management reforms. Before joining ADB, she had been the head of the IT Department of the United Nations Development Programme (UNDP). For data standardization, Ayumi Konishi, who had joined ADB in the 1980s and served as director general of the East Asia Department before becoming the special senior advisor to the President, made significant contributions.

The spread of COVID-19 forced ADB to adopt the Work from Home system in March 2020. The process was helped tremendously by the progress of recent IT reforms such as paperless decision-making, improved systems for teleconferences and simultaneous document editing, and increased data transmission capacity. Pierre Passin, director of the Infrastructure and Technology Division, is from France and came to ADB from the World Bank. He helped me personally with my PC problems, and now he is extremely busy supporting the Work from Home system.

It is a difficult task to deal with personnel reforms, individual personnel decisions, and organizational problems. Deborah Stokes, with whom I had the pleasure of working for the last 3 years of my term, was
a former senior official in Australia’s Department of Foreign Affairs and Trade. An intelligent person who earned a master’s degree from Cambridge University as a Rhodes Scholar, she had a combination of meticulousness, a sense of balance, and gumption. Having served as deputy head of mission at the Australian Embassy in Tokyo, she was also knowledgeable about Japan, and she was really helpful to me. Under her supervision, Toshio Oya and Yasuo Takamura, directors general of the Budget, Personnel, and Management Systems Department, led and realized various reforms.

Speaking of organizational management, I believe that legal departments are very important, especially for US and UK companies. In ADB, the Office of the General Counsel fills this role. The Office reviews and comments on a wide range of issues, including ADB’s loan agreements with governments and private companies, the consistency of policies with the ADB Charter, procurement guidelines, personnel issues, and relationships with the Board of Directors. The general counsel always attends the meetings of the Board of Directors and sometimes is asked by the members of the Board to provide legal opinion on the spot. There are 90 staff members in the Office of the General Counsel and 70 of them are certified attorneys.

Christopher Stephens, who served as the general counsel from when I joined ADB until the fall of 2019, is an American who came from a law firm in Hong Kong, China, and an excellent lawyer who graduated from New York University School of Law. He had a combination of broad knowledge, toughness, and common sense, and was able to deal with legal issues sometimes firmly and sometimes flexibly. Instead of relying merely on the provisions of the law, he would dig deeper to understand the intention of agreements and statutes. Sometimes, he suddenly used difficult vocabulary not normally used in international organizations, such as “platitude,” which means “empty words.” When I was working at the IMF, I began an effort to write down and learn unfamiliar words that appeared in The Economist. I think the effort bore fruit when I talked with him. His three daughters were close to my two sons in age at the international school, and he was a good father. After ADB, he moved on to become the general counsel of the International Finance Corporation (IFC), the organization of the World Bank Group that works with the private sector.

The Relationship with the Board of Directors

I would also like to mention the relationship with the Board of Directors. ADB is an international financial institution funded by capital contributions
of its shareholders. Shareholders’ decision-making votes are not based on a one country, one vote system as in the World Trade Organization (WTO) or the World Health Organization (WHO). Each shareholder has voting rights that are proportional to its shareholding, as in the IMF and the World Bank.

Once again, please look at Table 2. The ordinary capital resources (OCR) have existed since ADB was established and are equivalent to its capital. Voting rights are based on shareholding percentage. Shares in the capital and shares in voting rights do not match exactly because a fixed number of basic votes are given to all members, to ensure the rights of small countries. The Asian Development Fund (ADF) was previously made up of voluntary contributions to provide long-term, low-interest, concessional loans and grants. It actually puts more financial burden on the donors (mostly developed economies) than the OCR, but contributions to the ADF are not tied to voting rights. As mentioned in Chapter 12, concessional loan operations and corresponding contributions to the ADF were merged with the OCR at the beginning of 2017, leaving the grant operations in the ADF.

Proposals for budgets, funding, important strategies, and individual loan projects must be submitted by the President to the Board of Directors and approved by a majority of the Board. The Board of Directors consists of 12 executive directors and 12 alternate executive directors who act as their deputies. Members of the Board are distributed to reflect voting rights, so Japan, the US, and the PRC each elects its own executive director and alternate executive director. Each of the nine other executive directors’ offices (sometimes referred to as “chairs”) is filled from an election group consisting of several ADB members. Other than Japan, the US, the PRC, and Australia (Cambodia; Hong Kong, China; and several Pacific and Central Asian countries also belong to this group), the executive director and the alternate executive director are selected from different ADB members in rotation within the election group for each executive director’s office.

When I left ADB, there were six executive directors from developing members in Asia—namely, the PRC, India, Indonesia (the alternate executive director was from New Zealand), the Philippines, Thailand, and the ROK (Viet Nam, Uzbekistan, Sri Lanka, Taipei, China, and Papua New Guinea belonged to the same executive director’s office). Among the developed members in the region, Japan and Australia had their executive directors. Among the developed members outside the region, the US, France, Germany, and Canada did.
France is in the same group as Italy, Spain, and others, informally called “the Wine Countries.” Germany is grouped with the UK and others, called “the Beer Countries.” Canada and Nordic countries are in the same group, called “the Ice Countries.” In general, these countries are especially concerned about climate change, gender, and whether projects have sufficient environmental and social safeguards.

The US has the same shareholding and voting rights in ADB as Japan, and the creation of ADB was made possible with its support. Although the US considers ADB important as a form of engagement in Asia, it does not want to increase the burden on its taxpayers through capital increases, and demands that budgets are used efficiently. As Congress’ restrictions on the executive branch are written into law, the US often automatically abstained or voted against particular projects for particular countries.

Australia is passionate about supporting the countries in the Pacific and is also focused on supporting the private sector.

The chairs from developing countries in Asia generally call for projects to be implemented smoothly.

Japan’s executive director mostly supports the Management, and has a keen interest in developing high-quality infrastructure and introducing universal health insurance coverage.
The Board of Directors’ decision is determined by a majority of the voting rights, and, when opinions are split within the same executive director’s office, the voting rights are tabulated by country. The voting rights of Japan and developing countries account for 58% of the total, and those of Japan and other developed countries account for over 50%. Even if a proposal is expected to be supported by a majority, the relationship of mutual trust may break down, and smooth operation of the organization may become impossible if the decision is forced on the Board. As such, the Management tries to achieve consensus until the end; if that fails, it ultimately takes it to a point where the executive directors do not oppose the convening of the Board even if they don’t agree on the proposal.

I still remember the irrigation project in Uzbekistan that the Board approved in September 2013. The project intended to replace old Soviet-era pumps with the latest, energy-efficient ones to provide more water for drinking and agriculture while reducing carbon dioxide emissions. But international NGOs criticized it, saying that some of the water would go to cotton farms that used forced and child labor.
I had many phone calls with Uzbekistan’s Finance Minister Rustam Azimov and learned that cotton farms had been the product of Russia’s rule since the 19th century, and that the country was actually trying to diversify agriculture away from cotton. It was a custom in the country for the people to harvest cotton all at once during the harvest period, and certain amounts of wages were being paid, I was told. In the end, while the Board meeting was postponed for a month, we set a condition that the International Labour Organization (ILO) would monitor the project to prevent forced or child labor.

Many executive directors come from government agencies of ADB’s members, and those from Asia in particular are often ex-high-ranking officials. Because of their experience in government, some of them are interested in the daily operations of ADB and they raise quite a few questions and make many comments to the staff. The ADB Charter separates the Board of Directors from the Management and leaves the day-to-day operations to the latter while having the Board make important decisions, in order to make it possible to run the organization efficiently. Except when members of the Board of Directors act as one, it is important that they do not get involved with individual projects in the same way as the Management. On the other hand, it is of course the duty of the Management to provide necessary information to the Board, and it is a basic governance discipline to have the Board decide important matters and monitor the performance of the Management.

If I compare ADB and the AIIB, executive directors of the AIIB do not live in Beijing, and the Board meets occasionally in person or through the internet. This style of management is closer to that of a private company, and, in a sense, is more efficient. However, I believe that ADB is different from a for-profit company in that members have different ideas about development and different expectations for ADB. I think, therefore, it is important to have the executive directors exchange opinions in one place. It is also beneficial to have the executive directors in the same building and socialize occasionally, so they can tackle difficult problems with a collegial spirit.

In ADB, the secretary is an important position, taking care of the Board of Directors and the Board of Governors. The latter consists of the governors of all members—that is, finance ministers or other ministers depending on the member—and decides the most important matters such as the election of the President and capital increases. When the President chairs a meeting of the Board of Directors, the secretary always sits close by, along with the vice-presidents. During my term, the first secretary was Marie-Anne
Birken from the Netherlands, who left to become the general counsel of the European Bank for Reconstruction and Development (EBRD) after about 6 months. She was succeeded by Woochong Um from the ROK and Eugenue Zhukov from Kazakhstan. They were capable, calm, and consistent, and responded sincerely to questions and comments from executive directors.
How Asia Changed in 7 Years

“How do you think Asia and the world have changed during your term?”

This was a question that was asked during an interview with CGTN, an English television station in the People’s Republic of China (PRC), when I traveled there in December 2019 after announcing my intention to step down as President of ADB in September. It was an unexpected, big-picture question, but I mentioned three points about which I had been thinking. In 7 years, Asia and the world had really changed significantly.

The first point was that the Asian economy had grown steadily and its presence in the world had increased while developed countries had remained trapped in a low-growth and deflationary situation since the global financial crisis of 2008, even sparking a discussion of long-term stagnation. I discuss this in detail below.

The second point involved the rise of the PRC as a major power. The PRC itself has said that it is still a developing country, and some poor parts of the country are indeed left behind. However, there is no doubt that it is a global power, with gross domestic product (GDP) now three times as large as Japan’s and nearly 70% of that of the US. The PRC has also begun several strategic initiatives such as the Asian Infrastructure Investment Bank (AIIB) and the Belt and Road Initiative. The PRC’s actions now have a great...
impact not only on neighboring countries but also on the entire world, and it is being called on to be aware of its own power.

The third point was that the impact of new technologies had become increasingly clear and more recognized in Asia and the world. Digital technologies such as the internet, artificial intelligence, and big data are evolving, and industries that use them are expanding rapidly. Benefits include low-cost financial services; granular, data-driven education and health care; and the ability to provide services to remote locations. Still, there are also many challenges such as impacts on privacy, taxation, and employment, as well as the concentration of profits to the so-called platform companies. The income gap is widening in many countries as a result of the progress of globalization and the influence of new technologies, casting a shadow on politics. In addition to challenging populist movements, governments need to take the general public’s dissatisfaction seriously.

The Asian Economy as a Whole Has Continued to Grow Steadily

ADB publishes its analysis of the Asia and Pacific region’s economic outlook as the Asian Development Outlook every April, and releases supplements several times a year. The main subjects of this publication are 46 of ADB’s 49 regional member economies, excluding Japan, Australia, and New Zealand. They are hereinafter referred to as “developing Asia.” The four newly industrialized economies (NIEs) of the Republic of Korea (ROK); Singapore; Taipei, China; and Hong Kong, China are now high-income economies but they used to borrow from ADB and remain classified by the bank as “developing”.

In ADB, the definition of a regional member has remained the same since the time of its establishment—that is, a regional member of the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) that has joined ADB. On the other hand, nonregional members are countries that joined ADB with the intent to contribute to the development of Asia. There are now 19 of these, including the US, Canada, and countries in Europe.

As Table 3 shows, developing Asia includes significant variations in population, GDP, and GDP per capita. The data for 2018 show that the PRC’s GDP per capita was close to $10,000. Given the size of its population, at 1.4 billion, national GDP was worth $13.6 trillion. Although this was still less than that of the US, it is said that, if the economy continues to grow at a certain level, the PRC may eventually overtake the US in terms of GDP.
The PRC is thus a huge presence in terms of GDP, accounting for nearly 60% of developing Asia. Looking at other countries, GDP per capita is around $2,000 in India, $4,000 in Indonesia, $3,100 in the Philippines, and $2,500 in Viet Nam.

Table 3: Selected Data on Asian Economies, 2018

<table>
<thead>
<tr>
<th>Country</th>
<th>Population (million)</th>
<th>GDP ($ billion)</th>
<th>Per capita GDP ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>People’s Republic of China</td>
<td>1,392.7</td>
<td>13,572</td>
<td>9,745</td>
</tr>
<tr>
<td>India</td>
<td>1,333.2</td>
<td>2,727</td>
<td>2,045</td>
</tr>
<tr>
<td>Indonesia</td>
<td>265.0</td>
<td>1,042</td>
<td>3,932</td>
</tr>
<tr>
<td>Pakistan</td>
<td>200.9</td>
<td>312</td>
<td>1,555</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>163.7</td>
<td>274</td>
<td>1,675</td>
</tr>
<tr>
<td>Philippines</td>
<td>106.6</td>
<td>331</td>
<td>3,104</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>94.5</td>
<td>231</td>
<td>2,440</td>
</tr>
<tr>
<td>Thailand</td>
<td>66.4</td>
<td>505</td>
<td>7,603</td>
</tr>
<tr>
<td>Malaysia</td>
<td>32.4</td>
<td>354</td>
<td>10,942</td>
</tr>
<tr>
<td>Myanmar</td>
<td>53.9</td>
<td>65.5</td>
<td>1,217</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>21.7</td>
<td>88.9</td>
<td>4,098</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>32.8</td>
<td>51</td>
<td>1,539</td>
</tr>
<tr>
<td>Singapore</td>
<td>5.6</td>
<td>361</td>
<td>64,042</td>
</tr>
<tr>
<td>Republic of Korea</td>
<td>51.6</td>
<td>1,619</td>
<td>31,362</td>
</tr>
<tr>
<td>Developing Asia</td>
<td>4,013.4</td>
<td>22,959</td>
<td>5,721</td>
</tr>
<tr>
<td>Developing Asia excluding NIEs</td>
<td>3,925.1</td>
<td>20,026</td>
<td>5,102</td>
</tr>
<tr>
<td>ASEAN countries</td>
<td>647.3</td>
<td>2,946</td>
<td>4,551</td>
</tr>
</tbody>
</table>

**Advanced economies**

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP ($ billion)</th>
<th>Per capita GDP ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Euro area</td>
<td>339.0</td>
<td>13,639</td>
</tr>
<tr>
<td>United States</td>
<td>327.4</td>
<td>20,580</td>
</tr>
<tr>
<td>Japan</td>
<td>126.5</td>
<td>4,972</td>
</tr>
<tr>
<td>Germany</td>
<td>82.9</td>
<td>3,951</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>66.4</td>
<td>2,829</td>
</tr>
<tr>
<td>Australia</td>
<td>25.2</td>
<td>1,420</td>
</tr>
</tbody>
</table>

Sources: *Asian Development Outlook* database, December 2019; and World Economic Outlook database, October 2019, for advanced economies.
I have always stressed that growth in Asia is resilient. Developing Asia has grown by about 6% overall, as Table 4 shows, although the PRC has been slowing for various reasons, as described in Chapter 6, and the US–PRC trade friction has slowed regional growth somewhat. Excluding the four NIEs, which are already in the high-income group, the growth rate is about 6.5%. Some countries are moving their production bases to Bangladesh, Cambodia, and Viet Nam, in accordance with the so-called China Plus One concept, which avoids the risk of rising labor costs in the PRC and of concentrating production bases in the PRC. Growth rates in these countries tend to be getting stronger. Growth in Asia has been supported by the building of international supply chains and the increasing of production capacity through cross-border trade and direct investment under the system of open trade and investment.

There is strong domestic demand in Asia itself, and this has been an engine for growth. Domestic demand is supported by strong consumption, as well as by increasing investment in infrastructure and production facilities. As income increases, demand for motorcycles and home appliances grows, and, further down the line, so does demand for automobiles, air conditioners, liquid crystal display (LCD) televisions, and household goods such as cosmetics. Like in Japan during its high-growth stage, consumers in developing Asia have an unending desire to live a better life.

Some Western economists had imagined that most final demand existed in the US and Europe, and predicted that the reduced growth of developed countries after the global financial crisis of 2008 and 2009 would seriously affect growth in Asia. This argument was related to the question of whether decoupling was possible. In fact, after the global financial crisis, the growth rate in Asia declined, but not so severely. Partly because of the fiscal and monetary stimulus in the PRC, growth in developing Asian countries recovered from over 6% in 2008 and 2009 to over 9%, and subsequently stayed in the 6–8% range. If the economy grows at 7% each year, the size of the economy will double in 10 years; if it grows at 6%, it will double in 12 years. These countries are maintaining high growth so far.

Since the economies of Asian countries are closely linked to Europe and the US, they are affected by what happens in Europe and the US to a certain extent. However, by the same token, demand in Asia is important for the US and Europe. Asia does not depend on external demand in a lopsided way. The PRC is a very open economy, with exports and imports making up a large share of GDP. Exports of goods and services reached 35% of GDP in 2008 when the global financial crisis occurred (in September), but
the share fell to 20% in 2018. In addition, the ratio of the current account balance to GDP, reflecting net exports—the difference between exports and imports—decreased from 10% to 0.4% during the same period. The engines of recent growth are not exports but domestic demand for investment and consumption.

Table 4: Growth Rates in Asian Economies (%)

<table>
<thead>
<tr>
<th>Country</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>People’s Republic of China</td>
<td>6.7</td>
<td>6.8</td>
<td>6.6</td>
</tr>
<tr>
<td>India</td>
<td>8.2</td>
<td>7.2</td>
<td>6.8</td>
</tr>
<tr>
<td>Indonesia</td>
<td>5.0</td>
<td>5.1</td>
<td>5.2</td>
</tr>
<tr>
<td>Pakistan</td>
<td>4.6</td>
<td>5.2</td>
<td>5.5</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>7.1</td>
<td>7.3</td>
<td>7.9</td>
</tr>
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**Advanced economies**

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<tr>
<td>Australia</td>
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NIEs = newly industrialized economies of Hong Kong, China; Republic of Korea; Singapore; and Taipei, China.

Sources: Asian Development Outlook database, December 2019; World Economic Outlook, October 2019.
The Theory of Secular Stagnation Does Not Apply to Asia

As for developed countries, so-called “secular stagnation” has been a hot topic of discussion. In an article published in *Foreign Affairs* in the spring of 2016, former US Treasury Secretary Lawrence Summers said the decline in the global growth rate owed largely to insufficient investment relative to savings, and could last for a long time. Summers said that the factors that led to this situation were (i) concentration of income and wealth in the hands of the wealthy, who tend to save more; (ii) an increase in the number of companies like Google that have huge profits and hoard cash; (iii) a greater accumulation of assets by foreign exchange reserves and sovereign wealth funds; (iv) a tendency to defer investment fearing obsolescence in a period of rapid technological change; and (v) reduced investment returns driven by slower growth in the labor force.

Certainly, this explains the situation in developed countries, including Japan, very well. The gist is that more people now want to save money and delay spending than want to borrow money to invest. In such a world, the interest rate also declines as the price of deferring consumption. In a materially rich society, the urge to buy things is not very strong. Traditional economic theories expect that older people will withdraw their savings, but we are seeing a tendency to save until the end because such demographics do not know how long they will live. Younger people who are concerned about the future in an era of aging populations also spend less and save more. On the other hand, intensified competition from emerging countries tends to depress prices and weaken the motivation to invest.

However, we do not know what the future holds because consumption and investment are driven by technological innovation. The cars, TVs, and air conditioners we now consume in large quantities were the stuff of dreams when the industrial revolution began. In any case, as far as developing Asia is concerned, the theory of secular stagnation is not applicable.

As of the spring of 2020 as I write this manuscript, economic friction between the US and the PRC had eased slightly, but the outlook for the relationship, including technological and national security aspects, is still uncertain. It is likely that, while the two countries need each other economically, they will continue to compete with or confront each other in other areas.

The COVID-19 pandemic, which became apparent at the beginning of 2020, has had serious impacts on the movement of people and goods and production activities. It has forced a contraction of demand for consumption and investment and also a contraction of supply as a result of damaged supply chains.
Both of these developments were unthinkable just a few years ago. However, even if considerable adjustments are necessary, it is unlikely that the global networks of people and goods that exist for economic reasons will contract significantly. This prediction is based on what happened after previous economic conflicts and after the Spanish flu pandemic of 1918. In the long term, as long as countries continue to adopt appropriate policies, many parts of developing Asia will likely continue to grow steadily, reflecting strong domestic demand and expansion in production capacity.

The Eight Conditions for Economic Development

I have written that, as long as Asian countries continue to follow appropriate policies, sustainable growth can be expected in Asia. What are appropriate policies, then?

A while after I became President of ADB, I published my idea of the “eight conditions for economic development,” in articles I submitted to Japanese and English magazines and newspapers (such as the “Economics Class” column in Nihon Keizai Shimbun dated 16 January 2015). This is not new or drastically different from what has been said in the past, but is based on what I felt while traveling in various countries in Asia and my experience at the Japanese Ministry of Finance and the International Monetary Fund (IMF).

In the past, I thought that the development of a country depended ultimately on its capacities, for example its level of education at the outset, the diligence of its workers, and the tradition of craft and technology that it had cultivated. However, as a result of visiting various countries, I came to believe that government policies have a major impact on development. Why did the Philippines, which had the second-highest per capita income after Japan in the 1950s, become the poorest among the five founding members of the Association of Southeast Asian Nations (ASEAN)? Why do India and the PRC differ so much in terms of their GDP per capita and social indicators, even though both are large countries with sophisticated civilizations since ancient times?

The first of the eight conditions is investment in infrastructure. Without electricity, roads, and ports in place, domestic industry will not develop and foreign direct investment will not come. There is also a big impact on people’s lives. The share of public investment in GDP is only a rough proxy for infrastructure investment because the private sector, including power companies, also makes such investments. With this caveat, the share of public investment in GDP in the PRC is much higher than that
in other countries. In fact, every time I go to the PRC, I am amazed by the newly built highways and urban infrastructure.

The second condition is investment in human capital, including education and health care. Although in many countries the primary school enrollment rate is high, many issues remain, such as the quality of secondary and higher education and whether vocational training is fulfilling the needs of industry.

The third condition is macroeconomic stability. In an environment where the inflation rate is in double digits or public finance is unstable and interest rates are high, it is difficult to foresee the future, and this uncertainty acts as a brake on saving and investing for the future.

The fourth condition is open trade and investment systems and the fostering of the private sector. I will discuss this in more detail later, but there were times when many countries, such as India and Indonesia, in addition to the PRC and Viet Nam, which started out as planned economies, promoted import substitution (a policy to replace industrial products imported from developed countries with domestic production), price controls, and the nationalization of industry. These policies were influenced by the sentiment of anti-colonialism and socialism, but they hindered growth gravely. Since then, most Asian countries have shifted to more market-oriented policies to improve their business environment.

The fifth condition is the governance of the state. Corruption not only goes against social justice but also directs people’s energy to unproductive behavior and hinders growth. The executive capacity of the government, including the existence of educated, motivated, and capable public officials, is closely related to the country’s economic performance. Transparency and accountability of government and state-owned enterprises are also essential.

The sixth condition is the level of equality in the society. In a country where the gap between the wealthy and the common people is excessively large, the goal of growth is not shared among the people, the benefits of investment in education and health do not reach the poor, and it is difficult to improve the quality of the workforce. Inequality is a problem in and of itself, and it is also a factor that impedes growth.

The seventh condition is the country’s vision and strategy for the future, often promoted by visionary leaders. The government has the duty to identify the strengths of the country that should be utilized for development, to devise and share strategies with the people, to prioritize spending and public investment based on such strategies, and to provide guidance to the private sector.
The eighth condition is actually the first condition that should be met: political stability and security, and good relations with neighboring countries. Looking back at the past 50 years in Asia, we have had the Viet Nam War as well as civil wars in Cambodia and Sri Lanka. Afghanistan\(^1\) is still threatened by frequent terrorist attacks. Still, the region has remained stable overall, and that has served as the foundation for Asia’s development.

I believe that a low-income country can grow to reach the top level of middle-income countries, as the PRC has done, by doing what should be done. Every country is making efforts, in fact, but the question is whether political leadership and the support of the people can be ensured to sustain appropriate policies. Now, how about whether a country can go farther and reach the level of a high-income country?

On this issue, there is a lot of debate on the “middle-income trap.” This is often used to describe Latin American countries such as Argentina and Brazil, which became middle-income countries by exporting mineral resources and foodstuff but then saw their growth stagnate, and have not reached developed country status.

However, we must question whether the middle-income trap hypothesis is entirely applicable in Asia. In Latin America, the above-described eight conditions have often not been met, especially in terms of sound macroeconomic policy and political stability. Because they are rich in natural resources, many economies have also found it difficult to nurture manufacturing industry. In Asia, however, the ROK; Singapore; Taipei, China; and Hong Kong, China have already succeeded in transitioning to high-income status.

The Asian Development Outlook released in the spring of 2017 contained a special feature on the middle-income trap. In order for the PRC, Malaysia, Thailand, and others to become high-income countries, they not only need to continue with appropriate policies as described above but also must further raise the level of technology and education, create an environment where entrepreneurs can thrive, reduce inequality in income and opportunity, and raise the standard of living for the entire society by using fiscal spending and taxation.

\(^1\) ADB placed on hold its assistance in Afghanistan effective 15 August 2021. https://www.adb.org/news/adb-statement-afghanistan
The Work of ADB’s Economic Research and Regional Cooperation Department and Chief Economist

It is the job of the economists in ADB’s Economic Research and Regional Cooperation Department (ERCD) to analyze the economic outlook of individual Asian countries and issues affecting Asia as a whole and to publish their findings. Also important are inputs from ADB’s Sustainable Development and Climate Change Department, the five regional departments, the Private Sector Operations Department, other departments, and our field offices in regional member economies.

From April 2013 to January 2020, when I was President, the position of chief economist and director general of ERCD was filled successively by excellent economists: Changyong Rhee (from the ROK), Shang-Jin Wei (from the PRC), and Yasuyuki Sawada (from Japan).

Mr. Rhee has a PhD from Harvard University and was formerly a professor at Korea University. When the ROK hosted the 2010 G20 Summit in Seoul, he was an adviser to the President of the ROK. He was capable of discussing practical policies without sticking too much to theories. He had been appointed by former ADB President Kuroda. He loved working at ADB and I too relied on him, but he moved on to become the Asia and Pacific Department director of the IMF. I still keep in touch with him as we have a working relationship.

Mr. Shang-Jin Wei, who joined ADB in August 2014, is a brilliant scholar who received his PhD from the University of California, Berkeley. We asked him to come and work for us when he was a professor at Columbia University. He returned to his former post earlier than he had expected because his wife, a naturalized US citizen, was working in the US and Columbia University had reasons to want him back. He had deep knowledge of Asian economies including the PRC. He made an impression on me when he said that there were more companies in Japan than other countries with a history of 100 years or more, and the secret was that families running them would adopt children even if they had their own, and in some cases adopt a married couple as their children, to be able to leave the business to competent successors.

Mr. Sawada, who joined ADB in the spring of 2017, received his PhD from Stanford University and was a professor of development economics at the University of Tokyo. From 2002 to 2004, when I was director of the Development Policy Division in the International Bureau of the Japanese Ministry of Finance, the Ministry had a study group to discuss Japan’s foreign aid, and Mr. Sawada and I were both members of
that group. He had visited the Philippines many times for empirical research on the impacts of policies on poverty reduction and primary education, so he willingly accepted the offer from ADB. Many of the former directors general in charge of research had been experts in macroeconomics. Having an expert on development economics who valued field research provided a good stimulus, and Mr. Sawada has produced many good results. By the way, Mr. Sawada is the first Japanese national to serve as ADB’s chief economist, although Mr. Seiji Naya, a Japanese–American professor at the University of Hawaii, once served in the position.

ERCD has approximately 100 staff members, and 35 of the 48 international staff have a PhD. Just looking at the staff at the level of division director and above, there are people from the PRC, the US, Indonesia, India, the ROK, and the Philippines, and the rest of the staff come from various countries, including in Europe. Meetings in my office sometimes felt like a seminar to share the experiences of various countries. I had also studied economics in college, and had worked in the fields of international finance, taxation, and budget at the Ministry of Finance and as a staff member for 3 years at the IMF in Washington, D.C. in the 1990s. As such, I often offered my opinion based on my experience. However, neutrality is essential in economic forecasts, so I avoided commenting on them.

I asked the staff of ERCD to go beyond reviewing existing research by other institutions and to conduct unique research that only ADB, situated in Asia, could do; to do more than just theoretical analyses and clarify what the policy message was; and to write as clearly and plainly as possible by adding explanations of technical terms as necessary. Regarding the release of publications, discussions in my office sometimes went on much longer than expected. The young staff initially seemed nervous to discuss matters like the application of economic theories and the language of news releases directly with me, but I think it was also stimulating for them.

**The Work of the Asian Development Bank Institute**

Apart from ERCD, ADB has the Asian Development Bank Institute (ADBI) in Tokyo. Established in December 1997, through contributions mostly from the Japanese government, ADBI’s mission is to conduct targeted thematic research and to offer training courses and seminars in Tokyo to officials of various countries. Since its establishment, in addition to Japan, Australia, the ROK, the PRC, and Indonesia have contributed funds to ADBI. Currently, approximately 60 people from 14 countries are working at ADBI.
After I became President, in January 2014, Masahiro Kawai, who had been dean of ADBI, decided to return to the University of Tokyo after 7 years. I decided to ask Professor Naoyuki Yoshino of Keio University to succeed him. Mr. Yoshino had been engaged in research on financial and economic education, Japan’s “Furusato Investment” initiative to provide credits to small businesses and startup companies in local communities, methods to measure the economic effects of infrastructure investment focusing on changes in tax revenue, and measures to secure land for infrastructure by transferring land use rights using land trusts. He had also been enthusiastic about strengthening the network with research institutions in various countries. In a 2019 assessment by the University of Pennsylvania, ADBI was selected as the world’s best government affiliated think tank, ahead of the World Bank’s Development Research Group. At the G20 Osaka Summit in 2019, ADBI led the think tank summit, T20, together with the Japan Institute of International Affairs and the Institute for International Monetary Affairs. I asked Mr. Yoshino to come to Manila regularly to speak to the staff and members of the Board of Directors, and these talks were very well received.

I first met Mr. Yoshino around 1982 when I was a section chief in the Research Division of the Tax Bureau in the Japanese Ministry of Finance, in a meeting of scholars who researched optimal taxation mixes. Since then, he has invited me several times to give one-off lectures at Keio University and to participate in international seminars. Tetsushi Sonobe, vice president of the National Graduate Institute for Policy Studies (GRIPS) in Tokyo at the time, took over as dean of ADBI in April 2020. I have also known him since I was in charge of official development assistance (ODA) budgets in the Budget Bureau of the Japanese Ministry of Finance. We used to meet at study sessions of the Foundation for Advanced Studies on International Development (FASID), among others. I used to call Mr. Yoshino sensei, a Japanese honorific for teachers and scholars, but it became strange to call him that inside ADB, so I began calling him Yoshino-san—but this felt odd at first.

Reflecting on my public life of more than 40 years, I am happy to note that the Ministry of Finance and ADB gave me plenty of opportunities to get to know Japanese and foreign scholars of economics, international politics, and environmental issues. I learned a lot from them. In the field of international finance, I have known Professor Takatoshi Ito of Columbia University since I was seconded to the IMF’s Policy Development and
Review Department in the mid-1990s. At the time, he worked in the IMF’s Research Department, and I had lunch with him occasionally and learned various things from him.

Geopolitical issues have become increasingly important in recent years. In the field of international politics, Takashi Shiraishi, former president of GRIPS, has been providing me with guidance since the Ministry of Finance hosted a study group on Indonesia around 2004. I have known Akihiko Tanaka, current president of GRIPS, in various settings. He was a member of the Ministry of Foreign Affairs Reform Advisory Group when I was in charge of that ministry’s budget in the Ministry of Finance, and he once served as president of the Japan International Cooperation Agency (JICA). Also, Shinichi Kitaoka, current president of JICA, and I have discussed not only cooperation between ADB and JICA but also international affairs. Exchanging views with Professors Shin Kawashima and Akio Takahara of the University of Tokyo, who are experts on the PRC, has been greatly beneficial for me. Recently, I learned a lot by exchanging opinions with Professor Taizo Miyagi of Sophia University, who published an award-winning book *Asian Diplomacy in Post-War Japan* (Minerva) in 2015, and Professor Mie Oba of the Tokyo University of Science.
Chapter 6

HOW I ENGAGED WITH THE PEOPLE’S REPUBLIC OF CHINA AND THE ASIAN INFRASTRUCTURE INVESTMENT BANK

Growing Presence of the PRC

During my term as President of ADB, from April 2013 to January 2020, the economic and geopolitical presence of the People’s Republic of China (PRC) in the international community grew significantly. ADB’s relationship with the PRC through lending and the developments surrounding the Asian Infrastructure Investment Bank (AIIB), which was established in January 2016, were a very important part of my work at ADB.

I visited the PRC 16 times, beginning with my first visit in August 2013 and ending with the last one in December 2019. I also met with government officials numerous times through ADB’s annual meetings and Asia-Pacific Economic Cooperation (APEC) meetings, among others.

Even earlier, when I worked at the Japanese Ministry of Finance, I held exchanges with the officials of the PRC Ministry of Finance and the People’s Bank of China through the G20, the Association of Southeast Asian Nations plus Japan, the PRC, and the Republic of Korea (ROK) (ASEAN+3), and Japan–PRC financial cooperation.
I assumed the post of ADB President at a time when Japan–PRC relations were frosty as a result of the lingering effects of a territorial dispute in August 2012. When I visited the PRC Ministry of Finance in August 2013, I was invited to a dinner with the finance minister as well as a lunch hosted by Zhu Guangyao, vice-minister of finance in charge of international affairs, whom I had known for years through work for the G20 meetings. I was encouraged when he said, “Although the relationship between Japan and the PRC is bad now, let us continue the cooperative relationship between the two countries through ADB.” I was particularly glad to hear that because I felt the same way.

Here, I look briefly back at economic and political developments in the PRC. The country’s economy maintained an annual growth rate of about 10% from the 1980s to the 2000s, thanks to the national push for reform and opening-up policies. In particular, after it joined the World Trade Organization (WTO) in 2001, the PRC effectively became the “factory of the world” and its growth accelerated in step with the expansion of the global economy under favorable financial conditions, in what was sometimes referred to as the “Great Moderation.” The growth rate reached 12.7% in 2006 and 14.2% in 2007.

Even after the global financial crisis in 2008/09, the PRC mobilized fiscal and monetary policies to stimulate the economy, and state-owned enterprises and local governments increased their investment, maintaining the growth rate of about 9–10% from 2008 to 2011. The stimulus package of 4 trillion yuan (about $600 billion), which amounted to over 10% of gross domestic product (GDP) and was announced in November 2008 immediately following the Lehman Brothers’ collapse, was touted as the savior of the post-crisis global economy. In fact, developing Asia was able to maintain relatively high growth—thanks to increased exports to the PRC. The PRC’s economy has a 60% share in the total size of developing Asia (based on nominal GDP in 2018), so its impact is huge.

Even though the pace slowed from 2012 to 2019, the PRC maintained its growth rate in the 6–8% range and increased its weight in the world economy. After surpassing Japan in terms of GDP in US dollars in 2010, the PRC’s GDP in 2018 reached $13.6 trillion, approaching the $20.6 trillion of the US. It is said that an idea emerged in the PRC after the global financial crisis that the country’s economic management style, with more involvement by the government and the Communist Party, was superior to the US style of economic management.
Against this background, in November 2012, the 18th National Congress of the Chinese Communist Party was held. Soon after that, at the first plenary session of the 18th Central Committee of the Communist Party of the PRC, Xi Jinping was elected as the party’s general secretary and chair of the Central Military Commission, replacing Hu Jintao. Half a month later, at the end of November, when he visited the “Road to Reconstruction” exhibition at the National Museum of China, General Secretary Xi Jinping referred to the realization of the “Chinese Dream,” which meant “the great rejuvenation of the Chinese nation.” In March 2013, the National People’s Congress elected General Secretary Xi President of the PRC, and he thus became the leader of the party, the state, and the military. In March 2018, the National People’s Congress amended the Constitution to remove the term limit of the President (from the previous limit of two terms, or 10 years).

Regarding economic policy, the communiqué of the third plenary session of the Central Committee in November 2013 stated that “the market would play a leading role” in resource allocation, as distortions were observed in investment-driven growth after the global financial crisis. Many structural reforms were incorporated in the communiqué, such as giving greater discretion to local governments, eliminating excessive government intervention, providing a level playing field for corporations (state-owned, private, and foreign) to compete, and allowing foreign companies to participate in a wider range of activities. This was viewed favorably across the world. However, since then, there have been movements to increase the influence of the party on corporate management and to strengthen state-owned enterprises through mergers. Some have questioned how these policies align with market functions.

The “Made in China 2025” initiative, announced in May 2015, was designed to enhance the selected 10 manufacturing industries, including next-generation IT, robotics, the aerospace industry, and new energy vehicles. This raised concerns about the PRC potentially pursuing industrial policy through subsidies and other means, and, together with its long-term goal of joining the “world manufacturing powers” by 2049, the 100th anniversary of the country’s founding, this became a factor behind the US–PRC friction.

With regard to external economic policy, President Xi Jinping proposed the establishment of the AIIB in a speech at the House of Representative in Indonesia in October 2013. The AIIB started its operations in January 2016. The idea of the Belt and Road Initiative, which would connect the PRC and Europe with land and sea “silk roads,” was formally proposed at the APEC Summit in Beijing in November 2014.
At the World Economic Forum Annual Meeting in Davos in January 2017, at which US President Trump—who had just been inaugurated—was not present, President Xi Jinping gave a keynote speech. Notably, he touted the PRC’s leadership in driving the global economy and opposing protectionism. I heard this speech from the audience that filled a big hall. This took place before the frictions between the US and the PRC emerged, at a time when the global presence of the PRC had become more prominent.

It is said that this series of moves may have been an indication that the PRC had turned from the diplomatic stance it had maintained since Deng Xiaoping, to “bide one’s time for the right opportunity” or “stay quiet until one gathers strength,” to a policy of being more assertive in the international community and exerting its influence as a big power.

What I’ve Talked about in the PRC

In the PRC, I met many senior officials, from national leaders to ministers and vice-ministers. Under the country’s system, the ministers are technocrats (not politicians) who have been promoted based on their performance and achievements in the respective organization, so we understood each other very well when I discussed with them such issues as the economic situation, fiscal policy, or finance. After meeting several times and becoming comfortable with each other, we were able to exchange views very frankly. I felt that many of them had both intelligence and mental fortitude. The Japanese study the comprehensive and detailed history of the PRC and Chinese classical literature as part of the high school curriculum. I personally like reading books on Chinese history, the Analects of Confucius, and Chinese poetry from the Tang Dynasty era. I sometimes look at beautiful Japanese books of Chinese poems with photos for relaxation before going to bed. Being able to talk about these subjects often made the conversation go smoothly.

Among the members of the Standing Committee of the Central Political Bureau of the Communist Party, who are the top seven leaders in the PRC, I paid courtesy calls to Premier Li Keqiang in March 2015, Vice Premier Zhang Gaoli in January 2014, and Vice Premier Han Zheng in December 2019. In these meetings, the PRC leaders expressed their appreciation for ADB’s support since the country had joined the organization in 1986, and I stressed that the engagement with the PRC was important to ADB. We sometimes discussed the PRC’s economic policy and reforms. I also had opportunities to join a talking session with Premier Li together with participants from other countries at the China Development Forum held
every March at Diaoyutai Guesthouse in Beijing. I met President Xi Jinping once, in a waiting room at the G20 Osaka Summit in June 2019; we shook hands and exchanged a few words.

As for the successive finance ministers who were in charge of cooperation with ADB in the PRC, Lou Jiwei, Xiao Jie, and Liu Kun, I talked with them for several hours, including at dinner meetings, every time I visited the PRC. I also met them briefly at ADB’s annual meetings. As for other ministers and those of the equivalent rank, I exchanged views and signed memoranda of understanding with senior officials of the National Development and Reform Commission, the Ministry of Ecology and Environment, the Chinese Academy of Social Sciences, and the Chinese People’s Political Consultative Conference.

One-on-one discussions with Governor (former Deputy Governor) Yi Gang of the People’s Bank of China and Vice Premier Liu He, who is well known as the PRC’s representative in the negotiations with the US, tended to last long as the three of us had the same background as economists. Foreign Minister Wang Yi (former Ambassador to Japan) attended the Greater Mekong Subregion (GMS) Economic Cooperation Program summit in Hanoi in March 2018 on behalf of Premier Li Keqiang. I happened to sit next to him at a dinner and was able to talk with him for a long time on wide-ranging issues.

Meeting with the PRC’s Finance Minister Lou Jiwei (August 2014).
The message repeatedly conveyed by the senior officials during these meetings was that they highly appreciated ADB’s support to the PRC, and they wanted to continue borrowing from ADB and sharing expertise, and that the PRC was also prepared to actively cooperate with ADB and the Asian region. We also frequently discussed the current state of the PRC economy and its challenges, how to deal with the US–PRC trade frictions, and the country’s role in the international community. They also asked for my opinions on Japan’s experience of trade frictions with the US in the past, the Plaza Accord (in 1985, after which the yen appreciated rapidly vis-à-vis the US dollar), the bubble economy (in the late 1980s), and policy management after the bursting of the bubble.

What I told them about these topics was as follows. I think they listened to me seriously:

(i) The PRC says it is still a developing country, but it is a major country and not an ordinary developing country, in terms of the size of its economy, trade, finance, technological capability, and cultural presence. It has a great impact on Asia and the world. The PRC says it wants to become a mighty nation similar to the US in the middle of the 21st century, but, as the existence of the word “G2” indicates, from outside it is already seen as a hegemony that rivals the US. The PRC needs to think carefully about how it looks from another country and the world, instead of how it wants to describe itself.

(ii) The PRC’s industry is already highly competitive, and industrial policies that would be allowed for normal developing countries may cause others to worry that the PRC may be trying to take it all. Given differences related to the concept of privacy, in the PRC it is easier to use artificial intelligence and big data. This also has led to a view that the PRC is a technological threat. Protection of intellectual property rights and equal treatment of domestic and foreign corporations need to continue.

(iii) Certainly, there are still poor regions and poor people in the PRC, but the government should tackle this by focusing on reducing income disparities in addition to the pursuit of a growth strategy. Specifically, it is important to expand the coverage of income taxes, in terms of both population and income levels; introduce inheritance taxes and property taxes; and enhance public education, health care, and pension programs. Reform
has already begun of the household registration system (*hukou*), which has created a large disparity between rural and urban registries and limits the free movement of people into cities, but this reform needs to go further.

(iv) The post-bubble deflation in Japan was not caused by the appreciation of the yen brought on by the Plaza Accord, but by the following series of events: expansionary economic policies, which were adopted to counter the recession caused by the yen’s appreciation, led the economy to overheat and asset prices to rise. When the bubble burst, it created a balance sheet imbalance (shrinkage of assets relative to capital and debt) and depressed the activities of firms and financial institutions for a long time from the early 1990s. There were also structural factors, such as competition from emerging countries and an aging and declining population.

(v) First of all, it is important to prevent a bubble, or a rise in asset prices, which is not aligned with the fundamentals. In particular, as growth intensifies under the floating rate system, the value of the currency tends to rise. Then, consumer prices stabilize as a result of the decline in import prices, while asset prices rise. Japan in the bubble period was exactly like this. Central banks need to pay close attention not only to consumer prices but also to asset prices and capital inflows. Nevertheless, if a bubble is formed, its rapid burst will hurt the balance sheets and subsequent adjustments and recovery will be lengthy, so it is necessary to employ policies carefully.

As for income redistribution mentioned in point (iii) above, there are several obstacles in the PRC context. Inheritance taxes and property taxes may contradict the PRC’s principles because it is a socialist country and does not in theory allow private ownership. In addition, inequality itself was not expected to exist under the concept of the leadership of the proletariat. Furthermore, as I reaffirmed when I studied the development history of Asia, as mentioned in Part III, the planned economies of the former Soviet Union and the PRC entailed the concept of mobilizing resources from rural, agricultural areas into urban industrial areas to rapidly develop heavy and chemical industries. This was the opposite of the direction that Japan took after World War II, when it aimed to achieve balanced development of the entire country by transferring resources from cities to rural areas.
I have strong feelings about the Japanese bubble and subsequent stagnation, and economic policy responses to them, mentioned in points (iv) and (v), as a result of the following experiences. I was involved in the introduction of the national-level “land price tax” (which was later abolished subsequent to the burst of the bubble) in the Tax Bureau of Japan’s Ministry of Finance around 1990. In 1989/90, I was a member of a team negotiating reforms of the Japanese economy (and the US economy) to reduce the current account imbalances between Japan and the US at the Structural Impediments Initiative under Makoto Utsumi, who was vice-minister of finance for international affairs at the time. I faced the collapse of the mortgage-backed securities industry at the beginning of 1998 as head of the Nonbank Financial Companies Office. From 1998 to 2000, I had to repeatedly explain Japan’s policies to other countries as the division director in charge of the G7 finance ministers and central bank governors meetings. When I was in the Budget Bureau, I wrote a paper entitled “Japan’s Experience with Fiscal Policy in the 1990s in the Aftermath of the Bubble Economy” for a seminar held by the Bank of Italy in Perugia in March 2002. (The paper is available on the website of the Bank of Italy and the Japanese version on the website of the Japanese Ministry of Finance Policy Research Institute.)

The PRC’s Senior Officials

Among the successive finance ministers, I met Minister Lou Jiwei in Beijing six times from August 2013. In addition, we would always meet at ADB’s annual meetings, albeit briefly, to exchange views on the management of ADB and its lending to the PRC. He was well known as a reformist who had graduated from Tsinghua University and worked at the Chinese Academy of Social Sciences. He was the right-hand person of former Premier Zhu Rongji, who had promoted the deepening of the reform and open-door policies and the stabilization of macroeconomic policies in the 1990s. Five years older than me, he is not a man of many words. But when he spoke, he was sincere and had a sense of humor. His statements were always full of substance. I spoke with him for a long time while being treated to lunch and dinner in a dining room in the PRC Ministry of Finance and Diaoyutai Guesthouse.

Since Minister Lou Jiwei was originally an expert on public finance, he was eager to modernize the financial administration of the PRC government. He promoted reform to expand the tax base of the value-added tax, as well as to increase local tax revenues and ensure that local governments could issue bonds based on proper rules. He thought that local governments had to borrow
informally because their revenues were insufficient to cover their expenditures. Since I had 6 years of experience in the Tax Bureau in the Japanese Ministry of Finance, it was very interesting for me to talk about tax reform. Even after he moved on to be chair of the National Council for Social Security Fund, I wanted to accord him courtesy and visited him to ask for his perspectives.

Finance Minister Xiao Jie had studied in Germany when he was young and had been involved in long-term planning at the Ministry of Finance. He is highly intelligent and speaks with enthusiasm. Being the same age, I found out that we shared many similar views. Our first meeting took place on 4 January 2017, soon after he had been appointed finance minister. The dinner was hosted by Vice-Minister Shi Yaobin, because Minister Xiao Jie had a conflict in the schedule, and I met him after that. This meeting was originally scheduled as a 30-minute courtesy call, but we ended up talking for 2.5 hours, including the time for translation, encroaching into his time for dinner. Minister Xiao stressed that the PRC’s development was the result of a “social movement” that drove people’s motivation through unprecedented reform and opening-up policies. I said that modernization of Japan in the Meiji era, although it took place in different times, was similarly driven by the people’s unleashing of their energy that had accumulated during the class system of the Edo period.

I met with Minister Xiao again when I visited Beijing in March 2017, and at the ADB Annual Meeting in Yokohama in May, and in Urumqi in September, but all of these meetings were brief. Upon the request of Minister Xiao to have an unhurried talk, I invited him to my office at ADB when he visited Manila with Premier Li Keqiang for the East Asia Summit in November of the same year. After each of us had dinner separately, the meeting began at 7:30 p.m. and continued until 11:30 p.m. In the first half of the meeting, we talked about ADB’s lending to the PRC and the reform of the country’s finances and state-owned enterprises. In the second half, we ended up having an exciting debate about whether artificial intelligence would pose a threat to humans and various other interesting topics. Minister Xiao said it would be a threat, as it had already beaten humans in the game of Go, for example. I countered that machines had never surpassed humans, even though steam locomotives have moved faster than humans for 200 years and computers beat us in calculations. The same could be said for artificial intelligence. It was the longest official meeting I had ever had, and the staff who were there must have been bewildered. In March 2018, Minister Xiao became secretary-general of the State Council, which is an important position similar to chief cabinet secretary in Japan.
I met his successor, Minister Liu Kun, four times in Beijing from March 2018. He is an unassuming and pragmatic expert in financial administration who had a lot of experience in Guangdong Province. We would often talk about tax reform and the US–PRC friction. Minister Liu is also about the same age as me. At a dinner meeting I said that plastic toy models, cakes, and beef had been precious in Japan in my childhood and I could appreciate them very much because of their scarcity. He responded with his stories from his childhood when the PRC had been much poorer than Japan. We laughed a lot together.

Looking at my records, I first met Vice Premier Liu He when he visited the Japanese Ministry of Finance as deputy office chief of the Central Leading Group for Financial and Economic Affairs of the Communist Party, along with other officials, on 17 December 2009. I met him with Kazuyuki Sugimoto, who was special advisor to the Ministry of Finance at the time. (Before then, Mr. Sugimoto was vice-minister of finance, and he later became chair of Mizuho Research Institute. He assumed the position of chair of the Japan Fair Trade Commission in March 2013.) The title of deputy office chief of the Central Leading Group may not seem very important, but at that time the leader of that group was Premier Wen Jiabao and the deputy leader was Vice Premier Li Keqiang. The deputy office chief is the PRC’s top advisor on macroeconomic policy. At that time, Mr. Liu He was eager to hear the Japanese Ministry of Finance’s explanation on the experience of the internationalization of the yen and the Japanese bubble.

Mr. Liu He is 4 years older than me and was a graduate student at Harvard University Kennedy School in the 1990s. He is a soft-spoken gentleman, but his statements and questions are very precise and on-target. Even after I became vice-minister of finance for international affairs, when I visited Beijing in August 2011 and May 2012 I asked to meet him through Councilor Satoru Shibata, who had been seconded to the Japanese Embassy in the PRC from the Ministry of Finance. For about an hour, we exchanged views on a wide range of topics, including the euro crisis, Japan’s reconstruction after the Great East Japan Earthquake, Japanese fiscal consolidation, and economic stimulus measures in the PRC. Mr. Liu left an impression on me when he said that Keynesian expansionary policy should not be used easily and that Schumpeterian structural reform (“creative disruption”) was more important. By the way, Mr. Shibata is currently director of the Planning and Management Division in the Strategy Development and Management Bureau of the Financial Services Agency. He is also an expert on the PRC’s economy and finance and has published several books on the subject.
After I became President of ADB, I met Mr. Liu in September 2015 and discussed the PRC’s actions to deal with stock prices, among others. When I met Mr. Liu in March 2017 after he had become a member of the Politburo, we talked about measures to control the real estate bubble in the PRC, the continuation of the country’s reform, and globalization and protectionism. Mr. Liu had visited rural areas of Japan and said that, even though the PRC had developed substantially, it was far from achieving Japan’s level of well-being, which is fairly consistent throughout the country. He was also impressed with Japan’s social security system and elderly care.

Just after Mr. Liu was appointed vice premier in March 2018, he hosted an impressive meeting during the China Development Forum on the 25th of the same month, at one of the many guesthouses in Diaoyutai. Foreign experts were invited to the meeting to exchange opinions. Governor Yi Gang of the People’s Bank of China was there as well. Participants from overseas were Pascal Lamy (former director-general of the WTO), Michael Spence (New York University), Joseph Stiglitz (Columbia University), James Heckman (University of Chicago), Martin Feldstein (Harvard University), Nicholas Stern (London School of Economics), Thomas Donilon (chair of the BlackRock Investment Institute), Stephen Roach (former chief economist at Morgan Stanley), Graham Allison (Harvard University), Martin Wolf (*Financial Times* reporter), Michael Froman (former US trade representative), and myself. Most were economists, including Nobel Prize winners Spence, Stiglitz, and Heckman. Allison is a scholar in international politics famous for his exploration of whether a conflict between a rising power and an existing power can be avoided.

This was the time when the trade friction between the US and the PRC, which had begun in the spring of 2017, was becoming more intense. We discussed mutual benefits of trade, intellectual property rights, technological competition, and multilateralism for an hour and a half. I remarked as follows: the current friction between the US and the PRC reminds us of the friction between Japan and the US in the 1980s and 1990s, but, since losing the war, Japan has been an ally of the US through the Japan–US Security Treaty. The PRC is different in that respect, and, because of its large territory and population, and the size of its economy, which is closer to that of the US, there is a risk that the conflict will become even more serious. Subsequently, Mr. Liu He was put in charge of negotiations with the US in May of 2018, and I’ve seen him on television on many occasions.

By the way, many foreigners participate in the China Development Forum, which is held at Diaoyutai Guesthouse every March for several
days, along with officials from the PRC’s central and local governments. For instance, in March 2018, there were dozens of well-known scholars (including Lawrence Summers of Harvard University, Robert Shiller of Yale University, and Jeffrey Sachs of Columbia University, in addition to those listed above) and dozens of CEOs of the world’s leading corporations, including Apple, Google, Ford, Royal Dutch Shell, HSBC, and major Japanese corporations. The World Bank was represented by CEO Kristalina Georgieva, who became managing director of the International Monetary Fund (IMF) in October 2019, the Organisation for Economic Co-operation and Development (OECD) by Secretary-General Angel Gurría, and the IMF by Deputy Managing Director Zhang Tao. Mr. Zhang had once worked at ADB as a staff member, and, when he was director-general of the International Bureau of the People’s Bank of China, I held several discussions with him about Japan–PRC financial cooperation. I attended the China Development Forum every year from 2014 to 2018. (I could not attend in 2019 owing to a schedule conflict.) The Forum was a spectacular display of the PRC’s national prestige.

As a custom, the first speech from the PRC side was given by the vice premier; among the foreign participants, the IMF managing director spoke first, followed by ADB’s President. As such, I spoke after Managing Director Christine Lagarde. Also, I always met with Premier Li Keqiang in a group setting. In March 2018, I made the first speech among foreigners because Managing Director Lagarde was not present. Since this happened on the 40th anniversary of the PRC’s reform and opening-up policy, I spoke about the importance of maintaining efficient markets and stable macroeconomic policies, and mentioned that addressing income disparities was an urgent task at hand. My speech, which lasted for about 10 minutes, seemed well received.

I always ended my speech at this forum by quoting Chinese poetry. This time, I quoted the first words of the Analects of Confucius, which I sometimes recall and savor—“Is it not pleasant to learn things, and from time to time revisit them? Is it not delightful to have close friends coming from distant places?”—to talk about the importance of learning from the past and the preciousness of having friends gather from around the world and of talking with them.

From Japan, Hiroaki Nakanishi of Hitachi, Nobuyuki Koga of Nomura, Shuzo Sumi of Tokio Marine, and Yasuhiro Sato of Mizuho were among the participants, and I appreciated their support for my speech. Masahiko Aoki (Stanford University), who was famous for comparative institutional
analysis and had strong ties with the PRC, attended the forum up to the one held in March 2015, but, regrettably, he passed away in July of the same year.

The History of ADB’s Involvement with the PRC and Project Site Visits

The PRC joined ADB in 1986. Before then, Taipei, China (under a different designation at the time), had been an original member since ADB’s inception in 1966. In 1971, the United Nations recognized “the lawful rights”2 of the PRC, and in 1980, the PRC assumed responsibility for relations with the World Bank and the IMF. The PRC began its efforts to join ADB in 1983. With the effort of Masao Fujioka, who served as the fourth ADB President from 1981 to 1989, it was decided after long negotiations that the PRC would not oppose “Taipei, China” remaining in ADB. In ADB’s Board of Directors, Taipei, China belongs to the group represented by the director for the ROK.

President Fujioka believed that cooperation with the PRC would bring big benefits to ADB in its efforts to establish itself as an Asian development organization. The PRC, on the other hand, believed that, by joining ADB, it would be able to gain access to foreign currency financing, which had been scarce at the time, and expertise in large infrastructure projects. The PRC also hoped to demonstrate its willingness to open itself up and cooperate with the international community in general and especially with other countries in Asia. Now, the PRC does not lack foreign currency funds and ADB’s projects no longer involve large-scale infrastructure. Still, I believe cooperation between ADB and the PRC continues to have significance for international cooperation in Asia.

The PRC is the second-largest ADB borrower after India, being the recipient of cumulative sovereign loan commitments of $37.1 billion and private sector operations of $3.8 billion from when it joined ADB in 1986, as of the end of 2019. However, the volume of ADB’s assistance has recently been restrained, in response to the PRC’s economic development. In 2019, ADB’s assistance to the country totaled $2.2 billion, consisting of $1.8 billion in sovereign operations and $400 million in private sector operations. This accounted for a share of 10%, making the PRC the fourth-largest borrower after India, the Philippines, and Pakistan.

The first loan to the government was approved in 1987 by the ADB Board, and provided $100 million to the China Investment Bank to support

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small and medium-sized enterprises. Lending in the early years centered on infrastructure projects in the coastal region, which the government had positioned as a priority area for growth. Among them, the Nanpu Bridge and the Yangpu Bridge, built across the Huangpu River in Shanghai and completed in the early 1990s, and the project to rehabilitate and clean Suzhou Creek, which flows through the city of Shanghai, are remembered as monumental projects. Subsequently, lending to the PRC gradually shifted to inland areas where economic development had lagged behind. The main sectors of support also shifted to water supply and sanitation, agriculture, poverty reduction, vocational training, the environment, and climate change.

The PRC did not welcome any intervention on its policies and, for a long time after it joined ADB, it did not accept policy-based loans, under which funds are disbursed on the condition of implementing certain policies. In 2015, for the first time, the PRC borrowed $300 million that was contingent on shifting away from coal energy, promoting public transportation systems, and strengthening regulations and monitoring to combat air pollution in the Great Metropolitan Area consisting of Beijing, Tianjin, and Hebei. Along with this major metropolitan initiative, ADB has been providing major assistance for multiple years to the Yangtze River Green Ecological Corridor. At present, ADB supports these large-scale initiatives for climate change and environmental protection by utilizing a range of instruments: project loans, results-based loans, and policy-based loans.

In recent years, most of the lending operations for the PRC, including private sector operations, are projects related to the environment and climate change. Geographically, more of them are located in inland areas than in coastal areas. These projects produce external benefits to neighboring countries and the international community by reducing the adverse effects of environmental pollution and limiting carbon dioxide emissions. Some loans have helped provide nursing care for the elderly, for which service supply is still not sufficient and institutions are weak in the PRC.

When I participated in a symposium in Shanghai in November 2016 to commemorate the 30th anniversary of the PRC’s membership in ADB, I visited the sites of the Suzhou Creek Rehabilitation Project. Suzhou Creek, which flows from Suzhou and passes through the center of Shanghai, began to be contaminated in the 1920s when the PRC experienced its initial industrialization. By the end of the 1980s, it had become terribly dirty, and people would casually dump garbage into the creek. Thanks to ADB-supported projects and others, the creek was dredged and cleaned, factories were relocated, sewage and waste treatment facilities were developed, and
regulations were enhanced. Now residents can walk the beautiful trails along the river. I visited a former brewery that had been built before World War II and converted to a museum and a park. The attendant told me how moving it had been to see fish return to Suzhou Creek in the 2000s.

On this trip to Shanghai, a senior official of the city government, who had worked in Shanghai since the 1990s, invited me to dinner. He said that ADB’s various projects in Shanghai not only provided funds when foreign currencies were scarce but also brought expertise in project design, preparation, implementation, evaluation, and environmental and social considerations. He added that those benefits had been significant in the past, but ADB’s projects were still important to the PRC as a source of practical expertise on the ground. By the way, I also recall a senior official’s statement when he visited Yokohama to attend the ADB Annual Meeting in 2017, that, from the outside, Shanghai might appear as great as any big city in Japan, but there was still much to learn in areas such as waste disposal, improvement of flow routes for heavy rains, and smooth regulation of traffic.

In addition to Shanghai, I visited many sites of rural ADB projects in the PRC. Among them, those that left a strong impression on me were the water supply and sanitation project in Hebei (visited in August 2013), the poverty reduction project in Yunnan (March 2014), a private factory to produce large air purifiers in Changsha, Hunan Province (September 2015), the water supply facility developed by a Japanese trading company in the suburb of Chengdu, Sichuan Province (July 2016, when I visited the city to attend the G20 Finance Ministers and Central Bank Governors Meeting), and the solid waste-to-energy plant in Suzhou, Jiangsu Province (December 2016).

The mountain village I visited in Yunnan in 2014 was surprisingly poor. The little old house to which I was guided was too poorly built to keep out the wind; had only one incandescent bulb as a source of light; and had no running water, sewerage, or gas. An old woman was sleeping on a bed that seemed to have been made of straw. A son in his 40s was taking care of her and said his income from a small field alone would not allow him to get married. There were apartments in the center of the village and the local government was trying to move people from the poor mountain villages there, but many people did not want to leave the land of their ancestors, I was told. Vice-Minister of Finance Shi Yaobin, who accompanied me from Beijing, seemed to be shocked, and he gave the villager some money right out of his wallet. I met Vice-Minister Shi several times and I could tell that he was a really sincere, warmhearted person.
The PRC government is making serious efforts to reduce poverty, but income and regional disparities are large. This is an area where the PRC can respond by using its own domestic funds, especially tax revenues.

During my visits to provincial cities, provinces’ party secretaries, governors, and mayors often hosted lunches and dinners for me. These occasions were useful to learn about the characteristics and challenges of each region. I used to hear that Chinese people had the habit of offering strong drinks during a meal that lasted a long time, but things must have changed recently. During most of my visits, we would have a friendly chat over lunch or dinner for a while and that was it, which was good for me as I am not good at drinking strong alcohol. During my travels, I visited the old town of Lijiang in Yunnan Province, where many Naxi people live; Yuelu Academy, which was built in the 10th century and became the base of Hunan University; thatched cottage of Du Fu, great poet of the Tong Dynasty, in Chengdu; and various museums. I was able to see and feel the history of the PRC that I had only known in books.
Why Does ADB Continue Lending to the PRC?

I am often asked why ADB continues lending to the PRC when the country’s income has reached a level that may warrant its graduation from ADB lending. Graduation is the ultimate goal of development assistance, so this is a good question. The ROK, Singapore, and others have graduated from ADB loans. Japan borrowed reconstruction funds from the World Bank beginning in 1952 for many large-scale projects including power generation and highways, but it graduated after receiving the last loan in 1966. (Japan finished repaying its World Bank loans in 1990.)

The criteria for graduation from ADB lending are in line with those of the World Bank. ADB is expected to start discussing the graduation process with a country when all of the following three conditions are met: (i) gross national income (GNI) per capita is $6,975 or higher (this figure is for 2018 and it is updated annually); (ii) funding with reasonable conditions can be obtained from capital markets; and (iii) important economic and social institutions have developed to a certain level. Graduation does not occur automatically just because income has reached a certain level.

In the case of the PRC, ADB’s stance is that, although GNI per capita in 2018 was $9,470 and exceeded the threshold, and the country can raise funds in the market, its institutional strength under item (iii) is not sufficient. In fact, the World Bank is also planning to continue lending to the PRC at least for now, while reducing the amount. The World Bank is even lending to Brazil, which falls under the category of a high-income country, with an income of over $12,375.

As reasons for ADB’s continued lending to the PRC, I have listed the following:

(i) Loans to the PRC are now focused on areas with externalities, such as the environment and climate change, and the amount is being reduced.

(ii) Ordinary loans to countries such as the PRC carry an interest rate consisting of ADB’s cost of funding (through its bond issuance in the international markets) plus a spread (50 basis points—that is, 0.5%, plus a premium of 20 basis points for long-term loans). Therefore, the interest payments cover ADB’s costs, and remaining profits are used to support poor countries and to build up capital, which serves as the basis for future loans.

(iii) If ADB loses a large borrower with high creditworthiness such as the PRC, ADB’s financial risk will increase, partly because of the reduced diversification of the loan portfolio,
and it will need additional capital to maintain the AAA rating of its bonds.

(iv) Working in a country with the ability to implement projects such as the PRC helps ADB build its own knowledge and expertise, which can be applied to support other developing countries.

(v) More fundamentally, it is desirable for the PRC and ADB to work together through loans and to maintain a cooperative relationship because this in itself has certain significance within Asia and in the international community. If such a relationship is eliminated, ADB will become less relevant.

This last point has remained the same as when former President Fujioka decided to let the PRC join ADB, as mentioned earlier. Even if ADB’s lending volume is insignificant in terms of the total amount of funds the PRC needs for development, the level and content of the dialog between the PRC and myself indicated that the country highly appreciates ADB loans.

I believed that, even if ADB continued to provide loans to the PRC, it could raise the interest rates slightly on loans to upper middle-income countries such as the PRC, and that, conversely, lending to the PRC would be more justifiable by doing so. I began discussing this idea with the PRC and other developing countries around 2017. In Strategy 2030, published in July 2018, ADB clearly stated that it would consider differentiating the interest rates for different borrowers. The World Bank also decided to raise interest rates to higher-income countries such as the PRC in the capital increase package for the International Bank for Reconstruction and Development (IBRD) and the International Finance Corporation (IFC), the major organizations of the World Bank Group, in April 2018.

After complicated negotiations, on 19 November 2019 ADB’s Board of Directors decided that the interest rates would be differentiated starting with new loans to be approved in 2021. This decision was supported by developed countries and many developing countries, including the PRC itself. The interest rate for the PRC will be raised by an increase of the term-based premium by 20–30 basis points depending on the repayment period. ADB’s senior staff from the Strategy, Policy, and Partnerships Department and the East Asia Department traveled to the PRC and other developing countries repeatedly for preparatory discussions, and I myself spoke with ministers of the PRC and India many times. It was very encouraging that the PRC supported the initiative.
I think this move was heavily influenced by the understanding and support of Finance Minister Liu Kun, Vice-Minister of Finance in charge of international affairs Zou Jiayi, and ADB Executive Director Zhijun Cheng, who is from the PRC Ministry of Finance. I have known Zou Jiayi for about 10 years since she was director-general in charge of bilateral relations, including Japan–PRC relations. I still remember our enjoyable discussion about Japan–PRC financial cooperation during dinner at a sukiyaki restaurant in Tokyo.

The Move to Create the Asian Infrastructure Investment Bank

When I was President of ADB, the question most frequently asked by international media outlets related to ADB’s relationship with the AIIB. In some ways, I think the AIIB made ADB and myself better known in Japan, the PRC, and the US. To state the conclusion first, the AIIB is a partner of ADB and they even have cofinancing initiatives.

The AIIB was first advocated in a speech by President Xi Jinping at the Indonesian National Assembly in October 2013. However, before that, I had heard about the idea from Jin Liqun, who would later become president of the AIIB, when I traveled to Beijing for the first time in August of the same year. According to my notes, on 12 August, ADB’s Beijing Office set up a dinner for me with former ADB staff, and among them was Mr. Jin, who was the first Chinese vice-president of ADB, from 2003 to 2008. His time at ADB had overlapped with that of former Presidents Chino (1999–2005) and Kuroda (2005–2013) but I hadn’t met him before.

At the dinner, Mr. Jin referred to the idea to create an international organization under the PRC’s initiative that could help Asia in infrastructure investment. It sounded similar to other initiatives, including the ASEAN Infrastructure Fund, with which ADB was cooperating.

Mr. Jin was born in 1949 in the city of Ningbo in Zhejiang Province. During the Cultural Revolution, he did farmwork for a long time as part of the Down to the Countryside Movement. After that, he studied English literature at Beijing Foreign Studies University. Then he joined the Ministry of Finance in 1980, when the reform and opening-up policy had begun. He studied economics at Boston University’s graduate school in the US for a year in 1987. In the Ministry of Finance, he followed a career path in the international field. For 5 years beginning in 1988 he served as the PRC’s executive director at the World Bank. After returning to the ministry, he was promoted all the way up to vice-minister of finance in charge of international
affairs. When I met former ADB President Fujioka in August 2016 in Tokyo, he said he remembered Mr. Jin well from when he had been a young participant in the PRC’s negotiations to join ADB in the 1980s. It is widely known that he continued to read Shakespeare in English while working on rural farms. In fact, his English was fluent and persuasive, and his quotes of classic English literature showed his cultural sophistication.

Just counting one-on-one meetings, I met with Mr. Jin over a dozen times. I visited him once at the AIIB preparation office and once at his office after the AIIB was established. He came to ADB headquarters in Manila twice. In addition, Mr. Jin attended ADB’s annual meetings in Baku in 2015 and Frankfurt in 2016, perhaps to meet with his former ADB colleagues. He also came with his wife to the 2017 Annual Meeting in Yokohama.

Although we are from different countries, we both had a similar career in the international field in the respective finance ministries, so we understood each other very well when we discussed international finance, fiscal affairs, and tax systems. I concurred with his assertion that international organizations had to eliminate waste and be managed efficiently. Mr. Jin has said the operating principle of the AIIB was “Lean, Clean, and Green” (no waste, no corruption, and friendly to the environment). I thought that putting “Lean” first showed his priorities.

I would like to return to the discussions surrounding the establishment of the AIIB and reflect on the events in chronological order. A senior PRC official, whom I met in January 2014, said that the AIIB would become operational in 2 years, which was indeed achieved. At that time, however, the PRC seemed to think that members would be Asian countries and did not appear to have the intention of including the G7 and other countries around the world. However, the concept of the AIIB grew over time, and the PRC began asking the G7 countries, the ROK, Australia, and others to join.

On 24 October 2014, a ceremony was held in Beijing for the signing of a memorandum of understanding for the establishment of the AIIB, and Mr. Jin was appointed secretary-general of the Interim Secretariat tasked with establishing the bank. At the time, 21 countries, including India, Mongolia, and countries in Southeast Asia and the Middle East, joined this signing event, but the ROK and Australia did not. Newspapers reported that the US warned the two countries against joining.

I had stayed in Beijing just before 24 October, but I did not attend the AIIB signing ceremony. According to my notes around that time, I flew from Manila to Singapore on a morning flight on 20 October to give a
keynote speech at a meeting of the Institute of International Finance (IIF), an international group of financial institutions. After meeting then Finance Minister Tharman Shanmugaratnam, I took a red-eye flight to Beijing, arriving on the morning of 21 October.

On that day, I participated in the APEC Finance Ministers Meeting Retreat held in the former residence of Soong Ching-ling, the second eldest of the famous “three sisters of the Soong family” and the second wife of Sun Yat-sen. Later, Ms. Soong herself served as vice premier of the PRC (1959–1975). With other participants, I paid a courtesy call to Premier Li Keqiang at the Great Hall of the People. On 22 October, I attended a session on macroeconomics at the APEC Finance Ministers Meeting, and also met with Finance Minister Aso of Japan and ROK Minister of Economy and Finance Choi Kyung-hwan.

On the evening of 22 October, I hosted a dinner at a restaurant in Beijing with five economists from the Chinese Academy of Social Sciences, Tsinghua University, Peking University, and others. We exchanged opinions on the impact of the reduction of migration from inland areas to coastal industrial areas on growth, and the effects of economic stimulus measures.

On 23 October, I attended a high-level forum between ADB and the National Development and Reform Commission on the PRC’s 13th Five-Year Plan (from 2016 to 2020), to discuss future challenges. In the past, the PRC had consulted only the World Bank and OECD about its five-year plans. However, ADB had helped with the formulation of the 13th Plan in several areas, and it produced a fairly comprehensive report on ideas for the 14th Plan. After the forum, I met with Finance Minister Lou Jiwei and we talked about the AIIB, among other things. In the afternoon, I gave a lecture at Peking University HSBC Business School. I left Beijing on an 8 p.m. flight to Manila.

Also on 23 October, I gave interviews and a press conference. Since this was the day before the signing ceremony for the memorandum of understanding for the establishment of the AIIB, my comments on the AIIB were widely reported both in the PRC and abroad.

My message to the AIIB remained consistent both for the PRC officials and the media, from 2014 to the launch of the AIIB in January 2016:

(i) I understand the objective of the AIIB, which is to help promote infrastructure investment in Asia.

(ii) It is important for the AIIB to adopt the best standards for procurement as well as environmental and social considerations for projects.
(iii) When the AIIB is established, ADB is prepared to consider appropriate cooperation with it in common priority areas.

Since the media tends to report only parts of a statement, I wanted to clarify the stance of ADB. To that end, I published a statement in my name, including the above three points, on 24 October when I returned to Manila from Beijing. In a long interview article in The New York Times, which was published with my photograph on 14 November 2014, I mentioned these three points, in addition to the need to mobilize private funds for infrastructure. As for Item (iii), when the actual establishment of the AIIB was approaching, I deleted the phrase “when AIIB is established” and added the phrase “including cofinancing.”

The PRC’s message on the AIIB was also consistent:

(i) The AIIB is an organization that helps Asian and other developing countries invest in infrastructure and adheres to the best international standards.

(ii) It complements ADB and the World Bank, but, as a newer organization, its governance is well suited to the times and it is more efficient in some ways.

(iii) Despite the existence of the AIIB, the importance of ADB to the PRC will remain unchanged.

The international debate gradually shifted to the question of what the G7 would do and whether Japan and the US would join the AIIB. At the Davos conference in January 2015, this topic was discussed by a group of Japanese business leaders that included Yoichi Funabashi, former editor-in-chief of the Asahi Shimbun, Governor Kuroda of the Bank of Japan, Japan International Cooperation Agency (JICA) President Akihiko Tanaka, Chair of the Japan External Trade Organization (JETRO) Hiroyuki Ishige, and CEOs of several Japanese companies.

On 27 February 2015, I met with French Foreign Minister (and former Prime Minister) Laurent Fabius in Manila and was asked to cooperate on COP21 (the 21st session of the Conference of the Parties to the United Nations Framework Convention on Climate Change), to be held in Paris in December of the same year. At that time, I was told that various European countries were considering joining the AIIB. Regarding COP21, I attended it myself but, prior to that, in September 2015, ADB led its peers in announcing its commitment to double its annual lending for climate change mitigation (reduction of greenhouse gases) and adaptation (dealing
with rising sea levels and intensifying extreme weather, etc.) from $3 billion in 2014 to $6 billion by 2020. (This goal was actually achieved in 2019, one year ahead of schedule.) In this way, ADB was able to respond to the request of Minister Fabius.

Around February 2015, when I was talking with a senior official of the Japanese Ministry of Finance, I was told that the ministry also had reasons to believe that the UK and other European countries were considering joining the AIIB. Incidentally, I used to exchange views on various issues related to ADB from time to time with major members, (including Australia, Germany, India, Indonesia, the PRC, the ROK, and the US), either through ADB’s executive directors or through meetings and phone calls with senior government officials. Throughout my 7 years as ADB’s President, the interactions I had with Japan were not particularly more frequent than those with other countries.

When I attended the China Development Forum in Beijing in March 2015, I had a short conversation with Mr. Jin, who had been appointed secretary-general of the Interim Secretariat for establishing the AIIB. Mr. Jin told me that he definitely wanted Japan to join the AIIB and wanted my help in persuading the Japanese government. I said that whether or not to join the AIIB was a decision for the Japanese government, and that I, as the head of an international organization, could not be involved.

It was my consistent answer that the decision was for the Japanese government to make. A very senior PRC official once told me the following:

(i) The international order in modern world history has always been centered on Europe and the US.
(ii) Japan made great efforts during the modernization in the Meiji era and the post-war high growth period, thereby enhancing Asia’s presence.
(iii) The PRC is working hard now, and Japan can join the PRC in supporting the AIIB.

In addition to stating that I was not in the position to consider Japan’s policy on the AIIB, I said the following:

(i) The PRC is already a major power with sufficient presence in various areas, and it has a voice on the international stage that is far stronger than Japan did in the 1980s when Japan was at its economic peak.
(ii) You say that the PRC’s presence in international organizations is small, but it has quickly secured the voting shares and
senior positions in the IMF and the World Bank that Japan had obtained after a long time with hard work.

(iii) Historically, Japan resented the West before World War II. (It felt indignation at racial discrimination and colonization of Asian countries by the West and the unequal treatment of Japanese immigrants in the US.) This and other circumstances, such as economic difficulties and rural poverty after the Great Depression, led the country to depart from the internationalist policies and democratization of the 1920s (when it had become a permanent member of the Council of the League of Nations, joined several major disarmament treaties, and achieved male suffrage). In the 1930s, Japan became super-nationalistic, expansionist, and militaristic. This led to total disaster and tragedy, causing huge loss of life among the people of surrounding countries and of Japan, loss of territory, and loss of credibility.

(iv) The PRC has had resentment about its history since the Opium War, but it was a great empire before then and has been respected as such. It does not have to rush to prove its worth. Rather, it can aim for solid and stable growth and improve the lives of its people.

(v) If the PRC does so, its presence will grow further, and it will be respected more even if it doesn’t ask for this.

My counterpart official listened quietly, but I don’t know how he received it.

Debates about Whether Japan and the US Should Join the AIIB

On 12 March 2015, the UK expressed its intention to join the AIIB. The US issued a White House statement that read, “This is the UK’s sovereign decision. We hope and expect that the UK will use its voice to push for adoption of high standards.” At the same time, The Financial Times reported on 13 March a comment by an anonymous senior US administration official: “The British decision was taken after virtually no consultation with the US. We are wary about a trend toward constant accommodation of China.”

Subsequently, many countries in succession expressed their intention to join the AIIB, including France, Germany, and Italy on 16 March, the ROK and Brazil on 26 March, and Australia on 29 March. On 15 April, the
PRC announced the 57 founding member states, and on 29 June, the signing ceremony for the Articles of Agreement was held in Beijing.

I don’t know what kind of discussions went on in Europe, but a senior German official whom I met later said that the UK had made an unexpected announcement and Germany followed suit. I didn’t ask if his word “unexpected” referred to just the timing or also to the decision to join the AIIB itself.

Beginning in March 2015, there was a growing opinion in Japan that it should join the AIIB, and active discussions were held in the government, the ruling Liberal Democratic Party, and the business community. When I visited Tokyo after a business trip to the joint annual meetings of the IMF and the World Bank in Washington, D.C., I was invited to a joint meeting of the Liberal Democratic Party’s committees on foreign affairs, finance, and others on 22 April, and I was asked for my opinion. I attended the meeting on the condition that I would not say whether Japan should join. I explained the history of ADB and its contribution to the development of Asian countries, and said that, after the AIIB was established, I would like to consider cooperation with the organization, including through cofinancing. I think many of the lawmakers who spoke there felt that Japan did not need to join the AIIB. This view was also a majority in the opinion polls in Japan.

In the US, too, the two conflicting views had similar structures. On 17 April 2015, I spoke at a meeting of about 20 people at the invitation of Matthew Goodman, senior advisor for Asian economics at the Center for Strategic and International Studies (CSIS) in Washington, D.C., whom I had known for a long time. In that group, too, opinions were divided.

Those who believed Japan (and the US) should join the AIIB said the following:

(i) The AIIB has a reason to exist because the financial demand for infrastructure investment in Asia is large, and ADB and the World Bank alone cannot meet it.

(ii) The relationship with the PRC is important, and, if the country is trying to make an international contribution, Japan should cooperate.

(iii) Cooperation with the AIIB could also enhance opportunities for Japanese companies.

(iv) To influence the AIIB to be a good institution that complies with international standards for environmental and social considerations and procurement, it is more effective to do so from the inside than from the outside.
Asian countries that have already announced their intention to join the AIIB are also asking Japan to join.

On the other hand, those who argued that there was no need to join and those who were against joining generally took the following positions:

(i) If there are reasons for establishing the AIIB, there is no need to condemn it or oppose it. Still, there is no need to immediately join the AIIB and pay a large sum of money from tax revenue, as Japan, a developed country in the region, would be expected to contribute more money to the AIIB than European countries.

(ii) Infrastructure investments are funded primarily through taxes and government borrowing from the bond market, and some infrastructure projects such as power generation are run as private enterprises. The amount of borrowing from international organizations is limited anyway.

(iii) Although the relationship with the PRC is important, it is possible to deepen cooperation with the AIIB, for example through JICA and ADB, while appreciating the PRC’s international contribution.

(iv) With regard to procurement, works and goods provided by Japanese firms are overengineered and expensive in developing countries. It is difficult for Japanese firms to win even ADB and JICA projects in international competitive bidding. Also, the AIIB has said that there will be no discrimination in procurement, whether the bidder is from a member country or not.

(v) Even if we try to exercise influence from within the AIIB, the influence would be limited in light of the PRC’s overwhelming share. (Since Japan and the US did not join, the PRC’s voting share at the end of 2019 was as high as 26%.) Rather, Japan will have more freedom to express its opinions if it keeps a certain distance (at arm’s length) when there is a problem.

(vi) It is natural that other Asian countries would prefer Japan to join the AIIB, as this would result in a better balance with the PRC, but this is up to Japan.

(vii) When the creation of the IMF and the World Bank was discussed at the Bretton Woods Conference in 1944, and when the establishment of ADB was discussed before 1966 by Asian countries and by nonregional members such as the US,
opinions were divided on many issues, and it was necessary
to take sufficient time to reach agreements. In fact, Japan, the
main proponent of ADB, lost in a vote and could not bring the
ADB headquarters to Tokyo. For the AIIB, the PRC basically
completed its detailed blueprint before calling other countries
to join. As such, the nature of the organization of the AIIB is
very different from that of ADB.

I tended to agree with the latter argument. Because Japan and the
US did not join the AIIB, I thought that it would be all the more important
for ADB to cooperate with the AIIB and share its knowledge of international
standards and other matters.

Cooperation between ADB and the AIIB

Going back in time a bit, in November 2014 the PRC Ministry of Finance
thanked ADB for its cooperative stance toward the AIIB and made a formal
request for ADB’s cooperation in preparing for the establishment of the
AIIB. We sent a reply in the name of Managing Director General Juan
Miranda stating that he would serve as a point person and that directors
general of relevant departments, including Ayumi Konishi, then director
general of the East Asia Department, and Country Director Hamid Sharif in
the Beijing Office, would gladly cooperate. Subsequently, ADB shared its
experience on the environmental and social safeguard policy for projects,
procurement policy, financial operations such as funding through bond
issuance and investment of idle funds, and the development of various
internal rules.

When I visited the Interim Secretariat for the establishment of the
AIIB in Beijing in September 2015, I agreed with Secretary-General Jin
Liqun to begin looking for candidate projects for cofinancing, although
the AIIB had not been established yet. When the AIIB was officially
established at the inauguration ceremony on 16 January 2016, and Mr. Jin
was appointed its president, I issued a statement congratulating him and
showing ADB’s willingness to cooperate. In recognition of such responses
by ADB, in a letter published by The Financial Times on 28 March 2016,
Professor Khairy Tourk of the Illinois Institute of Technology’s Stuart
School of Business wrote that the fact that ADB was providing a large loan
to combat air pollution in Beijing, among others, despite the argument in
some quarters that the PRC should graduate from ADB, as well as the fact
that ADB and the AIIB were working to undertake cofinancing, would help create goodwill for ADB in the PRC, and it boded well for a harmonious future in Asia.

In June 2016, the first cofinancing project between ADB and the AIIB—a highway project in Pakistan (each providing a $100 million loan)—was approved by each organization’s Board of Directors. The Department for International Development (DFID), the UK’s aid agency, also provided a grant of $34 million to this project. Since then, 10 cofinancing projects have been approved. ADB is responsible for much of project preparation and loan execution, and receives certain fees from the AIIB for the cofinanced portion.

In December 2016, the AIIB’s President Jin visited ADB headquarters. We hosted a lunch with ADB’s vice-presidents and senior staff, and an informal discussion with members of the Board of Directors. In March 2019, President Jin visited ADB again to hold more detailed discussions on cofinancing. In May 2019, it was my turn to visit AIIB headquarters in Beijing, and I spoke in front of the AIIB staff who filled the hall. In these exchanges, both sides had very friendly attitudes and I felt we were good partners.

There are several important differences between ADB and the AIIB, as described below, but I’ve said that these make their cooperation even more meaningful:

(i) While the AIIB is focused on infrastructure investment, ADB’s objective is broader development. In addition to infrastructure, ADB is involved in projects in such areas as education, health, and poverty reduction. To this end, it provides long-term, low-interest, concessional loans and grants to low-income countries. On the other hand, the two organizations are both trying to increase loans to the private sector in addition to lending to governments.

(ii) ADB provides policy-based loans to promote reforms in various countries, and these can be used to deal with balance-of-payments problems and budget shortfalls.

(iii) ADB has executive directors and alternate executive directors who reside in Manila; the AIIB does not, for reasons related to efficiency. AIIB board meetings are held only several times a year in Beijing and are also conducted using the internet and other means.
(iv) ADB has field offices in almost all developing member countries, but the AIIB does not plan to have them, for reasons related to expenses.

Sometimes I am asked whether I think the AIIB may overwhelm ADB. My answer is “No.” The amount of AIIB loans provided in 2019 was $4 billion (including $500 million to the PRC), while the sum of ADB’s commitments for loans and grants in the same year was $21.7 billion. This is a significant difference in volume. Moreover, there is a big difference in the number of staff: ADB has 3,500 whereas the AIIB has fewer than 300. AIIB projects tend to be simple and a lot of them involve cofinancing with the World Bank and ADB.

The AIIB had 101 member countries at the end of 2019, including 23 that were scheduled to join and awaiting the ratification of the Articles of Agreement. This exceeded the number of ADB members, which is 68. This is because the AIIB members include the Russian Federation; Middle Eastern countries such as Saudi Arabia, United Arab Emirates, Iran, and Israel; African countries; and Latin American countries such as Brazil. Based on its Articles of Agreement, the AIIB can lend to African and Latin American member states after certain procedures are followed. Moreover, the Russian Federation and countries in the Middle East are treated as regional countries.

Although some countries wish to join ADB as nonregional members, they have not yet gained support from the existing members. At this time, ADB’s 19 nonregional members are limited to the US, Canada, and European countries. As the number of members increases, even though voting rights are dependent on the proportion of shares, decision-making becomes more complex and it becomes harder to manage the organization efficiently. In effect, ADB limits its nonregional members to developed countries that have the intention and funding capacity to cooperate in Asia’s development.

The AIIB received the same AAA rating (Standard & Poor’s) as ADB for its bonds (long-term, foreign currency-denominated bonds). This is better than the PRC (A+), Japan (A+), and the US (AA+). A credit rating partly reflects an assessment of the soundness of management, but, more fundamentally, it represents the default probability of the bond issuer. In the case of the AIIB, the amount of paid-in capital is $30 billion in installments over 5 years, and this means it has more cash as its equity capital than the outstanding balance of loans. This is a factor in the good rating.

This is a bit technical, but, in terms of capital (authorized capital), ADB had $148 billion and the AIIB $100 billion at the end of 2019. ADB’s
sum includes $140.7 billion of “callable capital” that members will pay on ADB’s request in the unlikely event that it cannot meet its obligations of the bonds it has issued. Callable capital is basically a guarantee by the members for ADB, and cash payment is not required. On the other hand, “paid-in capital” is paid in cash using tax revenues. For ADB, in addition to the investment by members at the time of its establishment, capital had been increased five times by 2009. However, the share of paid-in capital in the increased authorized capital gradually decreased (4% in the fifth capital increase in 2009), and thus the total amount of paid-in capital that ADB has received in cash over 54 years is just $7.2 billion. On the balance sheet, ADB has equity capital of $52 billion, which includes, in addition to this paid-in capital, $14 billion in cumulative reserves consisting of accumulated profits, and $31 billion added by the capital merger with the Asian Development Fund (ADF) at the beginning of 2017, as described in Chapter 12. ADB’s outstanding loans were worth $114 billion at the end of 2019, so the capital adequacy ratio at 46% ($52 billion divided by $114 billion) is more than sufficient even considering the credit risks of developing member countries. It can extend more loans without a capital increase.

In the case of the AIIB, the share of paid-in capital in authorized capital is high, and it plans to receive $30 billion in cash in 5 years at the outset. Some of my staff lamented that ADB was treated unfairly by its shareholders (members) in terms of cash contributed to each organization. But the two organizations were created at different times and in different contexts. ADB has increased its capital by accumulating profits and taking innovative steps such as the capital merger.

AIIB President Jin Liqun repeatedly said that he would not poach staff from ADB, and indeed the poaching did not happen. Several ADB staff members went to the AIIB voluntarily. Some of them wanted new opportunities as they approached retirement, and others were young professionals who sought opportunities for promotion. On the other hand, several people came to ADB from the AIIB.

As I predicted, the AIIB is run according to international standards. As European countries, Australia, and the ROK were members, and ADB was cooperating with it, I believed from the beginning that it would never deviate from these standards. The PRC’s vision for the establishment of the AIIB was to show its international leadership and prestige. It did not make sense to create it if it was going to do something it would be criticized for.

Some people are concerned that the AIIB will become an agency of the Belt and Road Initiative but it has in fact kept a certain distance
from this. The PRC is already providing large amounts of tied loans (tied to procurement from the PRC) through its own export-import bank and development bank. This means that the country is already providing loans to developing countries freely. Therefore, it is not necessary to expect the AIIB to play the same role.

With AIIB President Jin Liqun at ADB headquarters in front of staff of both organizations (March 2019).

My Views on the PRC’s Belt and Road Initiative

The PRC has also called on ADB to cooperate on the Belt and Road Initiative. I responded as follows:

(i) China has been trading with Central Asia and Europe through the Silk Road since the time of the Han and Tang dynasties, and it is natural to refocus on this trade route.

(ii) ADB has also promoted subregional initiatives in certain regions in Asia that promote ties among countries, such as the Central Asia Regional Economic Cooperation Program (CAREC) and the GMS Economic Cooperation Program.

(iii) When selecting a project, ADB has to examine whether it will produce sufficient economic return.
(iv) If there are projects with which we can cooperate, we would like to work together on a case-by-case basis. So far, there have been no specific examples of cooperation.

Regarding the Belt and Road Initiative, there is criticism that projects under this initiative are causing a surge in borrowing from the PRC and debt problems in some countries. In general, when making a project loan, it is necessary to take into account the economic situation of each country and its ability to repay debts. The project itself must be economically viable and eventually lead to earning of foreign currency. In the case of ADB, the Articles of Agreement themselves contain a provision that mentions “economic considerations.” The initial key function of ADB’s early research department was to analyze each project’s returns, including direct economic return and indirect returns. One of the principles on which ADB’s first President Watanabe did not compromise was that ADB, which is a bank, needs to avoid political projects without economic viability and devote itself to sound banking.

The framework of the OECD, a club of developed countries, contains detailed regulations on export credits and aid loans. The aim is to pay attention to the burden of borrowers and to avoid unfair competition—but the PRC is not a member of the OECD. The Paris Club, which is a group of creditors for intergovernment loans, monitors the state of debts in each country with the IMF—but the PRC is again not a member. Information on what kind of financing is being provided under what conditions is also not disclosed in a timely manner.

I spoke about such issues regarding the PRC’s lending to other developing countries with a senior official of the PRC’s Ministry of Finance, who visited ADB in the fall of 2018. The official listened to me earnestly. I do not think the PRC is making excessive loans in an attempt to intentionally put developing countries into a “debt trap.” Excessive loans usually damage both the borrower and the creditor. The problem is that various PRC institutions are rapidly promoting projects and extending loans without coordination.

At the G20 Osaka Summit in 2019, all G20 countries including the PRC agreed on the Principles for Quality Infrastructure Investment. This represented major progress as they include debt sustainability in addition to environmental and social considerations, transparent procurement, and the concept of life cycle costs (even if construction itself is cheap, the total cost will be higher if subsequent maintenance costs are high).
The Future of the PRC Economy

I would like to take this opportunity to organize my thoughts on what the PRC economy will look like in the future. In short, there are two possible scenarios. The economy may continue to grow or it may not be so easy to keep growing.

In fact, the PRC has continued to grow faster than developed countries, but it has clearly been decelerating, with the 2019 growth rate dropping to 6.2%. The PRC itself calls it “the new normal.” If it continues to grow at 6%, GDP will double in 12 years—so the PRC will do well if it can maintain this growth rate. However, there are some slowing factors, even if we exclude the immediate impact of COVID-19.

First, structural factors include a labor force population that is beginning to decline, and the fact that the PRC has reached the turning point in terms of population movement whereby rural workers move to cities to work. This turning point is sometimes called the “Lewis turning point,” after the British economist Arthur Lewis, who won the 1979 Nobel Prize in Economics. The process of workers moving from inland, rural areas to industrial cities in coastal areas and providing cheap labor is clearly coming to an end, and has led to higher wages.

There is another economic concept, of “convergence,” whereby a developing country reaches a higher stage of development and approaches that of developed countries. This applies to the PRC as well. As technological gaps with developed countries narrow, the speed at which technology is acquired through foreign patents and direct investment, or through their spillover or ripple effects, also decreases. Moving forward, more domestic technological innovation will be needed. For this reason, the PRC is increasing its financial support to universities and research institutions and is trying to nurture advanced industries by targeting several sectors and launching the Made in China 2025 industrial policy. However, the US sees this as unfair trade practices based on state support or as a challenge to its technological hegemony, and this has led to friction.

In addition, the PRC government is not only aiming for high growth but also trying to shift to a growth that is more environmentally friendly (“construction of an ecological civilization”) and a policy that emphasizes the welfare of society and the people (a “moderately prosperous society” and a “harmonious society”). The PRC is making a structural shift from a growth model that depends heavily on investment and export on the demand side of GDP and on manufacturing industry on the supply side, to a model that emphasizes consumption and service industries. These transitions and structural changes also tend to reduce the growth rate.
A more cyclical factor is that the PRC has an oversupply of coal and steel, partly because the country has been growing based mainly on domestic investment since the global financial crisis. It is in the process of adjusting its excess production capacity, which is separate from long-term structural factors. However, adjustments may take a while, as the PRC takes stimulus measures to avoid excessive production declines. This tendency remains in the face of recent frictions with the US.

On the other hand, a positive view of the PRC economy is that strong growth can continue as consumption continues to expand. Although the share of consumption in GDP in the PRC has been on an upward trend in recent years, it was still 53% in 2018, including government consumption. This was much lower than that of Japan, which stood at 75% (of which 55% was household consumption and 20% was government consumption). The PRC’s GDP per capita is still $10,000. Compared with developed countries, people’s demand to improve their living standards is strong. In the PRC, automobile sales in 2019 had fallen by 8% from the previous year but still the total was 25.8 million units, far outstripping that of the US (17 million) and Japan (5.2 million). The shopping frenzy during the annual Singles’ Day sales on 11 November is indicative of the strong momentum of consumption.

In particular, the service industry has considerable room to grow. In the PRC, services, or tertiary industry, account for 47% of GDP compared with Japan’s 72%. In general, the share of services increases as income per capita rises, and the service industry increasingly drives consumption and growth. As the needs for food and clothing are fulfilled, there will be a growing need for entertainment, tourism, health improvement, and children’s education. In addition, if lunches which had been cooked and offered within the household are replaced by lunches at fast-food chains, for example, the service sector will expand. GDP represents the sum of the values of products and services traded on the market, so, even if people eat essentially the same kind of lunches, GDP will expand. And it comes with the positive development that people will have more options of working and consuming, and it would help more women join the formal sector workforce.

As Governor Yi Gang of the People’s Bank of China once told me, there are many services that remain in the so-called informal sector, such as face-to-face trade among friends, which GDP does not yet capture. As these move into the formal sector, production and consumption of services will increase on their own.
The PRC’s Technological Capabilities

I would like to think a little bit more about the competitiveness and technological potential of the PRC. The PRC’s technological capabilities are growing stronger every year. Shenzhen is sometimes referred to as the “Silicon Valley of China,” and there is also a growing number of academic–industrial collaboration ventures around such institutions as Peking University and Tsinghua University. The PRC government’s assistance to universities and research institutes exceeds by far that of Japan, and its partnership with overseas universities is strong. Some of the largest platform companies in the PRC, such as Tencent and Alibaba, are competing against those in the US.

As Akira Suehiro, a former professor of the University of Tokyo, points out (Catch-Up Industrialization, 2014, Iwanami Shoten), the PRC learns very quickly. In the example of high-speed rail, it initially imported technology from Japan and Germany but it caught up quickly as it built a lot of railways every year. In fact, PRC firms win many bids in ADB projects in Asia, and they are very competitive because their prices are reasonable and their quality is good. It would definitely be a mistake to continue viewing the PRC as the “world’s factory,” which takes advantage of imported technology and lower-wage workers to make lower-quality products than those of Japan and other developed economies.

As a senior official once told me, the PRC is controlled by the government (and the Communist Party) more than is the case for other countries, but in some areas regulations are looser than those in Japan, the US, and Europe. When firms in the PRC work in big data, fintech, shared economy, or an experimental initiative like self-driving vehicles, they can move forward with relative freedom from restrictive regulations. In Japan, it takes a long time to advance these technologies because of various regulations that exist related to privacy and safety, among other reasons. However, one caveat provided by a young PRC university professor was that, compared with Japan, the PRC at this moment tends to focus more on building new business models than on real scientific and technological innovation.

Meanwhile, the PRC has a much larger number of people who have studied in the US or the UK and are fluent in English, than Japan has. Many of them have not just studied in the US or other countries but also started venture businesses and established themselves there. There are many such Chinese who start businesses in Japan, too. Takashi Shiraishi, former president of the National Graduate Institute for Policy Studies, has called those Chinese who were educated abroad and can speak good English, including those who live in Southeast Asia, “Anglo-Chinese” and emphasized the important role of their networks.
With these factors working together, the PRC’s economy is entering a new phase. However, what concerns me is whether innovation and strong involvement of the state are compatible in the first place. The PRC has recently tightened its control over not just the industries but also information, and the Communist Party is becoming more involved in corporate activities and academia. The PRC’s development following the adoption of the reform and opening-up policy at end of the 1970s was essentially based on the utilization of market functions and free economic activities. They must be supported by free thinking and free access to information.

When the Soviet Union launched Sputnik, the first piloted space flight, in 1961, the state central planning system and national mobilization of resources seemed to be superior to the free market economy. In the end, the Soviet system failed to beat the free market economy because of the limitations of central planning, which tended to focus on quantity over quality; the environment in which fulfilling quotas was more important than creativity and innovation; and the mutually complementary nature of military and civilian technologies. The PRC’s system is that of a “socialist market economy” and different from the Soviet Union’s central planning, but, if the state’s involvement intensifies again, it may have negative impacts on efficiency, technological progress, and growth in the long run. If, in addition, the divisions between the PRC and the US and other developed countries become more serious, along the lines of the US–PRC friction, they will further hamper the PRC’s technological development.

During my visit to the PRC in August 2018, I had an opportunity to visit a laboratory in Peking University whose aim was to nurture entrepreneurs, and I met five young venture executives who had studied there. When I asked if they would sell their ventures quickly if they became successful, the instructor who served as their advisor said, “It is better to sell the company at a good price when a certain level of success is attained, and turn around and develop new business.” In fact, at that time, there was an international glut of capital, and major companies were quick to buy venture businesses at high prices as soon as they saw potential for competitiveness in the future. However, the five young entrepreneurs said, “We would like to grow our companies because we built them with the new technology we developed.” The behavior and ideas of these young entrepreneurs are the same as in other countries. I said, “Panasonic, Honda, and Sony at the time of their founding were probably the same.” Having such entrepreneurs is a positive factor, and it is not easy to predict the future of the PRC economy.
The Philippines

The Philippines, home of ADB headquarters and the country in which I lived for almost 7 years, is a country with a population of more than 100 million that includes a large share of youth. The population is still growing at an annual rate of 1.6%. It has big potential. Recently, business process outsourcing using digital technology has become increasingly important, now accounting for nearly 10% of gross domestic product (GDP). Taking advantage of the English-speaking workforce and the time difference, firms offer call center, accounting, legal, and cybersecurity services to US financial institutions and other clients around the world. The middle class is also expanding, and, combined with remittances from Filipinos who work abroad, is supporting the sustained expansion of household consumption, which has led to a steady annual growth rate of over 6%.

Around 1960, the Philippines was a wealthy country in Asia, standing shoulder to shoulder with Malaysia in following Japan. The Marcos administration, which lasted from 1965 to 1986, initially implemented fresh and clean policies but gradually became corrupt and unable to implement effective governance. In the end, the People Power Revolution forced Marcos into exile. In July 2013, soon after I became ADB’s President, Professor Yutaka Katayama of Kobe University, an expert on the Philippine politics and
an old acquaintance of mine, visited Manila. I invited him to lunch at ADB with Cayetano Paderanga Jr., a professor at the University of the Philippines and former director-general of the National Economic and Development Authority. I remember well what Professor Paderanga said: When there was a boom of direct investment from Japan to Association of Southeast Asian Nations (ASEAN) countries in the 1980s, the Philippines could not ride the wave owing to political turmoil, and that was disappointing to him.

President Benigno Aquino III, who was inaugurated in 2010, was the eldest son of Corazon Aquino, who had served as President from 1986 to 1992. He adopted policies to eradicate corruption and promote the private sector. I met him at the Malacañang Palace in June 2013 after I took my post. In January 2016, I invited him to ADB to speak at a seminar.

President Rodrigo Duterte took office in June 2016, and I attended his inauguration ceremony before meeting him in July. He also gave remarks at ADB’s 50th anniversary celebration in January 2017 and the ADB Annual Meeting in Manila in May 2018. When I met him he spoke enthusiastically about infrastructure investment, rural development, secondary education, and women’s empowerment. He emphasized the importance of young women’s education, which is often interrupted by unexpected pregnancy which occurs as a result of a lack of knowledge on reproductive health.

Many of the Philippines’ past leaders have come from the elite class, who hail from the sugar plantations under Spanish rule. In contrast, Mr. Duterte had been mayor of Davao City in Mindanao before being elected President, and his frank personality and ability to get things done have earned a very high level of public support. Just before my departure in January 2020, I received from the President the Order of Sikatuna, the Philippines’ highest civilian recognition. I was honored and humbled to accept it, as I thought it signified recognition of the efforts of ADB’s staff and its contribution to the Philippines over many years.

After I became President of ADB, President Duterte, President Joko Widodo of Indonesia, whom I will discuss next, and Prime Minister Narendra Modi of India won elections and established new administrations in their national government. None of them come from the traditional privileged class. President Widodo had owned and operated a furniture company, and Prime Minister Modi comes from a poor family of tea sellers. I thought these developments were very encouraging for democracy in Asia.

Secretary of Finance Carlos Dominguez is a businessperson from Mindanao and a childhood friend of President Duterte. He served as Secretary
of Agriculture in the 1990s. Prior to the ADB Annual Meeting held in Manila in May 2018, I visited the office of Secretary Dominguez almost every month to discuss preparations. We worked together to make this annual meeting a forum for substantial discussion rather than a costly ceremonial gathering. He was very enthusiastic about using ADB’s loans and expertise to develop infrastructure but, at the beginning, he told me that ADB took too much time to review and prepare projects compared with private banks. At that time, I replied that incorporating sophisticated technology and the process of evaluating environmental and social impacts had become important for the Philippines as well, and procedures on the Philippine side were also time-consuming. Nevertheless, this interaction prompted me to reform ADB procedures so that ADB staff could take action more quickly.

ADB has supported the Philippines in developing infrastructure such as roads and water supply; in implementing conditional cash transfer programs that aim to reduce poverty by providing subsidies to individual households, contingent on taking certain actions related to education and health; in improving the quality of secondary education; and in working toward the reconstruction of Mindanao, which had been impacted by
When Typhoon Haiyan hit Tacloban in Leyte in November 2013, I visited the affected areas and saw significant damage. ADB provided a total of $900 million in assistance, including loans that could be quickly withdrawn. In 2019, ADB committed loans totaling $2.5 billion, a record, to the railways near Manila and the education sector, among others. In terms of new loans in a single year, the Philippines surpassed the People’s Republic of China (PRC) and became the second-largest borrower after India.

Incidentally, Secretary Dominguez likes sightseeing and shopping in Japan and reading Japanese novels. He once told me about his visits to porcelain makers of Imari and Arita, in Saga Prefecture. The number of Filipinos visiting Japan has increased sharply as a result of a relaxation of the visa regulations, an increase in the number of flights, including those using Haneda Airport (which is closer to the center of Tokyo than Narita), and the expansion of the middle class. The number of visitors increased from 110,000 in 2013 when I took my post in Manila to 610,000 in 2019. There were many people around me who enjoyed traveling to Japan several times a year.

The number of tourists who travel abroad is growing rapidly in all of Asia and not just the Philippines, and I describe the reasons for this in Chapter 14. For Asian tourists, Japan is a very attractive destination. Many acquaintances of mine in Asia admire the Japanese food culture (sushi, tempura, ramen, and even okonomiyaki pancakes); the beautiful and diverse natural environment, especially the snowy landscape not found in warmer countries and the hot springs; the mix of old history and tradition with the modern and the contemporary; the well-developed public transport system; the clean cities; and the kindness and graciousness of the people. ADB Vice-President Bambang Susantono, who was with me for the last 4.5 years of my term, had been vice-minister of transportation of Indonesia. He has a doctorate in civil engineering from the University of California, Berkeley, and has an international perspective. He often went to Japan with his wife, who is a lawyer, and two daughters. When I asked him what he liked about Japan, he said that his daughters, who were college students, could enjoy walking around the city freely and safely even after dark.

**Indonesia**

Indonesia has the largest population in ASEAN, at 270 million, and has a strong presence in the region. Although the country’s recent growth rate is around 5%, it needs to grow faster to offer job opportunities to its youth.
Its economy depends heavily on natural resources such as natural gas and palm oil, and tends to be influenced by changes in resource prices. Still, the service and food manufacturing sectors are adopting new technologies and gaining momentum.

I visited Indonesia six times during my term as ADB President. When I visited Jakarta for the first time, in October 2013, I met with President Susilo Bambang Yudhoyono and Finance Minister Muhammad Chatib Basri, and gave a speech at the Faculty of Economics and Business at the University of Indonesia. Students who gathered in a modern lecture hall were very enthusiastic and asked a number of questions about the Asian economy and ADB’s strategy. Many of Indonesia’s economic ministers have joined the government after teaching at this department, including Minister Basri, Minister Bambang Brodjonegoro of the Widodo administration, and Sri Mulyani Indrawati, who returned from the World Bank to become Indonesia’s finance minister. Under the presidential system of Indonesia, positions of ministers are filled not by professional politicians but by technocrats, as in the US, the Philippines, and the Republic of Korea (ROK).

I met with President Widodo, who took office in October 2014, three times. Indonesia consists of numerous islands, and one of the topics of discussion was the development of remote areas bordering Malaysia and Papua New Guinea. The unemployment rate is low, at around 5%, but the population is growing at 1.2% every year, and growth is necessary to provide good jobs to young people entering the labor market. Given sporadic acts of terrorism by extremists, the key for the country is to maintain and develop a moderate and secular Islamic society, which is a national policy.

On my trip in January 2017, I met with President Widodo in Jakarta and then visited Surabaya, the second-largest city in Indonesia. I visited a technical school, called a polytechnic, and was impressed by female students who were focused on learning welding techniques. ADB supports technical and vocational education and training in many countries, with the focus on increasing the participation of women.

In Surabaya, I also visited the Heroes Monument. After the Japanese forces surrendered and left in the summer of 1945, Indonesia declared its independence (which had been prepared under the Japanese regime), but the British forces came back and demanded that the people surrender the weapons the Japanese had left. The angry people rose up in Surabaya and thousands died in the clash. This was in October 1945. The Heroes Monument was built to memorialize this event, and inside it is a museum that recreates how the call for resistance was broadcast by radio. I felt the ardor of the
Indonesians for independence. They may have disliked Japanese rule, but they also wanted never to go back to Dutch colonial rule. They reached a truce with the British but then the Dutch forces returned. A great deal of blood was shed before independence was formally achieved in 1949.

It is an often forgotten fact that, even after the end of World War II, the Netherlands refused to accept the independence of Indonesia, just as France refused to do so for Viet Nam. Most countries in Asia and Africa were subjected to colonial rule, and many of them shed blood and struggled to achieve independence. Discussions continue with regard to whether Asian countries will come under the influence of the PRC or more under that of the US, but I believe that every country is very strongly motivated to protect its independence and identity.

When I met with President Widodo at the joint annual meetings of the International Monetary Fund (IMF) and the World Bank in Bali in October 2018, I announced that ADB would provide $1 billion for the reconstruction of Sulawesi after the earthquake and tsunami that had occurred in September. At that time, we also talked about the depreciation of the Indonesian rupiah. In 2013, the rupiah was sold when Chair Ben Bernanke of the Federal Reserve Bank (FRB) suggested the “tapering-off” of quantitative easing in the US. In 2018, too, the currencies of Indonesia and other emerging countries were sold in the wake of the rise in US interest rates and turmoil in Argentina and Türkiye. At the meeting with the President, I said, “Indonesia’s growth rate is over 5%, the inflation rate is around 3%, the current account deficit is about 2.5% of GDP, the fiscal deficit target is 2% of GDP, and the level of foreign exchange reserves is high. I believe the fundamentals are sound and the rupiah’s depreciation is speculative and excessive.” I also published this remark in a news release. I don’t know whether it had any effect, but, fortunately, the rupiah’s value stabilized after that.

Indonesia is one of the most important clients of ADB. ADB provides $1.5 billion–$2 billion each year in assistance to the Indonesian government, combining infrastructure-related “project loans,” “policy-based loans,” and “results-based loans.” In addition, assistance to the private sector has increased to the tune of hundreds of millions of dollars annually. In this private sector operation, loans and equity investments are provided to companies involved in geothermal power generation and telecommunications.

Incidentally, the proceeds of a project loan are disbursed as construction progresses. This allows the borrower to incorporate fair procurement practices and sophisticated technology into the project in cooperation with ADB. Under a policy-based loan, funds are disbursed to
the general budget of the government when certain conditions are met, such as capital market reform, or more specifically the establishment of securities and exchange law, for example. This has the effect of promoting reform and enables support to the government through quick disbursements in case of an urgent situation, such as a critical budget shortfall in a financial crisis. Results-based loans are different from project loans and are more flexible. For example, under a results-based loan in the education sector, funds are disbursed based on results such as achieving a certain enrollment rate, rather than schools being constructed using individual project loans. Also, the borrowing country can use its own procurement standards.

When Minister Sri Mulyani visited ADB headquarters in April 2017, she said in a dialog with the Board of Directors that a mechanism like the results-based loans could be applied to the execution of domestic budgets, if the executing agency were capable. Policy-based loans are also useful in promoting politically challenging structural reforms. Members of ADB’s Board of Directors were concerned that it is difficult to determine how the funds are used in policy-based loans and results-based loans. The minister’s remarks gave great support to me, as I wanted to promote the use of such loans. Of course, both policy-based loans and results-based loans necessitate thorough discussions with the authorities, appropriate disbursement conditions, and close monitoring of implementation.
Minister Sri Mulyani is about 6 years younger than me, but she is a high-profile figure with a global reputation in the world of international finance and development. If it so happens that a World Bank President is to be selected from Asia, she would be a top candidate. After earning a PhD in economics at the University of Illinois, she taught at the University of Indonesia before serving as finance minister under President Yudhoyono from 2005 to 2010. She then became managing director and chief operating officer of the World Bank (the second-highest position in the bank) and returned to Indonesia as finance minister of the Widodo administration, run by a different party, in 2016.

I have known Minister Sri Mulyani for a long time. When I was at the Japanese Ministry of Finance, I met her when she was serving as finance minister for the first time, on such occasions as a finance ministers’ meeting on the environment in Bali. When I served as ADB’s President and she was at the World Bank, we used to discuss coordination between the two banks and other matters. She responded to my enthusiastic invitation and visited ADB on 5 April 2017. In a speech to ADB’s staff, she spoke candidly about how she had chosen economics when many of her nine siblings chose to be doctors or engineers, and the difficulty of working while raising three children. The audience that packed the hall, including many female staff, gave her very warm applause.

Viet Nam

Viet Nam has been promoting market-oriented reforms since it began the Doi Moi policy in the late 1980s, and has recently grown at a pace of around 7% per year, partly because of large inflows of foreign direct investment. It has increased its presence as a manufacturing base more recently, reflecting rising wages in the PRC and trade friction between the US and the PRC. In 2018, the population was 95 million and GDP per capita was $2,400. While there are many challenges, such as improving the efficiency of state-owned enterprises, the government is trying to use direct investment to develop its own technology base while paying attention to sound macroeconomic policy and improving the business environment. Over the years, ADB has committed cumulative loans worth $16 billion, mainly in the areas of energy, agriculture, transport, and urban infrastructure.

I visited Viet Nam five times as ADB President and met with the prime minister, the president, the general secretary of the Communist Party, the governor of the central bank, the minister of finance, and the minister of
planning and investment. My first visit as ADB President was in January 2014. In Viet Nam, the central bank governor usually represents the country on the ADB Board of Governors, and I discussed the need to resolve the problem of nonperforming loans quickly and transparently with Governor Nguyen Van Binh. With Minister of Planning and Investment Bui Quang Vinh, I discussed the role of foreign direct investment. Minister Vinh told me criticisms were being made that, although Viet Nam accepted a great deal of direct investment from abroad, this was not necessarily leading to higher standards in domestic industries. I said that, while it was not necessary to give excessive tax and other incentives to foreign companies indefinitely, and they should be treated like domestic companies moving forward, direct investment itself brought funds, technology, and management know-how simultaneously and would have positive spillover effects in the long term on the domestic industry.

During this trip, I gave a speech at the prestigious Foreign Trade University in Ha Noi. Female students in elegant white ao dai greeted me with flowers, along with President of the University Bui Anh Tuan. Three hundred people, including professors and students, came to hear my speech, and we had a lively question-and-answer session. Based on my experience of speaking at universities in Indonesia and Viet Nam, I made it a rule to give speeches at universities or think tanks whenever I traveled, to the extent possible. In Indonesia, Viet Nam, Myanmar, the PRC, India, and other countries, I had many opportunities to invite scholars who had influence over policy to lunch and dinner so I could hear their opinions.

On a trip in September 2014, I went to see an irrigation project in Hung Yen Province, which is about 2 hours’ drive from Ha Noi. I was told that the modernization of pumps supported by ADB had increased the rice yield, enabled double cropping, and improved sanitation. Viet Nam has stunningly beautiful, green pastoral landscapes, but with occasional, visible scars of the Viet Nam War. I stayed at the Metropole Hotel in Ha Noi. This is a classic hotel built in 1901 in the French colonial era but with an entrance to a bunker in the garden. US actress Jane Fonda, famous for her anti-war activism, had stayed there during the Viet Nam War and taken shelter in the bunker, I was told.

I met Prime Minister Nguyen Xuan Phuc during my trip to Viet Nam in June 2016. I had thought this would be a short courtesy call, but I was told that the country needed a substantial amount of budget support loans (policy-based loans) in the following year, and it turned into something akin to a long loan negotiation session. Viet Nam has a ceiling for government’s domestic and foreign debt at 65% of GDP, and, as total debt came close to
this ceiling after the meeting, in the end the government did not borrow so much in budget support loans. GDP has increased since then, and Viet Nam is now eager to borrow from ADB, including project loans. At the G20 Osaka Summit in June 2019, I had a long talk with Prime Minister Phuc on the margins of the main event. At a cocktail reception, his wife was with him, so we chatted about how our mothers live and the way families are shaped in an aging society, among other topics.

Cambodia

In the late 1970s, Cambodia came under the Pol Pot regime’s reign of terror, which tried to establish primitive communism and led to the loss of 1–2 million lives, estimated to be about 15–30% of the population at the time. Peace was restored in the 1990s under the United Nations Transitional Authority in Cambodia, headed by Chief of Mission Yasushi Akashi. The country joined ASEAN in 1999 and has been implementing market-oriented reforms. The population has increased to 16 million, and GDP per capita in 2018 was $1,600. Cambodia is still a poor country, with agriculture accounting for 37% of employment and 22% of GDP, but recently it has grown at a high rate of 7% annually, driven mainly by garment exports to the US and Europe. ADB supports Cambodia in the areas of rural development, urban infrastructure, education, and health.

I visited Cambodia in March 2015 and met with Prime Minister Hun Sen. The Prime Minister, who has been the leader of the country since 1985, highly appreciated Japan’s contributions to the reconstruction and development of Cambodia, including cooperation in the peace process and support in resolving the arrears to international organizations and resuming borrowings from ADB and the World Bank. On this trip, I observed a robot competition at a technical school with many young students.

I had visited Cambodia in June 2001 when I was a director (budget examiner) at the Japanese Ministry of Finance in charge of the budget of the Ministry of Foreign Affairs. I visited the sites of projects supported by Japan, including a tuberculosis medical center, the Angkor Wat restoration project, a kindergarten teacher development project supported by Grant Assistance for Grassroots Projects, and a Japanese nongovernment organization project to dig wells in rural areas. At that time, the wounds of the Pol Pot era were still deep and visible, and the standard of living was very low. Angkor Thom, an ancient city near Angkor Wat, has a huge agricultural reservoir and irrigation facilities, extending 8 km from east to west and 2.2 km from north to south.
They were completed in the 11th century during the Angkor Dynasty. They had been made with great civil engineering expertise, and I was shocked that a country that had such capabilities now had difficulties digging enough wells. At that time, I could not imagine that Cambodia would achieve the level of development it has today.

The Lao People’s Democratic Republic

The Lao People’s Democratic Republic (Lao PDR) is a landlocked country with a population of 7 million. Thanks to its exports of hydroelectric power and copper to Thailand and the PRC, its GDP per capita, at $2,600 in 2018, is higher than that of Cambodia. The potential for hydropower generation in the Mekong River basin is great, and ADB, along with the World Bank and private financial institutions, supported a large-scale dam project called Nam Theun 2 in 2005. In hydropower generation projects involving dams, consideration for the environment, relocation of residents, and safety is essential.

I went to the Lao PDR twice. The first visit was in March 2015, immediately following my visit to Cambodia. I had visited Vientiane, the capital, before also. This city has the most idyllic atmosphere of all Asian capitals. With Prime Minister Thongsing Thammavong, I talked about ADB’s further cooperation in the social sector, including education and health. The minister of public works and transport requested assistance with road maintenance because foreign trucks crossing the country were damaging the roads. I visited an ADB-supported agricultural school and met a female student from a poor farming family. She lived in her dorm and was studying organic farming and motorcycle repairs. She said her dream was to open a repair shop someday. She said her mother cried when she learned her daughter’s application to the school had been accepted.

At the ADB Annual Meeting in Baku, Azerbaijan, in May 2015, I ran into the deputy finance minister of the Lao PDR I had met along with the finance minister in Vientiane. She said she had studied at a university in Azerbaijan during the Soviet era and that it was nice to be back. She was impressed with how Baku had changed, as the city she had known had been dirtier and poorer. Many senior officials of the Lao PDR, Cambodia, and Viet Nam I met had studied in the former Soviet Union.

I went back to the Lao PDR in April 2016 to attend the ASEAN Finance Ministers and Central Bank Governors Meeting. I had dinner with ADB staff stationed in the Lao PDR at a neat restaurant near the banks of the calm Mekong River. Middle-class consumption culture is spreading in the Lao PDR.
Myanmar

Myanmar transitioned to civilian rule in 2011, and this was followed by the lifting of international sanctions and by economic reform. ADB, other aid agencies, and governments resumed assistance in 2013. I touched on Japan’s involvement with Myanmar during this period in Chapter 2. As a result of these developments, the inflow of direct investment has increased in a wide range of sectors, including apparel, telecommunications, and food. Recently, Myanmar has maintained an annual growth rate of around 7%. The population is large, at around 54 million, and per capita GDP is still the lowest in ASEAN, at $1,300. These two factors are actually seen as indicators of future growth potential.

Prior to 2011, growth had been hampered by the closed socialistic policy of the Ne Win administration since 1958, and the military rule and international sanctions implemented following the democracy protests in 1988. The administration of Aung San Suu Kyi, who effectively became the country’s leader after the election in the fall of 2015, has many challenges, including those related to ethnic minorities. However, the country will be able to achieve sustainable growth if it can make progress, however gradual, on various fronts: improving its public and corporate governance, strengthening institutions, continuing to secure support from the international community, and maintaining its stable, market-oriented economic policies.

I visited Myanmar three times while I was ADB President. In April 2014, I went to Nay Pyi Taw for the ASEAN Finance Ministers and Central Bank Governors Meeting and met with President Thein Sein and Finance Minister Win Shein to discuss ADB’s support for infrastructure investment and improving the business environment. At the meeting with foreign diplomats on the previous day, I was reunited with Minister Ichiro Maruyama of the Japanese Embassy, who had helped me when I visited Myanmar with Finance Minister Aso in January 2013. Maruyama is an expert in the Myanmar language and has earned the consistent and strong trust of the Myanmar government. He was appointed ambassador in 2018 after the Aung San Suu Kyi administration was established.

I returned to Myanmar in November 2014 to attend the East Asia Summit in Nay Pyi Taw, and I was able to meet briefly with Japanese Prime Minister Shinzo Abe there. In addition to President Thein Sein, I had an opportunity to meet Secretary-General Ban Ki-moon of the United Nations.

Following the change of government after the election, I visited Myanmar again in June 2016, and met Aung San Suu Kyi who had become state counsellor and foreign minister. She was both dignified and elegant, and she shook my hand gently. What impressed me was that she was focused
on building infrastructure, including electricity networks and roads. Since she had long been a pro-democracy activist, I had expected her to be more interested in education, health, and gender. However, she said that access to electricity and roads would make a difference in rural villages, that these were essential for the development of less developed regions where minorities live, and that she definitely wanted ADB to help in these areas.

Meeting Aung San Suu Kyi in Myanmar (June 2016).

Some senior officials of the central bank and other institutions whom I met in Myanmar said they had studied at the National Graduate Institute for Policy Studies in Japan with scholarships from the Japanese government or from ADB or the IMF (both of which are funded by Japan). They talked fondly of the time they had spent in Japan. I was told that it was very useful to learn from Japan’s experience in development, in addition to standard economic theories. I also meet such people in Southeast Asia and the PRC on many occasions.

When I was assistant director of the International Organizations Division in charge of liaising with the IMF in the early 1990s, I received a request from the IMF to create a scholarship program with contributions from Japan for students from Asian countries transitioning to market
economies (the PRC, Mongolia, and the countries of Southeast Asia) to study economics in the US. I thought it would not make sense to use Japanese tax money to send students to US universities. As such, I looked for Japanese universities that could provide education in English, and selected Saitama University Graduate School of Policy Science (which later became the National Graduate Institute for Policy Studies), the International University of Japan (Niigata), and Yokohama National University, among others, and launched the scholarship program. In addition, when I was director of budget from 2000 to 2002, I was in charge of scholarships run by the Ministry of Education, Culture, Sports, Science and Technology. I also taught public finance for one semester at Yokohama National University to students who were government officials of various countries in Asia. Recently, many Japanese universities have begun offering courses in English. I feel very pleased to meet former students who have studied in Japan and hear that they are happy to have gone to Japan in terms of both their studies and their lives.

**Thailand**

Thailand, with a population of 66 million and GDP per capita of $7,600, is one of the highest-income ASEAN countries. However, the growth rate is relatively low because of the recent political turmoil, and the country has the potential to do better. In 1968, Thailand borrowed ADB’s first-ever loan to client countries, which was provided to the Industrial Finance Corporation, and the country was once ADB’s major borrower. However, as it developed, the need for foreign currency assistance decreased, and the government became capable of raising funds for infrastructure investment by issuing bonds in its own currency. After a loan in 2010, Thailand stopped borrowing from ADB.

Incidentally, ADB’s sovereign loans are usually denominated in an international currency. They carry a spread of 50 basis points or 0.5% (plus a premium of up to 20 basis points depending on the term of the loan) on the cost of funding from issuing ADB bonds (6-month London Inter-Bank Offered Rate). If a country has high credit ratings on its sovereign bonds denominated in the local currency, the interest rate of an ADB loan will be higher than the interest rate of its own bonds when the cost of a currency swap to avoid foreign exchange risk is added. The spread covers ADB’s costs such as staff labor costs for project preparation and implementation, and the remaining portion of the spread becomes profits, which are added to the capital and used to provide more loans.
It is possible to issue ADB bonds in the country’s currency and lend the proceeds as a local currency loan, but the interest rates of government bonds issued in the domestic market are usually reasonable, and ADB’s interest rates with spreads are not competitive in this case either. Meanwhile, recently, more of ADB’s lending to private companies has been shifting to local currency loans. The spread is around 300 basis points and reflects the risk of individual loans, but there is a need for such loans because the interest rates are slightly better than what private firms can get in the financial market. For Thailand, ADB has committed so far a total of $1.2 billion in loans to private companies for solar power generation and other projects, and a majority of this is denominated in Thai baht.

Partly because of efforts by ADB, Thailand resumed sovereign borrowing in 2017 for a highway project. For a country like Thailand, the key is whether ADB can provide more than just loans, to include, for example, services based on its expertise gained from projects in other countries and knowledge of advanced technology. The resumption of lending to Thailand was also helped by making it easier for the country to hedge foreign exchange risks by using currency swaps. This was done by disbursing all the funds at once rather than disbursing funds gradually as the project progressed.
I went to Chiang Mai in May 2013 to attend the Asia-Pacific Water Summit and met with Prime Minister Yingluck Shinawatra. Except for my trip to attend the ADB Annual Meeting in India immediately after I became ADB President, this was my first trip to a member as President. After that, I traveled to Thailand three times. On each occasion, I exchanged views with Prime Minister Prayut Chan-o-cha and the minister of finance on macroeconomic stability, growth strategies, and ADB’s cooperation.

When the Summit Meeting of the Greater Mekong Subregion (GMS) Economic Cooperation Program was held in Bangkok in December 2014, I joined the heads of state in the discussions, partly because the GMS is an initiative that ADB has led since the 1990s. In addition to Prime Minister Prayut, PRC Premier Li Keqiang, Cambodian Prime Minister Hun Sen, Myanmar’s President Thein Sein, Lao PDR’s Prime Minister Thongsing Thammavong, and Vietnamese Prime Minister Nguyen Tan Dung gathered to discuss collaborative projects in energy, railways, roads, and tourism. Regarding the PRC, only Yunnan Province had originally been a member of the GMS. However, later, the central government itself became a member, and I felt that its presence became overwhelming among countries in the group. It is difficult to figure out how to share the precious water resources of the Mekong River among many stakeholders, including upstream Yunnan Province.

I had many opportunities to exchange views with Thailand’s Finance Minister Apisak Tantivorawong and Central Bank Governor Veerathai Santiprabhob at ASEAN conferences and ADB’s annual meetings. They are both technocrats who speak fluent English. Minister Apisak had an affinity with ADB because he had been a young staff member at the Industrial Finance Corporation when ADB extended its inaugural loan to it in 1968. The minister told me that Thailand was making efforts to advance its industry in the so-called fourth industrial revolution, and that it was aiming to become a center for aircraft repairs, the need for which is growing worldwide, by utilizing the experience of the automotive industrial cluster and the hub functions of Thailand’s airports. Mr. Veerathai is a spirited central bank governor still in his 40s who received his PhD in economics at Harvard University. I exchanged views with him on technical issues such as how much foreign currency reserves should be used to stabilize the exchange rate in view of the market’s trust, and how digital technology could be used to enhance poor people’s access to financial services.
Malaysia

Malaysia has a population of 32 million, which is relatively small among the ASEAN countries, but its income is the third-highest, after Singapore and Brunei Darussalam, with GDP per capita in 2018 reaching $11,000. The city of Kuala Lumpur is clean and orderly. Although Malaysia stopped borrowing from ADB after the last education project in 1997, it is now considering resuming borrowing to promote advanced urban infrastructure projects by taking advantage of ADB’s experience in other countries.

When I visited Malaysia in May 2019, I met Prime Minister Mahathir bin Mohamad, who had returned to the position in the previous year, at his office in the new capital Putrajaya, located in the suburbs of Kuala Lumpur. As I wrote in Chapter 1, I had paid a courtesy call to him in March 2013 before becoming ADB’s President. In our meeting in 2019, he told me that the monetary policy of the US and its sanctions against Iran were clearly impacting the Malaysian economy, and that ASEAN plays an important role in the current geopolitical environment. Despite his age of 93, he was sharp and spoke clearly. At that time, I also met Mukhriz Mahathir, the third-eldest son of the Prime Minister and chief minister of Kedah. He is a gentle person who studied at Sophia University in Tokyo, and he was very interested in ADB’s cooperation in water projects.

Singapore

When Singapore separated from Malaysia in 1965, Lee Kuan Yew, its leader at the time, was reportedly very concerned about the future of the small state, which even had to rely on its neighboring country for water. However, it became a wealthy city-state with a clear national vision; a high level of education and discipline; and diverse and advanced economic sectors, including finance, pharmaceuticals, logistics, tourism, and university education. GDP per capita in 2018 was $64,000, more than 50% higher than that of the UK, its former suzerain, and Japan.

Singapore had stopped borrowing from ADB in 1980 and graduated from ADB’s assistance. My nine visits as ADB’s President were mainly to attend ASEAN and other meetings related to international finance, including those of the Trilateral Commission. On many occasions, I would meet with Managing Director Ravi Menon of the central bank (the Monetary Authority of Singapore) and the minister of finance, among others. I also visited Microsoft’s laboratory and observed the advanced digital banking of DBS Bank (formerly known as The Development Bank of Singapore).
At Microsoft, as soon as I entered a room, they identified my name and position as ADB President based on my face and using publicly available information, and even estimated my age. It was polite that the system said that I was much younger than my age. In 2019, we decided to open a small ADB office in Singapore to support private sector operations.

Speaking of Singapore, I came to know Mr. Tharman Shanmugaratnam, former deputy prime minister, very well. During my term as ADB President, he had also been minister of finance. He later became the senior minister of Singapore in May 2019. He is close to my age and a typical member of the Singaporean elite, who studied economics at Cambridge and Harvard. He first joined the central bank and then worked for the government; then he ran in an election and became a politician. Still, in essence, he is a technocrat. If Indonesia’s Minister Sri Mulyani Indrawati is a candidate for president of the World Bank, Mr. Tharman, well known in the global financial community, would be a candidate for the IMF’s managing director.

I met him many times, but I remember one episode particularly well. When I went to Singapore for the ASEAN+3 Finance Ministers and Central Bank Governors Meeting in April 2018, he invited me to an old and established Chinese restaurant called Spring Court, and we talked for two hours, just the two of us. We talked about the Asian economy and ADB’s relations with the PRC, but we spent the largest amount of time on education. I think it started when I said that Japanese junior high school and high school students learned Chinese literature and philosophy very well, based on Japan’s long relationship with Chinese civilization, and also studied world history in detail, including Chinese history as well as European history, and that these were very useful. I added that I wanted the people in Singapore to learn more about the PRC and Japan.

In many countries, education used to be an important mechanism to promote mobility between social classes. Even if the family is poor, if you study hard and get higher education you can get an important job and become rich. That was the idea. However, now, whether in the US, other developed countries, or emerging countries, education has become expensive and time-consuming, including for extracurricular activities, making it more difficult for ordinary families to send their children to good schools. We agreed that education is now effectively hindering social mobility.

When the G20 decided that multilateral development banks (MDBs) such as the World Bank and ADB had to be more effective, Mr. Tharman was selected to chair the Eminent Persons Group to discuss reforms. In April 2017, he called me in Manila and asked for my advice on the selection of
members and the direction of discussions. We ended up talking for nearly an hour over the phone.

I said that there were a lot of things the MDBs could do better, such as accelerating the lending processes, but it would be wrong to think that the MDBs were working without coordination, resulting in redundancy or inefficiency. In fact, the MDBs’ presidents meet several times a year, and their staff work together to prepare for these meetings. Close communication is also maintained by regional departments and other functional departments, such as treasury and legal affairs. Above all, at the level of field offices, in Viet Nam, for example, ADB, the World Bank, and the aid agencies of Japan (JICA), Germany (KfW), and France (AFD) are communicating with one another on a daily basis. In the event of an international financial crisis, the MDBs provide assistance only when the IMF’s assistance program is established, which is another aspect of coordination.

Subsequently, I had several opportunities to discuss the report of the Eminent Persons Group with Mr. Tharman, either through one-on-one meetings or by asking him to join the MDB presidents’ meetings. He also called me before the report was released in October 2018. At that time, we...
realized that he had never been to ADB headquarters, even though he had attended ADB’s annual meetings several times in various countries, and I urged him to come to visit soon. We both checked our calendars over the phone and set his visit for 23 November. On that day, Mr. Tharman spent a long time with us, exchanging views with the vice-presidents and other senior members of ADB in my office, giving a speech to the staff in the large hall, and having an informal lunch with the members of the Board. Regarding his speech, I had anticipated based on the national character of Singapore that the main focus would be on economic growth using technology or something about innovation. Unexpectedly, he talked mainly about how Singapore was using housing policy and education to avoid social divisions. I thought it was very much like Mr. Tharman.

**Brunei Darussalam**

I visited Brunei Darussalam in August 2016. In the late 19th century, the country became a protectorate of the UK, and in 1984 it became completely independent and joined ASEAN. It was originally a small sultanate that relied mainly on fisheries, but oil fields were discovered in the 1920s, and oil and natural gas now account for the majority of its GDP and exports. Japan is its largest export partner. Although I had not known this until I visited, Japanese forces had occupied it during World War II. The population is just over 400,000, and GDP per capita is $32,000. As education and medical services are all provided for free, and the citizens do not pay a lot in taxes, this is indeed a lucky country.

On this visit to Brunei Darussalam, I was accompanied by Rokiah Hj Badar, who was from the country’s Ministry of Finance and was ADB’s alternate executive director at the time. She took us to a restaurant by the port to enjoy the local cuisine. We had an audience with His Majesty the Sultan, who also served as prime minister and minister of finance, and visited the treasure hall, where items presented to the Sultan from various countries were displayed. Brunei Darussalam joined ADB in 2006, but there have been no loans from ADB. Rather, the country is a donor to the Asian Development Fund, which provides grant assistance. It is said that the oil fields will eventually run out, and the challenge lies in deciding what kinds of industries should be developed. We stayed at the Empire Hotel in a seaside resort after driving on a highway through a thick jungle. It was a shame that I could not drink beer while watching the beautiful sunset because of the strict religious rules.
The Significance of ASEAN

Here, I would like to touch on the importance of the ASEAN framework, which has a strong relationship with ADB.

The 10 ASEAN countries have a total population of 650 million, and the aggregate GDP is close to $3 trillion. As the population is half that of the PRC and its GDP is just under a quarter of that of the PRC, this could become an even more significant economic zone depending on future growth. ADB was established in 1966, and ASEAN was established in 1967 through the Bangkok Declaration. The Viet Nam War was ongoing then, and the intentions of the original members—Indonesia, Malaysia, the Philippines, Singapore, and Thailand—were to jointly counter the infiltration of communism into Southeast Asia and to build friendly relations with one another despite some border issues.

In ADB’s early years, the PRC was not a member and India, being a big country, did not borrow from ADB until 1986, although it had been borrowing from the World Bank. Therefore, the ASEAN countries were the most important clients of ADB, along with the ROK and Sri Lanka. A few weeks before the US announced its support for the establishment of ADB, in April 1965, President Lyndon B. Johnson spoke at Johns Hopkins University of the need to increase US economic involvement in Southeast Asian countries, which belonged in the free world, in a manner that was balanced with the increase in its military involvement in South Viet Nam. In other words, the establishment of ADB itself reflected a strong focus on the countries of Southeast Asia. Of the ASEAN countries, Indonesia, the Philippines, and Viet Nam are still among the most important borrowers of ADB.

The first ASEAN Summit was held in Bali in 1976. Since then, economic cooperation has gradually expanded to include cooperation in food and energy, mutual preferential treatment in trade, the free trade zone, and liberalization of services and investment. Members have also increased in number over the years. Brunei Darussalam joined the original five countries in 1984. In the 1990s, Viet Nam (1995), Myanmar and the Lao PDR (1997), and Cambodia (1999) joined as they changed course towards a market economy. This makes up the current 10 member countries.

At the ASEAN Summit in 2003, the leaders decided to create the ASEAN Economic Community (AEC), and this was launched in 2015. The AEC aims to promote the further liberalization of the economy, free movement of labor, and connectivity in transportation, energy, and information and telecommunications, and to reduce economic disparities.
among countries. I personally participated in ASEAN finance ministers and central bank governors meetings numerous times as ADB’s President. Most of the ministers and governors were fluent in English, and I felt a sense of relaxed camaraderie among them, probably because they had been meeting regularly.

The four countries that joined ASEAN in the 1990s are sometimes referred to as CLMV, based on the first letters of their names. They had initially been in the opposing camp, so to speak, and I believe ASEAN played a huge role in bringing these countries into the group, promoting friendly relations and economic partnerships, and supporting their market-oriented reforms. Without ASEAN, I don’t think the CLMV’s macroeconomic and structural policy reforms would have advanced as much in such a short period.

ASEAN also serves as a platform for financial cooperation and trade frameworks such as ASEAN+3 (“+3” being Japan, the PRC, and the ROK) and ASEAN+6 (“+6” being Japan, the PRC, the ROK, India, Australia, and New Zealand). In the area of security, the ASEAN Regional Forum offers the opportunity to hold a ministerial-level dialog once a year, with ASEAN+6 plus 10 countries and one organization, including the US, the Russian Federation, Pakistan, the EU, and the Democratic People’s Republic of Korea.

ADB has provided not only loans to individual ASEAN countries but also various types of assistance to promote regional cooperation. This includes general research and technical assistance on ASEAN’s economic integration and the ASEAN+3 Chiang Mai Initiative (see Chapter 2); technical assistance for the establishment of the ASEAN+3 Macroeconomic Research Office, which was launched in 2011, and the subsequent exchange of information; support to the Asian Bond Markets Initiative, which began in 2003; and equity investment in the ASEAN Infrastructure Fund, which was established in 2011 and headquartered in Malaysia, and playing the role of its secretariat. ADB supported these initiatives from 2005 to 2014 through the Office of Regional Economic Integration. However, after achieving significant progress, the functions of the office were integrated into the Economic Research and Regional Cooperation Department and the Sustainable Development and Climate Change Department, after I became President.

I also believe that Japan has played a major role in the development and stability of ASEAN and its member countries. In August 1977, Japanese Prime Minister Takeo Fukuda announced the Fukuda Doctrine in Manila, on the last stop of his visit to Southeast Asian countries. This included the following three points:
(i) Japan is committed to peace and will not become a military power. It will contribute to the peace and prosperity of Southeast Asia and the world.

(ii) Japan will build mutual trust with the countries of Southeast Asia in a wide range of areas, including politics, the economy, society, and culture.

(iii) Japan, as an “equal partner,” will cooperate positively with ASEAN in efforts to strengthen solidarity and resilience, and will seek to foster relations with the countries of Indochina based on mutual understanding.

These three points may not seem remarkable now, but they were announced when the memories of World War II were still fresh and trust in Japan had not been established. The Viet Nam War had just ended (with the fall of then Saigon, today Ho Chi Minh City, in 1975), and the CLMV countries had not yet joined ASEAN. I believe that declaring this position clearly at that time helped advance the relationship between Japan and the ASEAN countries, and also supported the solidarity of ASEAN itself. Alongside this doctrine was the fact that Japan was the ASEAN countries’ most important export partner, and that Japan increased direct investment in manufacturing from the 1980s, which served as the basis for the current production network in East Asia.
Can India Become a New Growth Center?

All countries in South Asia are important borrowers for ADB, and it is very important that poverty reduction, social development, and sustainable growth advance smoothly in this region.

India had a population of 1.33 billion in 2018, and the rate of population growth remains high. It will certainly surpass the People’s Republic of China (PRC) and become the most populous nation in the world. Gross domestic product (GDP) per capita is $2,000, less than that of many Southeast Asian countries. Agriculture accounts for nearly 50% of employment, and 20% of people still live on less than $1.90 a day. The health sector has big challenges: the child mortality rate is six times the Organisation for Economic Co-operation and Development (OECD) average, the maternal mortality rate is 12 times the OECD average, and 35% of children aged five or younger are underweight. Currently, the government is trying to establish universal health insurance for all citizens utilizing digitized personal IDs. Indu Bhushan, a health expert who was ADB’s director general of the Strategy, Policy, and Partnerships Department when I was President, has returned to India at the request of the Modi administration to lead this initiative. The adult literacy rate is 70%, but the primary school enrollment rate has increased to 90%.
While India still requires considerable focus on poverty reduction, some sectors are growing, riding the wave of digitization. Successful examples include the world-famous Indian Institute of Technology and Infosys, an IT services company. India is a source of many talented people globally, including executives in Silicon Valley ventures and platform companies in the US. Recently, an increasing number of Indians who have received higher education are working at IT-related companies in Japan, too. India has a long tradition of capitalism, and conglomerates such as Tata, Birla, Reliance, and Mittal are buying European companies.

The annual growth rate was 3% in the 1980s when the government adopted socialistic import substitution policies and state-led protectionist policies. It rose to around 6% in the 1990s when market-oriented economic policies were adopted, and to 7% in the 2010s. More recently, the expansion of loans by financial institutions after the global financial crisis has led to an increase in nonperforming loans, and there have been adverse impacts on consumption and investment. The question is whether India will continue to grow as the PRC did after adopting the reform and opening-up policy, and whether it will follow the PRC in terms of economic scale. Prime Minister Narendra Modi has advocated policies to strengthen manufacturing, integrate the fractured economies of its states, and streamline support for the poor through the digital ID.

India was an original member of ADB and has had a strong relationship with it, as evidenced by the fact that the sole vice-president in its early years came from India. However, it did not borrow from ADB for a long time, although it did from the World Bank, because it was thought that its economy was too big for ADB—in other words, that ADB’s funds would be depleted quickly if India began borrowing. It was in 1986 (the year the PRC joined ADB) that ADB began lending to India, after ADB had been able to achieve three capital increases by 1983 and persuaded the reluctant US. Soon, India became the second-largest borrower after the PRC. The cumulative amount of ADB’s assistance at the end of 2019 was $42 billion for sovereign loans and $6 billion for private sector operations including equity investment and guarantees. In 2019 alone, ADB provided to India $3.2 billion in sovereign loans and $1 billion for private sector operations. The projects are mainly in the energy, transport, and urban infrastructure sectors. In the energy sector, ADB is focused on supporting the development of solar power generation and transmission networks to deliver renewable energy.

In general, India wants to increase its borrowings from ADB. But, regarding loans to Indian states backed by central government guarantee,
some states have been hesitant, because the Fiscal Responsibility and Budget Management Act limits each state’s fiscal deficit to 3% of its GDP. I asked the minister of finance for special treatment for ADB loans because they are for infrastructure development, which is essential to achieving higher growth. As a result, it was decided to afford special consideration for ADB loans.

I visited India eight times during my term as ADB President. Each time, I discussed with my counterparts the current state of the Indian economy, various structural reform efforts, and priority areas and goals of ADB loans. Indian officials thought highly of ADB. Despite his busy schedule dealing with various economic and financial issues in such a big country, the minister of finance always took ample time for our meetings, and sometimes organized lunch and dinner meetings together with ministers of other relevant departments. I met Prime Minister Modi three times.

The first visit was at an ADB annual meeting held in the suburbs of New Delhi, just after assuming my position. Prime Minister Manmohan Singh of the Congress Party, who had been in government since 2004, gave a speech at the opening ceremony. I met Finance Minister Palaniappan Chidambaram and Finance Secretary Arvind Mayaram several times. They were both very articulate and mild-mannered gentlemen.

When I visited India in February 2014, I went to the northern state of Uttarakhand from New Delhi by a small plane and a helicopter. I visited villages in the mountains where floods had killed 6,800 people in the previous year. I learned about projects and met with the chief minister of the state. This area is one of the coolest places in India. It is also home to a holy pilgrimage site for the Hindu religion, which is visited by tourists from all over India.

In May 2014, the Indian People’s Party, led by Prime Minister Modi, won the election by a landslide and the government changed for the first time in 10 years. Following that development, in August, I visited India for the third time. Finance Minister Arun Jaitley was very busy as he was also minister of defense but, after meeting with me, he hosted a dinner at the Taj Palace, the hotel where I was staying. The next day, I met with Prime Minister Modi in his official residence surrounded by beautiful gardens. The meeting had been scheduled for 15 minutes but we ended up talking for about 40 minutes in English, discussing a variety of topics.

Prime Minister Modi thanked ADB for its post-earthquake assistance when he was the chief minister of Gujarat and called for ADB’s assistance for the East Coast Economic Corridor, the Smart City
Initiative, and the enhancement of vocational education. At the end of our meeting, I asked him, perhaps too directly, why there had been such a difference in growth between India and the PRC over the past 40 years. In response, Prime Minister Modi listed two reasons: that India is an election-based democracy and that it is a federal republic where the states have strong autonomy.

It is true that changes in administration lead to changes in development plans, and it takes longer to expropriate land. It is also difficult to advance projects that encompass multiple states. For these reasons, infrastructure development, a prerequisite for industrialization, tends to be delayed as well. Moreover, given the strong autonomy of its states, the country is not really a single market, and South Asia as a whole has not established value chains like those in East Asia. Looking at the share of exports of goods and services in GDP, the PRC’s figure averaged 28% over 10 years in the 2000s, when it experienced very high growth; India averaged only 18%.

Prime Minister Modi and I agreed that, in order to achieve higher growth, India needed to continue to pursue stable macroeconomic policies, to reform labor legislation to increase the flexibility of labor markets, to reform the land expropriation system, to promote deregulation to encourage private sector activities, and to strengthen coordination among the states and central government agencies.

I visited New Delhi again in February 2015 and again met Prime Minister Modi. I told him that I had been encouraged by progress in the early days of the administration. This included the reform to replace indirect taxes involving different rates in different states with a nationwide, uniform value-added tax (the Goods and Services Tax); the replacement of fuel subsidies—which had actually benefited the rich and led to energy waste—with a direct cash transfer to the poor; and advances made on reforming the labor law and the land acquisition law, as well as on the deregulation of foreign direct investment. We also discussed challenges such as the modernization of the railway sector, which is still under the direct control of the government. During this visit, I invited several prominent economists to exchange views. They opined that the Modi administration’s policy of getting states involved in reform and in competing with each other was going well, and that India should emulate the PRC’s enthusiasm for infrastructure investment.

During my visit to India in June 2015, I went to the state of Rajasthan, southwest of Delhi. The energetic Chief Minister Vasundhara Raje hosted a lunch for me. The state has 70 million people, so her responsibility was
enormous. In Jaipur, the state capital, we saw an ADB-supported subway project and a project to rehabilitate a huge castle on a hill. Many subways are being constructed in major cities in India and Asia. In Manila, too, which had a late start, a subway project supported by the Japan International Cooperation Agency (JICA) is moving forward.

Jaipur is a beautiful city, sometimes referred to as the Pink City. I was told that, when Prince Albert, son of Queen Victoria of England, visited the city in 1876, the maharaja at the time diverted the money allocated for developing a tram system to city beautification and hospitality. A maharaja’s villa had been turned into a hotel and I stayed there. It was a tremendously luxurious and magnificent building. After the Indian Rebellion of 1857 (the so-called Sepoy Mutiny), India transitioned from indirect rule by the East India Company to the British Indian Empire, but I felt that, in some respects, maharajas were perhaps competing with each other in how close they were to the British.

In India, different states also have different languages and ethnicities and the British “divide and rule” approach is well known to have taken advantage of that. Even now, schools in India teach in detail the history of Europe, including the UK, but they do not teach much of the history of East Asia.

“Asia Is One” is a known phrase, and ADB is a manifestation of this thinking, but things are not so simple because the concept of Asia itself was born in Europe. It is a word whose meaning was related to “East” in Greece and ancient Rome. Through visiting various countries, I often felt the ethnic and religious differences within Asia, among the regions of East, Southeast, South, and Central Asia, and among the countries in each region. Nevertheless, there is great value in advancing economic cooperation and coordination among the countries in Asia.

In March 2016, I visited Mumbai, which is the state capital of Maharashtra with a population of 110 million and the commercial and financial center of India, and Bengaluru, the state capital of Karnataka, with 60 million people, and known as the IT capital, or the Silicon Valley of India. I met the chief minister of each state and discussed cooperation in urban infrastructure, including subways, water supply and sanitation, the transport sector, including rural roads, and agricultural measures to deal with droughts. In Mumbai, I also met with Governor Raghuram Rajan of the Reserve Bank of India (the central bank), who had been a professor at the University of Chicago and director of research at the International Monetary Fund (IMF).
We exchanged views on how to solve the problem of nonperforming loans caused by the expansionary policy after the global financial crisis, and whether it was possible for India to become a developed country based on services, including IT, without going through the stage of export-oriented manufacturing like other developing countries.

In Bengaluru, I visited Infosys, an IT company, and one of its founders, N. R. Narayana Murthy, showed me the premises, which they called the “campus.” Mr. Murthy said with enthusiasm that, while he was working in Paris in the 1970s after graduating from the Indian Institute of Technology, he traveled to Eastern Europe and, seeing the limitations of socialism, became a strong believer in the importance of creating jobs in a market economy. The company he started in 1981 with six friends and $250 succeeded in becoming an offshore business using the internet. Now it is a global company with 200,000 employees.

Bengaluru is a beautiful park city in the highlands, known for its growing middle class. In my spare time, I took a walk in a vast botanical garden, which had been built by the feudal lord long before India’s independence in 1947. A year later, in June 2017, I went to Uttar Pradesh, an inland state. In the city of Varanasi, I saw the banks of the Ganges River, with open-air crematories next to ritual bathing places and Hindu temples, chaotic and full of people. I thought Bengaluru and Varanasi truly represented India’s future and its history, respectively.

In August 2019, I met Prime Minister Modi for the third time. We recognized the recent decline in the growth rate but agreed that reform had progressed overall, and that it was important to continue with stable macroeconomic policies, market-oriented structural policies, and infrastructure investment. On this mission, I also met with Minister of Finance Nirmala Sitharaman. I had first met her when she was India’s minister of commerce, and, at that time, she had kindly spent a long time explaining tax reform to me. After that, she served as defense minister before becoming minister of finance. In this August 2019 meeting, my discussion with her on ADB’s support to India lasted an hour. She has gumption and her messages are clear, indicative of her sincerity.

On this trip, I was also able to visit Kolkata, which had been the base of British expansion into India and the capital of the British Indian Empire. I visited a large water supply project and attended a lunch commemorating the publication of a book on the 20-year cooperation between the city of Kolkata and ADB. Kolkata is also the center of Bengali culture.
In Kolkata, I visited the home of the poet Rabindranath Tagore, who had visited Japan many times and exchanged ideas with Tenshin Okakura (a Japanese art historian and thinker) and other Japanese intellectuals. He received the Nobel Prize in Literature in 1913. I also visited the home of Subhas Chandra Bose, a leader of the Indian National Congress, who had devoted himself to the independence movement, chose to fight the British forces with the Japanese troops from a base in Singapore, and died in Taipei, China on 18 August 1945. At his big, Western-style house, I was guided by the wife of his nephew, who in 1939 had helped Bose escape the house arrest the British imposed, and her son. She passed away at the age of 89 in January 2020, several months after my visit. I saw the actual car used in the escape and Bose’s letter asking his Austrian wife, whom he married during his stay in Europe, to take care of their daughter after he returned to Asia. There was also a photograph of him stepping off a German U-boat and onto a Japanese submarine in the Indian Ocean in 1943. Through them, I was reminded of the complexity of the history of the period.

During my multiple trips to India, I met a number of elite bureaucrats belonging to the Indian Administrative Service (IAS). The IAS has its roots in the British colonial administration and is somewhat similar to the group...
of officials of pre-war Japan who passed the high-level civil examination. To join the IAS, they have to pass an extremely difficult examination, and in this vast country only 100 or so of them are selected each year. Members of the IAS serve in important positions in the central and state governments, supporting ministerial-level politicians and elected state chief ministers. Ministries of the central government and governments of states have positions called “secretaries” (equivalent to vice-ministers in central ministries and the top position of the secretariat in states); these are the top public service posts occupied by the IAS bureaucrats.

Some say these bureaucrats tend to be too proud and strict and that this is one of the reasons why the deregulation required to attract foreign companies is not proceeding as much as it should. On the other hand, some credit them as competent technocrats who are selected through examinations regardless of their caste, and as the source of administrative continuity and national unity. Many of them have technical or engineering degrees. Pakistan, Bangladesh, Sri Lanka, and Nepal have similar systems. Japan’s current bureaucracy has evolved from what it was in the past, but I still saw some similarities. It was interesting to learn about the IAS.

During my 7 years as ADB’s President, I visited many project sites and places in India, often based on suggestions by ADB’s Executive Directors Sameer Kumar Khare and Kshatrapati Shivaji, both of whom were from India and members of the IAS. Through these visits, I felt that India was overwhelmingly large and diverse, and a place where the future and the past were intertwined. Of course, this represents both challenges and opportunities.

**Sri Lanka**

Sri Lanka has a population of 22 million, which is small for South Asia. However, its per capita GDP is around $4,100, and social sector indicators such as the literacy rate and average life expectancy are very good for South Asia. Despite this, growth has been hampered by socialist policies that lasted for a long time, inefficiencies in state-owned enterprises, and the civil war with the Tamil insurgents that lasted from 1983 to 2009. Recently, Sri Lanka has shifted toward market-oriented policies that focus on the private sector, and aims to make use of some good ports to become a distribution center connecting South Asia to East Asia and Europe. It is also well known for its tourist resources such as Buddhist temples and the ruins of ancient kingdoms from around 2,000 years ago. Sri Lanka is a founding member of ADB, and
Douglas Gunasekera, the first secretary of ADB under President Watanabe, was from Sri Lanka. ADB provided $800 million in loans to Sri Lanka in 2019, mainly for roads and education. The amount was large for the size of the country.

I visited Sri Lanka twice. During my first trip, in June 2014, I visited a project to develop facilities in the Port of Colombo, and a project involving IT laboratories for secondary education. I also gave a speech at a training center for fiscal administration and finance. It was at that time that I started to think about the eight conditions for economic development I described in Chapter 5. In particular, the eighth condition, peace and stability in the country, was inspired by the fact that, following the end of the civil war, positive policies were being proposed in Sri Lanka, including targeted investments in Tamil-majority areas in the north. In a meeting with President Mahinda Rajapaksa, we discussed the fact that the government’s actions during the civil war had become an international humanitarian issue. I said that it was important to continue to make progress toward peace. President Rajapaksa, who ended the civil war, is popular in Sri Lanka. After I visited the country, he once lost the presidency in an election but returned to power as Prime Minister later.
On this trip, Permanent Secretary to the Treasury Punchi Banda Jayasundara, who had a long career in the government, accompanied me to the central region of Sri Lanka. We visited a road project and a plant in a tea plantation whose modernization ADB was supporting. We also visited Sigiriya, an ancient castle built in the fifth century on the top of a big column of rock about 200 meters high. We decided to climb up, and the ruins of the palace at the top and the vast forest views I saw from there were the most spectacular I had ever seen. If I had left after just looking at the foot of the rock, I would have been like the priest of Ninnaji Temple in a funny story that appears in *Tsurezuregusa* (a collection of essays written by Yoshida Kenko in the 13th century). In the story, the priest went home after only visiting a temple at the foot of the famous Ishimizu Hachimangu Shrine in the suburb of Kyoto as he misunderstood where the main spot of the shrine was. On the way back, we also went to the Kala Wewa Reservoir, which had been built in the fifth century. This huge reservoir is still being used, which is a testament to the sophisticated technology and power of the ancient kingdom.

When I visited Sri Lanka for the second time, in February 2016, Maithripala Sirisena, who had been minister of health under President Rajapaksa, had become the new President after winning an election. He told me that the government had asked the IMF for an assistance program to implement fiscal reform, and he requested the full support of ADB. I visited the sites of ADB projects, including a large electricity substation and a highway control center.

ADB Director General of the South Asia Department Hun Kim accompanied me on this trip. His remarks were always candid and to the point, and during my presidency he had been promoted from the position of country director of the field office in New Delhi. In general, business trips in ADB were conducted with a small number of people. In my case, I was usually accompanied only by the regional director general in charge and by the chief advisor to the President. In the field office, the country director, sector specialists in charge of the relevant ADB projects, and the staff in charge of logistics made arrangements for my visits and accompanied me. During this trip, I was briefed by engineers from Sri Lanka’s government and utilities as well as energy and transport experts from ADB’s field office. The strength of ADB lies in the fact that the government and ADB work together on a daily basis in each country.
President Sirisena visited ADB headquarters in Manila in January 2019 but lost a subsequent presidential election. Mr. Rajapaksa became Prime Minister and his younger brother became President in November 2019. The Sri Lankan government has been unstable recently, and its diplomatic positioning is wavering between India and the PRC. The growth rate between 2017 and 2019 dropped to around 3%, although the country has the potential to expand at a much higher pace.

**Bangladesh**

Bangladesh was one of the poorest countries in Asia, suffering from big floods and famines even after it achieved independence in 1971, following a fierce war with Pakistan. It is also known as a beneficiary of agricultural productivity gains through the Green Revolution, which Chapter 14 will describe. Recently, the growth rate has been high, at 7–8%, thanks to the success of its apparel industry. Per capita GDP has also risen, to $1,700. The population is large, at 160 million. I think the country has great potential based on the cultural tradition of Bengal and its diligent people. The white, finely woven cotton muslin was a specialty product made in and around Dhaka and brought to the UK by the East India Company. Geographically, Dhaka belongs to East Bengal and Kolkata belongs to West Bengal.

Bangladesh joined ADB in 1973 and has since borrowed a cumulative total of $23 billion, mainly in concessional loans that have low interest rates and long repayment periods. In addition to railways, subways, roads, and energy, support for the education and health sectors is becoming increasingly important.

I visited Bangladesh twice, in June 2014 and February 2018, and met Prime Minister Sheikh Hasina Wazed on both occasions. She is the eldest daughter of Sheikh Mujibur Rahman, Bangladesh’s first President, who had fought for its independence. She had served as Prime Minister from 1996 to 2001 but lost in an election and went into opposition. A person of high resolve, she won the 2009 general election and became Prime Minister again. She was articulate, and at the same time genial and elegant. During my first trip, I took a train ride with officials of the Ministry of Railways to observe an ADB-supported transportation enhancement project, the Jamuna Bridge, which Japan had also supported, and a gas power plant near it.

During my second trip, in February 2018, I visited a science class using IT at a rural high school supported by ADB. When I asked a female student what she wanted to be in the future, she said she wanted to be an
engineer at NASA (the National Aeronautics and Space Administration of the US). When I told this story to Prime Minister Hasina, she was very pleased, as she was focused on women’s education, especially in science and technology. I also visited an apparel factory established by an entrepreneur who had returned from the UK. In 2013, a mixed-use building near Dhaka that housed a sewing factory collapsed. This horrendous accident killed more than 1,100 people. Since then, there had been progress in terms of workplace safety and conditions. The factory I visited was modern, and I thought the working environment was set up with care. It made clothes for European brands but had also launched its own brands.

Bangladesh is not eligible for ADB grant assistance. However, in 2018 it faced a major challenge in accepting refugees from the state of Rakhine, Myanmar, and ADB provided an exceptional $100 million grant as emergency assistance for housing, electricity, and water, after obtaining approval from all donors to the Asian Development Fund (ADF). We received a request for grant assistance from Finance Minister Abul Maal Abdul Muhith at ADB’s Annual Meeting in Manila in May of that year. We immediately looked into it and, thanks to efforts by the country director of ADB’s Dhaka field office, Manmohan Parkash, and other staff, it received approval from the Board of Directors within 2 months.
I met Finance Minister Muhith every time I visited Dhaka and at ADB’s annual meetings. Born in 1934, he is a member of the elite who studied in the UK and the US after graduating from the University of Dhaka. He was a Pakistani bureaucrat in the 1960s. During his work at the Pakistani Embassy in Washington, D.C., he declared his support for Bangladesh, and, after Bangladesh won its independence, he was appointed the country’s secretary of planning in 1972. After that, he retired from government once and worked as an economist in the private sector, but he eventually returned to government and served as minister of finance from 2009 to 2019. At ADB’s annual meetings, there is a session called the business session, in which all governors (ministers or equivalent) of ADB members express their opinions and the Management responds. This session is ADB’s Annual Meeting in its true sense. During these business sessions, Minister Muhith had an air of the ruling elder among all of the attendees.

Nepal

Nepal, with a population of 29 million and GDP per capita of $1,000, is the second-poorest country in Asia after Afghanistan. It has strong ties with India, and trade with India makes up 75% of all exports and imports. Electricity from hydroelectric power plants is the main export, but tourism in the Himalayas and remittances from workers in India are also important sources of foreign currency earnings. After the royal massacre of 2001, in which 10 members of the Nepalese royal family, including the King, died, political turmoil and internal conflicts persisted. However, after the monarchy was abolished and the new federal republic constitution came into effect in September 2015, the country regained political stability. Nepal is a founding member of ADB, and it received a total of $360 million in concessional loans from ADB in 2019.

I visited Nepal for the first time in February 2015. I met Prime Minister Sushil Koirala and attended a ceremony with Finance Minister Ram Sharan Mahat to commemorate the 25th anniversary of ADB’s field office in Kathmandu. In front of 300 guests, I explained the eight conditions of economic development and said that Nepal could not afford further political turmoil. During this trip, I visited Lumbini, the birthplace of the Buddha, and observed ADB’s airport development project. In the old city of Bhaktapur in the Kathmandu Basin, city officials told us about the development of urban infrastructure. This is a magnificent world heritage city where old palaces, Hindu temples, and pagodas remain.
Shortly after this visit, on 25 April 2015, a major earthquake occurred, and many buildings collapsed and nearly 10,000 people died. The damage to the cultural treasures of Bhaktapur was also significant. ADB’s annual meeting was held immediately after that in Baku, Azerbaijan, and Minister Mahat attended the meeting under difficult circumstances. ADB hosted a meeting in which countries confirmed their support to Nepal. I also attended a Nepal Support Group meeting in Kathmandu in June of the same year and expressed ADB’s intention to provide $600 million in assistance. At that time, I underlined the principles of ADB’s assistance, including the concept of “building back better,” ensuring more benefits to the poor, and good coordination with the government, which takes ownership of the reconstruction.

In February 2016, the donor meeting of the ADF was held in Kathmandu, and I visited Nepal for the third time. I met Prime Minister K. P. Sharma Oli, who had formed a new administration after an election. The Prime Minister belongs to the Communist Party of Nepal (Unified Marxist-Leninist) but his policies are moderate and market-oriented, and the growth rate has remained between 6% and 8% since 2017, following the recovery from the earthquake.

Bhutan

I visited Bhutan for the opening ceremony of ADB’s field office in the capital city of Thimphu in February 2014. The population was 750,000 in 2018, and the majority are ethnic Tibetans who practice Buddhism. The country is a constitutional monarchy, under which the first election for the National Assembly was held in 2008. It has strong ties with India, both economically and diplomatically. Bhutan is known for developing the concept of Gross National Happiness, and its per capita GDP is relatively high, at $3,500, supported by the export of hydroelectric power to India. However, the share of agricultural population exceeds 50%, and there are many development issues, such as medical care for pregnant and parturient women and young children, as well as water supply in cities. ADB supports Bhutan with grants and concessional loans.

I could not have an audience with the young King, who is popular in Japan, as he was traveling abroad. I was able to meet the young Prime Minister Tshering Tobgay, who had studied at Harvard University and is fluent in English, and Finance Minister Namgay Dorji, whom I would later meet many times at ADB’s annual meetings and other occasions, in the government building near the Royal Palace. Prime Minister Tobgay once visited ADB’s
headquarters in Manila and gave an impressive speech to the staff. While the development of hydroelectric power continues to drive Bhutan’s growth, the challenge is how to diversify the industrial base, including sustainable tourism.

**Maldives**

I visited Maldives at the end of August 2019, just before I announced my intention to resign the post of ADB President. The island nation has a small population of 500,000 but per capita GDP, supported by tourism, is more than $10,000. It converted from Hinduism to Islam in the 12th century, and in 1498 it was visited by Vasco da Gama. It was a British protectorate for a long time until the 20th century. In Malé, the capital, I met with President Ibrahim Mohamed Solih, who had been inaugurated in November 2018, and House Speaker Mohamed Nasheed, former President and a person of influence. Many islands form the chain of 26 atolls, and in the vicinity of the capital, Malé, each island has its own distinct function, such as a luxury hotel, an airport, a new city center, and a waste management facility. I visited some projects supported by ADB, including a fishing port in Malé and a solid waste management facility on a nearby island.

Before going there, I had the impression that the country was heavily affected by the sea level rise caused by climate change. Of course, on some islands, the impacts on fishing villages along the coast are severe. However, it was explained to me that the water within an atoll was shallow, and land could be created easily through dredging and landfill, which I hadn’t known. The new city center island, which had been built that way, was neatly arranged in areas designed for different purposes, including an area full of high-rise apartments and an area slated to host IT companies. To pay for the development of these islands, the previous Gayoom administration had borrowed a lot in commercial loans from the PRC. Some have criticized that move.

Maybe because it was at a moment when I knew that my time at ADB was coming to an end (before announcing my intention to resign in September), the sea breeze felt particularly refreshing as we moved from island to island on a motorboat.

**Pakistan**

Pakistan and Afghanistan geographically belong to South Asia but in ADB are handled by the Central and West Asia Department. Pakistan was part of British India until it separated from India and became independent in
1947. Afghanistan was also a British protectorate, from the latter half of the 19th century to the early 20th century. Both have sophisticated cultural and agricultural traditions, and Pakistan’s Mohenjo-daro is listed in history textbooks as a World Heritage Site for the Indus Valley Civilization.

Pakistan is a large country with a population of 210 million, but GDP per capita is $1,500 and the growth rate has been around 3–5% since 2013. Both of these figures are below those of India. The country’s potential has not been fully realized. As for social indicators, the primary education enrollment rate is low, at 77%, as is the adult literacy rate, at 57%. The maternal mortality rate is 12 times the OECD average, and the child mortality rate is 11 times the OECD average, indicating underdevelopment. There are also large disparities between cities and rural areas, and there are many challenges in rural tribal societies in terms of the position of women. Pakistan shares a long border with Afghanistan, and there are occasional terrorist incidents by extremist groups. While the agricultural population still accounts for 42% of employment, recently the textile industry has grown to account for 56% of exports, thanks to private sector-driven economic growth.

Partly because of its conflict with India, the military has traditionally had a strong presence in politics. In the past, the military has often overthrown civilian governments and established military rule. This has led to frequent changes in government. Pakistan has often found itself in balance-of-payments crises and had to rely on the IMF’s emergency assistance. Looking at the past two decades, in 1999, Chair of the Joint Chiefs Pervez Musharraf took over the government in a bloodless coup. He transferred the government to civilian rule in 2001, but he himself became President. In 2008, there was a general election for the lower house of the Parliament, and, after some twists and turns, President Musharraf resigned in the same year.

Amid the growing democratic momentum, Yousaf Raza Gillani of the Pakistan People’s Party, who had been imprisoned for 5 years under the Musharraf administration, became Prime Minister and, in the transition to the parliamentary cabinet system in 2010, he became a leader in direct control of the executive branch. In the general election for the lower house of the Parliament in May 2013, the Pakistan Muslim League (Nawaz) triumphed and Nawaz Sharif became Prime Minister for the third time, after being ousted 14 years earlier. It is encouraging to see that recent changes of government have been based on democratic elections.
Pakistan is a founding member of ADB and, by the end of 2019, ADB had provided $32.8 billion in sovereign loans (a combination of regular and concessional loans) and $1 billion in loans to the private sector. The main areas are agriculture, water resources, energy, roads, and urban infrastructure. This includes a 2019 policy-based loan totaling $1.8 billion, which is described below.

I visited Pakistan in September 2014 and October 2016. The capital Islamabad is located in a hilly area in the north, and the average high temperature in June is very hot, at 38 degrees Celsius. In September, the temperature rises to about 33 degrees during the day but cools down to around 20 degrees. It is a beautiful, green city with a view of the mountains nearby. However, the security in the city is quite tight, to prevent terrorism. I stayed at the Serena Hotel run by the Aga Khan Fund, which is involved in a wide range of businesses and higher education in Central Asia. There happened to be a wedding party that night, with many men and women dressed up in Western-style suits and dresses in the hotel courtyard, and loud music and chatter went on until late at night. This is a country that does not allow people to drink alcohol, but the way people enjoy themselves is not that different from country to country.

During my visit in 2014, Minister of Finance Ishaq Dar kindly acted as my guide. He had been serving in this role since 2013, and I had met him several times at ADB annual meetings and on other occasions. Born in 1950, he was very close to Prime Minister Sharif, and he had served as minister of finance before in the 1990s and the 2000s. He always had a pocket handkerchief in his suit jacket and was as good-looking as a movie actor. I met with Prime Minister Sharif and exchanged views on a wide range of topics related to ADB’s cooperation with Pakistan. I was also invited to lunch at the official residence of President Mamnoon Hussain. The President in Pakistan is the head of state and plays ceremonial roles. With Ashraf Mahmood Wathra, governor of the State Bank of Pakistan (the central bank), and Ahsan Iqbal, minister for planning development and reforms, I discussed Pakistan’s growth strategy, Vision 2025.

On this trip, I took a helicopter to see a poverty reduction cash transfer program in a rural village in Punjab, run by the government and supported by ADB. Because women have been found to spend money more wisely, the system was designed to give cash cards specifically to women in poor households so they could withdraw money. I talked with women who were benefiting from this program.

After this, I visited the nearby World Heritage Site of Taxila and saw a Buddhist monastery that had been built before Christ and a museum.
that had coins and treasures from the Gandhara period. I was particularly interested in the ancient makeup tools and frying pans, which were basically identical to the modern ones.

As I always did on my trips, I met with the staff of ADB’s field office and held a press conference. I also attended a reception hosted by Country Director Werner Liepach, with dozens of invited guests from the government and diplomatic missions. I spoke with representatives of the World Bank and JICA, and I was pleased to find that ADB was playing a leading role in the local aid community.

The purpose of my visit to Pakistan in October 2016 was to attend the Ministerial Conference of the Central Asia Regional Economic Cooperation (CAREC) program. CAREC is led by ADB and Pakistan is a member. As on the previous trip, I met with Prime Minister Sharif, relevant ministers, and the central bank governor. At that time, the growth rate, inflation rate, and exchange rate were stable, and foreign exchange reserves were increasing. I congratulated the Pakistanis on the full disbursement of the IMF’s 21st assistance program after all of the conditions had been met. Usually, funds of an IMF assistance program are disbursed in stages over several years as different conditions are met. This was the first time that an IMF program had ended successfully in Pakistan all the way to final disbursement. Exchanges of views with private bank executives and foreign aid officials were also helpful. I met with Managing Director Christine Lagarde of the IMF, who was also visiting Pakistan, and talked about the importance of the role of the IMF in Pakistan and its cooperation with ADB, as well as the situation in the Philippines and Viet Nam.

After that, in August 2018, Imran Khan became Prime Minister through the general election. Mr. Khan is very popular and a national hero, who, as a cricket player, led Pakistan’s national team to win the World Cup. After entering politics, he won a seat in the National Assembly as chair of the political party Pakistan Movement for Justice. As was often the case with Pakistan, macroeconomic management had loosened before the election, and the fiscal balance and balance of payments became problematic again. After Prime Minister Khan’s inauguration, Pakistan agreed with the IMF to its 22nd IMF support program in July 2019. The IMF has committed a total of $6 billion in support over 3 years, and, based on this, Pakistan has been promoting economic reform, eradication of corruption, and counter-terrorism measures. The Pakistani government has said that it would like to make this the last IMF program. I have also met with the ministers of the new administration at ADB’s annual meetings and the IMF/World Bank conferences in Washington, D.C.
To support the economic reform of the new administration, ADB decided to provide a total of $1.8 billion in policy-based loans in 2019 alone. This consisted of $1 billion in Special Policy-Based Lending linked to the IMF program, a $500 million ordinary policy-based loan under concessional terms to promote trade and enhance competitiveness, and a $300 million loan for energy sector reform.

Since $1.8 billion was quite a large sum to provide to a country in a single year, I called Director General of the Central and West Asia Department Werner Liepach (formerly country director of Pakistan) and other staff to my office at an early preparation stage to discuss the issue. ADB’s Special Policy-Based Lending scheme was established in 1999, immediately after the Asian currency crisis. While ADB’s regular policy-based lending can be used to provide fiscal support in the event of an emergency, Special Policy-Based Lending is designed to provide emergency assistance to prop up foreign exchange reserves in a balance-of-payments crisis through cofinancing with the IMF. The interest rate is higher than normal, and the repayment period is set to a short 3 years. The scheme had not been used before. To proceed with these large loans to Pakistan, I confirmed that (i) in addition to the government, the IMF was seeking ADB’s support to the tune of $1.8 billion and the IMF was ensuring that appropriate economic policy would be implemented; (ii) the funds provided would not be used to repay loans on commercial terms from the PRC and other countries; and (iii) ADB’s financial risk was acceptable. Regarding the last point, we considered the fact that Pakistan’s repayment of previous ADB loans had risen to about $800 million a year, so the net disbursement in the new loans would be smaller than it might have appeared.

Afghanistan

Afghanistan is a larger country than many think it is, with a population of 37 million as of 2018. However, its per capita GDP, at $550, is the lowest among ADB members. It is a multiethnic nation where Pashtuns account for 42% of the population, Tajiks 27%, and others 30%. Fiscal deficits, partly owing to security costs, and trade deficits, which account for 30% of GDP, are basically covered by grant aid from donor countries and ADB, among others. The primary education enrollment rate is 56% and the adult literacy rate is 55%, the lowest among ADB members. Maternal mortality is 22 times the OECD average, and child mortality 12 times the OECD average. Although Afghanistan joined ADB as a founding member in 1966, its history has been filled with hardships and struggles.
The current situation in Afghanistan cannot be understood without knowing the historical background, so I would like to briefly look at its long history.

In the prehistoric age, Afghanistan was a developed region that had exchanges with the Indus Valley and Mesopotamia civilizations. There are even artifacts from around 2,000 BC, such as bronze ware and building structures. It was ruled by the Persian Achaemenid Empire in the sixth century BC but was also influenced by Alexander the Great and Greece. Gandhara, famous for its Buddhist art, is a region that spans eastern Afghanistan and western Pakistan, and there was a flourishing kingdom there in the second century BC. Subsequently, it became an area where various ethnic groups and forces crossed paths, including the Islamic Empire, Mongolia, Timur, the Safavid dynasty of Persia, the Mughal Empire, and the Ottoman Empire.

A Pashtun kingdom was established in the early 18th century, but in the 19th century this became the stage for the so-called “Great Game,” whereby Britain and Russia competed for dominance. In 1880, it became a British protectorate. In 1919, after World War I, it won independence after the Third Afghan War against the British, and in 1926 it declared itself the Kingdom of Afghanistan. Under King Mohammed Zahir Shah, whose rule began in 1933, it maintained neutrality during World War II and enjoyed a relatively stable period.

Subsequently, however, it entered a long period of internal strife. In 1973, Mohammed Daoud Khan, Prime Minister and a former member of the royal family, staged a coup to banish King Zahir Shah, who was abroad receiving medical care. This was followed by the repression of Muslims, formation of a socialist regime through a coup in 1978, a Muslim counteroffensive known as the Afghanistan Conflict, and a military invasion by the Soviet Union in 1979. After the withdrawal of Soviet forces in 1989, Afghanistan plunged again into a civil war; this was followed by the occupation of Kabul by the Taliban in 1996; attacks by the US military in October 2001 on the Taliban regime, which was said to have harbored Al Qaeda, the group led by Osama bin Laden and responsible for the terrorist attacks in the US on 11 September 2001; and the retaking of Kabul by the Northern Alliance.

In December 2001, under the Bonn Agreement supported by the United Nations, a decision was made to establish the Afghan Interim Authority (led by Chair Hamid Karzai) and the International Security Assistance Force. In January 2002, the International Conference on Reconstruction Assistance to Afghanistan was held in Tokyo. Many countries and international organizations participated and announced their
commitment to offering financial assistance for reconstruction. Japan made a commitment to provide $500 million over 2 years. I remember this well because, as a budget examiner in charge of the Ministry of Foreign Affairs in the Japanese Ministry of Finance, I assessed the supplementary budget request from the Ministry of Foreign Affairs for this contribution.

In June 2002, an emergency *loya jirga* (grand assembly) was held and Hamid Karzai was elected President. The third presidential election, starting in April 2014, ended in the country’s first democratic transfer of power, and Ashraf Ghani became the second President. However, terrorist attacks by the Taliban and other forces continue to this day, and normal economic management and infrastructure development remain a challenge.

Even under such difficult conditions, ADB has an office in Kabul and has committed a cumulative total of $4 billion in grants from the ADF to support the development of roads, power distribution networks, and agriculture, among others. However, ADB’s staff cannot go directly to project sites, owing to local security issues, and they must rely on the government and local consultants for project implementation. Given these limitations, project implementation tends to be slow.

I wanted to travel to Afghanistan as soon as possible, as I wanted to encourage and show my appreciation to the staff of the Kabul field office. I was able to visit Afghanistan on 5 March 2014. Initially, we planned to stay 1 or 2 nights, but on advice from ADB’s security experts that the President’s party could be the target of a terrorist attack, we decided on a brief visit. I arrived on a flight from Dubai at 7 a.m. and flew out to Dubai at 6 p.m. Just a month and a half before then, more than 20 people had been killed when a restaurant with a large number of foreign guests was bombed.

Five international and 27 local staff members worked at the Kabul field office. Under ADB’s internal rules for Afghanistan, international staff were not allowed to bring family members, and they lived in a residential space attached to the office surrounded by thick concrete walls. In addition to the government security force who kept guard, Gurkha soldiers, employed by ADB, were on the roof with machine guns, keeping watch on the premises. I went up to the roof too. It was a sobering experience to see this difficult reality. I thanked the staff, who were working with great discipline in these challenging living and working conditions for the reconstruction of Afghanistan.

The planned meeting with President Karzai had to be canceled as he had to leave the country at short notice, but I met with Vice-President Mohammed Fahim, Finance Minister and former Canadian university
professor Omar Zakhilwal, and Deputy Finance Minister and former medical doctor Mohammad Mastoor to discuss how to move ADB projects forward. The minister and the deputy minister were both fluent in English, and our discussions went well. Deputy Minister Mastoor was a youthful, mild-mannered gentleman. Subsequently, I had many more occasions to meet him, at ADB’s annual meetings and at ADB’s headquarters in Manila. The deputy minister said that he was a member of the Kabul Golf Club and that we should play together sometime. I thought that, no matter what the circumstances, people live their normal lives to the extent possible.

To compensate for the fact that I couldn’t visit the country so easily, I also met with Finance Minister Eklil Ahmad Hakimi, who was appointed in February 2015, and Finance Minister Mohammad Qayoumi, who was appointed in April 2018, during various international conferences, and discussed ADB’s assistance.
CHAPTER 9

CAN CENTRAL ASIAN COUNTRIES OVERCOME THE CHALLENGES OF LANDLOCKED, RESOURCE-RICH COUNTRIES?

Overall Impressions

Eight Central Asian countries are members of ADB and covered by the Central and West Asia Department at ADB: Kazakhstan, Uzbekistan, Azerbaijan, the Kyrgyz Republic, Turkmenistan, Tajikistan, Armenia, and Georgia, in the order that I visited. In this chapter, I will also discuss Mongolia, which is under the purview of the East Asia Department at ADB and has common characteristics with Central Asian countries as a landlocked, resource-rich country and a country heavily affected by the decline in resource prices. Among these countries, before I became ADB President, I had only been to the Kyrgyz Republic, as a part of an International Monetary Fund (IMF) mission in 1995/96, and I had never visited the other countries (except Kazakhstan, in transit to the Kyrgyz Republic). I was truly fortunate to have been able to visit these countries, to see the actual economic and social conditions, and to learn the long history and culture that have connected Eastern and Western civilizations.
In Central Asian countries, people’s ethnicity and their facial features vary along a spectrum. They resemble those of East Asians and Mongolians as you go east, and they look more Persian, Turkish, and European as you go west. In terms of religion, Georgia and Armenia, which are in a region known as the Caucasus, each has its Orthodox Christian Church; the others are basically Islamic countries. Many countries have a history marked by war and turmoil, in which various ethnic groups and civilizations have crossed paths and clashed. Even before the region flourished under the Silk Road trade, it had been connected with Mesopotamia, Persia, Greece, and Macedonia.

All eight Central Asian countries were republics under the Soviet Union but, after its collapse in December 1991, they became independent, and they all cherish their identities. They have a differing sense of distance from the Russian Federation, the EU, and the People’s Republic of China (PRC). There are many Koreans in the Kyrgyz Republic and Kazakhstan who were forced to move from the Far East just before World War II, and many Korean companies are entering this region. When I traveled to Central Asia, I often went through the Middle East but, because there are many non-stop flights from Incheon, I sometimes went through the Republic of Korea (ROK). I had traveled to the Kyrgyz Republic several times in 1995 and 1996 when I was working at the IMF to develop an IMF support program. My counterpart, a director at the central bank, was a woman of Korean heritage named Kim. She did not know the meaning of Kim, and she was very pleased when I told her that it meant “gold.”

When I visited the Central Asian countries, I realized how peaceful Japan had been throughout its history compared with other countries, except for the turmoil, wars, and disruptions before and during World War II. As an island country, Japan has never been invaded by foreigners, although there were two failed attempts by the Mongols during the Yuan Dynasty period. It is also highly homogeneous in terms of ethnicity. In addition, Japan has no history as an empire that has ruled vast territories, like the PRC, Türkiye, Persia, the Mughal Empire, and the Islamic Empire. Because of this history, the Japanese have a naturally formed mutual trust among themselves, but they are perhaps not very good at engaging with foreign people or gaining insight into complex international relations.

Although the eight Central Asian countries gained their independence, many suffered from the breakdown of production networks and political turmoil after the collapse of the Soviet Union. They are now promoting open market policies and building trade relations with the Russian
Federation, Europe, the PRC and others. The Kyrgyz Republic saw some domestic ethnic conflicts, which led to several hundred deaths in 2010, but is now stable. Countries in this region are often criticized for their authoritarian regimes and problems with the freedom of speech and association. However, in meetings with Uzbekistan’s President Islam Karimov, Kazakhstan’s President Nursultan Nazarbayev, and other leaders, I was able to learn of the difficulties they faced in preventing extremists from gaining power and maintaining social stability while trying to grow the economy, given the countries’ complex ethnic and tribal makeup.

Many Central Asian countries and Mongolia are endowed with natural resources such as oil, coal, gold, and copper, and the PRC’s growth policy continued to benefit them after the global financial crisis. However, the subsequent fall in resource prices and economic sanctions against the Russian Federation for its invasion of Ukraine led to balance-of-payments crises in Kazakhstan and Azerbaijan, and they received assistance from the IMF and ADB. Recently, the regional economy has regained its stability, and Central Asia as a whole is growing at about 4.5% per year. For landlocked countries such as those in Central Asia, it is difficult to grow by exporting industrial products by sea. They must instead diversify into high value-added agriculture such as fruits; manufacturing of IT and precision products that can be transported by air; finance; and tourism.

It may be too strong an expression, but the “resource curse” is often mentioned in this context. First, countries with abundant natural resources tend to have relatively high-valued currencies because of their exports, which makes it difficult for manufacturing and other industries to be competitive. This is the so-called “Dutch disease.” Also, changes in resource prices greatly affect economic and fiscal conditions, often leading to unstable macroeconomic management. Moreover, natural resource production tends to create less employment than other industries, and the benefits tend to go disproportionately to the privileged class, making broad-based sustainable growth difficult. Corruption and other problems are also common in natural resource industries.

However, an abundance of natural resources is not necessarily a curse. In Australia, mineral resources such as coal and iron ore account for 60% of exports, but service sectors such as education and tourism are also highly competitive. The country is said to have achieved more balanced growth. Of course, Australia is an English-speaking country with a tradition of British education, and is well endowed in terms of tourist resources. Still, its strong governance has contributed to its balanced growth.
ADB started the Central Asia Regional Economic Cooperation (CAREC) initiative in the late 1990s, and officially launched the program in 2000, with ADB serving as its secretariat. As mentioned above, the collapse of the Soviet Union in 1991 disrupted the division of labor and supply chains in this region and created chaos. It was against this background that CAREC was created. The number of members has gradually increased, and it now consists of seven of the eight Central Asian countries, excluding Armenia, plus Pakistan, Afghanistan, Mongolia, and the PRC (the Xinjiang Uighur and Inner Mongolia autonomous regions). Partners include the World Bank, the European Bank for Reconstruction and Development (EBRD), the IMF, and bilateral aid agencies such as the Japan International Cooperation Agency and the United States Agency for International Development.

CAREC has been developing long-term plans for energy, roads, railways, and other sectors, and promoting joint projects to enhance connectivity and develop border facilities to promote cross-border trade and investment within the subregion. Recently, it has been promoting the exchange of knowledge and cooperation in areas such as macroeconomic stability, education, health, and tourism. In 2017, the CAREC Institute was established in Urumqi, the PRC, and I attended its inaugural ceremony. It is not easy to form a unified economic zone in this subregion, given the rivalry among the countries, conflicts of interest in water resources, and the lack of direct flights between the countries, among other factors. Still, CAREC is building a track record of cooperation and a relationship of mutual trust. I regarded participating in the annual ministerial conference as an important task of mine at ADB.

Kazakhstan

Kazakhstan was the first Central Asian country I visited after becoming ADB’s President, in October 2013. ADB had planned to hold its annual meeting in Astana in May 2014, so I met with Minister of Economic Development Erbolat Dosaev, who was in charge of the meeting, and visited the majestic, newly built international conference hall. I also attended the CAREC Ministerial Conference. The youthful Minister Dosaev was born in 1970 and, after graduating from the National University of Science and Technology in Moscow, became the CEO of a state-owned bank holding company. Central Asian countries are served by many young ministers who studied science and technology during the Soviet era and subsequently economics. A growing number of them have studied in the US.
Kazakhstan has a population of just 18 million, but it is the third-largest country in Asia after the PRC and India. It is also the largest landlocked country in the world. In addition to oil and natural gas, it has the world’s largest uranium mine in terms of production volume, and high gross domestic product (GDP) per capita, of $10,000. Soviet traditions mean the literacy rate is 100%, and health indices are about the same as the Organisation for Economic Co-operation and Development (OECD) average.

Kazakhstan joined ADB in 1994, and by the end of 2019 it had borrowed $4.7 billion in sovereign loans and $500 million in nonsovereign loans in areas such as roads, the financial sector, and solar power generation. In particular, in 2015, ADB provided a $1 billion loan to fill fiscal revenue shortfalls caused by the rapid decline in resource prices. This was a special policy-based loan called the Countercyclical Support Facility, and had a high interest rate and a short repayment period. At that time, the World Bank also supported Kazakhstan with a $1 billion loan.

The capital used to be Almaty, a major point on the historic Silk Road, located on the southern edge of the country. It was moved to Astana in the central region in 1997. When I was in charge of assistance to the Kyrgyz Republic at the IMF from 1995 to 1996, I went to this country by car via Almaty several times because commercial airlines were not flying to the Kyrgyz Republic back then. Even at that time, Almaty was a lively...
city with functional subways, so I wondered why they moved the capital to Astana, which gets extremely cold in the winter. It actually is the second-coldest capital in the world after Ulaanbaatar. Astana was a place where many Russians settled during the Soviet era, and the majority of the city’s population had been Russian. Astana’s master plan was designed by Kisho Kurokawa, a famous Japanese architect, who won a competition to do so, and the streets and buildings look futuristic. The city’s population has increased from 200,000 at the time of independence in 1991 to 1 million. In 2019, the capital was renamed Nur-Sultan after President Nursultan Nazarbayev, who retired in the same year.

On 30 April 2014, the day before ADB’s annual meeting, I met with President Nazarbayev to discuss the Kazakhstan 2050 Strategy, which is designed to make the country one of the world’s top 30 most developed nations by 2050. Mr. Nazarbayev was born in 1940 and became the First Secretary of the Communist Party of the Kazakh Soviet Socialist Republic in 1989. When the country became independent, he won the presidential election in 1991 and served as the head of state from then. In 2019, he suddenly announced his resignation and was succeeded by Mr. Kassym-Jomart Tokayev, who was the chair of the senate at the time. Many former Soviet Union countries have leaders who continued in their positions after the Soviet era, but they are not necessarily pro-Russian. Rather, many of them emphasize their own national identity. Among Central Asian countries, Kazakhstan has the largest proportion of people with Russian heritage, at around 20% of the population. However, efforts are underway to change the writing system from the Russian Cyrillic alphabet to the Roman alphabet.

ADB’s Annual Meeting in Astana was a success, with a speech by President Nazarbayev and 3,000 participants. At the opening ceremony, a ballet performance was performed against a background of original poetry and music on the theme of nature. It was very sophisticated. In November 2019, I revisited Kazakhstan after a trip to Uzbekistan and met President Tokayev. I also met Mr. Dosaev, who had become governor of the central bank, and renewed our friendship. In addition, I visited an energy-efficiency project designed to reduce automobile warm-up.

Uzbekistan

I visited Uzbekistan three times during my term as ADB President. The country has the largest population in Central Asia, at 34 million, and its
GDP per capita is $1,600. The economy is supported by gold production, but the government is also trying to shift its agriculture away from cotton cultivation—which Russia had forced on the country since the 19th century—to the production of higher-value wheat, rice, and fruits, taking advantage of the rich soil. In 2017, the government made major reforms by changing the exchange rate system from the official fixed exchange rate to a floating rate, and liberalizing domestic prices. As a result, the exchange rate declined rapidly from an average of 3,000 som per dollar in 2016 to an average of 8,500 som per dollar in 2019. It has since stabilized, and the results of market-oriented reforms are beginning to emerge.

Uzbekistan joined ADB in 1995 and received more than $1 billion in loans each year from 2017 to 2019. ADB’s assistance covers a wide range of areas, including rural roads, housing, railways, water supply and sanitation, fruit farms, livestock production, and health-care systems. To support the economic reform that began in 2017, ADB provided two $300 million policy-based loans, one in 2018 and another in 2019, in a cofinancing arrangement with the World Bank, which similarly provided two $500 million loans. Uzbekistan had stopped working with the EBRD after the latter’s 2003 Annual Meeting in Tashkent, when issues related to freedom of the press and human rights in Uzbekistan were raised. However, the EBRD started extending loans again in 2017. I had advised both the EBRD’s President Sir Suma Chakrabati and the government that the resumption of cooperation would send a very good message to the international community.

The first time I visited Tashkent, Uzbekistan’s capital, was in November 2013. My meeting with President Islam Karimov lasted an hour and a half including interpretation, much longer than planned. The President said that the challenge for Uzbekistan, a country that borders Afghanistan, was to avoid the intrusion of extremism and to continue to be a moderate Muslim country. Since becoming first secretary of the Communist Party in 1989, he continued to serve as head of state, becoming President after the country’s independence in 1991. He suddenly passed away in September 2016 after a brain hemorrhage.

President Karimov was known for his affinity for Japan. I was told that, as a child, he learned from his mother of the diligence of the Japanese soldiers, who had been detained in prisoner of war camps after World War II. The Navoi Theater, built by the Japanese soldiers, is famous for withstanding the 1966 earthquake. On a plaque commemorating the building’s survival in the earthquake is written, by the instruction of President Karimov, “[built] by the people of Japan who had been forcibly transferred” instead of “[built]
by Japanese prisoners of war.” I visited the Navoi Theater and the cemetery of the Japanese soldiers who had died in detention. I imagined how sad and disappointed they had been to die in Central Asia, so far from home. At the same time, I appreciated the fact that the cemetery had been managed with care.

When I visited Uzbekistan in November 2013, I arrived in Tashkent via Bangkok before 2 a.m. To my surprise, I was greeted there by Finance Minister Rustam Azimov, who is 2 years younger than I am. He also accompanied me to a railway school supported by ADB, and to an experimental facility that had been built in the Soviet era, where sunlight was collected on a hill with huge lenses to melt metal. He told me that he had originally majored in engineering and economics; after independence, he went to the US for further study but was called back home shortly thereafter. He is fluent in English and holds a doctorate in economics. We talked throughout the time we spent in the car, on topics ranging from the world’s power balance to his adoption of a child. I’m not sure whether it was he who said it, but I remember someone saying that President Karimov knew the most about the problems of communism precisely because he had been the top leader of the Communist Party in the Soviet era. I met Minister Azimov several times after that. He is a friendly and affectionate person.

When I revisited Uzbekistan, at the end of February to early March in 2017, I met Shavkat Mirziyoyev, who had been vice-president and had assumed the presidency in the previous year. We spent an hour and a half discussing the new policy of the President to promote reform and open up the economy, ADB’s cooperation in Uzbekistan, and international issues. In a housing project outside Tashkent, the family of a police officer showed us their small but conveniently built house. In addition, Finance Minister Botir Xo‘jayev accompanied me on a high-speed train ride to Samarkand, where we visited a juice factory and a furniture factory, both of which ADB supported. We then visited a traditional blacksmith and an embroidery shop in Bukhara, which were beneficiaries of microloans supported by ADB. The juice factory in Samarkand used large machinery imported from Europe to produce apple, apricot, and other juices for the European market.

Samarkand and Bukhara flourished on Silk Road trade until the geographical discoveries in the 15th century by Europeans (when sea transportation began to be dominant), and they boasted world-class science and technology at the time, as symbolized by Samarkand’s famous Ulugh Beg observatory. The mausoleums decorated with mosaics, the towers, and the beautiful streets are well preserved, and I thought they would be very important tourist resources in the future as the government pursued a policy
of opening the country to the outside world. A local senior official who was riding in the car with me said that, during the Soviet era, the furniture and roofs in ordinary homes had standard designs, and decorating the house had been banned. He quietly added that Uzbeks at the time had been doubly oppressed by communism and by Russia.

On my third visit to Uzbekistan, in November 2019, I attended the Ministerial Conference of CAREC and met President Mirziyoyev again. I offered my respect for the fact that the open-door policy under President Mirziyoyev had improved relations with neighboring countries and led to increases in tourist numbers and investment from foreign countries.

Azerbaijan

ADB’s Annual Meeting in May of 2015 was held in Baku, the capital of Azerbaijan. I visited Azerbaijan for the first time in November 2014 in part to see the status of its preparations. The population is 10 million and GDP per capita is $5,000. Both the GDP and exports are overwhelmingly dependent on oil. Meanwhile, 35% of the population is engaged in agriculture, and there are many poor rural villages. Azerbaijan joined ADB in 1999, and ADB is supporting the development of railways, power transmission networks, and gas fields. As for private sector operations, ADB committed a $500 million loan in 2016 to the development of the Shah Deniz gas field. As in Kazakhstan, the decline in oil prices forced a significant depreciation of the local currency and, owing to a lack of fiscal revenue, the government borrowed $500 million from ADB in 2016 to address economic fluctuations.

I was able to decide without hesitation to provide an emergency loan of $500 million, which was very large compared with the size of the economy and would be disbursed immediately, because I trusted the sound macroeconomic management of Finance Minister Samir Sharifov, whom I had met several times at ADB’s annual meetings. Azerbaijan, like many other resource-rich countries, has a so-called sovereign wealth fund that is used to invest in foreign and other assets so as to leave oil revenues for future generations. Minister Sharifov was cautious about using this fund to provide fiscal support in response to the fall in oil prices and recessions. In other words, he believed that, in terms of maintaining fiscal discipline, it was better to borrow from ADB with the condition of implementing certain reforms. He is 5 years younger than I, and had studied in Kiev, Ukraine. He has been serving as finance minister since 2006.

Regarding Baku, my knowledge of the city had been limited to what I had learned in world geography at high school—that it had a large oil field.
When I actually went there, I was amazed by the city’s history and culture. Baku is a beautiful city facing the Caspian Sea, and I had a great view of the water from the hilltop hotel where I stayed. The oil field was developed by Russia beginning in the late 19th century. Subsequently, the British company Shell held the interests until the Soviet Revolution, and competed against Standard Oil, which had oil fields in Pennsylvania and Texas. The city of Baku is packed with luxurious buildings dating from the beginning of the 20th century. In the Soviet era, oil prices were depressed, investment was insufficient, and people’s incomes were low. However, income levels have increased tenfold since 2001, and the city has been beautified. In January 1990, just before the collapse of the Soviet Union, the military fired on protesters and killed as many as 150 citizens, including women and children. The cemetery of the fallen patriots, which I visited, has an eternal flame that continues to illuminate the memorial to this day.

On my first visit to Azerbaijan, in November 2014, I paid a courtesy call to President Ilham Aliyev and discussed how resource-rich countries could diversify their industry. President Aliyev’s father, Heydar Aliyev, had been leader of the country after being first secretary of the Communist Party and continued as President in post-independence Azerbaijan. When his health failed, he appointed his son as his successor, and President Ilham Aliyev has been in his position since winning the presidential election in 2003. He speaks English articulately. Once, in Davos, I was in the first row as an audience member at a discussion in which President Aliyev was a panelist. I greeted him after the session ended.

ADB’s Annual Meeting in Baku was held in May 2015. President Aliyev delivered a speech at the opening ceremony. The international conference hall and the venue of the reception were also impressive, and the annual meeting was well received. After the annual meeting, I had an entire day open until my midnight flight back to Manila via Doha. So, I visited the rock art of Gobustan, a World Heritage Site that is estimated to be 5,000 to 20,000 years old; a Zoroastrian temple where fire was enshrined in the middle of the premises; and the Palace of the Shirvanshahs in Baku. They were all very impressive.

The Kyrgyz Republic

I visited the Kyrgyz Republic in November 2014. As of 2018, the population was 6.3 million and GDP per capita was $1,300, lower than in other Central Asian countries. Gold accounts for 40% of exports, but there are no petroleum
resources. The country depends on remittances from citizens working in the Russian Federation and other countries that account for 25% of GDP. If the Russian economy declines as a result of sanctions by Europe and the US, this also affects the Kyrgyz Republic. ADB provides assistance in a wide range of areas, including roads, hydroelectric generation, and water supply and sanitation.

This was my first visit to Bishkek, the capital, in 20 years, but I felt that the city had not changed much. I met with President Almazbek Atambayev, Prime Minister Djoomart Otorbaev, Minister of Economy Temir Sariyev, and Finance Minister Olga Lavrova. They asked ADB to continue lending under as concessionary terms as possible. I attended the CAREC Ministerial Conference. Then, guided by Rie Hiraoka, ADB’s country director, I visited a facility on the border with Kazakhstan being developed with ADB’s assistance. ADB supports the development of an economic corridor linking Almaty and Bishkek.

Prime Minister Otorbaev resigned the following year. He was born in 1955 to parents who were both scholars. He himself is an intellectual who obtained a PhD in physics from Saint Petersburg State University during the Soviet era. Subsequently, I saw Mr. Otorbaev at the Emerging Markets Forum in Washington, D.C. hosted annually by the Centennial Group led by Harinder Kohli, formerly of the World Bank. We exchanged views on the relationship between democracy and economic development among other topics.

Turkmenistan

I visited Turkmenistan for the first time in September 2016. Although the population is just 6 million, abundant natural gas resources account for the majority of exports, and GDP per capita is $7,800. Turkmenistan joined ADB in 2000, and ADB has been supporting its railway projects. ADB is also supporting a project to build a natural gas pipeline, known as TAPI, linking Turkmenistan, Afghanistan, Pakistan, and India, with private funds.

In the capital city of Ashgabat, I met President Gurbanguly Berdimuhamedow, who has been in his position since 2006, as well as key ministers and the central bank governor, who was in charge of cooperation with ADB. The President said that cooperation with Afghanistan, with which Turkmenistan shares a long border, was important for the country and that, in the joint power project with Afghanistan, it had been able to deter terrorist attacks by firmly engaging local residents. I visited Turkmenistan again in
November 2018 to attend the CAREC Ministerial Conference. During my second meeting with the President, we talked about how the country would cooperate with the PRC’s Belt and Road Initiative and how to protect the environment of the Aral Sea, which is in danger of disappearing.

During my trip in September 2016, I was shown the ruins of Nisa built by the Parthian Empire of ancient Iran, which flourished from the third to the second century BC, as well as a museum that had coins and other artifacts excavated there. They were magnificent. The Parthian Empire was strongly influenced by Greece and fought head-to-head with the Roman Empire. A museum with a collection of carpets with varied decorations from different regions and a stable of Turkoman horses were also interesting. At the United Nations General Assembly in 1995, Turkmenistan declared permanent neutrality. As an extension of the principle of neutrality, it has taken a policy of restricting interactions with foreign countries. However, I felt that the world should know more about its rich historical assets.

**Tajikistan**

I went to Tajikistan in October 2017. The country’s population is 9.5 million, and it is not rich in mineral resources. GDP per capita is the lowest among Central Asian countries, at $900, and the remittance of workers from overseas, equivalent to 35% of GDP, contributes to the government’s revenue and the balance of payments. However, the literacy rate is 100% and absolute poverty is low. Recently, the economy has been growing at around 7% every year. ADB provides assistance in several areas, including roads, water resources, disaster prevention, and health. Most of Tajikistan’s land is rocky or icy mountainous terrain at an altitude of 3,000 meters, where trees do not grow. Originally, Tajikistan was part of the Khanate of Bukhara, based in Bukhara, Uzbekistan. The Tajiks, an Iranian ethnic group, argue that they were the lords of Bukhara and Samarkand. The country has a long border with Afghanistan in the south, and the Tajiks account for 25% of the population in Afghanistan.

This trip to Tajikistan was the hardest in my experience. I left Manila at midnight on Monday 23 October, arrived in Dubai at 4:30 a.m. (local time) on 24 October, and left Dubai at 10:30 p.m. after spending time at a hotel in the airport building. Finally, I arrived at Dushanbe Airport in the capital of Tajikistan at 3 a.m. on 25 October. I went to sleep at 5 a.m. and woke up at 9 a.m. At 11 a.m., we got on a very loud military helicopter that could accommodate only three passengers in addition to the two pilots, and landed on the shores of Sarez Lake, 400 km away, at an altitude of 3,300
meters. We toured the lake and ate deep-fried trout cooked by a military unit monitoring the lake in a tent in a temperature of 0 degrees Celsius. We took the helicopter again and flew over a river bordering Afghanistan, then took a break after landing at a village in the mountains. We then toured the Nurek hydropower plant, which was supported by ADB, before returning to the capital at 6 p.m.

Then, from 7 p.m. to 9:30 p.m., I had dinner with Deputy Prime Minister Davlatali Said. I had thought this was a social occasion, but it turned into a serious negotiation about the possibility of ADB’s assistance for a road project. For dinner, they served a 10 course menu starting with cold smoked meats (this alone would have been enough for dinner), two kinds of dumplings, lamb kebabs, beef steaks, sautéed freshwater fish, skewers of quail meat, and pilaf with sheep meat and fat at the end. It was the most luxurious dinner I ever had. In Central Asia, there is a custom of offering lavish feasts to entertain guests. The dishes were all very delicious, but unfortunately I could not enjoy them fully, because I was engaged in difficult conversations while eating.

Sarez Lake was created when a landslide during a major earthquake in 1911 dammed the Amu Darya River. It is 75 km long and has a depth of several hundred meters. If a major earthquake occurs again and the dam collapses, it will cause great damage downstream in Tajikistan, Afghanistan, Uzbekistan, and Turkmenistan. On the other hand, if the water is used skillfully, it will be possible to generate electricity while letting the water drain, and to supply water for agriculture at the same time. For this reason, the government is hoping to receive assistance from the World Bank and ADB. Neither the ADB country director nor Mr. Ikeda, my chief advisor, could ride the helicopter to the lake because of its limited space; only Mr. Sean O’Sullivan, ADB’s director general for Central and West Asia, and Minister of Foreign Affairs Sirojiddin Muhriddin accompanied me on the tour. It was a rare and interesting experience, but the travel distance was long and the differences in atmospheric pressure and temperature were huge, and this was on top of the jet lag I had after the long trip. It was very clear that it would not be possible to survive in this job if I were not healthy and physically fit.

Minister Muhriddin had originally been a water facility engineer. I thought that made him suitable for the job of coordinating with the various countries, which often had conflicting interests in terms of water rights. The change of government in Uzbekistan has led to some progress in the water use discussions among the four countries mentioned above.
On 26 October, I met President Emomali Rahmon and attended the opening ceremony of an ADB-supported road project with him. The President, who was originally an electrical engineer, rose through the ranks of labor unions and the Communist Party. After Tajikistan became independent, he distinguished himself in the civil war between the government that grew out of the Communist Party and anti-government forces, including the Islamists, and he has been President since 1994. Because of this experience, he is particularly vigilant about the intrusion and influence of extremists from Afghanistan and focuses on maintaining domestic stability. On that day, I had lunch with several ministers and visited ADB’s field office to chat with the staff. On 27 October, I attended the CAREC Ministerial Conference with President Rahmon. In the afternoon, I attended a press conference and a dinner party hosted by the Prime Minister. After a short break at the hotel, I got on a flight that departed at 4 a.m. on Saturday 28 October. I had a good connection in Dubai this time and arrived in Manila at 11:30 p.m. the same day.
Armenia

I visited Armenia in June 2018. The country is in Central Asia, and more specifically in a region called the South Caucasus, along with Georgia. The population is 3 million, and GDP per capita in 2018 was $4,200. Twenty-five percent of the population is engaged in agriculture, and overseas remittances account for 12% of GDP, but social sector indicators such as education and health are at the same level as those of OECD countries. Armenia is a landlocked country located in a mountainous region between the Caspian Sea and the Black Sea, bordering Azerbaijan in the east, Georgia in the north, Türkiye in the west, and Iran in the south.

Historically, Armenia was close to Mesopotamia, and it developed an advanced civilization from ancient times. The Kingdom of Armenia was established before Christ, and in 301 AD it adopted Christianity as the national religion, ahead of Rome. Since ancient times, it has been dominated or influenced by Persia, Macedonia, Greece, the Eastern Roman Empire, the Arabs, Türkiye (the Seljuk and Ottoman Empires), Mongolia, and Russia. In the process, many Armenians have moved overseas, and they have spread around the world mainly as merchants, including in the US, France, Iran, and India. It is said that the size of the Armenian diaspora is about the same as that of Armenia’s population.

Armenia has historical problems with Türkiye, and a territorial conflict with Azerbaijan, another neighboring country. Following the bloodless, so-called Velvet Revolution in April 2018 in Yerevan, the capital, Nikol Pashinyan, a democratic activist and former journalist, born in 1975, became the Prime Minister.

Armenia gained independence in 1991, the same year as the other Central Asian countries, and joined ADB in 2005. Cumulatively through the end of 2019, ADB has provided $1.2 billion to the government and $300 million to the private sector in loans and equity investments, supporting the road, energy, and financial sectors. In our meeting, Prime Minister Pashinyan said that Armenia was in the process of a historic transition, and that he intended to thoroughly eliminate corruption and promote development. I visited a project supported by ADB that aims to earthquake-proof a junior high school, and a modern greenhouse tomato farm run by a company called Spayka, which is a recipient of ADB’s private sector loan.

I was also taken to the Matenadaran, a museum of ancient manuscripts that sits atop a hill. Despite being under various pressures from the surrounding empires, the Armenians have protected their own alphabet.
and Orthodox Church throughout its long history. They have even translated books from other civilizations and preserved the manuscripts in the Armenian alphabet. I was very impressed with this history. ADB helped construct the highway to Georgia, and this was in very good condition. Lake Sevan, where I was told that people of Yerevan go for leisure, is beautiful. Along the road, there was a copper mine that had been closed; a railway that Russia built in 1899 ran parallel.

**Georgia**

I visited Georgia in June 2017. We took a car from Armenia over the border in the mountainous area and arrived in Tbilisi, the capital. On the Georgian side of the border, I saw a modern facility that had been supported by ADB, which housed offices including customs, the immigration office, and those in charge of other procedures. They had dogs that were well trained in detecting narcotics and explosives.

Georgia has a population of 3.7 million, and GDP per capita is relatively high, at $4,400. Education and health levels are high. However, agriculture accounts for 40% of employment and 8% of GDP, and rural villages are poor. Iron and copper ores account for 25% of exports, while wine and other alcoholic beverages account for 10%. It is said that wine was first made in Georgia in 6000 BC by fermenting grapes in a large pot. The country is blessed with a variety of tourism resources. In 2017, the trade deficit, which amounted to 34% of GDP, was financed by a surplus in the travel balance (15%), remittances from overseas (9%), and the inflow of direct investment (12%).

Georgia is a former Soviet Republic. To the west is the Black Sea, and the Caucasus Mountains, which rise to 5,000 meters, tower between Georgia and the Russian Federation in the north. The Caucasus region, which is mentioned in the Old Testament and Greek mythology, was considered the place where European people originated.

The history of civilization in Georgia is very long, and there are ancient ruins from the Paleolithic Age and the Neolithic Age. In the sixth century BC, the Colchis Kingdom was established in the western part of the country and the Iberian Kingdom in the eastern part, centered on Tbilisi. Iberia adopted Christianity as its state religion in 330 AD, and Colchis in 523 AD, laying the foundation for the Georgian Orthodox Church, which would be formed later. Georgian scripts were also born around that time. In the early 11th century, the eastern and western kingdoms were unified,
and many structures were built under King David IV, known as David the Builder, who also reformed the army and moved the capital to Tbilisi.

Until then, and even thereafter, Georgia has been ruled or influenced by the Persian dynasties, ancient Rome, the Eastern Roman Empire, the Islamic Empire of the Arabs, the Mongols, the Timurid Empire, Türkiye, and Russia. In 1801, the Russian Empire annexed the country. Georgia declared independence in 1918 following the Russian Revolution; however, after the invasion of the Red Army, it was incorporated into the Soviet Union in December 1922 as the Transcaucasian Federation, together with Armenia and Azerbaijan. In 1936, the Federation was dissolved and Georgia emerged as a Union Republic. Joseph Stalin, a native Georgian, became general secretary of the Communist Party of Russia and solidified his power in April 1922, and led the initiative to establish the Soviet Union in December of the same year.

After Georgia gained independence in 1991, Eduard Shevardnadze, who had served for a long time as foreign minister of the Soviet Union, returned to Georgia. He was elected to lead the country from 1992 to 2003 as speaker of the Parliament and then as President. The so-called Rose Revolution in 2003 forced Shevardnadze to flee the country, and President Mikheil Saakashvili formed a pro-US administration. Following the Russo-Georgian War of 2008 over a disputed territory, Georgia severed its diplomatic relationship with the Russian Federation in 2009.

In the parliamentary election of 2012, a political party called Georgian Dream, led by Bidzina Ivanishvili, a businessperson who wanted to improve relations with the Russian Federation, won the majority and became Prime Minister. (He resigned in 2013.) The 2013 presidential election was won by Giorgi Margvelashvili from the same party. With constitutional reform in 2013, actual governing authority was transferred from the President to the Prime Minister. On 14 June 2018, I visited Tbilisi and met Finance Minister Mamuka Bakhtadze, said to be close to the influential Mr. Ivanishvili. On that very day, following the resignation of the then Prime Minister, Minister Bakhtadze became a candidate for Prime Minister, and he assumed the top office on 20 June. However, political stability was not achieved, partly because of problems surrounding relations with the Russian Federation, and Prime Minister Bakhtadze resigned in September 2019.

Georgia joined ADB in 2007. Cumulatively by the end of 2019, it had received $3 billion in sovereign loans and $400 million in private sector loans for roads, energy, metro projects, and the financial sector. During my visit to Tbilisi in June 2018, I visited an ADB-supported project for the
extension of the subway system, which had been built in 1966, a bank that provided financing for small and medium-sized enterprises, and a service center capable of carrying out various procedures of the city government.

Georgia ranks seventh in the world on the World Bank’s Ease of Doing Business Index. It is trying to attract foreign direct investment based on speedy completion of processes necessary to do business there, including those for establishing a company. The current government has entered into a comprehensive free trade agreement with the EU. It also has active exchanges with the Russian Federation in trade and tourism, apart from diplomatic relations. Moreover, it has signed a free trade agreement with the PRC.

Minister of Regional Development and Infrastructure Maya Tskitishvili used a whiteboard and a map to enthusiastically describe potential projects for the future. She was later promoted to the position of vice prime minister. President Koba Gvenetadze of the National Bank of Georgia was born in 1971. I found out that he had been working at the IMF at the same time as I. He said his goal was to stop the dollarization of the economy and increase the circulation of Georgia’s own currency, the lari, and eventually to join the euro area and achieve stable macroeconomic management. If the economy is dollarized, it becomes difficult for the central bank to control prices, and it would not be able to function as the lender of last resort in a financial crisis. During a meeting with President Margvelashvili, who has a PhD and used to be a scholar, he said that Georgia needed to reduce its dependence on agriculture and that he would like to receive ADB’s assistance for the development of small and medium-sized enterprises and the enhancement of education and training.

The young Finance Minister Mamuka Bakhtadze, born in 1982, was busy following the resignation of the Prime Minister, but he met with me for an hour and hosted a dinner in Mtskheta, an old city and the former capital of the Iberian Kingdom, where old monasteries and a cathedral remain. Tbilisi is a beautiful city, in the middle of which flows the Kura River. A young man who had studied in Japan took me to the Tbilisi Spiritual Seminary, where Joseph Stalin had studied before joining the Communist Party; to a Georgian Orthodox Church; and to a synagogue. He had detailed knowledge about the comparison of old Japanese films and Georgian films, which had been popular in the early 20th century.

We also visited the History Museum. I was overwhelmed by the rich variety of ancient coins and bronze artifacts. The museum had hardly anything from the Soviet era, and I asked the museum’s director why that was so. He replied that history was not just a collection of facts, and that it
was not so easy to decide how to tell it. His words left an impression on me. I also took the highway that had been built with ADB’s assistance to go to the town of Gori, the birthplace of Stalin, about 90 km from Tbilisi. Stalin was born to a shoemaker’s family in 1878, and the small house was still there, with a museum next to it. Stalin’s personal railway carriage, which he used to travel around the Soviet Union, was more austere than I had expected. The exhibits in the museum, including many photographs, showed how Stalin grew up, wanting to be a priest of the Georgian Orthodox Church before he became an atheist; his experience of being arrested many times; his unhappy private life, beginning with his first wife’s death owing to illness; and his fierce struggle for power. There were copies of Stalin’s death mask and statues. I felt the complicated sentiments of the local people toward the native son who had become a historic figure.

I visited various countries during my time at ADB, but no other country as small as Georgia had such a long and interesting history, tradition, and culture, and, although uncertain, such potential for the future. I think the keys to sustainable development are political stability and good relations with neighboring countries.

Mongolia

In ADB, Mongolia is handled by the East Asia Department, but it has a lot in common with the Central Asian countries. It had a strong connection with the former Soviet Union, and it is a resource-rich country where coal and copper ore accounted for about 40% and 30% of exports and 20% and 15% of GDP, respectively, in 2018. Mongolia is also a member of CAREC. More than 90% of its exports go to the PRC. In the wake of the democratization movement, in 1990, Mongolia abandoned the single-party dictatorship of the People’s Revolutionary Party and adopted a multiparty system. Although the ruling party, which has the majority in the Parliament, appoints the Prime Minister as the leader of the executive branch, the President is also selected, in a separate election, and has certain authorities. If the two actors come from different parties, this could cause discord.

Mongolia has a population of 3.2 million, and per capita GDP was relatively high, at around $4,000, in 2018. However, its economy tends to be unstable, owing to changes in the economic condition of the PRC, fluctuations in resource prices, and fiscal expansions influenced by elections and changes in government. In 2017, Mongolia agreed to an IMF program that would provide $900 million in 3 years, with additional assistance from
ADB ($900 million), the World Bank ($600 million), Japan ($850 million), the ROK ($700 million), and the PRC (which is prepared to provide $2 billion-worth of renminbi from its central bank to boost the foreign exchange reserves at the Mongolian central bank). The challenge for Mongolia is to raise the living standards of the poor, who are unlikely to benefit from the resource-driven economy, and to diversify its industrial structure. Mongolia joined ADB in 1991, the year in which the Soviet Union collapsed. So far, it has received a cumulative total of $2.9 billion in assistance from ADB, including the $900 million mentioned above.

I visited Mongolia for the first time in July 2013, shortly after I assumed the post of ADB President, and again in September 2015 to attend the CAREC Ministerial Conference. During my visit in 2013, I met President Tsakhiagiin Elbegdorj, Finance Minister Chültemiin Ulaan, and other ministers, as well as the chair of the National Assembly, and exchanged views with diplomats and civil society organizations in Ulaanbaatar. President Elbegdorj was born in 1963. He worked in a factory and served in the military before attending a university in the Soviet Union through a scholarship. He demonstrated leadership in the democratization movement in 1990, and became a representative in the National Assembly. He served as Prime Minister in the 1990s and the 2000s, and became the fourth President of Mongolia in 2009. He studied at Harvard’s Kennedy School (a graduate school of public policy) before becoming President, and he spoke fluent English when we met.

Mongolia has high expectations for ADB’s support in the social sector. On this trip, I visited several ADB projects, supporting the ring road of Ulaanbaatar, prevention of river pollution, improvement of the middle school curriculum, and a classroom for women’s medicine at a medical school. People tend to think that ADB is a specialist agency for infrastructure but I felt that, in some countries, its health projects were producing great results. This experience, along with the experience of observing health projects in other countries, led me to revise ADB’s previous long-term strategy adopted in 2008, which implied that the health sector could be left to the World Bank and others.

I was invited to a ger (round tent-like dwelling) in the grassland where Finance Minister Ulaan had grown up, and rode a horse. I don’t know whether it was a joke, but they said they wanted to present that horse to me as a gift. I said, “I would gladly accept it but I can’t bring it home, so please take good care of it for me.” I wonder how the horse is doing now. The inside of the ger was roomier than I had expected, and I was served mutton
and traditional strong spirits for dinner. Minister Ulaan complained that ADB’s projects tended to be slow because of its strict rules and procedures. Certainly, if ADB can’t implement projects at a certain speed, it cannot meet developing countries’ expectations. This frank complaint guided my management of ADB. When I came out of the ger, I saw more stars in the night sky than I had ever seen before, as there was no light source around us.

Riding in the steppe of Mongolia (July 2013).
CHAPTER 10

CAN THE PACIFIC DEVELOPING MEMBER COUNTRIES CAPITALIZE ON THEIR OPPORTUNITIES?

The Status of ADB Pacific Developing Member Countries

Among ADB Pacific developing member countries (Pacific DMCs), I had visited Solomon Islands for an International Monetary Fund (IMF) mission in 1996. However, this region was not familiar to me as I had worked mostly in the area of international finance, especially regarding G7 or G20 frameworks, before coming to ADB. During my term as ADB’s President, I visited Papua New Guinea (PNG) in June 2013, followed by Fiji, Palau, Solomon Islands, and Samoa. However, I could not visit 10 of the 15 ADB members in the Pacific region (including Timor-Leste, which was recently moved to the Southeast Asia Department in ADB). I would have liked to have visited all 15 countries by combining visits to several countries in one trip, but there were not many flights between these countries, and the only way to get there was often to fly from Sydney or New Zealand.

The total population of the 15 Pacific DMCs is 13 million, and the total gross domestic product (GDP) in 2018 was $37 billion. Key data for these countries are shown in Table 5. PNG, with a population of 9 million, has the largest economy by far. In terms of population, it is followed by Timor-Leste with 1.26 million, Fiji with 890,000, and Solomon Islands with 690,000. The smallest island country is Niue, which joined ADB in 2019 and has a population of 1,600.
### Table 5: Key Data of ADB Pacific Developing Member Countries

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<td>Niue</td>
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The Pacific DMCs have large territorial waters and exclusive economic zones, and, for many, royalties for tuna and other fishery rights are an important source of income. Tourism plays a major role in Fiji, Palau, and the Cook Islands. For example, the Cook Islands has a population of less than 20,000 but tourism is thriving, and GDP per capita is close to $20,000. On the other hand, some Pacific DMCs are heavily dependent on aid from Australia, the US, and others, and sustainable development is difficult.

The Pacific DMCs face a variety of challenges, including sea level rise owing to the effects of climate change; frequent occurrences of cyclones and other natural hazards; and difficulties in delivering education, health care, and energy to scattered islands.

On the other hand, they can benefit from opportunities arising from new technologies such as satellites, the internet, and digital communication. There are also opportunities in eco-tours and other forms of high value-added tourism. Public enterprises in each small country used to act like monopolies and undermined efficiency, but the governments are now pursuing market-oriented economic reforms and stable macroeconomic policies.

ADB has field offices in PNG, Fiji, and Timor-Leste, and the office in Sydney also supports the Pacific DMCs. Recently, ADB established liaison offices in other countries to enhance its assistance in private sector development, health, education, microfinance, and disaster-resilient infrastructure that can be built in remote areas (small-scale solar power generation, for example). As for the modalities of assistance, ADB considers the vulnerability of small island countries and carefully chooses or combines ordinary loans, concessional loans, and grants, depending on the income level and the debt repayment capacity of each country. At each annual meeting, ADB hosts a meeting of finance ministers of the Pacific DMCs to help address common issues and improve cooperation among them.

**Papua New Guinea**

After becoming ADB President I wanted to visit one of the Pacific DMCs as soon as possible, partly to show that ADB placed importance on assisting them. I visited PNG in June 2013, 2 months after I became President. Exports of natural gas and direct investment in gas fields represent a large portion of PNG’s economy. The country has experienced relatively high growth in recent years, but the growth rate fluctuates significantly from year to year. Per capita GDP in 2018 was $2,800 but the inner highland region is quite underdeveloped, and one-third of the population lives in absolute poverty.
Education and health indicators are among the worst of ADB’s Asian members. On the other hand, it is a major country in the region, and students from Solomon Islands and other countries come to PNG to study.

In the mid-19th century, the western half of the island of New Guinea was colonized by the Dutch, the northeastern part by the Germans, and the southeastern part by the British. The southeastern part was inherited by Australia, which achieved independence from the UK in 1901. After World War I, Australia was authorized by the League of Nations to administer the former German colony in the northeastern region as a mandated territory. During World War II, a fierce campaign between Japan and the allied forces took place across the island. It is said that, of the 200,000 Japanese soldiers who landed there, only 20,000 returned, partly because of the harsh environment and starvation. In 1949, the entire eastern part of the island became the Territory of Papua and New Guinea under the control of Australia. It achieved independence in 1975. Meanwhile, the western half continued to be ruled by the Netherlands after the war but, following an interim administration by the United Nations, it has been under the control of Indonesia since 1963 and is made up of the Indonesian provinces of Papua and West Papua.
PNG joined ADB in 1971 and had received $2.9 billion by the end of 2019, mainly for roads and the health sector, including measures to fight malaria. During my visit in 2013, I met with Prime Minister Peter O’Neill, Minister for Treasury and Finance Don Polye, and Minister for National Planning Charles Abel in the capital, Port Moresby. The Prime Minister asked ADB to accelerate the implementation of projects and Minister Polye requested support for agriculture and technical education. I visited two sites of ADB-supported projects: a port for private shipping routes connecting the islands and a hydroelectric power plant in the mountains. At the hydroelectric power plant, engineers who had been trained locally explained the project to me with enthusiasm.

I also had lunch with ambassadors of various countries and gave a speech at the Chamber of Commerce. At the lunch, I met Deborah Stokes, then Australian ambassador to PNG—officially called high commissioner because both countries belong to the Commonwealth—who would later become ADB’s vice-president for administration and corporate management. For Australia, the relationship with PNG is a delicate one, given the history, and the post of high commissioner to PNG is considered very important. PNG has many challenges, such as developing infrastructure, strengthening governance, and maintaining security. I felt that continued involvement of ADB and the international community was necessary.

Fiji

I went to Fiji for the first time in August 2015. Fiji became a British colony in 1874, and many Indians were brought to work on sugar plantations, so 30% of the population of 890,000 is of Indian descent. The Grand Pacific Hotel in Suva, the capital city, is a classic hotel built in 1914. The lobby features photographs of two Australian aviators and two American passengers traveling from Oakland, California, to Brisbane, Australia, through the Pacific Islands. There are photographs of Queen Elizabeth’s visit to Fiji in 1953 as well. The Duke and Duchess of Sussex (Prince Harry and Meghan) visited Fiji in 2018. I felt that Fiji, as a country in the Commonwealth, had a strong connection with the UK. Rugby is the most popular sport, with many Fijians playing in Europe and elsewhere.

Per capita GDP, supported by tourism income, is relatively high, at $6,100, and the country is making progress in education and health. Fiji joined ADB in 1970, the year it achieved independence from the UK. ADB has so far provided a cumulative total of $500 million in loans for roads, energy, and urban infrastructure projects. I visited the site of a sanitation
(sewage) project supported by ADB, had lunch with the diplomatic corps, and saw the University of the South Pacific. The university was established in 1968 and is supported by 12 island countries. The headquarters and the main campus are located in Suva but some departments are located in different countries, so many students study on those different campuses. ADB provides assistance for the university’s remote education facilities.

During this visit, I met Prime Minister Frank Bainimarama; Minister for Economy, Public Enterprises, Civil Service and Communication Aiyaz Sayed-Khaiyum; and Foreign Minister Inoke Kubuabola. The Prime Minister used to be a naval officer and once served as the commander of the military forces. He carried out a coup in 2006 and took power, and was elected in 2014 as Prime Minister. Following the coup, until 2014, Fiji was the subject of economic sanctions by the international community including Australia, which had a strong relationship with Fiji. However, the Prime Minister said that the objective of the coup was to reduce the excessive influence of numerous tribal leaders—the Prime Minister himself is a commoner, I was told—and to treat Indian citizens fairly. He planned to continue promoting democratization, he added. Today, even in Australia, there are differing views on whether these sanctions were appropriate.

Minister Sayed-Khaiyum was born in 1965 and is of Indian descent. He is an intellectual who obtained a bachelor’s and a master’s in law in Australia and Hong Kong, China. He was serving concurrently as attorney-general. We exchanged views about ADB’s support, as well as many other topics, including fiscal reform, privatization of state-owned enterprises, e-government, and measures to combat climate change.

ADB decided to hold its 2019 Annual Meeting in Nadi in Fiji, a resort area with an airport with direct flights from overseas. As such, I returned to Fiji in January 2019 to check the status of the preparations. On this occasion, I also revisited the capital city, Suva. I congratulated the Prime Minister on his reelection, and spoke with Central Bank Governor Faizul Ariff Ali about the diversification of agriculture and transition to high value-added agricultural products.

The ADB annual meeting in May 2019 was a great success, with the full cooperation of the local people, police, and hotels. The weather was great, and many guests came from overseas. At the opening ceremony, before Prime Minister Bainimarama’s speech and my speech, there was a traditional performance. Men, wearing just grass skirts, presented me with an entire pig and fruits, and I drank kava, the traditional national drink of Fiji made from the crushed root of the yaqona tree. I asked them to make
the performance as short as possible, but they said certain steps had to be followed, including calls by the man who spoke on my behalf and responses by the other men. I didn’t know what was said in the local language, but I could imagine that they were expressing a warm welcome to me. Some attendees later asked me if I really drank kava. I did actually take a few sips.

ADB has been hosting annual meetings every year since its establishment in 1966, but this was the first one held in the Pacific. There were some difficulties, such as limited numbers of flights and hotel rooms, and the challenging IT environment, which meant that many tons of equipment had to be transported from Manila. However, ADB staff and the Fiji government worked together to overcome these issues. I could tell that the people of the Pacific, not just Fiji, were proud of the success of such a large event, which had thousands of participants. At the meeting, we discussed several topics that were appropriate for the host country of Fiji, including the contribution of tourism to economic development and measures to combat marine pollution. In a seminar on tourism, Japanese Finance Minister Taro Aso made a reference to green and sustainable tourism and stressed the importance of maintaining clean toilets in an improvised joke that drew a laugh from the audience.

The day after the meeting, Minister Sayed-Khaiyum came to the airport to see me off. We talked a lot, about his young family and his dream of going back to graduate school. Without his leadership, I don’t think this meeting would have been possible.
Palau

I visited Palau in August 2016. The country is 1,700 km east of Manila if you fly straight, but the only available route was to fly 2,600 km to Guam and then to fly in the opposite direction to Palau. I departed at 10 a.m. and arrived at 8:30 p.m. As of 2018, Palau’s population was 18,000 and GDP per capita was quite high, at $15,000. The infant mortality rate is 2.5 times the Organisation for Economic Co-operation and Development (OECD) average, but relatively low among the Pacific DMCs. The literacy rate is almost 100%. As mentioned in the final chapter of this book, before the war, Palau was the center of Micronesia, which was a mandated territory of Japan (based on the mandate from the League of Nations). The Japanese established the South Seas Administration in Koror, the former capital of Palau, and invested earnestly in education and industrial development. Japanese words such as *daijobu* (“all right”) and *yasashii* (“kind”) are still used in Palau, and Japanese music is also popular. Many Japanese and US soldiers lost their lives in the fierce battle on the island of Peleliu, but the Palau people were asked to leave the battlefield beforehand and hence there were no civilian casualties. Partly because of this, Palau is a country that is very friendly to Japan.

Today, Palau is surrounded by beautiful and peaceful oceans, and tourism is its biggest industry. Palau was part of the US-administered Trust Territory of the Pacific Islands, and it became independent in 1994. It has a compact with the US that makes it easy for people to obtain visas to work in the US, and this is causing a problem of too many young people moving to the US. The capital was moved in 2006 from Koror to Ngerulmud, in the state of Melekeok on the largest island Babeldaob, which has an airport. The island is connected to Koror by a bridge. Palau joined ADB in 2003 and has had ADB loans for telecommunications infrastructure and water supply and sanitation projects.

During this trip, I met President Thomas Remengesau Jr. and Finance Minister Elbuchel Sadang. I was also invited to a dinner reception. I heard that the rapidly increasing number of Chinese tourists had exceeded the capacity of the urban infrastructure—especially sewerage—and begun having negative impacts on the environment, and the government was limiting the number of low-budget tourist groups because of this. I went to the Parliament building on a hill and spoke at a joint session, attended by 9 members of the Senate and 13 members of the House of Delegates. The three female senators cheered when I said that improving the status of women in Asia and the Pacific was of great value in itself, and would
also lead to sustainable growth. I visited the sites of ADB-supported projects for sanitation facilities, installation of fiber-optic submarine cables, and an orchard.

Rhinehart Silas, director of the Bureau of Revenue, Customs, and Taxation, who had once worked as an ADB advisor, kindly took me to dinner at a sushi restaurant that had long been run by a Japanese chef. There was a direct flight back to Manila and I took it after dinner. It took only 2 hours and a half, and I was back in Manila at 10:30 p.m.

Solomon Islands

It was in August of 2017 that I visited Honiara, the capital of Solomon Islands, on the island of Guadalcanal. The atmosphere of Honiara had not changed much since I had visited the city in 1996, on the IMF’s surveillance mission based on Article IV of its Articles of Agreement. The population is 690,000, second only to Fiji among the Pacific DMCs. GDP per capita is $1,800, but some people still live in remote jungles at near-subsistence levels. The primary school enrollment rate is low, at 70%, and the maternal mortality rate is eight times the OECD average. The country is not suitable for tourism because of malaria, and foreign currency income is generated mainly by the export of lumber to the People’s Republic of China (PRC), which accounts for 75% of exports. It also produces tuna, palm oil, and gold. Most people are Christians.

Solomon Islands joined ADB in 1973 and gained independence as a nation in the Commonwealth in 1978. By the end of 2019, the country had received a cumulative total of $300 million from ADB in grants and concessional loans. Although ADB’s main areas of assistance are roads and energy, it has also provided policy-based loans to promote fiscal reform.

During this trip, I met Prime Minister Manasseh Sogavare, Minister of Finance and Treasury Snyder Rini, and Governor of the Central Bank Denton Rarawa. Prime Minister Sogavare was born in 1955. He is a cheerful, veteran politician who has held the Prime Minister’s position several times since 2000, after serving as permanent secretary in the Ministry of Finance and governor of the central bank. In Solomon Islands, the ruling and opposition parties in the Parliament have often changed positions based on democratic elections, and he has gone into opposition many times. At these meetings, we discussed various issues, including disaster response, development of remote areas, and the sustainability of lumber development. The Prime Minister said that, in order for the country to develop, it is necessary for the church,
traditional communities, and the government to make concerted efforts in nation-building. I was invited to give a speech to members of the cabinet, and I told them that ADB intended to allow more flexible implementation of projects (procurement rules, etc.) to accommodate the actual conditions of the Pacific DMCs.

My tour of the country included the completion ceremony of a bridge that had been constructed with ADB’s assistance, a project to provide financial services to distant islands, the planned site for the Tina River hydropower plant (we took a helicopter and landed on a narrow riverbank), the completion ceremony of the Honiara campus of the University of the South Pacific, and a palm oil plant funded by Malaysian investors and operated by a young Australian. In road and bridge projects in island countries in the Pacific, acquisition of tribal common land often presents a problem. However, at the bridge completion ceremony, a girl who gave a speech was resolute in saying that the new road and bridge would be beneficial to the development of the community and that the community must cooperate. I was impressed.

The island of Guadalcanal was a British territory before World War II. During the war, a fierce battle took place over the Henderson Airfield within a relatively small area in a jungle. Of the 30,000 Japanese soldiers, 5,000 died in battle and 17,000 died of hunger and illness. As many as 1,600 US soldiers also died. In addition, there were several fierce naval battles in the waters around Solomon Islands, and both countries had many casualties. As I had during my visit in 1996, I visited both the Japanese War Memorial and the US War Memorial, which had been built in open spaces on hills in the jungle.

ADB’s Executive Director Mathew Fox from Australia, who also represented Solomon Islands, accompanied me on this trip. He had once worked for the Australian Department of Defense, and said that it was strange that only the numbers of Australian and Japanese navy ships were written on the monument, whereas the US monument included the names of the sunken and damaged US Navy ships. There, I learned for the first time that the Australian heavy cruiser Canberra also sank and suffered a large number of casualties in the first Solomons naval campaign in August 1942.

Samoa

I visited Samoa in January 2019. After the New Year’s holiday, I flew from Tokyo to Nadi International Airport in Fiji on a direct Fiji Airways flight,
and then took a connecting flight to Samoa. The population is 200,000, and GDP per capita is relatively high, at $4,100. Levels of education and health are also high. The trade deficit is 35% of GDP, which is covered by remittances from Samoans working abroad (22%) and income from tourism (23%). Many rugby players are playing in Europe and Australia, and their remittances are substantial. After World War I, Samoa, which had been a German colony, became a mandated territory of New Zealand. After World War II, it remained under New Zealand’s rule based on the trusteeship of the United Nations until it gained independence in 1962.

Until 1997, the country was named Western Samoa. In 1966, it joined ADB as the only founding member in the Pacific. Meanwhile, Eastern Samoa is still a territory of the US, called American Samoa. Since the first ADB loan was extended to develop an airport in Apia, the capital, Samoa has received a cumulative total of $360 million in grants and concessional loans. ADB’s assistance is mainly for the energy sector, but it also covers a variety of other sectors.

During this visit, I met with Prime Minister Tuilaepa Aiono Sailele Malielegaio and Finance Minister Sili Epa Tuioti, whom I had met several times at ADB annual meetings. Mr. Tuioti had once worked as an ADB staff member in an executive director’s office. Both were good-natured gentlemen. Their facial features were very similar to those of the Japanese. If I had been told that they were both Japanese, I wouldn’t have doubted it. I attended the opening ceremonies of a solar power plant, a large-scale diesel power plant supplying electricity to the capital, and a hydropower plant for small communities, all of which ADB had supported. Recently, Samoa has been frequently ravaged by cyclones. In 2017, ADB provided policy-based loans that could be immediately disbursed in the event of a disaster to Samoa, as well as to Tonga and Tuvalu.

The Prime Minister hosted a reception at the former residence of the Scottish author Robert Louis Stevenson, who wrote *Treasure Island*. The residence had been turned into a museum. Stevenson chose this island to treat his tuberculosis by a change of air and lived peacefully with his older wife and her children for 4 years, from 1890 until he died at the age of 44 in 1894. I was excited to read *Treasure Island* when I was a child, but I didn’t know that the author had died in Samoa. It was a fine mansion, but I thought about how he had lived there when there was no electricity or running water.
Timor-Leste

I did not have a chance to visit Timor-Leste, but I would like to mention it because it has a unique history. It was a Portuguese colony and it remained so after World War II, but an independence movement emerged as the conservative dictatorship in Portugal collapsed in the 1970s. However, Indonesia, which controlled the former Dutch territory of West Timor, invaded Timor-Leste and took control. After the collapse of the Suharto administration in Indonesia in 1998 following the Asian currency crisis, Indonesia and Portugal reached an agreement to turn Timor-Leste into a special autonomous region within Indonesia. However, the residents rejected the agreement in a referendum, and the independence movement led to violent confrontations once again. In the end, the United Nations intervened and independence was achieved in 2002.

Timor-Leste officially applied for membership in the Association of Southeast Asian Nations (ASEAN) in 2011, and recently, Timor-Leste moved from the Pacific Department in ADB to the Southeast Asia Department. The per capita GDP of $1,300 shown in Table 5 excludes the royalty income from drilling rights in the offshore oil field, and coffee accounts for 99% of exports. The oil field income is managed as the Petroleum Fund and invested in foreign currency assets. In 2019, the Petroleum Fund had assets worth $17 billion, or $13,000 for every citizen in Timor-Leste. However, oil is expected to be depleted as early as 2021. A strategy for industrial diversification is urgently needed, and ADB is assisting Timor-Leste in this regard.
Visits to Developed Members in the Region

As President of ADB, it was extremely important for me to visit developed members in and outside the region to discuss ADB’s issues, as these countries have supported developing Asia through their membership in ADB. Only with the support of these countries can ADB be sustainable and accomplish its mission.

I visited Australia, a developed regional member, four times, and met the minister of finance, the minister of foreign affairs, and the director-general of the aid agency. I also gave speeches at the Australian National University in Canberra and the Lowy Institute in Sydney. Australia is a rich country that has continued to grow steadily based on natural resources such as coal and iron ore, as well as the service industries such as university education and tourism. Japan was once its largest export destination, but it is becoming more dependent on exports of natural resources to the People’s Republic of China (PRC) and on Chinese students and tourists. Some Australians are concerned that the country is now also being too politically influenced by the PRC.
Since it abandoned in the 1970s the White Australia Policy, which had aimed to limit non-white immigrants, Australia has welcomed Asian immigrants and made cultural diversity a national goal. From a geopolitical point of view, it has a strong interest in the development of the Pacific DMCs. Papua New Guinea was a German colony until World War I but then became Australia’s mandated territory under the framework of the League of Nations and remained so until 1975. Australia is also a founding member and the fifth-largest shareholder of ADB, and is currently represented by one of the six vice-presidents. Discussion topics with officials included ADB’s contributions to the Pacific DMCs, its relationship with the PRC, and improving the governance of developing countries.

New Zealand is also keen to help the Pacific DMCs, especially as there is an ethnic link between the Maoris and the residents of the Pacific DMCs. During my visit to New Zealand in August 2015, I met Deputy Prime Minister Bill English, who also served as minister of finance, and Foreign Minister Murray McCully. I gave a speech at Victoria University, which has a long history. New Zealand is a progressive country known for having granted voting rights to women in 1893 before any other country in the world, when it was still a colony of the British Empire. (Women became eligible to be elected to the House of Representatives in 1919.) On Sunday, when I arrived in Wellington, the capital, I was guided by Dominic Walton-France, ADB’s alternate executive director from New Zealand. We took a cable car, which began operating in 1902, to the top of a hill in an old residential area, and walked back down through a flower-filled botanical garden. It was really refreshing.

The Republic of Korea (ROK) once borrowed from ADB and, although it is still classified as a developing member owing to its legacy, it is now an important supporter of ADB. I visited the ROK four times, paying courtesy calls to Presidents Park Geun-hye and Moon Jae-in at the Blue House (Cheongwadae) and exchanging views with successive finance ministers. Around 1960, before ADB was established, the ROK was still suffering from the devastation of the Korean War and its income was lower than that of Ghana and Côte d’Ivoire, which had natural resources, and the Philippines, whose income was relatively high in developing Asia. Subsequently, the ROK adopted an export-led growth policy under Park Chung-hee, who served as President from 1963 to 1979. It succeeded in upgrading its industry from light manufacturing to heavy and chemical industry, and eventually to automobile and electronics industries. It joined the Organisation for Economic Co-operation and Development, a club of advanced economies, in 1996.
ADB made its first loan to the ROK, one of its founding members, in 1968 for a highway connecting Seoul to Incheon. After that, the country received a cumulative total of $1.6 billion in loans from ADB before it stopped borrowing in 1988. However, during the Asian currency crisis, it received a $4 billion policy-based loan for financial sector reform, linked to the International Monetary Fund’s (IMF’s) balance-of-payments support. Based on its experience of having joined the ranks of developed countries in a short period of time, the ROK is strengthening its assistance to Asia and other regions through bilateral official development assistance (ODA) and international organizations. In supporting ADB, it has cumulatively provided a 2% share of total contributions to the Asian Development Fund (ADF), ADB’s concessional window, and also established its own trust fund to promote advanced technologies and knowledge-sharing. It also contributes to the ADB Institute in Tokyo in terms of both financial and human resources.

Within ADB, Taipei, China and Hong Kong, China are classified as developing members, as is the ROK, as they once borrowed from ADB. However, today, they are both fully developed economies in terms of both income and social indicators like education and health. On ADB’s Board of Directors, Taipei, China belongs to a group represented by the director for the ROK, and sometimes appoints an alternate director in rotation. Hong Kong, China joined ADB in 1969. It belongs to the group represented by the director for Australia.

As of 2018, Taipei, China had a population of 24 million and gross domestic product (GDP) per capita of $25,000. It is very competitive in electrical and electronic products. It is a founding member of ADB and borrowed a total of $100 million through 1971. I did not have an opportunity to visit Taipei, China when I was ADB President, but successive finance ministers came to ADB’s annual meetings every year, and I was able to exchange views with them. Taipei, China is also enthusiastic about supporting other developing members, and has contributed to the ADF.

Hong Kong, China has a population of 8 million and GDP per capita of $49,000. It joined ADB in 1969 and borrowed a total of $100 million from 1972 to 1980. During my term in office, I visited Hong Kong, China three times to attend financial forums. In January 2018, I traveled there to give a speech at the Asian Financial Forum hosted by the Government of the Hong Kong Special Administrative Region of the People’s Republic of China. I had been invited to this forum when I was vice-minister of finance for international affairs in the Japanese Ministry of Finance. Like in Singapore, every time I went to Hong Kong, China, I saw changes in the city as a result
of new investments, which made it look more and more like a futuristic metropolis. Meanwhile, residents complained that the inflow of people, tourists, and investments from the PRC had caused real estate and general prices to soar, making their lives more difficult.

During this trip, I met Norman Chan, chief executive of the Hong Kong Monetary Authority, whom I had met several times when I worked at the Japanese Ministry of Finance. For dinner, Finance Secretary Paul Chan invited me and several others to the venerable Hong Kong Club. This gentlemen’s club for the British, established in 1846, did not allow the Chinese to join until the 1970s and women until the 1990s. While enjoying fine food and wine, we discussed, among others, whether cryptocurrency was a currency or an investment product (many believed it should be considered an investment product), and how to regulate it.

**ADB’s Relationship with Japan**

Japan has been the biggest supporter of ADB since the preparatory stage for its establishment. It is the largest shareholder along with the US. It has made cumulative contributions to the ADF—ADB’s concessional funding source—worth $11.2 billion, representing a 38% share. As mentioned in Chapter 12, Japan was deeply involved in the idea of establishing ADB and led the debate to a considerable degree. However, as shown by the fact that the headquarters went to Manila, Japan did not have an overwhelming influence. In fact, in some respects, it intentionally avoided having one. Japan’s assistance of Asian countries through its bilateral ODA and ADB has been conducted with fairness in mind because it grew out of Japan’s remorse for its transgressions during the war and damage inflicted on Asian countries. It is also based on its desire to contribute to the development of Asian countries to achieve stability and prosperity in the region, which in turn serves Japan’s interest. I think other members trust Japan firmly in this regard.

During my term, Finance Minister Aso, ADB’s governor representing Japan, and Governor Kuroda of the Bank of Japan, who was also ADB’s alternate governor and had been President of ADB before me, attended every annual meeting of ADB and participated in various seminars as panelists. I was very grateful for this, as I felt their actions were a show of Japan’s strong support for ADB as well as for me as its President.

I had many opportunities to go to Japan, including on the way to the US and Europe. I visited Prime Minister Abe in Japan once or twice a year to discuss the general situation in Asia. In 2017, ADB hosted its 50th
Anniversary Annual Meeting in Yokohama, Japan. The venue, PACIFICO Yokohama—also known as the National Convention Hall of Yokohama—is a wonderful international conference center facing the ocean. Aided by the great support of Yokohama City and local officials and blessed with good weather, the meeting was well received, with roughly 6,000 participants—more than for the regular annual meetings—coming from within Japan and abroad. The reception on the terrace, with a nice breeze from the ocean, had a splendid ambiance. The ADB staff who prepared and managed the Annual Meeting also enjoyed walking around Yamashita Park and Chinatown after the meeting.

In Japan, I gave many speeches at the Japan National Press Club, the Foreign Correspondents’ Club of Japan, the Japan Center for International Finance, the Institute for International Monetary Affairs, the Japan Institute of International Affairs, and the Research Institute of Economy, Trade, and Industry, among others. I also visited many universities in various regions to talk to students and exchange views with university presidents. I remember especially well my visits to Ritsumeikan Asia Pacific University in Oita, which sits on a hill with a nice view; Akita International University, with a wonderful wooden library; the International University of Japan in Niigata, which is located in the beautiful countryside but becomes snowbound in winter with students having nothing to do but study; and Tohoku University. On the campus of Tohoku University in Sendai, I visited the old lecture theater in which Lu Xun, a very famous modern Chinese novelist, took classes in medicine in 1904–1906 as a student sent by the Chinese government. I visited Kwansei Gakuin University’s Sanda campus on an invitation from Professor Masakazu Sakaguchi, who had been a senior colleague of mine at the Ministry of Finance. He had also worked at ADB as chief advisor to the President; director-general of the Budget, Personnel, and Management Systems Department; and an executive director. I was very impressed by the fact that the classroom, which could hold 700, was full, with the audience filling even the aisles. The students looked very enthusiastic and asked many interesting and inspiring questions.

Visits to the United States and Europe

I visited the US every spring and fall for IMF/World Bank conferences. As ADB President I met several times with Under Secretary Lael Brainard, who was responsible for international affairs at the Treasury Department under President Obama. She had been my counterpart when I was at the Japanese
Ministry of Finance. After she moved on to the Federal Reserve Bank as a member of the Board of Governors, I met numerous times with Assistant Secretary Marisa Lago to exchange views. Assistant Secretary Lago was responsible also for financial regulations and very busy, but she continued to actively engage with ADB through her participation in the annual meetings and visits to Manila. She appreciated ADB’s proposal to expand its lending capacity through capital consolidation, described in Chapter 12, and had a favorable view of ADB for its efficient management. I also met regularly with senior officials from the State Department who served as ADB’s alternate governors. We mainly discussed the general management of ADB, ADB’s loans to the PRC and its relationship with the Asian Infrastructure Investment Bank (AIIB), and the mobilization of private resources.

The Trump administration took over the government in January 2017. Although this administration was said to place less importance on multilateral systems, I felt that the US government was trying to strengthen its relations with ADB to anchor its involvement in Asia. I also had a long discussion once with Under Secretary of the Treasury David Malpass, who would later become president of the World Bank.

When I visited Washington, D.C., I was often invited to give a speech or participate in a panel discussion. Those I knew included Matthew Goodman, Asia Program director of the Center for Strategic and International Studies; Homi Kharas, deputy director of the Brookings Institution; Adam Posen, president of the Peterson Institute for International Economics; Kent Calder, professor at the Johns Hopkins School of Advanced International Studies; and Masood Ahmed, president of the Center for Global Development. These events were very helpful for me as I learned about what American researchers were interested in. I had also known Ian Bremmer, president of the Eurasia Group, who is famous for coining the term “G-zero world,” since my days at the Japanese Ministry of Finance. I had opportunities to exchange views with him in Washington, D.C.

As for Canada and Europe, I visited each country at least once—and key members a few times—to meet with government officials, give speeches, and exchange views with people in the private sector. Türkiye and Luxembourg are the only European countries I had no chance to visit during my term as ADB’s President. However, Luxembourg’s ambassador to the US hosted a seated dinner each spring in Washington, D.C. at the chateau-like official residence on Massachusetts Avenue, built in the early 20th century by a millionaire. On these occasions, I freely exchanged views on world affairs with Luxembourg’s Finance Minister Pierre Gramegna, former Prime
Minister and President of the European Commission Jean-Claude Juncker, and colleagues at multilateral development banks (MDBs), while enjoying good wine and French cuisine. I felt as if I had stumbled into a high society function in Europe before World War II, and I enjoyed that experience.

I visited Germany six times. Some of my visits were to check on the preparation status of ADB’s Annual Meeting held in Frankfurt in May 2016. During my visit in November 2015, I met with Chancellor Angela Merkel’s chief of staff at the Chancellery to ask her to give an address at the Annual Meeting. I also gave a speech at Goethe University Frankfurt. Hans-Joachim Fuchtel, Parliamentary State Secretary at the Federal Ministry of Economic Cooperation and Development (BMZ), who was a member of the ADB Board of Governors, invited me to his electoral district near Stuttgart. Mr. Fuchtel used interpreters at conferences, but on the long car ride back from his electoral district to Frankfurt, the two of us had a long conversation in the rear seat. I was pleased that he took me to Hermann Hesse’s birthplace and a local schnapps distillery. In rural areas of Germany, I felt the atmosphere of simple and pastoral life that is similar to that in Japan.

European countries have recently been forced to focus their political and economic resources on the euro area’s debt and immigration issues, but they are traditionally important donors for Africa and Asia, given their historic ties dating back to the colonial era. ADB members in Europe include relatively small countries such as the Scandinavian countries, Ireland, Switzerland, and Austria, but they are all using their unique strengths to engage in Asia and leverage their economic relations.

When I visited Portugal and Spain in July 2015, I met with the respective minister of finance and exchanged views with executives of companies doing business in Asia. There are many companies that have long and deep ties to Asia in the fields of water supply and sanitation and IT, among others. In Spain, I had the pleasure of an audience with King Felipe VI in a palace on the outskirts of Madrid. The King asked questions about the problems in Asia. Having an audience with the King must have been a great honor for Juan Miranda, then ADB’s managing director general from Spain, who accompanied me. Managing director general is the top post for ADB’s staff.

I didn’t have the opportunity to visit the Scandinavian countries when I was working at the Japanese Ministry of Finance, so I was fortunate to have been able to visit them on several trips and learn about the somewhat overlapping but unique history and culture of each country. All of these countries are promoting English language education and fostering industries
that incorporate advanced technologies. When I visited Helsinki in June 2016, senior government officials in charge of cooperation with ADB from Finland, Denmark, Norway, and Sweden—mostly women—were kind enough to come together and meet me. We exchanged opinions while enjoying lunch together in a room overlooking the harbor. ADB’s strategies, especially those related to climate change, gender, and mobilization of private resources, were discussed.

I visited Ireland for the first time in June 2017. Ireland is an English-speaking country like the UK but most of the people are Catholic. It has a unique history. It became an autonomous state following an independence war with the UK after World War I, and it did not participate in World War II. During the Irish Potato Famine in the mid-19th century, many Irish immigrated to the US; more than 30 million US citizens are thought to be of Irish descent. It is well known that President John F. Kennedy was a Catholic of Irish descent. Ireland has produced several great authors, including the Nobel Prize-winning poet William Butler Yeats; Jonathan Swift, who wrote Gulliver’s Travels; and James Joyce, who wrote Ulysses. Elizabeth I founded the prestigious Trinity College in the 16th century, but Catholic students were not admitted until the late 18th century, I was told. My visit coincided with the summer holidays, and many Chinese families were taking college tours on the campus. Universities around the world are competing for students, like businesses competing for customers.

Ireland has a relatively small population of 5 million, but, as part of the euro area, it has become competitive in the IT, finance, and education sectors. Its GDP per capita is now twice that of the UK, at $80,000. In 2010, the real estate bubble burst and Ireland requested balance-of-payments assistance from the IMF; the economy then made a quick recovery thanks to large inflows of foreign direct investment, and has continued to grow at a high rate. When I met with Governor of the Central Bank of Ireland Philip R. Lane, he emphasized that, while some people tend to view Ireland as a tax haven, significant corporate activities do take place there. On the other hand, he said that the GDP figures were inflated by royalty income related to the intellectual property rights transferred to Irish subsidiaries of big global platform and pharmaceutical companies. Such retained income of resident subsidiary corporations constitutes a large part of Irish GDP but is not income earned and enjoyed by local people. Governor Lane moved on to become chief economist of the European Central Bank in 2019. I realized that, with its small population, emphasis on education, and effective solicitation of foreign direct investment, Ireland is similar to Singapore. You can’t really understand the actual condition of a country unless you go there.
ADB Annual Meetings, G20 Meetings, and Davos Conferences

ADB’s Annual Meeting, which is held every May, is a very important event for ADB. I attended seven of them. The first was held in Delhi in 2013; this was followed by annual meetings in Astana, Kazakhstan; Baku, Azerbaijan; Frankfurt, Germany; Yokohama, Japan; ADB headquarters in Manila; and Fiji in 2019. The locations of the annual meetings, up to Baku, had been decided under former President Kuroda, and the subsequent locations were decided after my appointment. The choice of venue was based on the wishes of the countries interested in hosting them, and decided with the support of ADB members.

ADB’s staff in charge of logistics worked with the counterpart government for a year to make preparations for the venue, accommodation, transportation, security, public relations, and IT environment. ADB’s Secretary supervised the entire process and would sometimes come to my office with the relevant staff for reporting and consultation. I think many of my comments were suggestions to emphasize the unique features of the host country and their wishes, not to turn it into a festival or too fancy an event, and to be mindful of the expenses. Meanwhile, regarding the substance of the Annual Meeting, three departments took the lead in planning the President’s address at the opening ceremony, which is one of the main events, and topics and participants of various meetings and symposiums. These three are the Strategy, Policy, and Partnerships Department; the Economic Research and Regional Cooperation Department; and the Department of Communications. Dialog with representatives of the media and nongovernment organizations from various countries is also an important part of the Annual Meeting.

As for the President’s speech, I often proposed ideas, and the final script was mostly prepared within my office. The speeches were not particularly long and lasted about 20 minutes, but I rehearsed each one about five times in the audiovisual room at the headquarters, and twice at the venue. I used the teleprompter for every speech I made at the annual meetings. The text was projected on two transparent panels in front of my eyes, to the left and right of me, in sync with the speed of my reading. For the audience, it seemed as though I was speaking without looking at any notes. A Japanese acquaintance of mine once approached me after one of the speeches and said that she was amazed that I could memorize every word of such a long speech. In some ways, reading an entire manuscript smoothly with clear pronunciation is more difficult than speaking casually without a manuscript.

To state the conclusion first, I think that all seven annual meetings were well prepared by the host governments and successful, with each one showing different merits. At the two annual meetings held in developed
countries, it was an honor to have an address given by His Imperial Highness the Crown Prince of Japan (currently His Majesty the Emperor) in Yokohama and by Chancellor Merkel in Frankfurt. Some say that ADB can save money by holding two out of three annual meetings at its headquarters in Manila, like the IMF and the World Bank in Washington, D.C. However, many members are interested in hosting, and a meeting in a developing country in Asia also provides a great opportunity for thousands of government officials and private sector and media representatives from all over the world to learn about the host country.

My typical schedule during an annual meeting was very strenuous. For 5 days, I was almost completely booked, from 8 a.m. until around 9 p.m., when a reception, planned almost every day, ended. I had only 15 minutes to eat lunch. I sometimes practiced my speech from around 7 a.m. For example, at the 2019 Annual Meeting in Fiji, I attended 15 large events including the opening ceremony, various conferences, some of which I chaired, seminars in which I was a panelist, and press conferences. In addition, I had 50 meetings with country representatives scheduled every 15 minutes, seven meetings with private financial institutions, and interviews with CNBC, Bloomberg, and media outlets from Japan and the PRC.

Actually, 2 years prior to that, I had delegated some meetings to vice-presidents, based on a recommendation by ADB’s General Counsel Christopher Stephens, who had said my schedule was overloaded. Until then, I had about 20 more meetings. After the 2014 Annual Meeting in Astana, 2 days after returning to Manila, I underwent emergency surgery for appendicitis. I didn’t expect to have appendicitis at my age, so at first, I thought it was food poisoning. Perhaps it was because of the extremely strenuous schedule I had at the annual meeting.

The opening ceremony was actually held on the morning of the third day. There were many meetings and seminars before then, probably more than were scheduled afterwards. On the afternoon of the fourth day, there was a meeting called the Business Session. In this, ADB’s governors (ministers) representing the members discussed their priorities for about 3–5 minutes each, and as the Board of Governors they quickly approved a number of items, such as the annual report. This was actually the original meaning of the Annual Meeting. Some countries formed a group and let one representative talk, but the number of members was large, at 68, and, as such, a Business Session would last for about 3 and a half hours. The session was chaired by a minister of the host country, with two vice-chairs, selected from two different countries. They were able to take turns, but I
couldn’t even go to the bathroom, as it would have been rude to the governor who was speaking. When I was young and attending similar conferences, sitting in the back of the room, I would always get sleepy and sometimes I couldn’t resist dozing off. At the Business Session, however, everyone was basically expressing their opinion about the management of ADB to me. Listening carefully, I realized that it was very important and interesting to hear governors accurately, as they emphasized what they wanted to say. Based on the statements made by each country, we would prepare a chair’s summary. By the fourth day of the meeting, I was usually quite tired, but I listened seriously, aided by coffee, and diligently took notes by myself.

I attended as an invitee many of the G20 finance ministers and central bank governors meetings, including the one chaired by the PRC in Chengdu and the 2019 meeting chaired by Japan in Fukuoka, and made remarks from the perspective of Asia. I was granted a special invitation as a representative of the regional development banks to the G20 Osaka Summit in June 2019. In a short comment, I stated that Asia’s growth was robust and supported by appropriate policies, that challenges remained, such as widening income disparities, climate change, and gender issues, and that there was an urgent necessity to make health care accessible to all. I spoke for about 3 minutes and 20 seconds, longer than the allotted time of 3 minutes. But I think this was acceptable, based on my experience of attending many international conferences.

At the G20 Osaka Summit, President Trump came 1 hour late to the dinner at the Guest House near Osaka Castle. So, while enjoying the view of the illuminated Osaka Castle from the lawn garden, I chatted with Prime Minister Nguyen Xuan Phuc of Viet Nam and his wife, President Moon Jae-in of the ROK and his wife, the IMF’s Managing Director Christine Lagarde, the International Labour Organization’s Director-General Guy Ryder, and the World Trade Organization’s Director-General Roberto Azevêdo, with wine glasses in our hands.

At the G7 Ise-Shima Summit in May 2016, I attended the expanded lunch meeting. I have a photograph of me shaking hands with President Obama. On this occasion, too, I thought I should say something to show the presence of Asia and ADB, and I made one brief statement. The lunch was delicious, and I was also happy to visit the Ise Jingu Shrine, which I hadn’t visited since an elementary school trip. The shrine, surrounded by a serene forest and a clear-water river, enshrines Amaterasu-Ōmikami, the highest goddess of the sun in Japanese mythology, and was founded in the 5th century. I have traveled to various places around the world, met the heads
of state in luxurious palaces, and attended meetings in old chateaus. Still, the simple and pure aesthetic of Japanese shrines is something special, and they always remind me of the wonderful culture of Japan.

I also attended the Davos conference in January every year. The venue for this is on a snowy mountain, about 2 hours by car from Zurich Airport. The accommodation is basically a ski lodge, and it is cold. ADB does not make a large donation to the World Economic Forum that runs the conference, so my chief advisor was allowed to enter the venue for 1 day only. By myself, I walked around the large venue with its complex structure and attended various seminars for which I had registered. Because this conference was held in an out-of-the-way place and there was nothing else to do, we could focus completely on the meeting. Since not too many aides and assistants were allowed inside, participants from all over the world would come across one another in a hallway or a parlor and just start talking. Attending many seminars at the conference allowed me to pick up on trends in the debates on world affairs.

In Davos, I participated in one or two seminars as a panelist every year, to discuss such topics as the mobilization of private resources for infrastructure investment and the role of MDBs in addressing climate change. I was also able to hear speeches by Prime Minister Abe, President Xi Jinping, and President Trump in an intimate setting. In addition, I taped a 5-minute interview with CNBC each year on the roof of the building, which was freezing cold, with snowy mountains in the background. I had to wear a thick coat for these interviews. Although it was not just for these occasions, I splurged on a cashmere coat, made when I returned to Tokyo. Leading Japanese companies would jointly host a reception called Japan Night, and a lot of people would fill the venue because the Japanese food, such as sushi, was very popular. When at one of these events they broke open ceremonial sake barrels, the 10 individuals who did so were all men. After seeing that, I advised Takeshi Niinami, president of Suntory Holdings, whom I had known as a friend since we were in our 20s through a study group, that they should include female corporate executives in that group. From the next year onwards, the gender balance improved.

The leaders of MDBs also got together in a hotel near Zurich Airport before the Davos conference, and in Washington, D.C., in the spring and fall, when the IMF and World Bank conferences were held. This means we would meet three times a year, and these meetings provided a good opportunity for frank discussions of issues between the presidents. Without prepared notes, we discussed capital increases, mobilization of private resources, relations with
governments, and economic conditions in each region, among other topics. The expansion of ADB’s lending capacity through capital consolidation, described in Chapter 12, attracted great interest from the presidents of other institutions, and inspired them to take measures to effectively utilize existing capital, albeit in different ways. In addition to these presidents’ meetings, the MDBs held frequent exchanges at the levels of vice-president, department, and field office. I was always puzzled by the criticisms by think tanks and others that the MDBs lacked coordination.

While I was ADB’s President, the meetings of the MDB heads were attended by the successive presidents of the World Bank: Jim Yong Kim, followed by Kristalina Georgieva, who served as acting president after Mr. Kim’s resignation (she is currently the IMF’s managing director), then David Malpass, who had previously served as under secretary of the Treasury under President Trump. The Inter-American Development Bank was represented by former Colombian ambassador to the US, President Luis Alberto Moreno, and the European Bank for Reconstruction and Development by its president, Sir Suma Chakrabarti, who had been born in India and served as a permanent secretary at the UK’s Ministry of Justice and the Department for International Development. The African Development Bank was initially represented by President Donald Kaberuka, who had been minister of finance and economic planning of Rwanda, and then by President Akinwumi Adesina, former minister of agriculture and rural development of Nigeria. The presidents of the four regional development banks, including myself, got along well because we were almost of the same age and shared a belief that, although we would closely cooperate with the World Bank, we were independent institutions representing the respective regions.

Beginning in the fall of 2016, leaders of new institutions joined this group, including AIIB President Jin Liqun and President K. V. Kamath of the New Development Bank, which was founded by the BRICS countries (Brazil, the Russian Federation, India, the PRC, and South Africa). President K. V. Kamath comes from the Indian private sector and is a calm and well-built gentleman. When he was young, he once worked at ADB. It was useful to exchange opinions with him on the key aspects of each institution’s operations. He came to ADB headquarters in Manila, and I visited the New Development Bank’s headquarters in Shanghai.

In Washington, D.C., I also occasionally met Naoko Ishii, CEO of the Global Environment Facility, to discuss cooperation on biodiversity and the environment in Asia and how to manage international organizations. She had been a junior colleague of mine at the Japanese Ministry of Finance,
joining 3 years after me. She had worked at the World Bank and the IMF for a long time and has solid self-assurance. She and I shared the understanding that, while top executives have a lot of authority, their responsibility is so big that they are lonely in a sense, and they can’t do their job unless they are tough.
REFORMING ADB’S OPERATIONS, CONSOLIDATING THE CAPITAL BASE, AND FORMULATING NEW STRATEGIES

ADB Was Created through the Wishes and Efforts of the People in Asia

To understand the nature of ADB as an organization, it is useful to know its history. Before the 2017 Annual Meeting in Yokohama, which celebrated ADB’s 50th anniversary, we published a book describing its 50-year history, Banking on the Future of Asia and the Pacific: 50 Years of the Asian Development Bank. It was a 2-year project, and was written by Peter McCawley of the Australian National University, who is from Australia and had served as an executive director of ADB. He was supported by ADB’s staff, including Director General of the Pacific Department Xianbin Yao, who had a nearly 30-year career at ADB. I myself was deeply involved from the concept-forming stage. The Japanese version was published in 2018 through Keiso Shobo. I asked Shinji Asanuma, visiting professor at Hitotsubashi University and formerly director of the Asia I Department of the World Bank, and Hirohisa Kohama, professor emeritus at Shizuoka
University, both of whom I had known for a long time, to supervise the translation into Japanese. I would like here to take a look at ADB’s early years, using this book as a reference.

Japan’s contribution to the initiative to establish ADB was significant. In the early years after World War II, Japan had the idea of supporting the peace and development of Asia and linking this to its own development, partly based on its sense of remorse with regard to the war. As early as 1956, Japanese Finance Minister Hisato Ichimada proposed to US Secretary of State John Foster Dulles a new financial institution for Southeast Asia. In 1957, during an overseas visit in Asia, Japanese Prime Minister Nobusuke Kishi announced that Japan intended to sponsor the establishment of a regional development fund to provide long-term loans to Asian developing countries, with resources coming largely from Japan and other industrial countries such as Australia, the US, and Canada. These initiatives did not gain momentum at that time.

However, many people in Asia, including the Prime Minister and bankers of Sri Lanka—then called Ceylon—began to call for the creation of an international organization to support Asia’s development. This was the time when many countries had achieved independence and were looking for ways to develop. At first, ideas included an organization to share development knowledge, based on the Organisation for Economic Co-operation and Development (OECD) as a model, and also a private financial institution for trade financing, to be based in Hong Kong, China. However, gradually, support converged around the idea of establishing a multilateral development bank (MDB) like the Inter-American Development Bank, which had been established in 1960.

Takeshi Watanabe, who later became the first President of ADB, played a central role in Japan in terms of promoting the idea of establishing ADB. Mr. Watanabe joined the Japanese Ministry of Finance in 1930 and studied in the UK. After the war, he served as director-general of the Minister’s Secretariat, as well as the head of the department that negotiated with the US occupation forces, an executive director of the IMF and the World Bank, and vice-minister of finance for international affairs. After retiring from the government, while working as a private consultant, he supported the education of children whose parents were working abroad. He seems to have been a fair person with a wealth of international experience and wisdom. Regarding the establishment of ADB, a study group, including Mr. Watanabe, was formed in Tokyo in 1963. The group consulted closely with leaders of the Japanese government, including Eisaku Sato, who would later become Prime Minister. By August 1963, this study group
had drafted a document, *Private Plan for the Establishment of the Asian Development Bank*, which included most of the fundamental elements of the future ADB.

Separately, in 1961, the United Nations Economic Commission for Asia and the Far East (ECAFE), which was headquartered in Bangkok and would later become the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), invited three Asian experts, from India, Japan, and Thailand, to discuss ideas about a regional bank in Asia. The expert invited from Japan was Saburo Okita, a prominent economist who was working at the Economic Planning Agency at the time and would later become foreign minister under Prime Minister Masayoshi Ohira. In January 1963, at an ECAFE meeting, a 28-year-old Thai economist, Paul Sithi-Amnuai, presented a concrete proposal for a regional bank in Asia.
Beginning in March 1963, ECAFE hosted a number of preparatory meetings in Manila, Bangkok, Tehran, Wellington, and other cities in the region for the establishment of an organization to support Asian developing countries. The initial talks were led by ECAFE Executive Secretary U Nyun from what is now Myanmar. Takeshi Watanabe was invited to join a group of experts, which had its first meeting in October 1964, and the two streams of thought—from the Tokyo study group and ECAFE—came together.

In June 1965, the consultative committee to make concrete preparations for the establishment of ADB had its first meeting, and Mr. Watanabe attended it. Florentino P. Feliciano, a Filipino lawyer, helped write the ADB Charter. He drafted and redrafted the Charter’s provisions by incorporating diverse opinions of various countries and learning from the experiences of other MDBs. Eugene R. Black of the US, a former World Bank president and an investment banker, encouraged ADB to mobilize resources from capital markets. Officials from the Japanese Ministry of Finance, Masao Fujioka and Tadao Chino, also participated in the preparation for the establishment of ADB. They would later become the fourth and seventh Presidents of ADB, respectively. Mr. Fujioka also served as the first director of the Administration Department after ADB was established.

Japan did take the initiative, but ADB was established thanks to the enthusiasm and support of a great many people in many countries. Actually, Japan was making efforts in the planning stage not to stand out too much. It had been only 20 years since the war ended, and Japan had not yet earned trust in Asia. Support from the US, which played a major role in the stability of the Asia and Pacific region, was essential to the creation of ADB. Some in the US thought that a development bank in Asia was not necessary because the World Bank already existed. However, the US at the time was intensifying its intervention in the Viet Nam War, and understood the strategic significance of helping Asia, particularly the Association of Southeast Asian Nations (ASEAN), on the economic front as well. After receiving a briefing from Eugene R. Black, US President Lyndon B. Johnson issued a statement supporting the establishment of ADB on 20 April 1965.

As it turned out, the US became a founding member of ADB, with the same equity and voting shares as Japan. Currently, the US and Japan each has a 15.6% share in equity and 12.8% in voting rights. As mentioned in Chapter 4, their share in voting rights is lower than that in equity because a certain number of basic votes is allocated to each member as a consideration for countries with small shareholdings. Together, the two countries have
veto power for important matters that require support from more than two-thirds of members and more than 75% of voting rights for passage, such as approval of a new member and a capital increase. However, in reality, it is difficult to think of situations where such a veto would be necessary.

At present, use of private sector funds to meet the enormous needs for infrastructure in Asia is being discussed widely. An organization like ADB belongs to the public sector, but it is a development organization and a bank at the same time. It leverages its capital invested by the governments of the members to issue bonds and raise funds, and uses those funds to provide loans. In this sense, ADB is a financial intermediary that utilizes private funds of bondholders. Nonregional members such as the US, Canada, and European countries were essential to raise ADB’s credibility so that it could raise funds in the global capital markets on more favorable terms.

In contrast, the Inter-American Development Bank had the US as its founding member when it was established in 1960, and Japan and European countries joined later. The African Development Bank was established in 1964, and initial members consisted of African countries only. Some countries that had long been European colonies wanted ADB to involve only Asian countries. Japan, however, believed that the US, Canada, and Europe needed to participate so that ADB could raise funds smoothly in the capital markets, contribute to the stability of Asia and the Pacific, and become a truly international organization.

As for the location of the ADB headquarters, several cities, including Manila, Tehran, and Tokyo, competed as candidates. In the end, at a meeting held in Manila on 30 November 1965, the decision was made by a vote of 18 Asian countries that planned to join ADB on a one-country, one-vote basis. Indonesia is a founding member but had not announced its intention to join at that time. The voting took 2 days. U Nyun of ECAFE, who oversaw the voting, walked around with his hat, and delegation leaders put their ballots in it. In the first round of votes, Tokyo received eight votes, one short of majority. Tehran received four; Manila three; and Bangkok, Singapore, and Kuala Lumpur one each. The countries that had received only one vote withdrew, and U Nyun announced that he would conduct a second ballot the following day. That night, the delegates were invited to a reception on the S.S. Roxas, a large yacht for the Philippine President, in Manila Bay. Incoming President of the Philippines Ferdinand Marcos stayed up until 4 a.m. to root for Manila and entertain wavering delegates.

In the second ballot, conducted at noon the following day, Tokyo received eight votes, Manila six, and Tehran four. In the third round, which
was cast soon thereafter, Manila won nine votes, exceeding Tokyo, which still received only eight votes. There was one abstention. This was the moment when it was decided that the headquarters would be in Manila. Iran, ruled at the time by Mohammad Reza Shah Pahlavi, declined to apply for membership in ADB after all.

The failure to bring the headquarters to Tokyo was a big shock for Japan, but it also symbolized the fact that Japan did not control ADB. By locating its headquarters in Manila, ADB became closer to the center of Asia and more approachable for developing countries. It also meant that ADB could take advantage of local employees who were proficient in English.

Takeshi Watanabe was keen to host the headquarters in Tokyo but was reluctant to become its first President. Despite rising pressure from Asian countries, he continued to decline the nomination by the Japanese government. However, in the end, he relented and told Japanese Prime Minister Eisaku Sato that he was ready to accept the nomination. ADB’s
Inaugural Meeting was held at the Tokyo Prince Hotel in Shiba, Tokyo, on 24 November 1966. When the time came to select the President, Japanese Finance Minister Takeo Fukuda, who chaired the meeting, called the delegates for nominations. The finance minister of Thailand nominated Mr. Watanabe. After a pause, it became clear that there were no other candidates. Then Mr. Fukuda said, “In the absence of any other nominations, I have great pleasure in declaring Mr. Takeshi Watanabe duly elected President of the Asian Development Bank,” and the entire audience applauded.

ADB started on a small scale, with the opening ceremony held in Manila on 19 December 1966. At the beginning, it had 31 members (19 regional and 12 nonregional); it now has 68 members (49 regional and 19 nonregional). Initially, the Board of Directors had 20 members (10 executive directors and 10 alternate executive directors), while the number of employees was only 40. Currently, there are 24 members of the Board of Directors, and the number of staff is over 3,500.

The initial staff members, in addition to Japanese Ministry of Finance official Masao Fujioka, included Tasuku Takagaki, who was seconded from the Bank of Tokyo, and Toyoo Gyoten, who was seconded from the Japanese Ministry of Finance and became an advisor to President Watanabe. Later, Mr. Takagaki became president of the Bank of Tokyo, then the first president of the Tokyo-Mitsubishi Bank in the 1990s. Mr. Gyoten served as vice-minister of finance for international affairs in the Japanese Ministry of Finance in the 1980s, then became chair of the Board of the Bank of Tokyo. He recently retired from the Institute for International Monetary Affairs as president, and is now its honorary advisor. When I joined the Research Division of the International Finance Bureau in the Japanese Ministry of Finance in 1978, Mr. Gyoten was director of the division. He has given me advice occasionally since then. It was especially helpful, before I took office as the President of ADB, to hear from him stories of ADB’s early years.

ADB’s inaugural loan had to wait until January 1968, when the Board of Directors approved a loan to the Industrial Finance Corporation of Thailand. This is because President Watanabe was particular about picking a good inaugural project. He thought that it was necessary to gain investors’ confidence in the capital market. The first bond issue was in 1969, 3 years after the establishment of ADB. That year, ADB issued bonds in Germany denominated in the mark. In 1970, it issued bonds in Austria (in schilling) and in Japan (in yen).

Until then, international organizations and foreign companies had not issued bonds in the Tokyo market to raise funds in yen, so this was the first example of a so-called Samurai bond (yen-denominated bond issued by a
non-Japanese entity). ADB President Watanabe visited the relevant agencies in Japan, including the Ministry of Finance and the Bank of Japan (BOJ), to help with various approval processes for the bond issue. The 6 billion yen ADB bond issued in November 1970 carried a coupon rate of 6.4% and was managed by a six-company syndicate group led by Nomura Securities. The trustee banks were the Industrial Bank of Japan, the Bank of Tokyo, and the Fuji Bank. Since then, Samurai bonds have become a means for ADB to raise funds in capital markets. However, most developing countries now choose to borrow loans denominated in the US dollar (some in euro). Recently, it has become expensive to raise the yen with Samurai bonds and swap the funds into dollars. For these reasons, Samurai bonds are not being used much, unfortunately.

In 1971, ADB received an AAA rating in the US and issued a dollar-denominated bond on the New York Stock Exchange. To issue bonds in the US, ADB needed to obtain approval from key states because the states were in charge of investor protection regulations.
For the 50th anniversary of ADB, I had an interview with the British magazine *The Economist* and was asked what the achievements of ADB had been in the past 50 years. I replied that ADB’s achievements could be summarized in a description of its three functions. First, ADB has supported infrastructure and social sector projects in developing countries with a combination of its financial resources and expertise. Second, it has promoted good policies in developing members through high-level dialog, technical cooperation, capacity-building, and policy-based loans. When members have faced a crisis, ADB has also provided emergency fiscal assistance on the condition that certain policies will be implemented. Third, ADB has played the role of a catalyst for cooperation and building friendly relations at the regional level. As part of this role, ADB supports subregional cooperation efforts in Central Asia, South Asia, Southeast Asia, the Pacific, and the Greater Mekong Subregion.

**ADB’s Operations by Country and Sector**

The starting point of ADB’s operations was foreign currency-denominated sovereign loans to governments, mainly in dollars.

Here is a brief explanation of the process today. At the beginning of each year, a rough target for the amount of loans to each country is set, based on the country partnership strategy, which is formulated once every 5 years, and the financial situation of ADB. Then, ADB sends a programming mission to each country and discusses new loans for the year (and for the following 2 years) with the government (usually the Ministry of Finance). Other topics remaining from the previous years are also discussed. Through its field offices, ADB exchanges views on new projects with the relevant ministries and agencies in charge of infrastructure, education, health, and other sectors.

Projects are assessed not only for their technical, economic, and financial aspects but also for their contribution to poverty reduction, narrowing disparities, and promoting gender equality, as well as their impact on the environment and society. This is why it takes a considerable amount of time to formulate a project. In response to a loan request from the government, a proposal paper for the Board of Directors is prepared, which goes through various procedures such as checks and coordination by the relevant ADB departments and discussions by the vice-presidents.

If approved by the President, the paper is typically distributed to the members of the Board of Directors at least 3 weeks in advance for their consideration. The directors also discuss the project with the authorities of
the countries they represent. If requested, staff will go to the director’s office to provide explanation. A meeting of the Board of Directors is chaired by the President, and the vice-president in charge provides an explanation of the project. The directors then ask questions and state their opinions, including whether they support it, abstain, or are against it, and the director general and other staff in charge respond to them. The President may add comments. There may be just one round of questions and answers, or this process may be repeated several times. If a majority of voting rights supports the project, it is approved. Subsequently, a loan agreement is signed with the government, and the loan will be disbursed as the project progresses.

Since the establishment of ADB, the priority areas for its loans and major borrowers have changed. Although the energy and transport sectors have always had large shares, the proportion of agriculture was high at first, reflecting concerns about food shortages in Asia at the time. Following the Asian currency crisis and the global financial crisis, policy-based loans for public sector and financial sector reform were frequently utilized.

Originally, ADB loans were aimed primarily at providing “foreign currency funds” needed to import machinery and equipment for infrastructure projects. This so-called “project loan” is disbursed as a large project progresses to procure machinery and equipment and to pay for construction costs. However, cases emerged where project loans could not meet the need to serve a large number of procurements with a small amount of foreign exchange. The first “program loan” was extended for an agricultural expansion program in Bangladesh in 1978 to cover imports needed to repair and maintain irrigation pumps.

Since 1987, program loans have been used as “policy-based loans” under which implementation of a “policy matrix” (a list of specific measures) for structural reform is set as a condition for disbursement. In this case, the loan is not necessarily meant to cover the foreign exchange part of projects. What is important is that, as fiscal support, the loan can be disbursed quickly to encourage reform efforts. In the 1980s, the IMF and the World Bank also increased their funding for structural adjustments in Africa and Latin America. In addition, when a project is delayed because the government cannot allocate sufficient budget resources to the local currency portions (such as construction work done locally), the loan coverage needs to be extended to include the local currency portions, hence program loans for fiscal support become necessary.

Let us look at ADB’s operations decade by decade. In the first decade, from 1966 to 1976—although the first loan was not approved
until 1968—ADB’s operations totaled $3.1 billion based on approvals, including loans and grants. Of the total, 23% went to the energy sector (transmission and distribution facilities, new power plants, etc.), 20% to transport (highways and rural roads, etc.), 19% to agriculture (irrigation, increasing fertilizer production, etc.), and 18% to finance (supporting capital investment and financing for small- and medium-sized enterprises through local development finance institutions). Geographically, Southeast Asia accounted for the largest share, with 52%, followed by East Asia with 21%, including the Republic of Korea (ROK) and Taipei, China.

During the second decade, from 1977 to 1986, ADB operations totaled $16 billion. Sector-wise, agriculture took the largest share, with 31%. Geographically, Southeast Asia continued with the largest share, with 52%.

In the third decade, from 1987 to 1996, the operation total was $43.1 billion. In terms of sectors, energy took 26% and transport 24%, while the share of agriculture went down to 16%. Following accession of the People’s Republic of China (PRC) and the start of lending to India, Southeast Asia’s share decreased to 41% of the total, while South Asia accounted for 27% and East Asia 16%.

During the fourth decade, from 1997 to 2006, the total amount was $64.1 billion. Of the total, 27% went to transport, 23% to the financial sector, 15% to energy, 9% to the public sector, and 9% to agriculture. The increase in the finance and public sectors arose from policy-based loans extended after the Asian currency crisis for fiscal and foreign exchange support to affected countries, including Thailand, Indonesia, and the ROK. Geographically, Southeast Asia accounted for 28% of the total, while South Asia took 27% and East Asia 25%. The three subregions had similar shares, reflecting the emergency assistance to the ROK after the Asian currency crisis and increased demand in the PRC.

In the fifth decade, from 2007 to 2016, the total amount increased sharply, to $140.3 billion. On the demand side, there was a surge in loans following the global financial crisis. ADB also provided fiscal support to Nepal following an earthquake and to Kazakhstan following the fall in resource prices. In terms of ADB’s financial base, the significant increase in loans was made possible through the consolidation of the capital base by merging operations and capital of the two windows, Ordinary Capital Resources (OCR) and the Asian Development Fund (ADF), which is described below. Although the merger took place in 2017, the decision to enable this had been made in 2015. Because there is a time interval between a loan’s approval and its actual disbursements, we increased loan approvals and loan signings ahead of the actual merger.
To extend loans, ADB leverages its OCR, which members take a stake in, and issues bonds to raise funds. The interest rate on an ADB loan consists of the cost of funding through bond issue plus a certain spread. Revenue from the spread covers ADB’s payroll and other expenses, while the remaining profits subsidize the ADF (a grant-only window after the merger) and are also added to the OCR capital as reserves. The paid-in capital in the OCR is basically invested in US Treasury notes and other assets, and the returns on such investments also contribute to ADB’s profits.

In addition to sovereign operations, which extend loans to governments and loans to government-affiliated entities backed by government guarantees, ADB began its “private sector operations,” or “nonsovereign operations,” in the 1980s, including loans, equity investment, and guarantees to private companies in developing members without government guarantees. In some cases, requests from private firms are made to the Private Sector Operations Department. In other cases, ADB finds companies trying to raise funds through markets in Singapore and Hong Kong, China, and joins private banks to get involved. Recently, staff members of the Private Sector Operations Department have been dispatched to field offices in several countries for a long period of time to strengthen ties with the private sector on the ground. In 2019, ADB established a small office in Singapore to strengthen private sector operations.

ADB provides “concessional”—low-interest and long-term—loans to low-income countries. As detailed below, since 2017, after the merger of the OCR and the ADF, these concessional loans have been provided from OCR, but from 1974 to 2016 they were made from the ADF, a “special fund” under the ADB Charter consisting of voluntary contributions. Special funds were stipulated in the ADB Charter as resources separated from OCR, intended to provide technical assistance and concessional loans and to be funded by voluntary contributions. In 1966, at ADB’s Opening Ceremony in Manila, the first President Takeshi Watanabe had already highlighted the importance of special funds. In 1968, Japan provided 7.2 billion yen—equivalent to $20 million—to establish the Agricultural Special Fund, and Canada contributed an equivalent of $25 million to establish the Multi-Purpose Special Fund. From these special funds, concessional loans were made. The creation of the ADF in 1974, a general special fund with contributions from many donors, was a major step forward.

Moreover, in 2005, ADB added grant assistance to its ADF operations, which does not require repayment. Currently, grant assistance is the only operation of the ADF.
Let us take a look at ADB’s operations in 2019, the most recent year. On a “commitments basis”—that is, counting loans for which agreements had been signed—ADB provided $20.8 billion in loans and $0.85 billion in grants, amounting to a grand total of $21.7 billion. Incidentally, the amount of new loans can be counted on the basis of “approvals,” in which loans are counted when they are approved by the Board of Directors, whereas on the basis of “commitments” the amounts are counted when loan and other agreements are signed with the governments or private entities. Even after a loan agreement is signed, it still takes a while for the funds to be disbursed and leave ADB. In the case of a project loan, it may take several years, as funds are disbursed as the project progresses. However, in the case of a policy-based loan, which is basically fiscal assistance, the disbursement is quick: all the funds are wired at once to the borrower government’s account when the conditional policies are implemented.

Looking at the distribution of $21.7 billion in 2019 by country (Figure 4), India, the Philippines, and Pakistan top the list. However, the ranking varies considerably each year. Indonesia, Bangladesh, and Viet Nam are also important borrowers, although Viet Nam did not borrow much in 2019. Of the $3.2 billion provided to India’s government, the $900 million loan for Mumbai’s subway was a large one. In India, private sector operations also reached $970 million, including a $750 million loan for railroad electrification. The Government of the Philippines received $2.5 billion, of which a single railroad project in the suburbs of Manila accounted for $1.3 billion. This is the largest single project loan ADB has ever provided. In Pakistan, the government received a total of $2.2 billion in 2019, and a large part of it was a $1.8 billion policy-based loan mentioned in Chapter 8. The PRC was once a major borrower on a par with India, but its share is decreasing.

Next, looking at the distribution of $21.7 billion in 2019 by sector, transport had the largest share, reflecting the large subway and railway projects in India and the Philippines. These days, large shares of project loans belong to transport (roads, railways, and urban public transport), energy (renewable power generation such as hydropower and solar, and transmission lines), and water supply and sanitation. In 2019, public sector management had a relatively large share as a result of the abovementioned policy-based loan for Pakistan, as well as two policy-based loans for Indonesia, each worth $500 million, for the development of capital markets and for fiscal reform.
The amounts for health and education may be small but that does not mean that these sectors are unimportant. ADB’s support in the health sector has been highly appreciated by recipient countries, even if the amount is not so large. Examples include measures against malaria in Papua New Guinea (PNG), measures against HIV in the border areas of the Greater Mekong Subregion, and support for the introduction of universal health insurance systems in various countries. Similarly, in the education sector, ADB has undertaken many technical and vocational education and training projects in South Asia and Southeast Asia, and these have had a significant impact on social development. Support in social sectors such as health and education is also important as a model for countries to implement similar projects using their own funds.

**ADB’s Finances and Operations**

This is a bit technical, but I would like to explain the relationship between ADB’s finances and operations, according to Table 6. Although the following mechanisms are different from those of private financial institutions in many ways, they are generally the same for MDBs including the World Bank.
Table 6: ADB’s Main Operations

<table>
<thead>
<tr>
<th></th>
<th>2019 Commitments Excluding Cofinancing</th>
<th>End-2019 Outstanding</th>
<th>End-2019 Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>OCR (loans)</td>
<td>20.80</td>
<td>114.4</td>
<td>51.9*</td>
</tr>
<tr>
<td>Regular</td>
<td>17.16**</td>
<td>85.1***</td>
<td></td>
</tr>
<tr>
<td>Concessional</td>
<td>3.64</td>
<td>29.3</td>
<td></td>
</tr>
<tr>
<td>ADF (grants)</td>
<td>0.84</td>
<td></td>
<td>1.3</td>
</tr>
<tr>
<td>Technical assistance</td>
<td>0.24</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Including paid-in capital of $7.2 billion and ordinary reserves of $44.7 billion (comprising accumulated retained earnings ($13.2 billion) plus a one-time income ($30.7 billion) in 2017 due to the merger of the ADF loan assets with OCR).
**Including the nonsovereign operations of $3 billion.
***Excluding equity investments to private firms of $1.6 billion.

Loans are financed from the Ordinary Capital Resources (OCR)
- Middle-income countries (per capita income ≤ $6,975): regular OCR at quasi-market interest rate
- Low-income countries (per capita income ≤ $1,175): concessional terms with long maturities and low interest rates

Asian Development Fund (ADF) grants are offered to countries with limited debt repayment capacity

Technical assistance includes capacity building, project preparation, and research

As noted in the comparison with the Asian Infrastructure Investment Bank (AIIB) in Chapter 6, the authorized capital of ADB’s OCR was $148.0 billion at the end of 2019. (Because the amount of capital is officially determined in special drawing rights (SDRs) of the IMF, it was SDR106.4 billion at the end of 2019. The dollar amount changes owing to fluctuations in the exchange rates between currencies constituting SDR, that is, the US dollar, the euro, the Japanese yen, the British pound, and the Chinese renminbi.) This includes $7.2 billion in paid-in capital that is paid in cash by member governments using their tax revenues, and $140.7 billion in callable capital to be paid by members at the request of ADB in the unlikely event that ADB cannot meet its obligations for its outstanding bonds.

ADB had five general capital increases in the OCR by 2009, but only $7.2 billion in total has been received in cash in 54 years. In the fifth general capital increase in 2009, a 200% capital increase (a threefold
increase) was conducted, but the ratio of paid-in capital to the authorized capital was only 4%. The so-called “equity capital” on the balance sheet is $51.9 billion, which is the total of $7.2 billion in accumulated paid-in capital and $44.7 billion in reserves (which comprises $13.2 billion in accumulated retained earnings, $30.7 billion in an increase of reserves achieved by the merger of the OCR and the ADF at the beginning of 2017, and other small items of $0.8 billion). The merger is described in the next section.

Many people believe that the AAA rating—which means the default risk is very low—is based on the existence of the abovementioned callable capital (especially from developed countries). However, among the members that support ADB’s high rating with the callable capital, only a handful of countries—Germany, Australia, and Canada—have an AAA rating themselves. Japan’s rating is A+, and that of the US is AA+ (Standard & Poor’s).

Rather, the main reason for the AAA rating of ADB bonds is that ADB’s equity capital (the sum of paid-in capital and reserves) is sufficiently high for the outstanding balance of its loans. This is basically the same as the capital adequacy ratio, which is a key point in regulating private banks. Other reasons include the following:

(i) ADB’s operations are rooted in a sound business model.
(ii) MDBs such as ADB have a preferred creditor status, which allows them to receive priority repayments from borrowers before creditors of bilateral official loans (e.g., Japan International Cooperation Agency (JICA) loans to developing countries) and private banks’ loans.
(iii) ADB is also supported by the callable capital.

ADB’s balance of outstanding loans at the end of 2019 was $114.4 billion and the equity capital was $51.9 billion. So, based on a simple calculation, ADB’s capital adequacy ratio was 46%. Given the current credit risk and distribution of loans, the floor for the capital adequacy ratio to maintain the AAA rating is currently estimated to be 34%. Therefore, ADB still has large headroom to increase its loans without another capital increase. Given the time it takes for the loans to be disbursed, the amounts of new loan approvals and commitments can be increased early.

ADB loans are divided into “quasi-market interest rate loans” and “concessional loans.” It is called the quasi-market interest rate because ADB’s financial intermediation based on its credit brings the interest rate lower than what a developing country would be able to obtain by issuing
bonds on its own. As already discussed, loans at quasi-market interest rates are further divided into “sovereign” loans (loans to government or government-guaranteed loans to state-owned enterprises, local governments, etc.) and “nonsovereign” operations (loans as well as equity investments and guarantees to private sector companies).

In 2019, sovereign loans provision based on quasi-market interest rates totaled $14.2 billion (on a commitment basis). This type of loan was the starting point for ADB and the only financing operation of ADB at its inception. Those loans are mostly denominated in US dollars, but some are in euro. The interest rate consists of ADB’s cost of raising funds from the market (semiannual variable interest rate) plus a spread of 50 basis points or 0.5%. If the repayment period is long, a term premium of up to 20 basis points is added. (ADB plans to increase the term premium for higher-income countries such as the PRC in 2021.) The average repayment period, calculated from the repayment schedule and the grace period (the period in which repayment is not required) of each loan, is approximately 20 years.

In 2019, the total amount of new nonsovereign operations (on a commitment basis) was $3 billion. Nonsovereign operations include equity investments and guarantees in addition to loans provided to private companies without government guarantees. Although most loans are denominated in US dollars, local currency loans are growing. A nonsovereign loan’s interest rate consists of the funding cost plus a spread of approximately 300 basis points, depending on the risk and the repayment period. The repayment period tends to be shorter than that of a sovereign loan. The first nonsovereign operation was equity participation in an ROK investment company in 1983. In 1986, ADB began lending to private firms including financial institutions. It was in 1988 that the guarantee operations started. Although not specified in Figure 4, the breakdown of $3 billion was $2.7 billion in loans, $160 million in equity investments, and $180 million in guarantees. Nonsovereign operations’ total volume had been $670 million in 2013, the year I became ADB’s President, so there was a four-and-a-half-fold increase from 2013 to 2019.

The proceeds from the spread above the funding cost (plus the proceeds from the equity investment and guarantee operations) cover ADB’s expenses and risks (loan loss reserves), and a part of the remaining profits is transferred to the ADF, which provides grants to lower-income countries, while the rest is added to reserves of the capital as retained earnings and helps ADB make future loans.
Concessional loans are only provided to the governments of lower-income countries, so they are all sovereign loans. In 2019, their total was $3.6 billion. The main borrowers, in the order of lending volume, were Pakistan ($900 million), Uzbekistan ($520 million), Bangladesh ($370 million), Nepal ($360 million), Cambodia ($270 million), Myanmar ($230 million), and the Lao People’s Democratic Republic (Lao PDR) ($140 million). The top three countries also received general loans with quasi-market interest rates.

Concessional loans have low interest rates and long repayment periods. For a standard concessional loan, the repayment period is 32 years, with a grace period of 8 years; the interest rate is 1% during the grace period and 1.5% thereafter. However, some countries with relatively high income are also eligible to borrow loans with quasi-market interest rates. For these “blend” countries, a concessional loan has a repayment period of 25 years (with a grace period of 5 years) and an interest rate of 2%. Concessional loans used to be made from the ADF, which was established in 1974. As described below, the lending operations of the ADF were merged with the OCR account at the beginning of 2017. Concessional loans are now made from the OCR account.

A “grant” is financial assistance that does not require repayment and may be provided to low-income countries that are recognized as having low repayment capacity. This modality was added to ADF operations in 2005. At the beginning of 2017, the ADF became an account for grant assistance only. So, the ADF, which had originally been created to provide concessional loans, now has a completely different purpose. In 2019, a total of $850 million was provided as grant assistance. Afghanistan received $350 million, Tajikistan $120 million, the Kyrgyz Republic $100 million, the Pacific developing member countries and Maldives $250 million in total, and Cambodia, the Lao PDR, and Myanmar a total of $40 million. As mentioned above, Cambodia, the Lao PDR, and Myanmar also receive concessional loans, and the amounts of loans they receive dwarf those of grants.

A total of $33.8 billion has been donated voluntarily to the ADF so far, and the 34 donors include India; Indonesia; Hong Kong, China; the PRC; the ROK; Singapore; and Taipei, China. Japan’s share is significant, at 38%. Since voting rights are based solely on contributions to the authorized capital of the OCR, contributions to the ADF do not increase the donor’s voting rights. The amount of ADF contributions is much larger than that of the paid-in capital of the OCR account, and this means the ADF donors are spending more of their taxpayers’ money on the ADF than on OCR.
Of the cumulative ADF contribution of $33.8 billion (plus interest income and investment income from surplus capital), $30.7 billion was merged into the reserve portion of the OCR account at the beginning of 2017 as capital to be used for concessional loans. Currently, the remaining operating capital for the now grant-only ADF is $1.3 billion (at the end of 2019). Together, the total is $32.0 billion, smaller than the $33.8 billion of contributions. This is because grant assistance simply drains the resources, and the costs associated with the operation of the ADF are deducted.

The amount of new ADB loan and grant agreements has increased, as Figure 5 shows. In 2013, when I became ADB President, it was $13.9 billion. By 2019, it had increased by 56% to $21.6 billion. On the demand side, needs for ADB’s assistance have grown for various reasons, including infrastructure, climate change, and changes in resource prices. On the supply side, the capital consolidation at the beginning of 2017, described in the next section, tripled the OCR; based on this, ADB can now leverage the capital and issue more bonds and mobilize more funds.

Incidentally, grants are also being provided from “trust funds,” which donors voluntarily set up with their contributions for specific purposes. New grant commitments from these sources totaled $180 million.
in 2019. This figure is not included in Table 6 because it does not belong in ADB’s own funds, and is instead categorized as cofinancing. Although 34 trust funds are currently active, Japan’s trust funds for poverty reduction, promotion of private infrastructure initiatives, and scholarships are much larger than the others.

The Japan Scholarship Program Trust Fund every year helps approximately 150 young government officials and central bank staff in Asia to study in master’s programs at universities in Japan and other Asian countries. When I spoke at the International University of Japan in Niigata, which is one of these universities, I was greeted by the students who had received the scholarship. When I gave a presentation at the central bank of the Philippines, a senior female official who had received the scholarship to study at the Graduate School of Policy Science at Saitama University in Japan, the predecessor of the National Graduate Institute for Policy Studies (GRIPS), came up to me and told me that she had met many kind teachers there and learned a lot, including about the Japanese experiences of modernization in the 19th century and high growth in the post-war period. The significance of the scholarships funded by Japan is also noted in the section about Myanmar in Chapter 7.

Technical assistance has been one of the basic functions of ADB since its inception and is used for capacity-building, project preparation, and sector research. Currently, technical assistance is provided from the Technical Assistance Special Fund, which is replenished on the occasion of the quadrennial ADF replenishment. Many of the 34 trust funds mentioned above also have the stated goal of providing technical assistance.

**Expansion of Lending Capacity through the Consolidation of Capital by Merging Ordinary Capital Resources and the Asian Development Fund**

As mentioned earlier, ADB has two accounts: the OCR and the ADF. In the past, the former was mainly the funding source for loans to middle-income countries, whereas the latter was the source for low-interest, long-term (concessional) loans and grants to low-income countries. In January 2017, ADB implemented a big reform by merging the concessional loans of the ADF into the OCR. This meant that the cumulative contributions for the ADF’s concessional loans (the ADF’s capital) were merged into the capital of the OCR. The remaining ADF was tasked with grant operations only.
While discussing this reform, I explained that this merger would allow ADB to increase the annual volume of new loans and grants by 50% compared with 2014 without the need for a new general capital increase for the OCR. As shown in Figure 5, this was indeed achieved.

I thought this proposal would benefit all parties, so it should be promoted. First, for middle-income countries borrowing at quasi-market interest rates, the merger would enable them to borrow more, since ADB’s financial base would be strengthened by the fact that the OCR would be able to issue more bonds backed by the larger capital. Second, countries that had been borrowing concessional loans would also be able to borrow more, because the donor funds provided to the ADF could now be leveraged through issuing bonds to obtain more funds for lending, whereas in the past ADF funds were simply circulating through lending and repayments. Third, grant-recipient countries would be able to receive larger grants, because lending more through the OCR would increase ADB’s profits and therefore the transfers from the OCR to the ADF, thereby strengthening the financial base of the ADF.

Fourth, the members supporting the OCR would be able to avoid the burden of a general capital increase for a while, owing to the increased capital adequacy of the OCR. In particular, developed countries suffering from fiscal difficulties tend to be reluctant to increase ADB’s capital. Fifth, for the ADF donors, which had been asked to make significant contributions every 4 years to provide more concessional loans from the ADF, their burden would be significantly lighter because the ADF would deal only with grants.

ADB began examining this plan to expand the lending capacity in August 2013, 4 months after my appointment. According to my datebook, I first heard the idea of the merger when I was briefed by various departments about their operations, sometime in July 2013, in relation to the discussion of a “sustainable lending level.” At that time, the OCR’s equity capital on the balance sheet was $17 billion and the balance of outstanding OCR loans had reached $53 billion, with a capital adequacy ratio of 32%. There were concerns that, for the OCR to stay above the minimum capital-to-loan-balance ratio of 25%—which had been deemed necessary to maintain the AAA rating—ADB would have to start restricting the amount of new loans.

At one of these briefing sessions, Mikio Kashiwagi, ADB’s Treasurer, mentioned the idea of merging the OCR and the ADF as an unfeasible, “crazy idea.” However, the idea of the merger at that time was to return the ADF funds to the donors, and then have them contribute these
funds back to the OCR. There were two problems with this idea. First, the donor governments’ budgetary rules and laws would require the legislature to take steps to release the returned funds, and it would be almost impossible for the US Congress and others to do so immediately. The second problem stemmed from the fact that, at that time, the cumulative contributions to the ADF amounted to about $33 billion and were quite significant compared with the amount of authorized capital, which was about $150 billion. Since voting rights are allocated based on contributions to the authorized capital, and Japan’s cumulative contributions to the ADF had amounted to 38% of the total, Japan’s contribution and voting rights would increase greatly if contributions to the ADF were converted to OCR capital.

On 9 August 2013, senior managers gathered in my office to talk. These included Bindu Lohani, the most senior vice-president at the time, Managing Director General Rajat Nag, Treasurer Mikio Kashiwagi, General Counsel Christopher Stephens, and Director General in charge of Strategy Kazu Sakai. At that time, I came up with the idea of integrating the ADF’s concessional loan operations with the OCR, and “directly transferring” the corresponding cumulative contributions into the “reserves” section of the capital in the OCR’s balance sheet. Then, the donor members’ legislature would not need to take action, and there would be no impact on voting rights if the funds went into the reserves. Unlike the International Development Association (IDA), which provides concessional loans and grants to low-income countries within the World Bank Group, the ADF was a special fund established within ADB and not a separate legal entity based on separate articles of agreement. That was another reason why I thought it was possible to transfer the operations and funds within ADB without legislative action in the donor governments.

Then, someone asked whether Japan was prepared to make such contributions to the OCR regardless of voting rights. I replied that Japan had contributed so much to the ADF that its share in the cumulative ADF contributions was far greater than its share in the OCR capital, and that Japan had done this knowing that its ADF contributions was not tied to voting rights. In addition, I thought that, as long as the ADF maintained its objective of supporting low-income countries, both the executive branch and the legislature in Japan and other countries would not have a problem with the capital integration.

My own experience helped me come up with this idea and make this decision. When I was working at the Ministry of Finance of Japan as a director in charge of budgets for the Ministry of Foreign Affairs and the
Ministry of Economy, Trade, and Industry, I learned about various methods to provide equity investments and subsidies from the national budget to the balance sheets of the Japan Bank for International Cooperation (JBIC), the Japan National Oil Corporation, the People’s Finance Corporation, and the Credit Insurance Department of the Japan Small and Medium Enterprise Corporation. When I was director of the Development Policy Division of the International Bureau, I took the lead on a reform to change the method for the 100% debt reduction of official development assistance (ODA) loans based on international debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative. Previously, Japan’s debt relief for the HIPCs had been implemented by providing debt relief grants in return for debt repayments. The reform, implemented in fiscal year 2003, changed it to a more straightforward and transparent method of debt forgiveness—that is, writing off the yen loan assets in the balance sheet of JBIC. This was a reform that turned around the Japanese government’s thinking, so I recalled this experience when we discussed the ADF–OCR merger.

I also served as director-general of the International Bureau and was responsible for the budget and bills related to capital increases of international organizations including ADB, so I was familiar with the domestic budget procedures for equity participation in international organizations and knew well what issues the legislature would focus on when deliberating such matters. In addition, I was in charge of the international tax treaties—bilateral treaties that stipulate the elimination of double taxation, lighter or no withholding of tax on interest dividends to the other country, and how to deal with transfer prices, among others—in the 1980s in the Tax Bureau. At that time, I learned what international commitments required ratification by the Parliament and what the executive branch could do, and this turned out to be useful as well.

There is an idea that debt-based leverage should not be used to finance concessional loans to low-income countries, and all MDBs had embraced this since the IDA was established in 1960. The idea was formed based on low-income countries’ lack of creditworthiness and large economic gaps between donors and low-income countries. However, as far as ADF loans are concerned, there is no country other than Afghanistan whose debt has been “forgiven,” although several countries, including Viet Nam, Cambodia, and Myanmar, have “rescheduled” their debts. Also, as the economic gaps between industrialized countries and low-income countries narrow, it is too inefficient to use the financial resources of donor members with tight fiscal conditions as concessional loans without leveraging them.
In fact, before the merger, the ADF had a $33 billion balance, which could have been regarded as “capital” of the ADF, but the outstanding balance of concessional loans was only $27 billion.

Starting in August 2013, the staff of the Treasury Department; the Office of the General Counsel; the Strategy, Policy, and Partnerships Department; the Controller’s Department; and others made concerted efforts to realize this merger idea. When I visited the US Treasury Department in October 2013 and explained this idea to Under Secretary Lael Brainard, she initially said that such a proposal was a nonstarter. Her concern was that contributions to the ADF were intended for low-income countries, and integrating the funds into the OCR would amount to out-of-purpose use. This was a very legitimate concern. However, I politely reiterated that the proposed merger would not result in out-of-purpose use because it would bring the biggest benefit to low-income countries receiving grant and concessional loans, that it would relieve the burden of OCR capital increases for large shareholders such as the US, and that it would benefit ADF donors, especially developed countries.

She did not say on the spot that the US would support the proposal, but she seemed to feel that it could be considered. To expand support for the proposal, ADB’s Vice-President of Finance and Risk Management Thierry de Longuemar and staff members also visited various countries and explained the proposal to rating agencies and audit firms. I met Professor Jeffrey Sachs of Columbia University, who has international clout in the field of development, and asked for his support as well. Scott Morris, a senior researcher at the Center for Global Development in Washington, D.C. (former deputy assistant secretary for development finance at the US Treasury), published a very positive independent review.

In the end, we obtained support from all 67 members of ADB at the time and all 34 ADF donors, including the US, by May 2015. After various preparations, the merger took effect at the beginning of 2017. On 1 January 2017, the ADF transferred $30.8 billion in concessional loans and other assets to the OCR without charge. It expanded OCR reserves as profits, so to speak, and the OCR’s equity capital nearly tripled, from $17.2 billion to $48 billion. A total of $2.5 billion was left in the ADF for grant operations. Contributions of donors during the ADF replenishment period of 2017 to 2020 are made sequentially, so this acts as a working capital buffer.

OCR’s equity capital, which nearly tripled as a result of the merger, supported the subsequent increase in lending and, through the transfer of profits to the ADF, the increase in grant assistance. Since lower-income
countries with lower credit ratings had newly joined as OCR borrowers, ADB needed to raise the minimum capital-to-loan-balance ratio to maintain the AAA rating of ADB bonds. However, at the same time, the OCR portfolio (loan assets) became more diverse, and the concentration of loan-loss risks was reduced. As a result, the minimum capital-to-loan-balance ratio was raised from 25% to just 35%. As mentioned above, the capital-to-loan-balance ratio at the end of 2019 was 46%. As such, the merger created a large amount of headroom and ADB was now able provide more loans.

As COVID-19 is having a serious impact on the economy of developing countries, ADB is providing new funding quickly and on a large scale to deal with it. The expansion of lending capacity through the capital merger turned out to be very beneficial in this unexpected situation.

The capital merger attracted the attention of other MDBs from the preparation stage. When I met with World Bank CEO Kristalina Georgieva and Inter-American Development Bank President Luis Alberto Moreno, I was asked to provide a detailed explanation. The method of utilizing the existing balance sheet and leveraging to increase lending capacity was subsequently recommended by the G20, and the World Bank and the Inter-American Development Bank later adopted it, although in different ways.

At the ADF donors meeting in May 2016, donors agreed on ADF12, a funding replenishment (i.e., capital increase) for 4 years from 2017 to 2020. As a result of the capital merger, the estimated size of grant aid for 4 years increased by 70% over the previous 4-year period to $3.3 billion. Grant assistance for low-income countries such as Afghanistan and the Pacific island countries was strengthened. Overall, assistance to low-income countries, including grants and concessional loans, increased by 40% to $16 billion. However, the donors’ contributions to ADF12 totaled $2.5 billion, which was nearly half the $4.8 billion of the previous replenishment period (2013–2016). One of the accomplishments of ADF12 was the significant increase in contributions from emerging countries such as India and the PRC.

Incidentally, as a matter of theoretical possibility, if ADB is to be liquidated after completing its mission in the future, the remaining assets will be allocated to the members according to their shares in equity capital, assuming that ADB follows the principles of liquidation of ordinary corporations. This means that the stakes of ADF donors, which contributed significantly to the expansion of the reserves, will not be recognized. Therefore, I asked the staff to record the cumulative contributions of the 34 donors in all future annual reports, and to document that, when ADB is liquidated and after ADB’s debts are repaid and paid-in equity contributions
are returned to the shareholders, the remaining assets should be returned to the ADF donors first.

**ADB’s New Strategies**

Asia has achieved remarkable development and has greatly reduced poverty, but at the same time the region faces many challenges. It needs to address persistent poverty (see Table 7) and growing disparities; support fragile and small island countries; achieve gender equality; mitigate climate change (reducing carbon dioxide emissions) and adapt to it (preparing for rising sea levels and disasters resulting from climate change); strengthen efforts to protect the environment, including measures to combat marine pollution; respond to urbanization and an aging population; ensure food security; and promote rural development.

<table>
<thead>
<tr>
<th>Year</th>
<th>Population (million)</th>
<th>No. of Poor (million)</th>
<th>Poverty Rate (%)</th>
<th>Share of Developing World Poor (%)</th>
<th>No. of Poor (million)</th>
<th>Poverty Rate (%)</th>
<th>Share of Developing World Poor (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>2,759 (52%)</td>
<td>1,507</td>
<td>54.6</td>
<td>79.7</td>
<td>2,274</td>
<td>82.4</td>
<td>78.2</td>
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<tr>
<td>1999</td>
<td>3,172 (53%)</td>
<td>1,231</td>
<td>38.8</td>
<td>71.4</td>
<td>2,241</td>
<td>70.6</td>
<td>73.5</td>
</tr>
<tr>
<td>2005</td>
<td>3,417 (53%)</td>
<td>875</td>
<td>25.6</td>
<td>65.0</td>
<td>1,942</td>
<td>56.8</td>
<td>70.7</td>
</tr>
<tr>
<td>2011</td>
<td>3,644 (52%)</td>
<td>497</td>
<td>13.6</td>
<td>52.0</td>
<td>1,495</td>
<td>41.0</td>
<td>65.3</td>
</tr>
<tr>
<td>2015</td>
<td>3,791 (52%)</td>
<td>264</td>
<td>7.0</td>
<td>36.2</td>
<td>1,100</td>
<td>29.0</td>
<td>57.2</td>
</tr>
</tbody>
</table>

PPP = purchasing power parity.

*Ratio to the world population (5.3 billion in 1990; 6.0 billion in 1999; 6.5 billion in 2005; 7.0 billion in 2011; 7.35 billion in 2015).

Source: ADB estimates based on World Bank’s PovcalNet data.

In order to address various challenges and meet the changing needs of developing countries, ADB itself must have a clear strategy and continue to transform itself. I think my office was visited most often by the staff members of the Strategy, Policy, and Partnerships Department, followed by those of the Budget, Personnel, and Management Systems Department; the Economic Research and Regional Cooperation Department; and the Office of the General Counsel.
During my term as ADB’s President, I was aided by three successive directors general in charge of strategy who were highly skilled and full of great ideas: Kazu Sakai, who had come from the Overseas Economic Cooperation Fund (OECF) of Japan; Indu Bhushan, who used to be a high-ranking government official in India and had a doctorate in health economics from Johns Hopkins University; and Tomoyuki Kimura, who used to handle ODA loans at JBIC, the successor to the OECF. In addition to considering the long-term strategy, the Strategy, Policy, and Partnerships Department has a wide range of extremely important tasks, including the allocation of annual loans and grants to countries and sectors, studying new lending instruments, negotiations for the quadrennial replenishment of the ADF, and negotiations for the general capital increase, when necessary.

The first strategic item that I set my hand to as President was the Midterm Review (MTR) of Strategy 2020, a long-term strategy that the Board of Directors had approved in early 2008 during the term of President Kuroda. This review had been planned before I joined ADB, and I was first consulted about it in July 2013. The initial review proposal that staff brought appeared to be spending too much energy on verifying if Strategy 2020 was still valid. I thought it would be fine to create a substantially new strategy after conducting necessary reviews.

This was because, after Strategy 2020 was created, the global financial crisis that began with the bankruptcy of Lehman Brothers in September 2008 hit, and the United Nations began discussing the Sustainable Development Goals (the SDGs, adopted in September 2015), and discussions on climate change were becoming more active. In Asia, too, the PRC and other middle-income countries had made further progress and debates could be had on how ADB would respond to these developments.

Going further back in time, prior to Strategy 2020, the independent panel of eminent persons established to consider ADB’s long-term strategy issued its report in March 2007. Established in June 2006, the panel was chaired by Supachai Panitchpakdi, former deputy prime minister of Thailand and secretary-general of the United Nations Conference on Trade and Development. Members included Isher Judge Ahluwalia, a renowned Indian economist; Nobuyuki Idei of Japan, former chair and CEO of Sony; Caio Koch-Weser of Germany, former managing director of the World Bank; Justin Yifu Lin, a professor at Peking University (later chief economist at the World Bank); and former US Treasury Secretary Lawrence Summers. The report, written during the period of “Great Moderation,” stated, “In this transformed Asia, the traditional model of development banking—transferring outside
official capital—will become redundant.” It also suggested that ADB become a more focused and specialized organization, rather than a “full-service” development bank like the World Bank.

The Board of Directors approved Strategy 2020 in early 2008, following further internal review. Based on the panel’s report, the new strategy focused on the following four points:

(i) It identified the five core areas of operation—infrastructure; the environment (including climate change); regional cooperation and integration; the financial sector; and education—demonstrating that there are challenges that ADB can continue to help solve even if poverty reduction is achieved.

(ii) At the same time, ADB should change its all-around approach; it should enhance its capability by focusing resources in limited areas considering the division of work with the World Bank and other donors.

(iii) ADB should strengthen its support for private sector contributions to development.

(iv) ADB should validate the results of its operations with the Results Framework.

Going back to the MTR of Strategy 2020, ADB was able to make this public in April 2014 after relatively quick consideration. The reason ADB did not call this a new strategy was that I wanted to avoid a show of launching a new strategy shortly after taking over as President. The MTR indicated 10 strategic priorities and was characterized by the following. It took a stance that ADB’s scope of operations could be somewhat broad as long as it was needed by the members. In particular, it placed an emphasis on the health sector and the response to rapid urbanization. It made it clear that ADB would continue to engage with middle-income countries, especially in relation to the issues of climate change and the environment. It strongly encouraged ADB to improve its own operations, such as by speeding up procedures, building skills, and improving client services.

ADB then began to prepare a new long-term strategy in 2015, announcing this as Strategy 2030 in July 2018. In the process of preparing this, I chose not to set up a group of prominent experts. Instead, ADB tried to have as many dialogs as possible with officials of developing countries that are supported by ADB, officials of developed countries that play a major role in contributing to the ADF, academics and experts involved in development, especially Asian scholars and female scholars, and civil society groups.
I attended the roundtable meetings in Manila, London, Tokyo, and Washington, D.C., and at each meeting I listened to the opinions of about 20 experts who represented various countries. Various evaluations by ADB’s own Independent Evaluation Department were also important inputs.

The new strategy established seven key operational priorities: (i) addressing remaining poverty and reducing inequalities; (ii) accelerating progress on gender equality; (iii) tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability; (iv) making cities more livable; (v) promoting rural development and food security; (vi) strengthening governance and institutional capacity; and (vii) fostering regional cooperation and integration.

It also defined three guiding principles for ADB’s operations: (i) using a country-focused approach; (ii) promoting innovative technology; and (iii) delivering integrated solutions combining diverse expertise. Clear numerical targets were set for climate change, gender, private sector operations, and cofinancing.

Regarding climate change, ADB had set a goal of doubling its annual approvals for climate change-related projects and programs from $3 billion in 2014 to $6 billion by 2020. ADB announced this goal in 2015, prior to the 21st Conference of the Parties (COP21) and ahead of other MDBs. The goal was achieved a year ahead of schedule in 2019. In fact, given the population and the size of the economy in Asia and the Pacific, whether the international goals—such as those under the SDGs, the COP21’s Paris Agreement on Climate Change, and the Sendai Framework for Disaster Risk Reduction—can be achieved will depend largely on the success of this region. Preety Bhandari from India, chief of ADB’s Climate Change Thematic Group, contributed significantly to ADB’s efforts to address climate change. She is an expert hired during my term as President. Before then, she had headed the Finance, Technology, and Capacity Building Program in the Secretariat of the United Nations Framework Convention on Climate Change.

Below are the main elements of Strategy 2030. As a basic stance, ADB as a whole will provide assistance in a wide range of areas, but at the country level it will select areas of support by considering its comparative advantages, the specific demands of the country, and areas where ADB can add value within the scope of its capabilities and financial resources. ADB will also prioritize assistance to vulnerable countries such as countries in fragile and conflict-affected situations and small island developing states. On the other hand, ADB’s assistance to middle-income countries with a relatively high
income will be more selective, focusing on areas such as climate change and the environment, where ADB can provide the greatest value.

In relation to poverty reduction, ADB will support promoting the creation of high-quality employment, including support for small and medium-sized enterprises and microenterprises. In addition, ADB will help improve the quality of education and training, and help governments adopt universal health coverage in the health sector. With regard to gender equality, ADB will support the expansion of women’s education and employment opportunities, and design and implement projects in such a way that they help empower women—for example, building more restrooms for women on highways, training female engineers in infrastructure projects, etc. In response to climate change, ADB aims to support mitigation and adaptation measures in at least 75% of the number of committed projects by 2030, based on a 3-year rolling average of sovereign and nonsovereign operations.

As for efforts to make cities more livable, ADB will implement cross-sector projects to promote health, urban transport, gender equality, and environmental sustainability in cities. In the area of rural development and food security, ADB will support efforts to improve the coordination of agricultural value chains and enhance food safety. With regard to strengthening governance, ADB will maintain its environmental and social safeguards for all projects and programs and implement anticorruption measures. On regional cooperation and integration, ADB will expand support for regional public goods and joint efforts to tackle climate change, pollution, and infectious diseases.

ADB will expand its nonsovereign (private sector) operations and increase their share in the total number of projects to one-third by 2024. ADB will pursue development effectiveness as a key objective of its private sector operations, while ensuring profitability and commercial sustainability. Ensuring profitability in nonsovereign operations not only is important to ADB’s financial well-being but also serves as evidence that the project is economically viable. Risk management for nonsovereign operations will become more important as they expand. Within ADB, the independent Office of Risk Management evaluates credit risk, market risk, and operational risk (e.g., business disruptions owing to disasters), and calculates the amount of capital required.

Recently, in ADB’s private sector operations, a growing number of firms are seeking to borrow in local currencies to avoid foreign exchange risks. ADB’s Treasury Department is raising funds by not only issuing bonds denominated in the currencies of relatively large countries, such as India, Indonesia, the Philippines, and the PRC, but also increasing bond
issues in the currencies of countries like Armenia, Georgia, and Kazakhstan. The Treasury Department is also focusing its efforts on issuing so-called thematic bonds, such as Gender Bonds (raising funds for projects that empower women) and Green Bonds (raising funds for projects related to the environment and climate change), to meet the new needs of investors.

ADB will continue to strive to be a “stronger, better, faster” organization. It will secure a solid financial base to support future operations, and strengthen personnel and field offices to enhance its presence in the developing member countries. During my tenure, ADB opened field offices in Bhutan and Timor-Leste, and established liaison offices in all Pacific developing member countries except Fiji and PNG, where ADB already had field offices. In addition, with regard to procurement, ADB will accelerate the procedures by expanding the use of recipient countries’ national systems, while ensuring the objective of fair competition. Moreover, ADB will strengthen its cooperation with civil society organizations in project design, implementation, and monitoring.

ADB will use a “Results Framework” that evaluates results quantitatively to enhance operational effectiveness. It will take a “One ADB” approach and bring together the collective knowledge and expertise of the entire organization to effectively implement Strategy 2030.

In January 2016, to raise the level of organizational knowledge and skills, ADB established seven sector groups (energy, transport, urban, water, education, health, and finance), and eight thematic groups (including climate change, gender, rural development, and regional cooperation and integration). ADB decided to appoint a leader and set up a secretariat for each group and place them as knowledge centers in the Sustainable Development and Climate Change Department, to build and share skills and knowledge that span the five regional departments and the Private Sector Operations Department, and to promote collaboration with external partners such as other international organizations, private companies, and universities.

For example, the Gender Equality Thematic Group’s Chief Sonomi Tanaka had worked at an investment bank in Japan, studied in the UK, and served as a gender consultant for the World Bank prior to joining ADB. She has promoted gender mainstreaming initiatives to incorporate elements that will empower women in projects undertaken by each department, and hosted gender-related seminars at ADB’s headquarters and in various countries.

However, many staff members who are sector and thematic experts still belong to regional departments and the Private Sector Operations Department, and are evaluated by the respective director general. These cross-departmental groups will not function effectively unless top leaders
consistently demonstrate their importance through their actions. I hosted regular meetings with these groups and invited vice-presidents and directors general of regional departments; the Private Sector Operations Department; and the Strategy, Policy, and Partnerships Department. I asked the division directors in charge to make presentations and encouraged them to exchange opinions freely. I did not think formal and rhetorical presentations in which presenters simply read the manuscript were very meaningful, and tried to elicit active debates by asking straightforward, fundamental questions.

Regarding the One ADB approach, I thought it was especially important to enhance the coordination between the five regional departments responsible for sovereign operations and the Private Sector Operations Department in charge of nonsovereign operations. The regional departments have a large number of experts who have solid connections with the governments of developing member countries in such sectors as energy and transport. It is beneficial to get them involved in ideas to enlist private sector participation in infrastructure investment, for example, from the early stages. The Private Sector Operations Department has many people with backgrounds in investment banks and has a different culture to that of the regional departments. Still, I often said that people were not born sovereign or nonsovereign and they could grow as individuals by meeting and learning from each other.

Improving the Quality and Increasing the Volume of Infrastructure Investments

Since the global financial crisis, the expansion of investment in infrastructure has been a major topic of discussions at the G20 and the IMF, among others, based on a view that it would support global growth. Regarding climate change mitigation and adaptation measures, too, how to incorporate them into infrastructure projects in such sectors as energy, transport, and water is important. As for the quality of infrastructure, I think it was an important step that the G20 countries agreed on the Principles for Quality Infrastructure Investment at the Osaka Summit in 2019.

During my term, I put my most focused efforts on the initiative to utilize more advanced technology in infrastructure projects. Through exchanging views with the leaders of forward-thinking companies in various countries, I realized how important it was for these companies to stay engaged in Asia’s development. Procurement in ADB-financed projects has to go through international competitive bidding and the contract is basically
awarded to the lowest-price bidder that meets certain criteria. However, in addition to price factors, it is becoming more important to adopt more advanced technology, owing to several factors.

First, in tackling global warming, it is necessary to promote the use of cleaner, disaster-resilient technologies. Second, there is growing interest in the durability or maintenance of infrastructure, and we need to consider the cost of not just the initial investment but indeed the entire life cycle. Third, ADB’s support is small compared with the entire infrastructure demand of a country; by implementing more advanced projects, ADB can provide a model for governments in putting in place similar projects on their own and help enhance their development effectiveness.

As many members have developed into middle-income countries, the transfer of advanced technology and knowledge is more important than ever. Procurement standards that focus on price alone may force the government who does the actual procurement to keep using conventional, old technology. ADB has tried to encourage the introduction of more advanced, cleaner technology by making changes to project designs, bidding specifications, and methods for evaluating the bids to select the winner.

In developing infrastructure, it is also necessary to increase the speed at which projects are approved and implemented. When I spoke with officials of developing members, they sometimes indicated their dissatisfaction with ADB’s slowness. Processes within the recipient government often take a long time too, but it is true that ADB takes a considerable amount of time to ensure the fairness of the procurement process, assess environmental impact, including the preservation of biodiversity—for example, the potential impact of a project on a rare hawk species—and social impact, including relocation of residents, and implement appropriate safeguards. These considerations represent areas in which developing countries themselves can strengthen their efforts, and what they learn from ADB’s projects can be beneficial.

However, this does not mean that ADB can continue with overly cumbersome and time-consuming procedures. ADB is making progress on reforms such as streamlining procedures to take advantage of digital technology, delegating authority to field offices, and, depending on the situation, adopting procurement procedures and environmental and social standards based on borrowing countries’ systems.

Engaging the private sector in infrastructure development is also an important theme. In many countries, the government itself is responsible for infrastructure development, but the private sector is often involved in power generation, toll roads, ports, airports, and water supply. ADB is
expanding its operations in private sector-driven infrastructure, including projects to develop renewable energy such as solar, geothermal, and wind, and telecommunications projects.

There are also an increasing number of opportunities to adopt the “public–private partnership” (PPP) approach. It is said that, if long-term financial resources of pensions and life insurance companies in developed countries are harnessed to meet the demand for long-term financing for infrastructure development in developing countries, both sides will benefit. However, in practice, there are many challenges. For example, in the case of a PPP project to develop a toll road, even if the government is willing to sign a long-term contract to grant certain rights to a private operator, many questions need to be answered. Who will be responsible for land acquisition? Can regulations about pricing be changed in the future? Who will assume the risk of losses if revenue projections turn out to be wrong? How can a dispute between the private partner and the government be resolved?

If the PPP approach is used carelessly just to avoid the government’s fiscal burden, it could end up with an abandoned project, or taxpayers and users having to pay more for the project later on. To succeed with a PPP, the government must set firm rules and have the perspective of utilizing not only the funds but also the technology and management skills of the private sector for the sake of efficiency. ADB has helped India, Indonesia, and Viet Nam develop PPP laws and regulations and create a department dedicated to PPP within their government. An example of this is the airport expansion project in Cebu, Philippines, where ADB’s Private Sector Operations Department provided loans, along with private banks, to meet the funding needs of the private operator.

The key to promoting the use of PPP lies in finding a bankable project and structuring it as a PPP project. Based on this recognition, ADB established the Office of Public–Private Partnership, and began providing transaction advisory services for the formulation of PPP projects. To recruit the head of this new office, ADB posted the opening publicly. As a result, Ryuichi Kaga and then Yoji Morishita, both of whom had worked at JBIC, served in the post. In January 2016, the Asia Pacific Project Preparation Facility was established with contributions from Japan, Australia, and Canada to support the activities of this office.

To meet the huge financial demand for infrastructure in Asia, ADB is expanding its cofinancing operations with MDBs such as the World Bank and AIIB, as well as bilateral donors such as JICA, the German Development Bank (KfW, Kreditanstalt für Wiederaufbau), the French Development Agency (AFD, Agence Française de Développement), and private financial
institutions. In 2019, new loans with ADB’s own resources amounted to $21.7 billion, while cofinancing reached $11.8 billion.

During my tenure, I also focused on sharing expertise with governments, the private sector, and research institutes around the world, to promote the adoption of advanced technology in infrastructure development. ADB regularly hosted important forums on sectors and themes such as clean energy, sustainable transport, urban development, water, and digital technology, and published several important reports on infrastructure demand and disaster risk management, among others. While this was not necessarily related to infrastructure, ADB expanded technical cooperation based on ADB’s knowledge, including the expertise of such departments as the Office of the General Counsel (e.g., the establishment of laws on landownership by women), the Treasury Department (e.g., sovereign wealth funds and investing foreign exchange reserves), and the Office of Anticorruption and Integrity (anticorruption measures).

Changes in the Trends of Aid after World War II and ADB

ADB’s operations and strategies have reflected the situation in developing Asia as well as the international community’s prevailing views on development aid. Based on my experience working in the Japanese Ministry of Finance as a budget examiner in charge of economic cooperation and as director in charge of ODA policies, ODA loans, and debt relief, I published an 80-page paper entitled “Japan’s ODA and Trends in International Aid” in Finance, a public relations magazine of the Ministry of Finance, in 2005. This section is mainly based on that paper.

International development assistance for low-income countries is provided by MDBs such as ADB and the World Bank, and by bilateral ODA agencies such as JICA. Views about what sort of development assistance is necessary and effective have changed in many ways since the end of World War II.

The issue of development—namely, how to increase agricultural production to keep pace with population growth, increase industrial competitiveness and national strength, improve the lives of people, and address the problems of alienation and poverty—is a fundamental one in the field of economics, and has been addressed by pioneers such as Adam Smith, David Ricardo, Thomas Malthus, and Karl Marx. However, it was after World War II that the topics of development of, and assistance for, “developing countries” became major issues for economic theory and the international community.
The initial challenge for the World Bank, which had a major influence on the postwar evolution of development theory, was the reconstruction of Western countries damaged by war. However, at the same time, it set a goal of helping in the long-term development of poorer countries. The Articles of Agreement that established the International Bank for Reconstruction and Development (IBRD), the starting point of the World Bank, mention “development” as well as “reconstruction” as part of its purposes. IBRD began operations in 1946 and approved its first loan for the reconstruction of France in 1947. IBRD also provided loans for development to Chile in 1948 and to Ethiopia in 1950. Incidentally, the first loan to Japan was approved in 1953, after Japan joined IBRD in 1952.

Mainstream development theory at that time held that it was important to promote capital accumulation in developing countries to achieve economic growth that exceeded the rate of population growth. To do this, the government was expected to invest in basic economic infrastructure such as transport, energy, and telecommunications and drive the industrialization process.

The 1940s and the 1950s saw a string of Asian countries gaining independence, and the 1960s saw many African countries do the same. For developing countries that had just become independent, industrialization was considered necessary to secure a foundation for their national development. When they were reliant on agriculture, the terms of trade tended to worsen over time because productivity growth in agriculture was lower than that in the industrial sector. It was also said that prices of agricultural products did not increase as fast as those of industrial products. Therefore, the developing countries were expected to shift away or “take off” from that state.

The 1960s saw the establishment of the IDA, which formed the World Bank Group with IBRD, as well as the establishment of bilateral aid agencies including Japan’s OECF and of ADB in 1966. The system of international assistance for developing countries was thus formed, and the focus was on investment in infrastructure.

In the 1970s, a series of major developments disrupted the postwar world economic order, including the shift of major currencies to a floating rate system, oil shocks and a rise of resource prices, serious environmental problems, and the intensification of international capital movements. As a result, concepts such as “sustainable growth” and “environment-friendly growth” attracted a great deal of attention. At the same time, World Bank President Robert McNamara added “poverty reduction” and “job creation” along with growth to the organization’s objectives, emphasizing the need to meet “basic human needs,” and proposed a strategy for “redistribution with growth.”
In the 1980s, there was a strong backlash against the previous, interventionist, government-driven development policies, and neoclassical structural adjustment policies became mainstream. In the background of this shift was the recognition of failures, including the bloated public sector in many developing countries, persistent fiscal deficits, and inflation. Failures were also obvious regarding industrialization through “import substitution,” artificial efforts to stabilize primary commodity prices, and corruption associated with excessive regulation. The shift away from import substitution and interventionist policies was encouraged by the following facts: Latin American countries, which had implemented import substitution policies, had suffered hyperinflation and severe indebtedness; emerging economies in Asia had been able to grow rapidly through outward-oriented policies; and the economic slump of socialist countries and the PRC’s shift towards the reform and opening policy had become apparent.

As a result, in the 1980s, market-oriented policies—later named the Washington Consensus—were promoted in the development assistance world. They included disciplined fiscal and monetary policies, trade liberalization, privatization of state-owned enterprises, deregulation, and openness to foreign direct investment. The World Bank supported them through program-based Public Sector Adjustment Loans rather than traditional project loans. Similarly, the IMF supported countries facing balance-of-payments issues in the process of structural adjustments through the Structural Adjustment Facility or the Enhanced Structural Adjustment Facility.

However, in the end, it was hard to say that the neoclassical structural adjustment policy of the 1980s succeeded in putting developing countries on the growth path as expected. Rather, the debt problem may have become worse in sub-Saharan African countries. Criticism also grew that the donors used loan conditionalities to force policies that did not fully take into account the different conditions of various countries and regions.

In response, in the 1990s, aid trends that focused on poverty reduction in a broad sense, institutional and policy environments, and human development became a new mainstream. As an attempt to summarize the factors behind this shift, I would list the following:

(i) Failures of the market-fundamentalistic structural adjustment policies of the 1980s were recognized.

(ii) Amartya Sen, a professor at Harvard University from India who won the Nobel Prize in Economics in 1998, and others expanded the concept of poverty to include appropriate health and education opportunities and the right to empower human
potential, and the idea that the goal of development is to reduce
this broadly defined poverty gained momentum.

(iii) The end of the Cold War created an environment for more
objective evaluation of the governance of developing countries,
regardless of which side they were on in the global conflict.

However, this trend in development assistance did not completely
override the market-oriented thinking of the 1980s. Factors that distinguished
the new aid trend from the trend of the 1980s included a clear belief that
poverty reduction was the most important goal of development, recognition
that a country-specific approach based on the ownership of the developing
country was important, and increased awareness that poverty reduction and
human development efforts were the responsibility of the government and
the government must complement the market efficiently and effectively to
develop the economy.

ADB, under President Tadao Chino (1999–2005), formulated a
long-term strategic framework, the Poverty Reduction Strategy, in 1999; this
was followed in 2001 by Moving the Poverty Reduction Agenda Forward in
Asia and the Pacific. These documents declared that poverty reduction was
ADB’s overarching objective. In relation to this, the emphasis was placed on
health, education, gender, and environmental considerations. This strategy
of ADB was also in response to the Millennium Development Goals adopted
by the United Nations in 2000, and was necessary to ensure the continued
support of the developed members for the ADF.

During the period of the “Great Moderation” that followed,
expectations for the power of the market became stronger again, and, with
the so-called “aid fatigue” of donor countries, there emerged a view that the
role of MDBs should be more limited. In some ways, ADB’s Strategy 2020
may have partially reflected such a trend.

However, since the global financial crisis, the trend has been shifting
again towards the view that infrastructure investment needs to be expanded
to boost global growth, and the role of MDBs is important in dealing with
the issues of climate change and achieving the SDGs. Fundamentally,
infrastructure investment is essential for economic growth and for poverty
reduction through growth. At the same time, access to electricity, roads, and
clean water is a goal in itself, enhancing the welfare of the people directly
and reducing poverty in a broad sense. Without electricity, it is more difficult
to educate children and encourage women to work outside of their home.
Without roads, it is difficult to go to a good hospital, school, or workplace. Access to clean water is essential for healthy living and reduces the burden of household chores.

Taking a bird’s-eye view of ADB’s history and strategies to date, I would say that, although it has been influenced by international aid trends, its operating principles have not wavered much. ADB has been quite consistent in its continued strong attention to infrastructure for growth and poverty reduction, its practical, tailored approach, and its humble belief that it should listen to the client country first. ADB’s Strategy 2030 follows that tradition.
PART III: LEARNING FROM THE HISTORY OF DEVELOPMENT IN ASIA
CHAPTER 13

WHY DID ASIA DEVELOP?

Publishing Asia’s Journey to Prosperity

As I visited ADB’s regional members and saw for myself the situation of each, discussed with officials how ADB could help them, and thought about addressing new challenges for Asia as a whole, I came to think that it was important to learn more about the history of Asia’s development. As for the development of the Japanese economy, I was most inspired by Showa Keizai-Shi (Economic History of the Showa Era), written by Professor Takafusa Nakamura of the University of Tokyo (Iwanami Shoten, 1986).

What is Asia? How does Asia differ from Western countries? How do we summarize Asia’s history? What does the future hold for Asia? I grappled with these questions for a long time, as I had deep involvement with Western countries since I worked at the Japanese Ministry of Finance in areas related to the G7, the G20, and the International Monetary Fund (IMF). I thought it was also an important responsibility for ADB, an international organization in Asia, to reflect on the history of postwar development from various angles based on the experience of each member. When ADB started preparing the publication describing the 50-year history of ADB itself in 2015, as mentioned in Chapter 12, we had already decided that ADB should write a history of the development of Asian countries as a separate publication. We began writing Asia’s Journey to Prosperity after ADB published in 2017 Banking on the Future of Asia and the Pacific, a book on ADB’s 50-year history, and it took about 3 years to complete. We carefully reviewed the history of each country and ended up adding various
themes and ideas along the way. It was published in English in January 2020, and the Japanese version is expected to be published through Keiso Shobo within 2021.

Asia’s Journey to Prosperity: Policy, Market, and Technology over 50 Years, with more than 500 pages counting only the main text, is based on the eight conditions of economic development, as described in Chapter 5. Each of the 15 chapters discusses a thematic topic: (i) Overview of Asia’s development after World War II; (ii) The role of markets, the state, and institutions; (iii) Transformation of industrial structures; (iv) Modernization of agriculture and rural development; (v) Technological progress as a driver of growth; (vi) Education, health, and demographic change; (vii) Investment, savings, and finance; (viii) Infrastructure development; (ix) Trade, foreign direct investment, and openness; (x) Pursuing macroeconomic stability; (xi) Poverty reduction and income distribution; (xii) Gender and development; (xiii) Environmental sustainability and climate change; (xiv) The role of bilateral and multilateral development finance; and (xv) Regional cooperation and integration in Asia.

An often-used way to write such books is to have outside experts write the manuscript and put it together. However, I insisted that ADB itself should be the author because it had many excellent economists who were familiar with the status of Asian countries. At the same time, we invited a few dozen scholars from within and outside Asia who were familiar with Asia’s development to advise us. We received a lot of useful questions and comments on the factual aspects, items to elaborate, and messages to convey. I often said that many scholars in Asia had published their papers in English, and that finding excellent young scholars and female scholars and providing them with opportunities to shine was one of the roles of ADB. From Japan, we invited Professor Keijiro Otsuka of Kobe University (development economics) and Professor Tetsuji Okazaki of the University of Tokyo (Japanese economic history).

Yasuyuki Sawada, director general of the Economic Research and Regional Cooperation Department, and Juzhong Zhuang, senior economic advisor in the same department who hails from the People’s Republic of China (PRC), led dozens of economists from various countries in writing the book. One of them, Niny Khor, senior advisor to the President, is a young and brilliant economist from Malaysia who supported me with extensive knowledge and common sense on Southeast Asia and the PRC. Lei Lei Song, originally from the PRC, had gone to Australia in the 1990s and become a citizen, and had once taught at the University of Melbourne.
He had been my advisor, but even after he transferred from the Office of the President to the field office in India, he participated in the drafting sessions through videoconferences and provided an interesting perspective on comparisons between the PRC and India, among other topics. Staff from the Economic Research and Regional Cooperation Department provided invaluable assistance in collecting materials, creating charts, and organizing the manuscript.

I was also deeply involved from the concept stage, and we had hundreds of meetings about this book in my office, with as many as 10 participants involved on some topics. In particular, during the summer of 2019, when we were trying to get to the finish line, some editing sessions in my office lasted all day over several days. Director General Sawada likened them to “boot camps”—training camps for new military recruits in the US. Going along with the metaphor, I was a commanding officer and a new recruit at the same time.

Through discussions with economists from different countries who have PhDs in economics, I learned the history and circumstances of various countries that I hadn’t known, and was exposed to papers written by relevant scholars. It was an invaluable learning experience. For the President of a financial institution with lending operations, I put an inordinate amount of effort into this project. Sometimes I asked myself if I was spending too much time on it. However, I had a strong desire to have an Asian voice tell the history of Asia’s development objectively and comprehensively, and to publish a book that was very informative and easy to read, that would contain many interesting episodes, figures, and tables and would be read by many generations.

I was particularly aware of the famous 1993 publication by the World Bank, *The East Asian Miracle*. Compared with this publication, which was published a quarter century ago (and supported by the funding of the Japanese government), *Asia's Journey to Prosperity* has several unique features.

First, while *The East Asian Miracle* covered Japan, the newly industrialized economies (NIEs), and several Southeast Asian countries (Indonesia, Malaysia, Thailand), *Asia's Journey to Prosperity* covers all of developing Asia. It includes detailed discussions of reforms and the growth process in India, the PRC, and Viet Nam, among others, as well as of the transition of Central Asian countries from a centrally planned economic system.

Second, it covers issues that are becoming more important, such as climate change, marine pollution, population aging, and gender, as well as policy responses following the Asian currency crisis of 1997/98 and the
global financial crisis of 2008. The publication also highlights new global economic trends such as global value chains, the impact of new technologies such as artificial intelligence, and the importance of new services.

Third, written by many ADB economists from a wide range of members in Asia, North America, and Europe, this book is supported by a deep understanding of each country’s experience and balanced viewpoints. In addition, the participation in the publication of many ADB staff members who were involved in the actual work of lending and other activities means that the chapters include a great deal of expert knowledge and many concrete examples, on health, education, gender, agriculture, energy, transport, water, telecommunications, the environment, and climate change.

In the sections below, I would like to look back at how Asia’s development became possible. I reference Asia’s Journey to Prosperity but use my own words.

**Asia’s Development Outcomes Were Beyond Expectation**

When ADB was founded in 1966, Asia and the Pacific was very poor. At that time, the biggest challenge was how to secure sufficient food in the region, which had a large and growing population. Half a century later, Asia is at the center of the dynamic development in the world.

Fifty years ago, the prevailing view on Asia’s industrialization and development in general was pessimistic. In his classic 1968 book, Asian Drama: An Inquiry into the Poverty of Nations, Swedish economist Gunnar Myrdal—who would later win a Nobel Prize—portrayed a large part of developing Asia as a region in the “doldrums,” constrained by rapid population growth and governments’ inability to implement effective development policies. Japan had begun to modernize in the late 19th century and, around the time the book was written, it was in the midst of rapid postwar growth, but it was considered an exception in Asia.

The PRC was about to enter the chaos of the Cultural Revolution. India’s growth was hampered by socialist ideas, central economic planning, and import substitution policies. Hong Kong, China; the Republic of Korea (ROK); Singapore; and Taipei, China, which would later be called NIEs, had begun to grow but their future was still uncertain. The Association of Southeast Asian Nations (ASEAN) was established in 1967 by five founding member countries to promote regional peace. However, their strong growth through economic reform and the “flying geese development model” had not begun. The Central Asian countries were part of the Soviet Union. Viet Nam
was in the midst of the war, and many other countries in the region were suffering from conflicts and political instability.

The average gross domestic product (GDP) per capita of developing Asia (46 ADB regional developing members, including NIEs that have graduated from ADB loans) in 1960 was $330 in terms of 2010 prices. By 2018, it had increased 15-fold to $4,903 (Table 8). In the same period, global GDP per capita only tripled. As a result, developing Asia’s share in global GDP increased from 4% to 24%. If we include the developed countries in the region—Japan, Australia, and New Zealand—the region’s share in global GDP increased from 13% to 34% (Figure 6). The region’s performance in the past 50 years has far exceeded expectations, in terms of economic growth and social indicators, including those related to poverty reduction and improvements in health and education (Table 9).

### Table 8: GDP Per Capita over the Years (constant 2010 dollars)

<table>
<thead>
<tr>
<th>Country</th>
<th>1960</th>
<th>1990</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Developing Asia</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bangladesh</td>
<td>372</td>
<td>411</td>
<td>1,203</td>
</tr>
<tr>
<td>India</td>
<td>330</td>
<td>581</td>
<td>2,104</td>
</tr>
<tr>
<td>Indonesia</td>
<td>690</td>
<td>1,708</td>
<td>4,285</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1,354</td>
<td>4,537</td>
<td>12,109</td>
</tr>
<tr>
<td>People’s Republic of China</td>
<td>192</td>
<td>729</td>
<td>7,755</td>
</tr>
<tr>
<td>Philippines</td>
<td>1,059</td>
<td>1,527</td>
<td>3,022</td>
</tr>
<tr>
<td>Republic of Korea</td>
<td>944</td>
<td>8,465</td>
<td>26,762</td>
</tr>
<tr>
<td>Singapore</td>
<td>3,503</td>
<td>22,572</td>
<td>58,248</td>
</tr>
<tr>
<td>Taipei, China</td>
<td>919</td>
<td>7,691</td>
<td>23,113</td>
</tr>
<tr>
<td>Thailand</td>
<td>571</td>
<td>2,504</td>
<td>6,362</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>–</td>
<td>1,003</td>
<td>2,027</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>–</td>
<td>433</td>
<td>1,964</td>
</tr>
<tr>
<td><strong>Developed Asia</strong></td>
<td>9,685</td>
<td>37,519</td>
<td>49,857</td>
</tr>
<tr>
<td>Australia</td>
<td>19,378</td>
<td>35,913</td>
<td>56,919</td>
</tr>
<tr>
<td>Japan</td>
<td>8,608</td>
<td>38,074</td>
<td>48,920</td>
</tr>
<tr>
<td><strong>OECD Average</strong></td>
<td>11,499</td>
<td>27,337</td>
<td>39,937</td>
</tr>
<tr>
<td>United States</td>
<td>16,982</td>
<td>35,702</td>
<td>54,554</td>
</tr>
<tr>
<td><strong>World Average</strong></td>
<td>3,758</td>
<td>7,186</td>
<td>10,882</td>
</tr>
</tbody>
</table>

Data: ADB Key Indicators Database; World Bank, World Development Indicators; 2019 Revision of World Population Prospects; ADB estimates.

Figure 6: Regional Shares of Global GDP
(calculated in US dollars at 2010 prices)

1960
- North America 30.6%
- European Union 36.2%
- Rest of the World 6.6%
- Japan 7.0%
- PRC 1.1%
- Indonesia 0.5%
- Rest of DA 1.2%
- AUS & NZL 2.2%
- Latin America and the Caribbean 7.1%
- MENA 3.9%
- Sub-Saharan Africa 2.2%

2018
- North America 23.9%
- European Union 23.2%
- Rest of the World 5.6%
- PRC 13.1%
- India 3.4%
- Indonesia 1.4%
- Rest of DA 6.1%
- Japan 7.5%
- AUS & NZL 1.9%
- Latin America and the Caribbean 7.4%
- MENA 4.3%
- Sub-Saharan Africa 2.2%

ADB Regional Members 13.4%
Developing Members 4.1%
Advanced Members 9.2%
ADB Regional Members 33.5%
Developing Members 24.0%
Advanced Members 9.4%

AUS = Australia, DA = developing Asia, GDP = gross domestic product, MENA = Middle East and North Africa, NZL = New Zealand, PRC = People’s Republic of China.


Table 9: Development of the Social Sector

<table>
<thead>
<tr>
<th>Year</th>
<th>Developing Asia</th>
<th>OECD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extreme poverty rate (%) of population</td>
<td>–</td>
<td>68.1</td>
</tr>
<tr>
<td>Life expectancy at birth (years)</td>
<td>45.0</td>
<td>59.3</td>
</tr>
<tr>
<td>Infant mortality (per 1,000 live births)</td>
<td>137.8</td>
<td>80.1</td>
</tr>
<tr>
<td>Mean years of schooling (ages 20–24)</td>
<td>3.5</td>
<td>6.0</td>
</tr>
</tbody>
</table>

Reason for Asia’s Success: Is There an Asian Consensus?

What was the reason for such economic success in postwar Asia?

Over the past half-century, many Asian countries have received a “population bonus,” or “demographic dividend.” That is, the proportion of the productive-age population in the whole population has risen during the process of population growth. During this period, Asia has also enjoyed a favorable external environment, as developed countries have promoted open trade and investment. Asian countries have also benefited greatly from technological progress and globalization. This has been particularly true in recent years. In addition, the process of catching up to the developed countries, or “convergence,” has provided the opportunity to grow faster, given that Asian countries started from low-income levels.

However, favorable demographics and the external environment do not automatically guarantee economic growth. Basically, the economic success of Asia after the war was made possible by effective policies and strong institutions—government organizations, economic systems, and legal frameworks. Also helpful was each government’s pragmatism in policy selection, its ability to learn from successes and failures of its own and those of other countries, and its decisiveness in implementing reform. In many countries, forward-thinking leaders advocated a clear vision for the future of the country, and this was shared by many levels of society and supported by competent bureaucrats.

Although there were differences in terms of policy mix and timing, and sometimes policies were pushed back or reversed, successful Asian countries adopted the policies necessary for sustainable growth over the half-century. These included those listed in the eight conditions of economic development: (i) open trade and investment systems, (ii) infrastructure development, (iii) investment in education and health, (iv) macroeconomic stability, (v) governance, (vi) inclusiveness, (vii) vision and leadership, and (viii) political stability and good relations with neighboring countries.

Was there a special development model in Asia that differs from those in other regions, something that could be called an Asian Consensus? ADB’s position is that there was no such thing. All of the policies that Asian countries have taken can be explained using standard economic theories, and are not much different from those that the IMF and the World Bank have promoted as the so-called Washington Consensus.

If there were a difference, it would be that Asian countries used a practical approach to implementing these policies. In other words, they implemented the policies prescribed by the Washington Consensus, such as
import liberalization, welcoming foreign direct investment, deregulation of the financial sector, allowing exchange rates to reflect market conditions, and privatization of state-owned enterprises, more gradually and on a step-by-step basis. For example, liberalization of capital inflows was to be carried out only after the domestic financial sector developed sufficiently. This is very different from what happened in the Russian Federation, which took the so-called Big Bang approach to privatization of state-owned enterprises.

When I traveled to the PRC in February 2019, before I left ADB, I visited Peking University’s National School of Development and had an opportunity to exchange views with Professor Justin Yifu Lin, former chief economist at the World Bank, and several other professors, including young female associate professors. We discussed the impact of digital technology on the economy and society and how to achieve economic development in an environmentally friendly manner. Asia’s Journey to Prosperity also came up as a topic because we were at the final stage of writing it. Professor Lin’s position was that Asia had an approach that was clearly different from that of the Washington Consensus. He said that, even if the end goal was the same, we had to consider whether there were differences in the means of getting there.

On the other hand, in Asia’s Journey to Prosperity we claimed that there was nothing special like an Asian Consensus because we believed that the US, the industrialized European countries, and Asia shared many common experiences. In all cases, the vitality of the private sector was the main driver of growth; the most important role of the government was to create an enabling environment for private sector activities; and the government supported domestic industries in the early stages of development, including when the US was catching up with the UK.

Also, I tend to emphasize that the development model in Asia is not special partly because of a bitter experience I had. In the late 1980s and early 1990s when the strength of the Japanese economy was at its peak and considered a threat to the US, the so-called “Japan is different” argument was brought forth, and Japan was criticized for allegedly engaging in unfair competition based on its cooperation among politicians, business leaders, and bureaucrats. At the time, I was involved in the Japan–US Structural Impediments Initiative in the Tax Bureau and the International Finance Bureau of the Japanese Ministry of Finance. I felt that the US’ view of Japan was quite one-sided because of bias and presumption.

In addition, Asian countries developed differently and followed different models, and the word “consensus” does not fit well. For example, Japan basically developed through capitalism, except for a period from the
1930s, when the nation was marching toward World War II, to several years after the war. In the ROK, the founders of the conglomerates successfully developed the heavy and chemical industries backed by the vision of the government. The PRC went through a period of a centrally planned economy, then turned to market-oriented reform and opening-up policy in the late 1970s and transitioned to a socialist market economy. Viet Nam is achieving high growth by leveraging foreign direct investment.

I say that Asia followed a standard development model, and Professor Lin says it was a special approach. However, I think that, to a considerable extent, our difference is semantic. In the case of the PRC, I think there is a tendency to emphasize that a different model can succeed, because its political system is different from that of Japan and other developed countries.

**Objections to Stereotypes**

As mentioned in the above-described episode of the “Japan is different” argument, I have long thought that views on Asia’s economic success are too simplistic in some respects. Many scholars, especially those in the West, tend to overemphasize the role of state intervention and guidance. However, Asia’s success has essentially been achieved by the market and the private sector, which acted as the engine for growth. In fact, economies in the region started to grow faster after the government moved away from state intervention and adopted more market-oriented policies. Of course, the government has played a role in supporting private sector activities in areas where it was necessary.

Market-oriented policies are also rooted in the long history of commerce and technology in many Asian countries. For example, Japan has a tradition of merchants and a history of capital accumulation that go back to the Edo period (1603–1867). Good examples include the development of water transportation along Hozugawa River by Ryoi Suminokura, Sumitomo’s copper mines, Kounoike’s development of new rice fields, the Echigoya kimono fabric store that later became Mitsukoshi, and the futures trading of rice in Dojima. During the Meiji period (1868–1912), the government introduced modern institutions based on European and American models. It launched pilot projects in the industrial sector but sold the businesses to the private sector quickly. Many railways, including the Chuo and Tohoku lines, were built by the private sector. Nationalization of the railways began in earnest with the 1906 Railway Nationalization Act. I think the urban railway networks on the outskirts of Japan’s major metropolitan areas, built
and operated by private companies, are wonderful achievements and the Japanese should be proud of them. My appreciation became stronger after living in the US and Manila, which lack such urban railway networks. From the late Meiji period to the prewar Showa period (1926–1989), Japanese entrepreneurs competed to develop these railways along with residential areas, department stores, amusement parks, and other facilities. In Japan, electricity has always been supplied by private companies.

In India and the PRC, too, in the early 20th century, industries driven by domestic capital were thriving in the fields of textiles, paper, chemicals, steel, and shipbuilding. For example, India’s Tata conglomerate began in 1868 as a cotton trading company in Mumbai—the city known as Bombay of the British Indian Empire at the time—and expanded into cotton spinning, hotels, and steel-making. I was impressed with the news in 2007 that Tata Steel had acquired a steel company in the UK, a country that used to rule India as its colony.

Many Asian countries adopted “industrial policies” targeting specific industries, and some think this was the key to their success. Industrial policy was implemented through tariffs, subsidies, preferential credits, and tax incentives to nurture domestic firms. However, some of these policies succeeded and others failed.

In general, industrial policy does not succeed if the domestic market is small and the protection of domestic industries becomes excessive and prolonged. If not used properly, industrial policy can lead to unfair competition and inefficiencies, by allowing companies to change the policies to their advantage through so-called “rent-seeking” behavior. In fact, as time passed, industrial policies in Asian countries shifted to policies that were less interventionist, including those supporting research and development.

Japan’s postwar policies, such as the “priority production system” and the preferred allocation of foreign currencies and funds, are considered typical industrial policies. However, this was in effect an extension of the “national total mobilization system” during the wartime regime from the late 1930s, and it should be seen as an exceptional period in the long history of Japan’s economy. In postwar Japan, iron, coal, and foreign currency were all in short supply, and the state had no choice but to ration them to the preferred industries. As for the automotive industry, industrial policies such as tariffs on imported cars (zero since 1978), excise taxes on large vehicles, and restrictions on foreign direct investment in the industry played a certain role in nurturing domestic car manufacturers. However, the Japanese electric appliance and motorcycle industries did not become competitive because of industrial policies.
Of course, this is not meant as a complete repudiation of industrial policy. Today, many agree that, if used appropriately, industrial policy can play an effective role, especially in the early stages of development. In fact, industrial policy played a major role in Germany and the US—they are now industrialized countries—in their early stages of development to catch up with the UK. Industrial policy in Asia was not necessarily unique. Looking at the period after World War II, the current pillars of the competitiveness of the US, such as computers, the internet, GPS, and the aerospace industry, are offshoots of military technology that was heavily funded by the federal government. Industrial policy is more likely to succeed when it promotes competition and is implemented in a more transparent manner with a clear target and a time limit.

I also think Asia’s “export-oriented” trade policy has often been overemphasized and misunderstood. Japan and the NIEs adopted export-oriented policies early on. However, such policy should rather be called “outward-oriented” policy. This is because the purpose of promoting exports was to acquire the necessary foreign currency to import more resources (such as petroleum and iron ore), capital goods (such as advanced manufacturing machinery), and technologies (such as patent fees). In fact, until the mid-1960s, Japan continued to have a current account deficit in its balance of payments under the fixed exchange regime of the Bretton Woods system, and, when it approached the so-called “balance-of-payments ceiling,” it had to tighten its fiscal and monetary policies to curb domestic demand, which would otherwise increase imports and consume more foreign exchange reserves. The current account surplus was not regarded as driving GDP growth.

Many Asian countries, including India and Indonesia, adopted “import substitution” policies after gaining independence but they gradually shifted away from them. After World War II, many developing countries around the world adopted the import substitution strategy, which aims to replace imports with domestic products to foster local industry. It was influenced by socialism, in which the state determines resource allocation. In addition, countries that had achieved independence from colonial rule wanted to develop their industries on their own.

The so-called “dependency” or “center–periphery” theory, first advocated by Argentinian economist Raúl Prebisch in 1949, also supported industrialization through import substitution. According to this theory, the relative prices of primary products, which are the major exports for developing countries in the periphery, will inevitably decrease compared with the prices of industrial products of developed countries, which occupy
the center of the global economy (deterioration of terms of trade). Therefore, developing countries must aim at state-led industrialization so as to raise living standards and reduce dependency.

However, in reality, trade protection and artificially overvalued local currency under the industrialization strategy based on import substitution resulted in reduced domestic competition, serious inefficiencies, and even balance-of-payments crises, especially in Latin America. Raw materials, technologies, and machinery not available domestically had to be imported anyway, and the policy of saving foreign currency and industrializing with one’s own resources ended up causing critical shortages of foreign currency, ironically.

**How to Frame the Role of Markets and the State**

The question of how to frame the role of markets and the state in economic development has been the subject of discussion for a long time. To state the conclusion first—and this may seem simplistic—both markets and the state are important. As Adam Smith wrote in *An Inquiry into the Nature and Causes of the Wealth of Nations* in the 18th century, it is a universal truth, regardless of geography and time, that sources of growth are in fact people pursuing profits through inventions and efforts, economic activities guided by prices, and the division of labor according to comparative advantages. As I have stated so far, growth in Asia has also been promoted by policies that emphasize the functions of markets.

Meanwhile, the functions of government are also important. First of all, the government has the role of establishing institutions and enforcing them for private economic activities by making rules and through legal systems, including the courts. Second, it must provide “public goods” that are used simultaneously by everyone and for which it is difficult to collect fees, such as roads, police, and diplomatic activities. Education, which has positive economic externalities (it benefits a whole society, including those who do not pay for the education of others) but for which it is possible to collect fees, is sometimes referred to as a “quasi-public good.” In most countries, primary and secondary education is usually provided or supported by the government. Third, the government needs to respond to “external diseconomies” such as environmental pollution and other social costs that are not reflected in prices, and to compensate for such factors with regulations and taxes. Fourth, many governments also play a role in promoting innovation through certain industrial policies and research and development.
Fifth, the government has a function to stabilize the macroeconomy. In 1936, John Maynard Keynes showed in *The General Theory of Employment, Interest and Money* that the government needs to increase fiscal spending by issuing bonds, if necessary, to cope with economic downturns when aggregate domestic demand is deficient relative to aggregate production capacity. In the midst of the Great Depression, which began with the stock price meltdown in New York in 1929, Korekiyo Takahashi, who became minister of finance of Japan for the fifth time in 1932, expanded public works to create jobs. US President Franklin D. Roosevelt adopted the New Deal policy in 1933. These policy actions seem to have anticipated the Keynesian theory.

Sixth, although markets allocate resources efficiently, they do not have the ability to lead to fair distribution of income and assets, which depend on the initial conditions of the individual, such as inherited assets and the environment in which they were born. Therefore, there is a need for redistribution policies that make use of taxation (e.g., progressive income tax, inheritance tax, property tax) and fiscal spending (e.g., for health care, education, unemployment insurance). Reducing poverty and increasing equality not only have value in themselves but also motivate people to work and get an education, expand the middle class, and contribute to social stability and sustainable growth.

What I felt strongly in the process of compiling *Asia’s Journey to Prosperity* was that, among the functions of the government, that of developing and enforcing institutions was particularly important. For example, the US enacted a patent law in 1790, shortly after achieving independence. Ensuring that inventors’ hard work will benefit them, and that their inventions can be used by everyone at the cost of a patent fee, is key to promoting innovation and its dissemination. However, the establishment of laws and regulations is meaningless unless regulatory authorities and the judicial system can enforce them to ensure compliance.

The PRC changed course toward the reform and opening-up policy in 1978. One of the institutions it learned from foreign countries was macroeconomics and microeconomics, which is the foundation of a market economy. I remember that, when I was studying at the University of California, Berkeley, from 1980 to 1982, I met a young Chinese scholar who was studying economics at the graduate school, and exchanged views about the Chinese economy with him from time to time. In 1985, the PRC invited many scholars, including Nobel Prize winners from the US and other countries, to hold a symposium on a cruise ship on the Yangtze River on the
gradual liberalization of prices. This cruise was an important event that is memorialized in the PRC’s economic history.

The success of Japan’s modernization in the Meiji era was certainly made possible by the import of science, technology, and machinery. However, I believe the most important factor was that Japan was quick to adopt various institutions that supported capitalism, such as joint stock companies, double entry bookkeeping, banks, the central bank, the stock exchange, civil law, and commercial law, as well as institutions related to governance such as the constitution, the cabinet, and the diet, and institutions related to health care, the military, universities, and compulsory education. To do so, the Japanese government dispatched a delegation to Europe in 1868, the first year of the Meiji era, to learn about the world. Then, based on their assessment, scholars were sent to countries that were considered the most advanced in the world, and studied there. The government invited foreign experts to Japan in almost all areas, including medicine, civil engineering, mint, textile factories, physics, farming, laws, European literature and philosophy, and economics, by giving them high salaries, and gradually replaced them with Japanese experts who had returned after studying abroad. One example is the Bank of Japan. This was founded in 1882 based on a proposition by Masayoshi Matsukata, who later became minister of finance. It was modeled after the central bank of Belgium, which was then regarded as the most advanced, in accordance with the advice of French Finance Minister Léon Say, whom Mr. Matsukata met during his stay in Paris in 1878.
Industrial Structure Transforms with Economic Development

Economic development is basically a process in which the main industry shifts from agriculture to manufacturing and to services. Looking at developing Asia as a whole, the share of primary industry including agriculture in employment declined from 71% in the 1970s to 34% in 2018, and the share in gross domestic product (GDP) from 32% to 9%. On the other hand, the share of secondary industry such as manufacturing and mining in employment increased from 14% in the 1970s to 26% in 2018, and the share in GDP from 34% to 38%. This shows the process in which agricultural productivity increased and surplus labor in rural areas shifted to manufacturing, expanding industrial production.

Furthermore, tertiary or service industry increased its share in employment from 15% in the 1970s to 41% in 2018, and the share in production from 34% to 54%. It is clear that the economy in developing Asia is becoming more services-oriented. In Japan, the share of secondary industry in employment dropped from 36% in the 1970s to 25% in 2018, and the share in GDP from 43% to 28%. Meanwhile, the share of tertiary industry rose from 50% to 72% in employment and from 52% to 71% in production. It is evident that “deindustrialization” is taking place.

In countries such as India and the Philippines, the growth of IT-related service industries is so significant that there is a debate now about
whether a country can skip the industrialization stage and leapfrog from an agricultural economy to a services-oriented, high-income economy. All developed countries today have gone through the industrialization stage, and it has been said that manufacturing has characteristics that drive economic development. These characteristics include the tradability of manufactured goods and the ability to create more jobs. Manufacturing goes hand in hand with scientific and technological advancement, and benefits from “economies of scale”—meaning that the cost per unit decreases as production is scaled up—and from the division of labor. However, the development of the internet and digital technologies has made these characteristics applicable to services as well. This debate has not yet reached a conclusion.

Urbanization is also progressing in various countries as the economy grows and the industrial structure changes. Between 1970 and 2018, the urban population in developing Asia rose from 20% of the total to 46%, and is still growing. Cities offer advantages in terms of concentration of industry and knowledge. The challenge for the big cities in Asia is to deal with environmental pollution and congestion and to provide high-quality urban infrastructure, education, and health care in a way that involves the community.

**Increasing Productivity in the Agriculture Sector Is the Starting Point for Economic Development**

Unless agriculture becomes more productive, the proportion of the population that must be engaged in the sector to feed the population remains high and other sectors cannot develop. Farmland reform implemented in Japan, the Republic of Korea (ROK), and Taipei, China increased incentives for farming and contributed to social equality through the distribution of farmland from landlords to tenant farmers. Farmland reform was also carried out in the Philippines and South Asia, but it was not thorough.

Until the early 1960s, the shortage of food in Asia was an urgent problem as the population increased. What solved this problem and increased farmers’ income was the Green Revolution that began in Southeast Asia in the late 1960s. This included the development and dissemination of high-yield rice and wheat varieties, the use of chemical fertilizers and pesticides, and irrigation projects. Subsequent to the Green Revolution, mechanization of agriculture advanced in many countries. Yield per hectare of rice has increased to 7 tons in East Asia, a 3.5-fold increase from the early 1960s; it has increased to 4 tons in South Asia and Southeast Asia.
The International Rice Research Institute (IRRI), which produced the fast-growing, high-yield variety IR8, also known as the “miracle rice,” in 1966 by crossbreeding varieties from Indonesia and Taipei, China, is located in Los Baños, 65 km southeast of Manila. Since ADB had a relationship with IRRI and was providing technical assistance funds, I visited the institute once, and Director General Matthew Morell showed me the experimental rice fields and the cold storage room where rice seeds from all over the world are kept. As climate change is increasing the frequency of heavy rains, they were developing “submergence-tolerant” rice varieties that can survive under water for a while. I was quite surprised by what they had achieved through their research out of the spotlight.

Meanwhile, as income has increased, demand for agricultural products has shifted from cereals to high-value-added items such as meat, vegetables, and fruits. Development of roads and refrigeration technology has also enabled agricultural value chains to emerge and trade to expand, which in turn are expanding opportunities in agriculture. On the other hand, given the effects of climate change, it is essential to continue with research on breed improvement and farming methods. New issues are also emerging, such as the protection of marine resources and securing food safety.

Expansion of Services

ADB has been conducting analyses and research on the impact of services on growth and employment. As mentioned above, the service industry is gradually expanding in many countries. During the process of industrialization, secondary industry’s shares in GDP and employment increase, but subsequently they decline as the share of services increases. This is referred to as deindustrialization or a shift to the service economy.

Today, the services sector is extremely diverse. According to the United Nations’ classification, it includes wholesale and retail, transport, information and communication, hospitality, restaurants, tailoring, finance, education, medical and other health services, entertainment, administrative and support services, professional services, and public services.

In particular, IT-related services are expanding, and the manufacturing sector is outsourcing more of its design, data processing, advertising, and marketing work to service providers. Even in industries classified as manufacturing, more people are working in offices and laboratories than in factories. This phenomenon is sometimes referred to as the “servicification of manufacturing.”
As traditional service businesses such as hotels and retail tend to have low value-added per worker, it is sometimes said that the economy’s overall shift to services will lead to lower wages. Of course, in a service business where capital equipment per person is small, the added value per person is low, but it
does not follow that wages are low because the cost of capital, including returns to equity, and interest payments are also less than for a business with a higher capital equipment ratio. It is clear that the services sector is not destined to come with low wages, if one thinks about advanced IT services, brand-name hotels, popular restaurants with tasty offerings, and celebrity hairdressers, for example.

The development of the internet and digital technology has led to international trade in services that were once commonly considered non-tradable. One example of this development is the expansion of cross-border internet commerce, and streaming services for music and video content. Business process outsourcing, in which service providers use the internet to provide cross-border enterprise services in a variety of areas, such as call centers, legal services, accounting, and data processing, is thriving in India and the Philippines, and this sector continues to grow.

In the summer of 2018, I was invited to visit a Citibank service center in Manila. Approximately 6,000 employees worked there, and most of them were engaged in services to support Citibank’s overseas operations. Of the employees, 2,000 staffed the call center, and many worked the night shift because of the time difference with the US. At this call center, rather than simple work that could also be done by computers, such as checking the account balance and transferring funds, staff were mostly engaged in tasks that required strong communication skills, such as negotiations for extending the repayment period of mortgage loans. I felt that artificial intelligence (AI) would not be able to replace these workers easily. In addition, the service center had a control room for monitoring Citibank’s activities around the world. Employees there were monitoring the huge screen, which was about 10 meters long, around the clock, so they could respond quickly to emergencies such as disasters and terrorism.

Potential of the Tourism Industry

A typical example of a growing consumer service subsector is tourism. In Japan, inbound tourism has attracted a great deal of attention in recent years because of its contribution to GDP and its revitalization of local communities. After analyzing the impact of new technology on employment in 2018, I became interested in tourism as an industry. At the ADB Annual Meeting in Fiji in May 2019, I picked sustainable tourism, which was relevant to Fiji, as one of the main topics of discussion.

As new technology develops, leisure time increases and so does demand for tourism. Tourism then becomes an important source of new
employment. As social media develops, it becomes easier for people to think about where to travel, to look at customer reviews, and to make reservations. When you learn about attractive places and foods in a virtual world, you’ll want to experience it in the real world.

Globally, just from 2010 to 2018, the number of international tourists (arrivals) increased from 950 million to 1.4 billion. That means that, today, one-fifth of the world’s population travels abroad once a year. Asia is a popular destination, and a quarter of the international tourists are from Asia. During the same period, the number of foreigners visiting Japan increased from 8.6 million to 31 million, but this was not unique to Japan.

As Figure 7 shows, tourism is a major industry in many countries in Asia, especially the Pacific. To assess its contribution to GDP, inputs must be deducted from the revenue, such as imported food ingredients, royalty payments to foreign hotel chains, and wages of foreign workers. On the other hand, tourism also generates additional demand for investment in hotels and related infrastructure. If these factors are included, tourism’s contribution to GDP and employment in the Pacific is substantial. COVID-19 has caused a significant decline in the number of tourists in various countries and has thus had a serious impact on the tourism sector. However, the growing trend is expected to resume once the pandemic is over.

What has caused the recent tourism boom? ADB’s analysis shows that major factors included the following: (i) higher growth in emerging countries with large populations in Asia and elsewhere, which has dramatically expanded the middle class with the capacity to travel abroad; (ii) an increase in the number of low-cost carriers; (iii) as mentioned earlier, development of social media and the internet; and (iv) countries’ adoption of policies to promote tourism as an industry, including loosening of visa requirements.

However, a growing number of tourists is not always a good thing. A torrent of tourists stresses the natural environment such as the oceans and forests. Traffic becomes congested, shops become crowded, housing costs soar, prices increase, and leading an ordinary life becomes impossible for residents. When I participated in a seminar on tourism at ADB’s Annual Meeting in Fiji, I said that Kyoto was charming only because the residents had supported and maintained local assets like small tofu shops and Nishijin kimono weavers. When the movement to trash old Buddhist temples emerged at the beginning of the Meiji Restoration, it was local communities that protected the temples and old traditions. If the community were to be broken, Kyoto would become something like a hollow, historic theme park with just temples and shrines.
As such, how can we make tourism more sustainable, increase its contributions to local communities through employment, protect the environment and the community, and pass beautiful natural and historic assets on to the next generation? An ADB paper produced the following prescriptions: (i) develop appropriate regulations for the environment and land use with participation of residents; (ii) strengthen specialized human resources to pursue higher value-added tourism; and (iii) invest in the infrastructure to support tourism, including the internet environment and maintenance of attractive townscape.
Asia’s Experience in Technological Advancement

Typically, an expansion of production is thought to be made possible by an increase in labor, capital (machinery and equipment), human capital (the duration and quality of education), or productivity (total factor productivity). In the long run, growth cannot be maintained without productivity gains or technological advances, and hence Asia’s growth has gradually become more dependent on technology. However, it is difficult to measure productivity. The growth in total factor productivity is calculated as the growth of production minus the growth of the other three factors. If production falls because of a recession and the inputs of the other three factors do not decrease as much, calculated productivity will decline significantly. If the proportion of capital growth is large, the growth of total factor productivity becomes low, but capital prices themselves often reflect technological advances and productivity gains. On the other hand, improvement in human capital is difficult to evaluate qualitatively, so sometimes it is substituted with an increase in years of schooling. In such a case, improvement in the quality of education is measured as part of an increase in total factor productivity.

US economist Paul Krugman published a well-known paper in 1994 entitled “The Myth of Asia’s Miracle.” He said that, based on an empirical study, the factor of efficiency in Asia’s growth—namely, the growth of total factor productivity—had not been great, and growth was simply brought about by mobilizing resources, mainly labor and capital. He argued that, similar to the Soviet Union’s economy in the past, Asia’s growth was probably not sustainable. However, the fact that Asian countries effectively invested in capital through domestic savings and achieved growth by mobilizing surplus labor in itself should be called a success. This was something that Africa, for example, could not achieve easily. Moreover, unlike the Soviet Union’s centrally planned economy, resources were mobilized through the markets, and, as time passes, innovation and efficiency become more dominant as an engine of growth. In fact, such growth occurred after Asian countries overcame the macroeconomic crises brought on by the Asian currency crisis.

The fact that growth in Asia is becoming more reliant on advanced technologies is reflected in the shift of exports from textiles and shoes to electronic products and automobiles, the growing number of patents, and the increased use of industrial robots. As developed countries did in the past, Asian countries have advanced their technologies through the acquisition of licenses from overseas, learning from technologies contained in imports, competing in export markets, foreign direct investment, research and development, and utilization of industrial clusters. Of course, government
support has also been important. In the midst of the so-called Fourth Industrial Revolution, advanced technologies are becoming increasingly important, and more technologies and business models are being created in Asia.

**Effects of New Technologies Such as Artificial Intelligence on Employment**

In addition to economic analyses and outlooks of Asia and various countries in the region, ADB publishes topical, thematic analyses and recommendations from time to time. As a special chapter in the *Asian Development Outlook* published in the spring of 2018, we discussed the effects of AI and other new technologies on employment.

Several global consulting firms and research institutions have said that advanced technologies such as AI, robots, and 3D printers could take away human jobs over the long term, and more and more people are concerned about this. In a meeting with Philippine Secretary of Finance Carlos Dominguez and business leaders, we talked about the possibility that the development of AI would reduce the amount of jobs in call centers and other business process services, which account for substantial shares in the country’s GDP and employment.

However, ADB concluded in its analysis that the negative effects of new technologies on employment were overemphasized; nevertheless, appropriate policy actions were necessary. Simple observation tells me this: the same concern about machines taking people’s jobs has been raised constantly since the Industrial Revolution, but, as it has turned out, production and income have continued to expand as new sectors and new demand have emerged, and employment has also increased overall. People have also been enjoying better lives with shorter working hours. The development of railways damaged the horse-drawn carriage and related businesses in the early 19th century, but demand for transportation and travel exploded, and production, income, and employment expanded as a whole.

There are four possible reasons why new technologies can have a positive impact on employment.

First, AI can take over certain parts of a person’s job, especially the routine ones, but not others. In terms of the impact of new technologies, for example, banks’ ATMs have taken over branch offices’ tasks related to deposits, withdrawals, and transfers, but branch staff can now focus on more complex and communication-intensive tasks such as customer service. As in the case of the call center in Manila I visited, there are many tasks that AI cannot handle.
Second, a new technology can replace human jobs only when it is technically possible and economically feasible. The automotive industry uses a lot of robots, but use of robots in textiles and apparel is still limited. During a visit to an apparel factory in Bangladesh in 2018, I was impressed by its efforts to create a safer, cleaner work environment while aiming to manufacture high-value-added products. The founder, who had previously lived in the UK, said that, while they used advanced technology in a device to find leftover needles, it was economically not feasible to have robots perform all of the processes, although it may be technically possible.

Third, if the adoption of advanced technology reduces the number of workers needed for production, this means that productivity will increase and income will rise. It also means that the price of the product will go down, which in many cases will lead to increased demand, higher production, and more employment. In the case of automobiles, since the beginning of the 20th century, technological advances have made it possible to mass-produce vehicles, resulting in lower prices; consequently, demand for automobiles has expanded dramatically as a means of transportation for many people, including the middle class. This has given rise to a new, suburban lifestyle and shopping malls, and created new demand associated with these.

Fourth, new technologies may reduce employment in certain areas, but the technologies themselves or the surplus workers can be harnessed to create new industries and new occupations. For example, new services using AI and big data are emerging in finance, transport, health care, and education, and there is growing demand for system developers and cybersecurity personnel. In general, when increased productivity leads to higher income and more leisure time, new services emerge and thrive to meet the individual needs of customers in tourism, entertainment, sports, culture, and lifelong learning. Of course, some of the people engaged in existing occupations may lose jobs or be forced to choose different, lower-paying jobs. During the Industrial Revolution, the occupational environment changed gradually, taking a generation. Now it may change in several years. It is difficult for ordinary people to adjust to such rapid changes. In addition, in terms of employment and income, new technologies tend to favor those who already have access to technology and capital.

Governments need to promote policies that (i) support lifelong learning, including job matching and vocational retraining; (ii) promote education that will make people more adaptable to the changing job environment and open to continued learning; (iii) provide unemployment benefits and social safety nets and secure tax revenues and redistribution
functions with appropriate taxation systems; and (iv) develop digital infrastructure, utilize new technologies in public services, and protect privacy and data so the benefits of new technologies will reach many people.

**Investment in Education and Health Care Helped Asia Grow**

Education improves the quality of human capital and promotes economic growth. Average years of schooling in developing Asia (as seen in the 25–29 age cohort) increased from 3.5 years in 1960 to 8.9 years in 2018. In the same age cohort, the enrollment ratio reached 93% in primary education and 34% in higher education. In the ROK, 94% of the same age cohort received higher education, higher than the 64% in Japan. It is so high in the ROK that college graduates have a hard time finding jobs that meet their expectations. In general, developing Asia has challenges in improving the quality of secondary education—middle school and high school—and vocational education, and ADB is providing assistance in this area.

Being healthy in itself is directly linked to people’s happiness, and it is also a precondition for sustainable growth. As an indicator of health, average life expectancy in developing Asia increased from 45 years in 1960 to 72 years in 2018, a large increase of 27 years. This owes largely to the effects of reduced child and maternal mortality as well as of lower premature mortality from infectious diseases such as tuberculosis. Together with general improvements in the standard of living, there has been progress in terms of safe drinking water, improved sanitation (toilets), improved availability and quality of health services, support to childbirth (obstetricians and midwives), antibiotics for infectious diseases, and other new drugs and vaccinations. On the other hand, many countries are increasingly facing noncommunicable diseases (such as hypertension, strokes, heart disease, and cancer) as a result of the increased longevity of the population. In Japan, the universal health insurance system was introduced in 1961. Many developing countries are working to provide universal health coverage to the entire population. ADB has also increased its financial and technical assistance in the health sector, including the fight against HIV and malaria and the introduction of universal health insurance systems.

**Demographic Dividend and Demographic Onus**

Many countries in Asia have gone through the three stages described by the theory of demographic transition: high birth rates and high death rates; high birth rates and low death rates; and low birth rates and low death rates. In the
1960s, the number of children increased and the ratio of those in the productive age group (15–64) to the total population decreased, resulting in a demographic onus (burden on economic growth). In the 1960s, the demographic onus in developing Asia depressed the annual growth rate of GDP per capita by 0.4% on average. Of course, overall GDP increased in the same period, because of increases in capital, population, and productivity.

Subsequently, as the large number of children reached productive age, in the 1970s the share of the productive-age population began to increase in most countries, rewarding them with a demographic dividend (or population bonus). Developing Asia as a whole benefited from a demographic dividend per year of 0.2% in the 1970s, and about 0.6% for every decade until the 2000s. However, in the 2010s (2010–2018), the aging of the population—the increase in the proportion of the elderly to the total population—flipped the demographic dividend into a demographic onus in the People’s Republic of China (PRC), the ROK, Singapore, and Thailand, as it had done earlier in Japan.

In many Asian countries, the number of lifetime births per woman has decreased. In developing Asia as a whole, it fell from 6.1 in 1960 to 2.1 in 2018, which is considered to be the minimum required to maintain the population. In particular, in the PRC, with the impact of the One Child Policy, the number dropped sharply, from 6.2 in 1960 to 2.5 in 1980, and then to 1.7 in 2018. In general, the decline in the birth rate is thought to be influenced by urbanization, industrialization, the longer schooling period and increased employment opportunities for women, the higher cost of educating children, and the shift away from traditional values.

A decline in the birth rate leads to a demographic onus through the aging of the society, and to a population decline. An aging population will slow growth through the fiscal burden of health care, nursing care, and pensions, as well as a decline in consumer vitality and innovation. Of course, it is possible to encourage healthy elderly people to enter the labor force and to promote care of the elderly through new technologies. It is also possible to further increase the productivity of the productive-age population through technological innovation. On the whole, however, the declining birth rate and aging population are likely to pose a major challenge in many Asian countries.

Decline in Japan’s Economic Presence Owes Largely to the Population Factor

Table 3 in Chapter 5 shows that the GDP per capita of the US is 50% higher than that of Japan. In 1996, just before the financial crisis and the Asian
currency crisis, Japan had a GDP per capita of $38,000, which was well above the US’ $30,000. With a population of 125.7 million, Japan’s GDP was $4.83 trillion. Twenty-two years later, the 2018 figures had not changed much: Japan’s GDP per capita was $39,000, the population was 126.5 million, and GDP was $4.95 trillion. Nominal GDP in yen had grown by only 4%, from 525 trillion yen to 547 trillion yen. During this period, Japan’s real GDP increased by 18% (at an annual rate of 0.75%), but prices (the GDP deflator) declined by 12%, limiting nominal GDP growth. The exchange rate was 108.7 yen per dollar in 1996 and 110.5 yen per dollar in 2018, remaining at the same level.

In contrast, from 1996 to 2018, the US increased its GDP per capita by 110% from $30,000 to $63,000 (an annual increase of 3.4%). Its population increased by 20% from 270 million to 330 million (an annual increase of 0.9%), and nominal GDP increased by 150% from $8.1 trillion to $20.6 trillion (an annual increase of 4.3%). In the same period, real GDP increased by 70% (an annual increase of 2.4%), showing that the 50% increase in prices (an annual increase of 1.9%) also contributed to the increase in nominal GDP.

The low growth of Japan over the past 22 years has been influenced by the significant negative growth after the Asian currency crisis and the global financial crisis. However, the ratio of the productive-age population (ages 15–64) to the total population has also had an impact. When this ratio rises, it produces a demographic dividend; when it falls, it creates a demographic onus. If the ratio of people working in Japan decreases, production per capita for the whole population will decrease as a matter of course. Asia’s Journey to Prosperity analyzes the impact of the demographic dividend and the demographic onus on growth in each country by decade. Japan has been suffering from the population onus since the 1990s.

Let us compare Japan and the US in the 8 years from 2010 to 2018. Japan’s overall real annual growth rate, on average, was 1.0%, but real GDP per capita grew by 1.2% annually because the population decline pushed down the real growth rate by 0.2% every year. Real GDP per capita was reduced by 0.6% per year by the demographic onus, so, if we exclude this effect, real GDP per capita of the productive-age population grew by 1.8%. In contrast, the overall growth rate in the US averaged 2.2% over the same period, but population growth increased GDP by 0.7% every year, so the per capita growth rate was 1.5%. The demographic onus was 0.3%, so, if we exclude this effect, real GDP per capita of the productive-age population grew by 1.8%, the same as in Japan.
In summary, the change in the economic presence of Japan and the US, or the difference in the growth in nominal GDP in dollars, depends on the difference in population changes, the difference in the proportion of the productive-age population, whether prices are rising or falling, and how the exchange rate is moving. The productive generations in Japan are working harder than we imagine, and their per capita productivity has risen at the same pace as in the US. However, the aging population (which affects real GDP per capita as there are fewer workers), the stagnation of the population (which affects overall real GDP), deflation (which affects nominal GDP), and the yen–dollar exchange rate (which affects dollar-denominated GDP) have led to a significant widening of the gap between Japan and the US in dollar-denominated GDP. Since prices in Japan are falling and prices in the US are rising, the yen should have appreciated against the dollar if the law of purchasing power parity holds. However, this has not happened, reflecting the lack of vigor in the Japanese economy.

Of course, there are other important factors in the declining presence of the Japanese economy. Japanese companies could not maintain their comparative advantage in the electrical appliance and other industries after the 1980s because of competition from emerging economies. Also, they could not develop new, highly profitable businesses as some US-based IT platform companies have. In addition to addressing the declining birth rate and the aging population, ways to promote technological innovation and make the entire society more efficient will be the key to the future of the Japanese economy.

**High Savings Rates Led to High Investment**

In Asia’s successful developing countries, we can see that higher savings rates have led to investment and increased growth through capital accumulation. In those countries, high investment relative to GDP—for infrastructure, machinery and equipment, housing, etc.—has basically been covered by domestic savings by households, companies, and the government. In developing Asia as a whole, the gross savings rate as a percentage of GDP increased from 18% in the 1960s to 41% in the 2010s. Incidentally, the gross savings rate in Japan was 37% in the 1970s but fell to 23% in the 2010s, showing that Japan has shifted to growth driven by consumption.

In developing Asia, until the 1980s, official development assistance (ODA) from developed countries and financial inflows from international organizations such as the World Bank and ADB made up for shortages in
domestic savings and foreign currencies. However, foreign direct investment has since taken over as the biggest contributor to financial inflows. In many countries, remittances from citizens working abroad also play an important role.

In order to properly direct domestic savings to domestic investment, the financial intermediation function is important. The banking sector has played a major role in Asia. However, Asia also has a long tradition of capital markets, as the Bombay Stock Exchange opened in 1875, the Tokyo Stock Exchange in 1878, and Indonesia’s stock exchange in 1912. Banks play an important role in mobilizing small-scale savings to meet corporations’ medium- to long-term financial needs. With long-term relationships with their client companies, banks also have the function of monitoring corporate activity. On the other hand, the bond and stock markets have strengths in spreading risks widely among investors, which promotes financing innovation and long-term investment. They also contribute to corporate governance through monitoring by shareholders, information disclosure, and price signals.

During the Asian currency crisis, the banking sector was damaged, and this amplified the crisis because of the credit crunch. Based on that experience, countries and institutions in Asia have put a great deal of effort into fostering capital markets in the region. One example is the Asian Bond Markets Initiative (ABMI), which was agreed at the 2003 finance ministers’ meeting of the Association of Southeast Asian Nations plus Japan, the PRC, and the ROK (ASEAN+3). ADB supports this as well.

Under the ABMI, (i) a public–private forum called the ASEAN+3 Bond Market Forum was established to standardize market practices and harmonize regulations for cross-border bond transactions, and a Bond Market Guide was published; (ii) the ASEAN+3 Multi-Currency Bond Issuance Framework was launched to facilitate intraregional transactions by professional investors through standardized bond and note issuance and investment processes; and (iii) the Credit Guarantee and Investment Facility (CGIF) was established to provide credit guarantees for local currency-denominated bonds issued by investment grade companies in ASEAN+3 countries. In 2010, all ASEAN+3 countries and ADB contributed $700 million in total as equity to the CGIF. In fact, the markets for local currency-denominated bonds in Asia are growing rapidly, both for sovereign bonds and for corporate bonds.
Infrastructure Development Is the Foundation of Economic Development

It is not a matter of debate that infrastructure in areas such as energy, transport, water and sanitation, and telecommunications is the basis for industrial development and growth. At the same time, it is important to note that the development of high-quality infrastructure improves people’s lives. There was a period around the 1990s in which the idea became dominant that developing countries should focus on people rather than infrastructure and prioritize the social sectors such as education and health. However, without electricity, children can study only during the day. And household appliances and running water help women advance into society. One can’t go to a hospital without roads. Lending to infrastructure projects has been ADB’s core operation, and it has accumulated experience in various countries.

From 1971 to 2018, production of electricity in Asia and the Pacific (including Japan, Australia, and New Zealand) increased 16.5-fold and supported the region’s growth. The first hydroelectric power plant in Asia was built in Kyoto, Japan, in 1891. The focus of investment in power generation has shifted from hydroelectric power to thermal power, from oil and coal to cleaner natural gas, and more recently to renewable energy other than hydroelectric power. Still, at this point, thermal power generation commands a majority share in many countries.

Looking at the main energy sources, Japan in 1971, for example, generated 62% of its electricity from oil, 23% from hydropower, and 12% from coal. In 2018, 34% came from natural gas, 33% from coal, 9% from hydropower, 6% from nuclear energy, and 13% from renewable energy other than hydropower, such as solar and wind. In 2018, sources of electricity in the PRC were 67% from coal, 17% from hydropower, and 8% from other renewable sources. In Germany, they were 37% from coal, 17% from wind, 13% from natural gas, 12% from nuclear, 3% from hydropower, and 10% from other renewable energy sources. Recently, the cost of solar and wind power generation has fallen, and investment in renewable energy is increasing. In mountainous areas of the Lao People’s Democratic Republic (Lao PDR) and Nepal, investment in hydropower generation using large dams has continued, and ADB also supports it, but it is necessary to pay careful attention to the environmental impact and the resettlement of residents.

In developing Asia, many railways were developed in the colonial era, or, in the case of Central Asian countries, the Soviet era. After World War II, the focus shifted to road construction for motorization, and the railroad sector in many countries experienced a vicious circle whereby a lack of investment led to degradation of services and loss of revenue. However,
in recent years, investment in railways and subway systems has increased
again as a response to climate change, environmental problems, and the
increasing severity of urban traffic congestion. The Tokaido Shinkansen
in Japan, colloquially known as “bullet trains,” began operating in 1964,
and the country led the world in the construction of high-speed railways.
In countries where railroads are still directly run by the government, such
as India, the first task is to increase efficiency through corporatizing them.

As for water supply systems, many facilities built during the
colonial era in many Asian cities are showing their age. To provide a stable
supply of safe drinking water, it is necessary for filtration and other facilities
to maintain a constant water pressure, to prevent leakage and illegal water
intake, and to increase the rate of charge collection. Local governments
are in charge of water supply in many countries, and they often fall behind
on maintenance, necessary new investments, and the adoption of new
technologies. In Dhaka, Bangladesh, the rate of nonrevenue water (no charge
collection and water leakage) once rose to 50% and the charge collection
was insufficient. However, a corporatization process began in 1996, and
new investments and increased management efficiency enabled a continuous
water supply. District-specific networks and meters reduced water leaks and
illegal intake, and the rate of charge collection was increased through the
involvement of communities.

Open Trade and Direct Investment Regime

One of the biggest factors behind Asia’s growth is that it adopted open
policies in terms of trade and foreign direct investment, and took advantage
of the power of the private sector, both domestic and foreign.

As mentioned earlier, many economies initially adopted import
substitution policies but gradually shifted to more open policies. From
1960 to 2018, the share of total imports and exports in GDP in developing
Asia increased from 20% to 53%. Many people believe that Japan is an
export-oriented country, but in fact Japan’s imports played a major role in
Asia. Japan provided an important market for developing Asia’s exports of
textile and electrical appliances. In the past, Japan was the largest export
destination for Indonesia; Malaysia; the Philippines; the ROK; Taipei, China;
and Thailand, and until 1996 it was the second-largest export destination
for the PRC after Hong Kong, China. Subsequently, the PRC’s economy
expanded, and the country has become the largest export destination for
many developing economies.
Foreign direct investment in developing countries carries the benefit of bringing technology and management know-how along with money, and it has had a very significant impact on Asia's development. The appreciation of the yen following the Plaza Accord in 1985 led to a boom in direct investment from Japan into Southeast Asia, which triggered the development of regional production networks. Now, parts of developing Asia, including ASEAN countries as well as the PRC and the ROK, are also investing directly in other developing economies in the region. An increasing number of companies in developing Asia are investing directly in Japan, the US, and developed countries in Europe.

A “special economic zone” is a system that encourages foreign direct investment by providing tariff exemptions, reducing corporate taxes, and loosening regulations on direct investment in a certain area. The free trade zone adjacent to Shannon Airport in Ireland, established in 1959, is well known as an early model. The PRC and many other developing countries in the region have used special economic zones to pilot liberalizing trade and investment, and then have gradually expanded the liberalization to the whole country.

The PRC’s accession to the World Trade Organization in 2001 accelerated its integration into the world economy and led to its sustained high growth. It also led to the deepening of production networks in East Asia.

Regarding the progress of East Asia’s trade systems, often mentioned is the “flying geese model,” as coined by Hitotsubashi University Professor Kaname Akamatsu in his papers, written in English, in 1961 and 1962. The original paper in Japanese was published in 1935, and the model was applied to developed countries at the time. However, it was later used in the context of the economic development of newly industrialized economies to explain how industries with lower added value would gradually move from Japan, which was flying at the head of the group, to less developed economies. Today, the trade structure among Asian countries has become more complex in the sense that products move in both directions even within each industry, forming a network. Under this model, each country is responsible for a part of the production process in the global value chain.

**Macroeconomic Stability and Lessons from the Asian Currency Crisis**

Asia has generally had sound fiscal and monetary policies compared with other developing regions such as Latin America and Africa. Avoiding
excessive inflation and fiscal deficits has reduced uncertainty, resulting in higher savings and investment and boosted growth.

However, the Asian currency crisis, which began in Thailand in July 1997 and caused serious balance-of-payments and financial crises in Indonesia, the ROK, and other countries, taught great lessons to Asian countries. Here are the factors that led to the crisis. First, Asian countries liberalized foreign capital inflows in the early 1990s, as encouraged by the International Monetary Fund (IMF). Second, a widely shared optimism arose about the outlook of the Asian economy. Third, foreign exchange policies in various countries effectively fixed their exchange rates against the dollar. Fourth, in this context, large amounts of short-term funds flooded the countries, ignoring the exchange risk. Fifth, this caused an asset price bubble and an overheating of the economy. Finally, a sudden outflow of funds occurred when the sustainability of such a situation came into question.

In addition, banks with insufficient capital in countries with weak regulations had borrowed short-term funds in the dollar and extended long-term loans in local currencies for projects that were not productive, such as real estate development. When the local currencies depreciated rapidly, the banks faced serious balance sheet problems, which led to bank failures, a credit squeeze, and further deterioration of the real economy.

At the time, some argued that the cause was weak governance and inadequate regulatory supervision in the financial sector in Asia, and the crisis was not relevant to the US or Europe. However, subsequently, the US subprime mortgage problem triggered a global financial crisis, and the euro area experienced crises related to sovereign bonds of the peripheral countries and the financial sector. All of these crises have common causes: excessive risk-taking and leverage—lending based on expanded debts against capital—based on an optimistic outlook, the occurrence of asset bubbles, and weak financial regulations. In the case of the euro, the fact that there was no exchange risk because of the common currency led to excessive inflows of funds into the peripheral countries, real estate bubbles, and the expansion of fiscal deficits. During the crisis, the currencies of the problematic countries could not fall because of the existence of the euro. Instead, markets were attacked by the sell-off of sovereign bonds, which reduced their prices sharply and made refinancing difficult.

In dealing with the Asian currency crisis, the IMF required Asian countries facing balance-of-payments problems to take fiscal austerity measures similar to those prescribed in Latin America, which had often seen crises as a result of lax fiscal policies. As a condition for its foreign exchange
assistance, the IMF also required broad structural reforms that were not directly related to the crisis. The IMF was later criticized for making the crisis worse through the conditionalities imposed on borrowing countries. ADB, along with the World Bank and Japan, also provided a large amount of budget support loans conditioned on structural reforms of the financial sector. This prompted ADB to actively use policy-based loans in addition to the traditional project loans.

After the Asian currency crisis, countries made efforts to (i) promote sound macroeconomic management; (ii) monitor the international movements of funds and changes in asset prices; (iii) allow exchange rates to move more flexibly; (iv) increase foreign exchange reserves; (v) strengthen regulation and supervision of the financial sector; (vi) increase banks’ capital; (vii) develop capital markets; and (viii) strengthen regional financial cooperation, such as the Chiang Mai Initiative (see Chapter 2), and bilateral cooperation. Partly thanks to these efforts, Asian countries were able to weather the global financial crisis with relatively little damage.

**Despite Progress in Poverty Reduction, Inequality Is Widening**

Different societies may pursue different degrees of economic equality, but a smaller disparity between the rich and the poor in general is desirable in itself, and an expanding middle class will promote growth through their growing consumption and provide social stability that supports growth. Growth in Asia has contributed greatly to poverty reduction, but outcomes in terms of equitable income distribution vary from country to country. Moreover, a trend of widening income disparities has been observed in many countries recently. Simon Kuznets, a US economist who won the Nobel Prize, proposed the so-called inverted-U hypothesis, which posits that economic growth worsens income inequality first and improves it later at a higher stage of economic development. However, recently, there has been a trend in the world, including in developed countries, that seems to go against the hypothesis, with increasing inequality even after countries become more developed.

One of the themes of the book I wrote based on my 2-year experience working as a minister at the Japanese Embassy to the US, *America’s Economic Policy* (Chuko Shinsho, February 2008), was the widening of income disparities in the US owing to technological progress and the globalized economy, the dominance of liberal economic ideas (a declining popularity of social democratic ideas), and the concentration of wealth in the financial industry.
Absolute poverty in Asia, defined as living on $1.90 or less per day based on purchasing power parity in 2011, has decreased significantly in each country as a result of economic growth, particularly through an increase in agricultural productivity and development of the manufacturing industry. From 1981 to 2015, the number of people living in absolute poverty in developing Asia dropped from 1.6 billion (68% of the total population) to 260 million (7%). In the same period, the number in the PRC decreased from 880 million (88%) to 10 million (0.7%). In India, it decreased from 410 million (58%) to 180 million (13%). During the same period, the absolute poverty rate in sub-Saharan African countries dropped from 49% to 41%, but because of the population increase, the absolute number of the extremely poor actually increased from 190 million to 420 million. Asia’s achievements stand out in comparison.

On the other hand, regarding income distribution, the level of equity was stable from the 1960s to the 1980s. In fact, many countries in East Asia and Southeast Asia achieved “growth with equality.” However, since the 1990s, inequality measured by the Gini coefficient—which ranges from zero for perfect equality to one for a situation where one person owns all income or assets—has increased, despite achievements in solid growth and poverty reduction.

Economic growth generally increases income per person, and its benefits reach various segments of society. For developed countries, globalization can cause a decline in wages for factory workers and the middle class through the relocation of production to developing countries and the inflow of cheap products from developing countries. In the case of developing countries, however, the increase in income tends to reach broader segments of the population because manufacturing moves to them from developed countries. As industrialization creates more well-paid jobs, people move from rural areas into cities, and income in rural areas increases because of higher per capita agricultural productivity. Wages in the services sector also increase in order to compete with wages in the manufacturing sector.

However, in developing countries, too, as in developed countries, those with higher education and those who already have significant capital or land are in a position to benefit more from new technologies and globalization. When foreign companies invest in another country, they often partner with major domestic companies that are familiar with the local market. In some countries, such as the PRC, a limited number of “first movers” have sometimes been able to make an enormous fortune by taking advantage of new technologies and business models. In developing countries, demand for
the limited number of people with higher education also increases. In other words, the number of people in poverty is reduced, but the affluent become richer and the income gaps widen.

Continued widening of income disparities is not only socially undesirable but can also impede sustainable growth. Asian countries need to strengthen their redistribution measures through taxation and fiscal spending. In the PRC, it is essential to reform the household registration system (*hukou*), which currently treats people with city registration and those with rural registration separately. Today, residents who have moved from rural areas to cities cannot receive public services equally, such as health care and education of their children. In fact, the PRC is gradually moving toward reforms in this area, but it needs to move faster.

Japan also had a fairly high level of inequality before World War II. However, this was reduced significantly with the sharp decline in the value of financial assets caused by inflation in the immediate aftermath of the war, the land reform to reallocate farmland from landlords to peasants, the dismantling of *zaibatsu* conglomerates, and the temporary wealth tax, all of which greatly hurt the rich. In addition, during the 1960s and the 1970s, the equalization of the society was aided by (i) broad-based growth led by the manufacturing sector and people’s migration into cities; (ii) agricultural policies, including the guarantee of rice prices for producers; (iii) public works that prioritized rural areas; (iv) support to local government finances through local allocation tax grants and subsidies; (v) public education and universal health insurance; (vi) labor unions energized by postwar labor law reform; and (vii) the highly progressive tax system. On the last point, at its peak, the maximum marginal tax rate was 75% for national individual income tax and 18% for local inhabitant tax, with a combined rate of 93%. The maximum inheritance tax rate was 75%.

Some say that this was a typical example where “growth with equality” succeeded and that these were the most socialistic policies. With intensifying international competition, such policies had to be revised to some extent. For example, the combined maximum tax rate has now dropped to 55%, which includes 45% for income tax and 10% for inhabitant tax, and the highest inheritance tax rate has also dropped to 55%.

In Japan, too, inequality has been increasing recently. The Gini coefficient based on income in the market increased from 0.35 in 1985 to 0.5 in 2015. However, after the redistribution by the government, it increased less, from 0.3 to 0.34. The increased number of non-regular workers contributes to inequality. Also, inequality tends to increase with the aging of
the population because the elderly have low income and the income disparity among them is large.

**Gender Equality**

The gap between men and women in various fields has narrowed along with economic development in Asia, but many challenges remain. Reducing gender disparities has value in itself and should be a goal of society. At the same time, women’s participation in the labor market and in politics leads to more sustainable growth and balanced development. ADB supports initiatives in various countries in the fields of women’s health, vocational education, and providing credit to women-led businesses, among others. In infrastructure projects, too, ADB incorporates consideration for women in project design and encourages the training of female engineers.

First of all, women’s education has improved significantly with economic development, and their average schooling period is now about the same as that of men, or longer in many countries. For example, in Bangladesh, the average schooling period (for the population aged 25–29) for women in 1960 was only 0.2 years and much less than the 1.5 years for men, but in 2010 women overtook men, with an average of 8.6 years and 8.1 years of schooling, respectively. Similar trends are seen in Kazakhstan, Myanmar, the Philippines, Sri Lanka, Thailand, and Viet Nam. In Japan, the average schooling period in 1960 was 8.0 years for women and 9.3 years for men, but in 2010, women averaged 13.7 years whereas men averaged 13.1 years. Their positions have thus flipped in Japan as well.

Women’s health has also improved significantly, and this has included a reduction in maternal mortality. Average life expectancy in developing Asia was 45.9 years for women and 44.1 years for men in 1960, showing that women lived longer to begin with. By 2018, the gap had widened, with women averaging 73.7 years and men 70.0 years.

The labor participation rate of women aged 15–64 has increased significantly in many parts of developing Asia over the past 50 years, but overall it actually declined from 57% in 1990 to 50% in 2017. This is because, as household income increases, more women tend to choose to be full-time homemakers. However, as the economy develops further, the labor participation rate of women increases again, as more women receive higher education and want to build a career, become financially independent, and increase their disposable income. In Japan, the labor participation rate of women increased from 57% in 1990 to 70% in 2018.
However, many countries still have problems in this area, such as a high proportion of women in the non-regular workforce, a gender wage gap, and a small number of women in management positions. It is necessary to create an environment that enables more women to work, such as through the expansion of nursery facilities and better work–life balance involving both men and women.

International goals have been set for gender-related issues such as political participation by women, women’s legal rights including property ownership, and the elimination of violence against women.

**Addressing Environmental Issues and Climate Change**

Through the “grow first, clean up later” policy, Asia’s economic development has degraded forests, soil, water quality, air, and oceans. In general, it is theorized that something similar to Kuznets’ inverted-U phenomenon is observed in the environment as well. Although it is desirable to be conscious about environmental issues from the beginning, and in many cases this is economically beneficial, the environment tends to deteriorate in the early stages of economic development, and subsequently begins to improve after a certain level of development is achieved.

In Asia, interest in environmental issues has increased in tandem with economic development, and civil society has become more involved, including in efforts to monitor the environment using the internet. Governments have been actively implementing policy measures; enacting environmental laws; setting standards for environmental and social safeguards in infrastructure development and for soil, water, and air quality; developing facilities for the treatment of wastewater and solid waste; planting trees systematically; and regulating and fining polluters.

In Japan, too, actions to protect the environment lagged behind economic growth. In the 1960s, pollution became a serious problem, and lawsuits were filed in relation to Minamata disease caused by organic mercury in Kumamoto, Itai-itai disease caused by cadmium in Toyama, and asthma caused by sulfurous acid gas in Yokkaichi City. The public’s attention intensified, and the Basic Law for Environmental Pollution Control was enacted in 1967 and the Air Pollution Control Law in 1968. In the so-called “Pollution Diet” of 1970, 14 pollution-related laws were enacted. The Environment Agency was established in 1971. Plaintiffs won a series of civil lawsuits seeking compensation from corporations.

Turning to the topic of climate change, emissions of greenhouse gases including carbon dioxide have increased as Asia’s economy has grown.
The share of developing Asia in global emissions increased from 23% in 1990 to 44% in 2014 (of which 25% was from the PRC). For comparison, in 2014, North America accounted for 15% of the total, Europe 14%, Japan 2.8%, and Australia and New Zealand 1.2%. Although the PRC’s emissions per capita are currently less than half of those of the US, its efforts will have a significant global impact as it has a large population and is continuing to grow. Asian countries are actively participating in the international frameworks on climate change, including the Paris Agreement in 2015 and the Sustainable Development Goals adopted by the United Nations also in 2015.

For the mitigation of greenhouse gas emissions, ADB has been providing loans to public and private projects in areas such as renewable energy including solar and wind power, transmission lines to send renewable electricity into national grids, public transport systems, and energy efficiency.

Asia is a region that experiences many natural hazards intensified by climate change, such as droughts, hurricanes, and floods. Climate change is causing coastlines to rise and saltwater to move into rivers, which are also problematic. In the area of adaptation to climate change, ADB supports projects, including in Pacific island countries, such as the construction of more disaster-resilient roads and ports, moving water intakes upstream, and developing water-saving drip irrigation (watering the plant’s roots only).

Role of Bilateral Official Development Assistance and Multilateral Development Banks

Although the savings rate in developing Asia was generally high, this was not the case for all countries. Many countries also faced shortages of foreign currency with which to import capital goods and technology. Knowledge for development was also insufficient. In this situation, the transfer of funds and know-how through bilateral ODA and multilateral development banks (MDBs) played a major role.

Until the early 1970s, the US was the largest donor of bilateral ODA (on a gross basis) but Japan became the largest donor thereafter. EU countries have also been important ODA donors to Asia, accounting for about a third of the total amount for a long time. Australia and New Zealand tend to focus on the Pacific island countries in their assistance. The ROK is putting a lot of effort into ODA, making use of its experience of transitioning from a developing country into a developed country in a short period of time.

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time. Although the PRC and Thailand are not members of the Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee, which provides ODA standards and statistics, they have increased their lending to other developing countries in recent years.

Regarding MDBs’ assistance to developing Asia, the World Bank had a large share until the late 1990s, even after ADB was established in 1966. However, during the Asian currency crisis, ADB provided large amounts of policy-based loans, and since the 2000s it has caught up with the World Bank in terms of lending volume. Regarding knowledge about development, ADB’s presence has also been increasing more recently, as it provides technical assistance to the PRC for formulating its five-year plans, which was once exclusively done by the World Bank.

In the period of reconstruction following World War II, Japan was helped by assistance from the US and loans from the World Bank. Japan continued borrowing from the World Bank from 1951 to 1966, and the projects included historic, large-scale projects such as the Kurobe River No. 4 Hydropower Plant of the Kansai Electric Power Company, the Tokaido Shinkansen (a high-speed railway line), and the Tomei Expressway. Since the Meiji era, the transport system in Japan had been centered on railways, and roads were very underdeveloped. In the Tomei Expressway project, Japan not only received funding from the World Bank but also gained valuable knowledge from German and other consultants on how to tilt the road alignment, how to build interchanges, and how to set tolls. Germany was the most advanced country in terms of building expressways, with its tradition of the Autobahn, which it had begun constructing in the 1930s (see Kenichi Takebe, 2015, Japan’s History of Roads, Chuko Shinsho).

On the other hand, Japan, as an ODA donor, began by paying postwar compensation and providing technical assistance to Asian countries. After joining the OECD in 1964, it established aid agencies such as the Japan International Cooperation Agency (JICA), and through a series of aid-doubling plans, became the world’s largest donor in 1989 and from 1991 to 2001. Japan’s emphasis was on helping in the construction of infrastructure, which is the basis for economic development, by utilizing ODA loans (low-interest, long-term yen-denominated loans). Although it provided assistance to Africa, the majority of its aid went to Asia.

Japan’s ODA has expanded as a form of contribution to the international community, especially Asia, against the backdrop of its high growth, which has produced ample fiscal and current account surpluses, and the limits on military funding established by its pacifist constitution.
Progress in Regional Cooperation and Integration within Asia

ADB, which was established in 1966, is an embodiment of regional cooperation in Asia. As I wrote at the beginning of Chapter 12, many people in Asia had called for an international organization like ADB to promote regional cooperation through financial and technical assistance. Article 1 of the ADB Charter declares that ADB’s purpose is to “foster economic growth and co-operation in the region ... and to contribute to the acceleration of the process of economic development of the developing member countries in the region, collectively and individually.”

The most prominent example of subregional cooperation and integration efforts within Asia is ASEAN, which was established in 1967. ADB has cooperated with ASEAN, as the two were established around the same time, to provide assistance in a variety of areas. It has also promoted other subregional cooperation initiatives. The Greater Mekong Subregion (GMS) Economic Cooperation Program started in 1992 with ADB’s support to help the Mekong region transition to a market economy and to promote subregional cooperation. Cambodia, the Lao PDR, Myanmar, the PRC, Thailand, and Viet Nam are the members. ADB led the GMS initiative, so I was invited to the summit meetings held every few years. The Central Asia Regional Economic Cooperation (CAREC) program, mentioned in Chapter 9, was officially launched in 2000. South Asia and Pacific countries are also promoting regional cooperation.

In general, regional cooperation initiatives such as ASEAN are sometimes criticized for slow progress in trade and investment liberalization and harmonization of various standards, compared with more robust legal frameworks or communities like the EU. However, with ASEAN being a prominent example, I think that even these looser frameworks have played a very important role in several ways.

First, by having regular meetings of heads of state and ministers, they deepen mutual understanding and promote friendly and stable relations. Second, by reducing barriers in trade, investment, and services and increasing infrastructure connectivity, they promote economic growth through economies of scale and division of labor. Third, discussions of and cooperation on macroeconomic issues and the financial sector contribute to economic stability. Fourth, through regional cooperation, they can work together to provide so-called regional public goods, including coordinated efforts to deal with infectious diseases, environmental issues, and climate change. Fifth, as was the case when four additional countries joined ASEAN,
they can apply peer pressure to encourage appropriate policies. Sixth, they provide a platform for a larger framework, including the ASEAN+3 financial cooperation and security dialogs through the ASEAN Regional Forum.

During my term as ADB President, I was asked several times about whether an EU-like framework would be needed in Asia at some point. I replied that, at least in Asia, looser connections based on the economic needs of the market, like ASEAN, were better. The EU and the euro area constantly face problems, as evidenced by recent developments such as Brexit and the financial crisis in Greece. Even among European countries, which share the Greek, Roman, and Christian traditions and whose royal families are blood relatives, conflicts can still occur when people’s mobility and fiscal problems are involved.

Sovereign states are supported by the electorate and taxpayers, and they are rooted in shared history and stories—including myths and tales of national heroes and collective memories of wars—traditions, culture, and empathy for fellow citizens. Giving greater authority to a larger framework than this would be difficult. I think that Japan tends to idealize international organizations including the United Nations, and this is a good thing, but I feel that they are ultimately a collection of sovereign states.

It is also said that a community like the EU or the euro area has the purpose of strengthening ties to maintain peace. The EU and the euro area are trying to overcome various challenges and maintain and strengthen integration, and the international community supports them. However, such efforts are not necessarily feasible in other parts of the world. Meanwhile, people can be good friends, but if they are forced to be together, this may damage the relationship. I think it is practical and wise to stand on a basic premise that sovereign states are to pursue the long-term interests of their own citizens in a responsible manner, but at the same time encouraging these states to cooperate through international organizations, the G20 and other international frameworks, and bilateral or regional cooperation initiatives.
Towards the End of My Tenure as ADB President

On 17 September 2019, I expressed my intention to resign from the post of ADB President as of 16 January 2020, to the staff and members of the Board of Directors. I had taken over the remaining term of former President Haruhiko Kuroda on 28 April 2013, and had been reelected on 24 November 2016 for another 5-year term. My official term of office was not quite complete, but I thought it was time to consider turning the position over to someone else. Subsequently, ADB member governments were asked to nominate candidates. In the end, Masatsugu Asakawa, former vice-minister of finance for international affairs of the Japanese Ministry of Finance and the only candidate, was officially elected and announced as the next President on 2 December.

I kept busy after I announced my intention to resign. In the second half of September, I visited Germany, where I had been asked to return, and Belgium and the UK, to meet with officials. It was my fifth visit to Germany and the UK and my first visit to Belgium as ADB’s President. In Germany, I was interviewed by a reporter from Handelsblatt, a newspaper. I gave a speech at an Asian investment event where I met Hans-Joachim Fuchtel, former parliamentary state secretary at the Federal Ministry of Economic Cooperation and Development (Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung, BMZ), who had helped us with the ADB Annual Meeting in Frankfurt in 2016. We gave each other a hug and
celebrated the reunion. In the UK, I gave a speech at Chatham House and exchanged views with the renowned Financial Times reporter Martin Wolf for the second time. The topic was the global widening of income disparities. In Belgium, I was invited to the elegant official residence of Japanese Ambassador to the EU Kazuo Kodama, and discussed the possibility of the UK leaving the EU over dinner.

In Brussels, I also visited the headquarters of the World Customs Organization (WCO). The WCO is an international organization established in 1952 to promote the cooperation of customs officials in its member countries. It has 183 members and its main operations include the drafting of treaties on customs classification and customs procedures, and technical cooperation on customs. It cooperates with ADB in areas such as streamlining and automating customs procedures in the Central Asian countries. WCO’s Secretary-General Kunio Mikuriya was a senior colleague of mine at the Japanese Ministry of Finance who had joined the ministry 2 years before me. I met him every year at the Davos conference, and he had also visited ADB headquarters in Manila. I had long wanted to visit the WCO headquarters, so I was grateful that he hosted a breakfast meeting early in the morning to exchange views.

In October, I traveled to Washington, D.C. for meetings related to the joint annual meetings of the International Monetary Fund and the World Bank, gave a lecture at the Center for Strategic and International Studies, and bid my farewell to the presidents of multilateral development banks whom I had met many times. In November, I visited Uzbekistan and Kazakhstan for the third time.

On 5 November, a donors’ meeting was held in Manila for the quadrennial replenishment of the Asian Development Fund (ADF), which would cover 4 years from 2021 (ADF13). The general direction was established on the scale and use of the funds. On 19 November, the Board of Directors approved a change to raise interest rates for the People’s Republic of China (PRC) and other middle-income countries with relatively high income, with the support of the PRC itself. I was glad to see these two long-standing issues resolved.

During my 16th visit to the PRC in December, I met with Vice Premier Han Zheng, and visited the Ministry of Finance as usual. I exchanged views on the current state of the PRC’s economy and its position in Asia while having dinner with Finance Minister Liu Kun and Vice Minister of Finance Zou Jiayi. I had known Ms. Zou for 10 years since I was director-general of the International Bureau in the Japanese Ministry of Finance. On this trip, I visited the National School of Development at Peking University,
as described in Chapter 13, and exchanged views with Professor Justin Yifu Lin and young scholars on the message of *Asia’s Journey to Prosperity*, which we were in the final stage of writing. I told Professor Lin that I would probably teach at a university when I went back to Japan and I would very much like to keep in touch with him. He was very pleased. This was my 131st and last overseas trip as President of ADB.

On 13 December, when the Board of Directors finished deliberating the budget for 2020, Vice-President Diwakar Gupta from India hosted a year-end party at his house for the staff in the offices of the President and the six vice-presidents. After having delicious Indian dishes, we were divided into teams and enjoyed singing, dancing, and quizzes. I was always impressed with the musical talent of the Filipinos. I sang a song, and I felt that there was more applause than I had received in the previous years, perhaps because my departure was approaching.

After a winter break in Tokyo, I returned to Manila on 4 January, and on 7 January I went to the Malacañang Palace to bid my farewell to President Rodrigo Duterte, who awarded me the Order of Sikatuna, the Philippines’ highest civilian recognition. After packing up the office and the residence and shipping things out, I participated in a farewell golf competition organized by about a dozen of my golf buddies. At the office, I kept working on finalizing the text of *Asia’s Journey to Prosperity* with members of the Economic Research and Regional Cooperation Department. On 15 January, the day before I left office, we were able to hold a discussion session about the book with my participation and publish it on the website. I had a full schedule immediately after arriving in Manila to assume the position of ADB President. I was also busy until the very end of my term.

Just 5 days before leaving Manila, on the afternoon of Sunday 12 January, the Taal volcano, located in a resort area only 60 km from Manila, suddenly erupted for the first time since 1965. There were fortunately no casualties, but the airport was shut down for a day and a half as a result of volcanic ash, and I was worried about the arrival of the new President Asakawa and my departure, but thankfully things calmed down after that. On 16 January, a farewell event for me was held in the large hall in ADB headquarters. Secretary of Finance Carlos Dominguez and his wife, as well as Central Bank Governor Benjamin Diokno and his wife, were present. Speeches were given by Secretary Dominguez, ADB Vice-President Deborah Stokes, ADB Executive Director Syurkani Ishak Kasim from Indonesia who served as the Dean of the Board of Directors, and ADB Staff Council Chairperson Au Shion Yee.
I thanked them and the audience by saying, “My time at ADB has been rewarding. I am departing ADB with a deep sense of satisfaction and gratitude.” Then, I told the ADB staff three things that I would like them to remember. First, they should always have a clear understanding of the purpose of ADB’s operations and the means to accomplish it, without obscuring it with beautiful rhetoric, and aim to do work that adds value and can be performed only by ADB. Second, they should always have the courage to change ADB and keep challenging themselves without being satisfied with the status quo. Third, they should be proud to be working at ADB, an organization that can implement projects, provide knowledge, and promote international goodwill and cooperation in Asia and the Pacific, but at the same time they should also maintain humility with the awareness that ADB is dependent on the contributions of the taxpayers of its members in its work to help reduce poverty.

At the end of the farewell event, Principal Director Vicky Tan of the Department of Communications presented me with a large commemorative gift on the stage. After I received it, she tried to return it to a staff member as I tried to step away holding it. For a moment we looked like we were trying to take it away from each other, and the audience of about 1,500 who had filled the large hall burst into laughter. I raised my fist several times to respond to their cheers. I greatly appreciated the staff’s warm feeling towards me.
We then moved to the dining room for a reception. The new President, Mr. Asakawa, and his wife, as well as my wife, were on the dais with me. When Mr. Asakawa and I put our hands together and raised them, there was another cheer and applause. When I spoke with Mr. Asakawa in late December, we talked about ADB’s practice of avoiding a situation where the outgoing and incoming presidents were in the headquarters at the same time. However, in Japan, outgoing and incoming ministers meet in the minister’s offices for the transition briefing. We came to a conclusion that this practice was not very meaningful and decided to attend the reception together. It turned out that it would be pleasant and reassuring for the staff to see that the outgoing and incoming presidents got along well. By the way, Mr. Asakawa served as the chief advisor to former ADB President Kimimasa Tarumizu from 1989 to 1992, so this is his second role at ADB.

On 17 January, I played my last tennis game in the morning with my trainers Ontoy and Ibarra, who had played with me every week for nearly 7 years at the Manila Polo Club near my house. The club has a polo ground with a perimeter of 1 km, a baseball field, a soccer field, 10 indoor tennis courts—it was very hot to play as there was no air conditioning—and five outdoor tennis courts. I wonder how many times I played tennis there.

For lunch, I had pizza in a restaurant in the club with Director General of the Sustainable Development and Climate Change Department Woohong Um, who had shown my family around the club when we arrived in Manila, together with his wife and two children. We had become close family friends since our first encounter. Then my wife and I headed to the airport. Vice-President Stokes, Secretary Zhukov, and Sheila De Guzman, who had served as my secretary throughout my term, came to the airport to see us off. Sheila shed tears when she shook my hand and I also felt I would miss her very much. But for some reason, I did not totally feel so sad. I think that it was probably because I felt that I had done my job. It had been the same when I retired from the Japanese Ministry of Finance.

Little did I dream that, shortly thereafter, COVID-19 would become a pandemic, affecting Asia and the entire world, and that Manila would be locked down and ADB staff would be forced to work from home.

Japan’s Position in Asia

While I lived in Manila and traveled around Asia, I often thought about the history of Japan and its position and role in Asia. As I finish writing this book, I would like to touch on my thoughts in this area.
Japan was the first country to modernize and industrialize outside of the Western countries, starting in the Meiji era (1868–1912). As I mentioned earlier, the key to the success of Japan in the Meiji era was that it learned not only science and technology from Western developed countries but also modern economic, political, and social institutions, and incorporated this knowledge quickly. Even the Chinese are well aware that it was Japanese people who translated concepts that came from the West such as “freedom,” “society,” “capital,” “communism,” and “executives” into vocabulary using Chinese (kanji) characters.

In the early 20th century, more students from China came to Japan to study, including such important figures as Zhou Enlai (Premier of the PRC in 1949–1976) and Chiang Kai-shek. Some Chinese restaurants in Kanda, Tokyo, were established around that time to serve these young Chinese students. Japan’s victory in the Russo–Japanese War (1904–1905) provided great inspiration to the independence movements in India and other countries. I wrote in Chapter 8 about my visit to the home of the Indian poet Rabindranath Tagore in Kolkata. He had visited Japan five times and interacted with Japanese intellectuals. In this way, Japan influenced the modernization and independence movements in Asia.

However, Japan subsequently fell into expansionism and sought to expand its territories in Asia, beginning with the Twenty-One Demands and associated Sino-Japanese agreements in 1915. I think that as one part of the background to Japan’s hard-line foreign policy and expansionism, there was a great deal of resentment on the part of the Japanese people, including the indignation they felt about Japanese immigrants in California who had been discriminated against, and the League of Nations’ failure to adopt the Racial Equality Proposal. I am sure some people genuinely wanted to see Asia free of Western control. There were also economic factors such as the awareness that Japan lacked natural resources, the financial crisis after World War I, the Great Depression that began in 1929, and the existence of poverty in both rural areas and cities in Japan. The Meiji Constitution also had a problem in that the army and the navy were under the official control of the Emperor and the cabinet could not sufficiently rein in the military.

As I traveled through ADB’s members around the Pacific Ocean, I was made acutely aware of how many lives had tragically been lost because of Japan’s reckless war and inhumane military operations. In the Philippines alone, around a million Filipinos were killed, plus tens of thousands of Allied personnel and approximately 500,000 Japanese. Many lives had also been lost in Papua New Guinea, Solomon Islands
(Guadalcanal), and Palau. Near where I lived in Manila is the Manila American Cemetery and Memorial, which is large and full of greenery. It contains more than 17,000 headstones for American military personnel who died in the Pacific War, and memorial tablets bear the names of more than 36,000 missing in action. Many of the war dead were not even 20 years old.

After World War I, Palau, which had been a German colony, had become a mandated territory of Japan. When the Pacific War started, nearly 30,000 Japanese lived there peacefully. In the former capital of Koror, where Japan had established its South Seas Administration, there were shops for musical instruments and bicycles. There was an effort to develop industry and education there. For instance, several months before the war started in December 1941, the Japanese Ministry of Education had sent Atsushi Nakajima, a Japanese novelist known for *Sangetsuki*, to Palau to research how to carry out Japanese language education. In 1944, there was a fierce battle between the Japanese defense forces and US forces on the small island of Peleliu, which had an airfield and a perimeter of just 26 km. On the Japanese side, there were 17,000 fatalities, with almost no survivors; the US lost 2,300 soldiers. Local residents were evacuated in advance and unharmed. In 2015, Their Majesties Emperor Akihito and Empress Michiko visited Peleliu. As they stood in front of the memorial for the Japanese soldiers, the Emperor—wearing a simple white shirt—quietly lowered his head. That image brought tears to my eyes. When I visited Palau in 2016, I also went to Peleliu. I prayed in front of the memorial for the Japanese soldiers by the sea, and also visited the memorial for the American soldiers.

There are many sunken Japanese warships and transport ships in the waters around Palau; these are now diving spots. As I traveled between the islands on a small boat, I was at a loss for words at the stark contrast between the past tragedies and the beautiful, calm waters of the emerald sea that sparkled under the bright sun.

Toward the end of the war, more than 60,000 Japanese sailors were killed on transport ships that were sent to various places in Asia and the Pacific without a navy escort. It is said that the fatality rate among them was 40%, double that of navy sailors. I feel very sad to think about those young sailors, who must have learned their trade at merchant marine schools and longed to travel to distant foreign countries.

After the war, Japan recognized its responsibility for the disastrous and cruel war and pursued peace. It willingly provided assistance to developing Asia and supported economic growth. In addition to its diplomatic stance
and aid, Japan’s own reconstruction and growth provided Asian countries with economic opportunities through trade and direct investment. When I visited Mindanao, Philippines, a member of Parliament from the island told me about his experience of exporting bananas to Japan. He said the people in the Japanese trade company always thought about the interests of both sides and were very sincere. In Japan, there’s something called “a way of the merchants,” a set of ethical principles that merchants followed, such as not pursuing short-term gains and respecting mutual long-term interests with clients, and even today’s businesspersons adhere to them. There is also an “artisan spirit,” which compels people to take pride in their work and pursue perfection. In this way, over a long period of time, Japan has regained the trust of Asian countries. I think Japan’s rapid growth also played a major role in providing a model for economic development for the region.

Japan is now trusted and seen favorably by the people in Asia. With the development of the region, Japan is no longer exceedingly wealthier, and its relationship with other Asian countries is that of a peer rather than that of a leader and followers. This is why Japan is now a very attractive destination for international students and tourists. In the future, Japan should be inspired by Asia and incorporate the vitality of other Asian countries into its own sustainable growth. If Japan’s economy weakens, Japan’s presence and influence will naturally decline, which would be better avoided. At the same time, Japan must continue to make the utmost contribution to peace and stability in Asia in a new geopolitical environment where the presence of the PRC and other emerging countries is increasing.

Is the 21st Century the Asian Century?

Many say that the 21st century is the “Asian century.” A research report commissioned by former President Kuroda from the consulting firm Centennial Group in 2011, entitled *Asia 2050*, said that if Asian countries continued to follow appropriate policies, Asia, including Japan, Australia, and New Zealand, would account for more than 50% of the world’s gross domestic product (GDP) by 2050. Figure 8 presents this estimate. Data from 1700 to 1950 are based on a well-known long-term estimate by the British economic historian Angus Maddison. Before the Industrial Revolution, Asia’s share in the world’s GDP had been over 50%, partly because of the size of the population and a certain level of productivity in China and India. As such, it is more accurate to say that Asia is reemerging than it is emerging or rising.
I am personally very encouraged by the success of Asia and the expansion of Asia’s economic presence. I think we should remember that Asia had great civilizations and a thriving economy throughout its long history, that its development did not start recently, and that what is happening now is more of a renaissance. On the other hand, I am cautious about overpraising Asia by using such phrases as the “Asian century.”

First, Asia accounts for more than half of the world’s population today, so it is not very surprising that it is expected to account for more than half of the world’s GDP by 2050. (The world’s population in 2017 was 7.5 billion and Asia’s population was 4.2 billion, or 55%. The Asia 2050 study estimated that by 2050 the world’s population would be 9.2 billion and Asia’s population 4.8 billion, or 52%). This means that, as long as Asia’s productivity reaches the global average, its share in global GDP will exceed 50%.

Above all, Asia has many remaining challenges. They include persistent poverty, widening income disparities, the large gender gap, deterioration of the environment, and climate change, which is already having particularly serious impacts on Pacific island countries. Access to health care, education, electricity, and safe drinking water is still insufficient. On the other hand, Japan and many emerging countries in Asia are facing the challenges of aging and declining populations. There is no room for complacency. The
foundation for sustainable growth is peace and stability, and it goes without saying that continued efforts should be made to promote goodwill and strengthen cooperation among countries within and outside Asia.

Even after World War II, many European countries refused to give up their colonies in Asia. Japanese economist Toyoo Gyoiten, who attended an international conference in Europe in the 1960s, wrote that the bankers gathered there had no interest in the Cultural Revolution in the PRC or the Viet Nam War, and they acted as if the world ended near the Dardanelles, the strait in Türkiye that separates Europe from the Middle East.

The economic and cultural presence and influence of Asia today are incomparable with the situation in the 1960s. Following Japan, the newly industrialized economies, members of the Association of Southeast Asian Nations, the PRC, and India have emerged as growing economic powers, and articles about them dominate the international newspapers. People around the world love Asian cuisine, and the region’s music and movies have a wide audience today. In terms of technology, too, many innovations and global companies have recently emerged from developing Asia and started influencing the global economy, as Japan’s Shinkansen changed the way we thought about railways.

I am also against the idea that all the good things in the world, such as democracy, human rights, and the market system, are Western values, or that Asia has different values than the West. These values belong to all of humankind. In medieval times, the market system was probably more prevalent in Asia than it was in the West. In Asia, Buddhism and Confucianism have been preaching equality and benevolence to others since ancient times. Seeds of democracy can also be found in Japan’s history, such as the Sōkoku (the League of the Commons) led by the Ikkō-shū Buddhist sect in the late Muromachi period (1336–1573) and the self-governing city of Sakai in the Azuchi Momoyama period (1574–1600). The liberal civil rights movement in the Meiji period was not forced on the Japanese people. A lot of people from a broad range of social strata engaged in the movement and succeeded in establishing the parliamentary system, eventually leading to male suffrage in 1925.

Here, I would like to think a little bit about democracy. In the free world, after World War II, the ideal form of governance was believed to be a combination of democracy and a free market economy. The provision and redistribution of public goods as a function of the government were also considered important. The social democratic idea of a market-oriented economy in which affluent individuals and corporations are taxed properly
and the state supports education, health care, and pensions was important to achieve broad-based, sustainable development of the economy. Political democracy, on the other hand, consists of a fair election system, as well as freedom of expression, of the press, and of thought; separation of powers; protection of private ownership; and the rule of law, including the right to a fair trial. These are also essential factors that support a free market economy.

Many Asian countries, in the process of development after gaining independence, tilted towards so-called “developmental dictatorship.” Indonesia and the Philippines were typical examples. Developmental dictatorship contributed to growth up to a point, but, after a long period, it created inefficiencies and its repressive policies caused growing discontent. I believe that the administration of Park Chung-hee, a model of developmental dictatorship, played a major role in the modernization and economic growth of the Republic of Korea, but many Koreans are highly critical of it now.

Certainly, there is no guarantee that everything will go well all the time as long as you have democratic elections. Since electoral democracy is based on majority rule, it can lead to repression of minorities by the majority in a country with deep ethnic or religious divisions. Another drawback of democracy is that things do not advance quickly. India is said to be the world’s largest democracy, but, as noted in Chapter 8, its states have strong autonomy and national leaders are replaced too frequently through elections. Court procedures are also very cumbersome. Therefore, projects to build roads and develop electricity tend to be delayed significantly as a result of various political and judicial factors.

Therefore, we cannot say that electoral democracy will make everything right regardless of the country’s condition. This was clearly demonstrated by the chaos in post-Hussein Iraq as well as Egypt and Tunisia following the Arab Spring.

However, I still believe that Asia and the world will and should continue to move toward democracy. We may be experiencing a bit of a backlash against this long-term trend recently, but civil rights are the basis of people’s dignity, and democracy is necessary for equitable and sustainable growth. To prevent democracy from turning into extremist and exclusionary populism, governments—including those of developed countries—need to make more efforts to counter the widening income disparities caused by technological innovation and globalization, rather than simply ignoring this as being a result of market functions.

Let us return to the main topic. If this century is the Asian century, Asia must increase its intellectual influence, its ability to attract people, and
Its soft power in the world. In fact, Europe and the US have accumulated a great deal of value that cannot be easily surpassed since the time of the Renaissance and the pioneering days when they established shipping routes into Asia. While the influence of Europe and the US has not always been positive (including colonial rule in many parts of the world and the transatlantic slave trade), they have contributed to progress in science, technology, and thought; accumulated significant power; and offered positive influence as well.

It will still take some time and effort for Asia to have the same level of influence that the West has had over the past 5 centuries. Asia must further strengthen its institutions and governance; contribute to the development of science, technology, and culture in the world; fulfill its responsibilities in tackling international challenges; and convey its ideas more clearly.

A foreign journalist who was covering the publication event for Asia’s Journey to Prosperity heard me say that it was too early to say that this was the Asian century, and asked me if I was cynical about Asia. I replied that my statement reflected my enthusiasm for Asia, the polar opposite of cynicism. This enthusiasm is based on my expectation and hope that Asia, which has been following the West for a long time, will one day have the same—or an even greater—positive influence on the world.
CLOSING REMARKS

My datebooks were referred to—and perhaps feared—by the ADB staff as “the President’s black notebooks” because, during meetings in my office, I sometimes pulled out one from the past to check the records. I started writing things down more carefully in my datebooks when I assumed the post of minister in the Japanese Embassy in the United States (US) in 2005. I used an ordinary datebook that has a week’s schedule on the left and a ruled page on the right. On the left page I would write down the meetings I attended and the people I met. On the right page I would write down the details of important discussions, and in some cases what I felt about them. When I had a lot to write about during a business trip or an international conference, I also used the blank pages in the back. It would be tiring if I wrote every day, so I often wrote things down after a business trip had concluded or on weekends.

I wrote this memoir based on these datebooks, as well as copies of my calendars prepared by my secretary, press releases, and information published on the websites of ADB and the Japanese Ministry of Finance.

After announcing my intended resignation in September 2019, I began thinking about recording my valuable experience as ADB President in the form of a book. After my term in the Embassy ended and I returned to Japan from Washington, D.C., in the spring of 2008, I published a book about US economic policy based on what I had experienced and learned in the US. Based on that experience, I contacted Toru Matsumuro, who had been my editor for that book and who is now president of Chuokoron Art Publishing. He introduced me to Daisaku Yoshida of Chuokoron-Shinsha. I was very fortunate to have been able to publish again through Chuokoron-Shinsha, a company that has published many academic books that I have read and from which I had benefited greatly. Mr. Yoshida patiently advised and supported me in the writing process.

After returning to Japan on 17 January 2020, I visited friends and colleagues whom I hadn’t seen for a long time, and saw my mother, who lived alone in Hyogo Prefecture. After that, partly because of COVID-19,
I pretty much stayed in my study at my home in Tokyo and kept writing to meet the deadline at the end of March, except for taking walks in the neighborhood, shopping for groceries, and cooking for the family.

As I wrote the manuscript, the part on the retrospective of my years as vice-minister of finance for international affairs at the Japanese Ministry of Finance, which I had intended to mention briefly as a prologue, expanded. I realized I could recall many events from the time when I was confronted with the major exchange rate fluctuations, and I wanted to leave detailed records of what had transpired.

I had to examine the pages of my datebooks from 2007, right before the global financial crisis, to 2020, when I stepped down as ADB’s President. In the writing process, I checked relevant documents to make sure that what I was writing was factually correct, and it took a lot more time than I had expected.

After I completed the first draft, I asked many people to read the relevant parts and received valuable comments. I cannot name everyone, but I would like to express my heartfelt gratitude to all of them. Several people read the entire manuscript and provided many useful comments. Wataru Takahashi was a college classmate of mine in Professor Ryuichiro Tachi’s seminar, and served as director-general of the Institute for Monetary and Economic Studies, Bank of Japan. He is now a professor at Osaka University of Economics. Daikichi Momma was a colleague of mine at the Japanese Ministry of Finance who had joined the ministry 3 years after me. He served as director-general of the International Bureau of the Japanese Ministry of Finance, and is now a special advisor to the Nippon Life Insurance Company. Katsuyuki Hasegawa is chief economist at my new workplace, Mizuho Research & Technologies. I also received comments on facts from Kazu Sakai, former director general in charge of strategy at ADB, with whom I had discussed a wide range of issues when I was ADB President, and from Yoichiro Ikeda, who, as my chief advisor, had assisted me for 2 and a half years before my departure.

As I write this in May 2020, the COVID-19 pandemic is not yet over; it has already reached a historic scale and has had a serious impact on the global economy. The Asian economy, as described in this book, has achieved growth based on market-oriented economic policies, the vitality of the private sector, and production networks linking various countries. It is especially because of this that the impact of the pandemic has been so severe. However, I believe that the pandemic will not last forever, and that, when it ends, we will see a significant rebound and recovery.
Of course, we cannot dismiss the possibility that irreversible changes may occur. Even before this problem, some companies had adopted the so-called China Plus One strategy to move production out of the People’s Republic of China (PRC), in response to the US–PRC friction and rising wages in the PRC. Given heightened awareness of the risk of relying too much on overseas production in consideration of national security, health, intellectual property rights, and supply chains, the functions of the state and national borders may be reevaluated in a fresh light, and governments and companies may move to relocate production bases back to their own country. Also, at least for a while, movement of people across borders will be reduced and tourism and aviation industries will be adversely affected as a result of the pandemic. Changes in lifestyle, such as working without going to an office and shopping without going to a store, may create new winners and, at the same time, put many companies and households in a difficult situation.

However, as was the case after the Spanish flu 100 years ago, it is unlikely that the global linkages of people and production will be broken, even if we have to make some adjustments. I believe growth in Asia will continue as long as Asia remains peaceful and countries continue to implement good policies.

ADB was established in 1966 based on the strong desire of Asian people. Since then, it has helped its members develop through its operations, including lending, grants, technical assistance, and policy dialog. If its members develop further and graduate from ADB’s assistance, its role may become smaller, but that time has not yet come. Many issues remain, including persistent poverty, inadequate infrastructure, climate change, and gender equality. As has been the case with COVID-19, there is also a role for ADB to play in the area of regional public goods, such as preparation for and response to cross-border communicable diseases. At the same time, as more countries acquire the ability to raise funds domestically, ADB must be able to provide more value-added assistance based on its experience and knowledge gained from projects in various countries. Otherwise, it will not be able to meet the expectations of its members. During my term as ADB’s President, which lasted close to 7 years, I tried to implement as many reforms as I could think of. Still, ADB must continue to innovate constantly.

In Asia, the PRC’s presence has increased and new institutions like the Asian Infrastructure Investment Bank have been established. Meanwhile, Association of Southeast Asian Nations members, India, Bangladesh, and others are also pursuing long-term stability and prosperity in a new geopolitical environment, while firmly maintaining their own identities. ADB
is an international organization in Asia that has built strong relationships of mutual trust with its members through a wide range of projects for more than 50 years. In this regard, there is no organization like it in Asia. I think it has an important role in continuing to promote cooperation and goodwill among its members.

Finally, I would like to thank my wife, Asako, and my two sons, who all moved from Tokyo to Manila at short notice, with the boys changing school to the International School Manila, and lived with me for those 7 years. Throughout my career at ADB and the Japanese Ministry of Finance, I was also advised, guided, and inspired by many colleagues and friends, both professionally and intellectually. If this book has any value to the readers, I owe it to them.

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Takehiko Nakao
The Rise of Asia: Perspectives and Beyond
Memoir of the President of the Asian Development Bank, 2013–2020

In this book, Takehiko Nakao reflects on his experience as President of the Asian Development Bank (ADB) between April 2013 and January 2020. He discusses Asian economies, insights from visits to ADB members, the bank’s operations and strategies, and Asia’s development history and future challenges. In addition, he reflects on events during his tenure as vice-minister of finance for international affairs at the Japanese Ministry of Finance, from August 2011 to March 2013.