

ADB

# REVIEW

NEWS FROM THE ASIAN DEVELOPMENT BANK

AUGUST 2004

**President Chino's  
Address**

**Broadening  
Horizons  
Working with  
Civil Society  
Groups**

**ADF Replenished**

**37<sup>TH</sup> ANNUAL  
MEETING**

**JEJU  
REPUBLIC  
OF KOREA**

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Eric Sales (x3)

**BUSY TIMES** Journalists work on their stories in the Media Center at Jeju

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**ABOUT THE COVER**  
A drummer performs during the opening ceremony of the 37<sup>th</sup> Annual Meeting of ADB's Board of Governors

Cover photo by Eric Sales

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# A Renewed Sense of Commitment



By Graham Dwyer  
External Relations Specialist

It had been 34 years since the Republic of Korea hosted an ADB annual meeting, and for the 37<sup>th</sup> Annual Meeting of the Board of Governors of the Asian Development Bank in May, the Government pulled out all the stops. Jeju Island's International Convention Center, a space-age facility situated on cliffs overlooking the sea, provided a breathtaking setting for the meeting and offered spacious state-of-the-art amenities. It comfortably accommodated the Annual Meeting's 2,500 participants, including ADB Governors, official delegations of ADB members, and representatives from multilateral and bilateral institutions, global financial community, and civil society.

The event opened on an upbeat note, following the successful conclusion in Seoul of the eighth replenishment of ADB's concessional financing instrument, the Asian Development Fund (ADF), just before the Annual Meeting.

In announcing the news, at the Annual Meeting's traditional curtain-raiser event for the media, ADB President Tadao Chino said that following the \$7 billion ADF replenishment, "we are indeed going into our Annual Meeting with a renewed sense of commitment to our mission of reducing poverty in the Asia and Pacific region."

The official opening to the Annual Meeting was heralded by a blaze of Korean culture, in a presentation entitled "Light of Dawn," featuring traditional singers, dancers, drummers, and instrumentalists. This spectacle was followed by other colorful presentations over the next two days that showcased the best of Korea's national, local, popular, and classical culture.

#### E-Asia Fund Established

In an opening address to that session, Republic of Korea's Prime Minister Goh Kun outlined his country's vision for regional and global peace and stability and paid tribute to ADB's "significant contributions" in lowering the proportion of the poor living in the region, from 32% in 1990 to 22% in 2000.

**It has also become essential to continue with the push for regional financial cooperation to prevent the recurrence of crises**

Deputy Prime Minister Hun-Jai Lee  
Republic of Korea

"This is truly a remarkable achievement, equivalent to saving 180 million people from extreme poverty in Asia and the Pacific for a decade," he said.

"I believe these achievements were possible because ADB, without fail, continues to set achievable goals, taking into account the ground realities in Asia and the Pacific."

He said that the Republic of Korea would continue to make important contributions to the prosperity of the region by "fully utilizing its economic status and strengths and deepening partnership with



ADB." In this regard, he announced the establishment of an "e-Asia" Fund, to support ADB's efforts at reducing the digital divide and improve information flows in the region.

Chairman of the Board of Governors, Hun-Jai Lee, in his opening statement, pointed out that in an era of knowledge-based economies, the digital divide may become one of the major sources of income gaps.

"We must focus more on narrowing the digital divide to achieve balanced economic development," he said.

Mr. Lee, Republic of Korea's Deputy Prime Minister and Minister of Finance and Economy, also proposed the establishment of a Knowledge Partnership Fund, a trust fund financed by the Korean Government to serve as an effective channel to transfer its experience and knowledge.

He said that the world's economies had entered a new era of unprecedented symbiosis.

"More than ever, the world's policy makers must be appreciative of this symbiotic relationship when contemplating their policy actions," he said.

"Of course, even more so in the new era, sound macroeconomic policies and continued economic reforms will remain the bedrock of sustainable economic growth. However, it has also become essential to continue with the push for regional financial cooperation to prevent the recurrence of crises."

#### Regional Cooperation Crucial

In his address to the Board of Governors, Mr. Chino said that Asian countries were now on a more solid and sustainable growth path.

He noted, however, that while income poverty had declined in Asia and the Pacific, progress had been limited in achieving the Millennium Development Goals (MDGs). Unless efforts are redoubled, he warned, the region—home to two thirds of the world's poor—was at serious risk of failing to achieve the MDGs relating to health, education, gender, and environment.

"For Asia to maintain its progress and achieve peace, prosperity, and freedom from poverty, further structural reforms as well as a deepening and expansion of regional cooperation are crucial," he said.

In addition, he pointed out that the Asia and Pacific region requires more than \$250 billion a year in infrastructure investments in the medium term, and huge external financing.

"The financing shortfall is a serious constraint to the region's continued economic growth and development, and to achieving the MDGs," he said.

Mr. Chino said that a dynamic private sector is crucial for sustainable economic growth and ADB will continue to improve basic infrastructure and support policy, institutional, regulatory, and judicial reforms to enhance governance.

"Consistent with its Charter, ADB must promote ongoing regional economic integration, and ensure that it will be pro-poor and equitable, both within and among

countries, and open to the rest of the world," he said.

"When ADB was being created, Asia was divided, stricken by conflict, and the poorest region of the world," he concluded. "Today, the vision of an integrated, prosperous, poverty-free and peaceful Asia is no longer a dream, but an achievable goal."

### Closer Financial Cooperation

On the sidelines of the Annual Meeting, about a dozen seminars and country presentations were held, addressing some of the most topical and pressing issues facing Asia's economies.

With the ASEAN+3 Finance Ministers meeting in parallel at Jeju, the seminar on a Single Currency for East Asia attracted particular attention. Others dealt with infrastructure, corporate restructuring, guarantee products, domestic credit rating agencies, and banking sector reform. A Korea Day seminar examined the host country's economic progress over the past few decades and the lessons that could be learned for the rest of Asia.

In between a busy schedule of business sessions, seminars, and side events, the President held a series of bilateral meetings with delegations to enhance relations with ADB members.

During the Annual Meeting's business sessions, governors reviewed the economic performance and prospects of the Asia and Pacific region, as well as the many changes and reforms that have been initiated to strengthen the development effectiveness of ADB.

ADB's governors observed that the international community, including ADB and its development partners, had played an important supportive role in the region's strong performance.

They noted the trend toward greater regional interdependence of trade and investment, and the need for closer financial cooperation. They also noted that development policies need to emphasize how growth can be more socially inclusive by addressing gender, education, health, environment, and governance.

The governors had observed that the overall growth of the region masked differences among subregions and countries on progress in reducing poverty, particularly the non-income dimensions, which are so critical for achieving the MDGs.



WHO's WHO Former ADB presidents and current vice-presidents



ATTENTIVE Audience members listen to the Prime Minister

**// This is truly a remarkable achievement, equivalent to saving 180 million people from extreme poverty in Asia and the Pacific for a decade //**

Prime Minister Goh Kun, Republic of Korea

In his closing remarks, Mr. Chino said governors had reaffirmed that ADB's Poverty Reduction Strategy continues to provide a sound operational framework for the institution's overarching goal of poverty reduction and helping its developing member countries achieve the MDGs.

"ADB is firmly committed to reducing poverty in the Asia and Pacific region, home to two thirds of the world's poor, the majority being women," Mr. Chino told governors.

"ADB is your trusted partner, and it has the knowledge, experience, resources, and other institutional strengths that are essential for addressing the complex development challenges facing the region. ADB will implement all its commitments to become a more accountable, more efficient, and more transparent institution that can effectively assist our developing member countries to fight poverty and achieve the MDGs." ■



# Korean Kaleidoscope

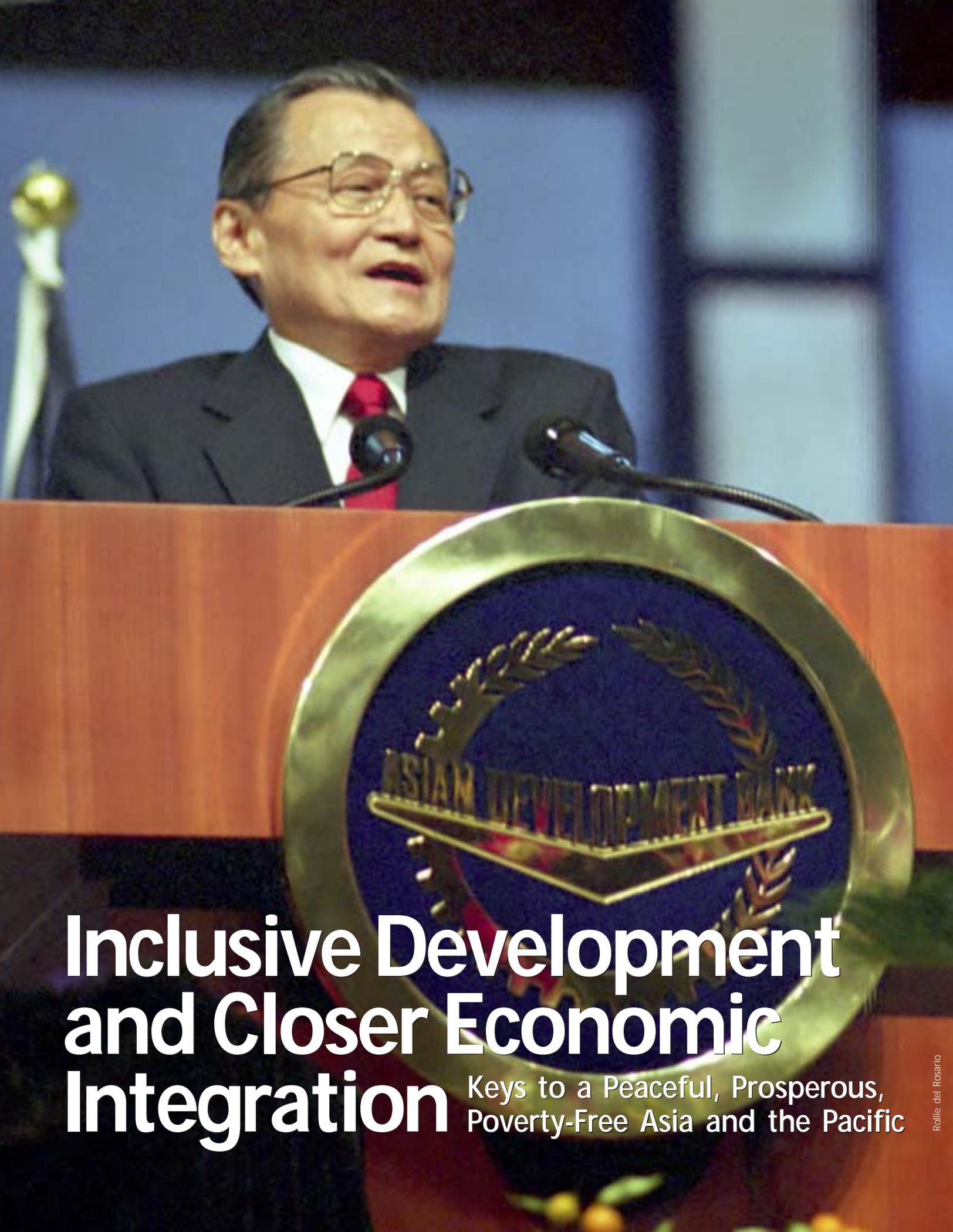
Glimpses of the opening ceremony and other images from the 37<sup>th</sup> Annual Meeting of the ADB Board of Governors





Eric Sales (x9)





# Inclusive Development and Closer Economic Integration

Keys to a Peaceful, Prosperous,  
Poverty-Free Asia and the Pacific

Tadao Chino

President, Asian Development Bank

**Y**our Excellencies, Ladies and Gentlemen, I am pleased to join the Chairman, the Honorable Hun-Jai Lee, Deputy Prime Minister and Minister of Finance and Economy of the Republic of Korea, in welcoming you to the 37<sup>th</sup> Annual Meeting of the Board of Governors of the Asian Development Bank.

We are deeply honored by the presence of the Honorable Goh Kun, Prime Minister of the Republic of Korea, at our gathering this morning. I would like to express my gratitude to the Government and the people of the Republic of Korea for their warm hospitality in welcoming ADB to Jeju. Special thanks are also due to the government of Jeju Province for its tireless work and dedication to ensure the success of this important meeting. This is the second time the Republic of Korea, a founding member of ADB, has hosted an ADB Annual Meeting. The first time was in 1970 in Seoul. Both ADB and the Republic of Korea, now a donor member country, have come a long way since then.

On behalf of ADB's entire membership, I would like to bid a special welcome to the Delegate from Luxembourg, whose country has become the 62<sup>nd</sup> member of ADB, and to the Governor for Palau, whose country has become the 63<sup>rd</sup> member of ADB. We gratefully acknowledge Luxembourg's contribution to the Asian Development Fund.

I also extend a warm welcome to all representatives of our development partners, members of the global financial community, civil society, nongovernment organizations (NGOs), and our friends in the media.

### Regional Economic Performance and Outlook

Your Excellencies, Ladies and Gentlemen, the economies of developing Asia and the Pacific generally showed remarkable resilience in 2003. Despite uncertainties caused by the war in Iraq, high oil prices, and the outbreak of the severe acute respiratory syndrome (SARS) epidemic, GDP growth reached 6.3% in 2003, half a percentage point higher than 2002.

Given the strong economic fundamen-

tals in the region, and with a promising outlook for major industrial countries over the next two years, the economies of developing Asia and the Pacific are expected to expand robustly by 6.8% in 2004 and 6.7% in 2005. Such growth is expected to be increasingly broad based as consumer demand and business investment strengthen further, and as external demand, including intraregional trade, remains buoyant.

However, several risks remain. At the global level, these include geopolitical concerns, rising oil prices, and imbalances in industrial economies. Other risks, such as a slowing of financial and corporate reforms, relate more specifically to the region. All these risks underscore the importance of close cooperation and continued implementation of key policy and structural reforms in the region.

### 2003 in Review

Your Excellencies, Ladies and Gentlemen, I would now like to report on some of ADB's key activities over the past year.

**// The economies of developing Asia and the Pacific are expected to expand robustly by 6.8% in 2004 and 6.7% in 2005 //**

First, ADB is at the forefront of rebuilding member states emerging from years of conflict. In Afghanistan, we played a major role in working with the Government and other donor agencies to reassess the resources needed to provide basic services to the Afghan people over the next decade. This formed the basis of the \$8.2 billion pledge made at the International Conference on Afghanistan in Berlin in March this year, at which ADB announced \$1 billion of assistance to support reconstruction activities over the next four years. We are focusing on building capacity, rehabilitating essential infrastructure, and establishing appropriate policy and institutional frameworks. Just last week, ADB approved the first major program loan to reform and revive agricultural production, which is critical for reducing poverty and replacing poppy production.

Second, in Sri Lanka, ADB worked closely with other donor agencies to assess

the rehabilitation needs of conflict-affected districts. This needs assessment was a key element of the Sri Lanka Donors' Meeting in Tokyo last June, at which a total of \$4.5 billion was pledged, with ADB contributing \$1 billion over four years. In an effort to broaden peace dividends and support the peace process, ADB approved the Conflict-Affected Areas Rehabilitation Project last December.

Third, in close coordination with other international organizations, ADB also acted swiftly to provide emergency assistance in response to the SARS outbreak and, more recently, to the avian flu. Drawing on experience, we are finalizing a new Disaster and Emergency Assistance Policy that will sharpen ADB's effectiveness in responding to natural disasters, conflicts, and other emergencies.

Fourth, ADB is firmly committed to enhance development effectiveness. We conducted an intensive review of the reorganization of ADB that came into effect in January 2002. We launched an independent assessment of the reorganization, the results of which will provide additional guidance for enhancing development effectiveness at the institutional level. We established a new accountability mechanism to better address the concerns of project-affected people. We are preparing a new Public Communications Policy to promote greater information sharing about our operations and to encourage more public feedback. We now have an independent Operations Evaluation Department that reports to the Board of Directors, in line with international best practice. We have strengthened senior management through the creation of a fourth Vice-President for Knowledge Management and Sustainable Development. We have established a new results management unit to lead implementation of ADB's action plan for managing for development results. We adopted a new income planning framework that introduces credit-risk modeling to strengthen financial management. We approved the second phase of our Gender Action Plan, which brings us closer toward achieving gender balance in ADB. And, we are preparing a new Human Resources Strategy that will help direct staff incentives toward the achievement of development results and outcomes. We are determined to continue our reforms to be increasingly

effective in our fight against poverty in the region.

### Challenges Facing the Region and ADB's Responses

**Poverty Reduction—Achieving the MDGs.** Your Excellencies, Ladies and Gentlemen, reducing poverty in Asia and the Pacific is the greatest challenge we face. Although income poverty has declined in recent years, progress toward the non-income Millennium Development Goals (MDGs) has been limited. Unless there is a redoubling of efforts, Asia and the Pacific, which is still home to two thirds of the world's poor, is at serious risk of not achieving the MDGs related to health, education, gender, and the environment.

Our comprehensive review of ADB's Poverty Reduction Strategy confirms that our strategy continues to provide a sound operational framework for ADB's overarching goal of poverty reduction. It also recommends that ADB's poverty reduction efforts be further strengthened by continuing to support governance and policy reforms; by including MDG targets in our country strategies and programs; by aligning our assistance more closely with national poverty reduction strategies; and by continuing to

strengthen coordination with our development partners. ADB's Poverty Reduction Strategy is based on three pillars—pro-poor sustainable economic growth, social development, and good governance; and five thematic priorities—capacity development, environmental sustainability, gender equality, private sector development, and regional cooperation. All of these are indispensable for achieving the MDGs.

**Private Sector Development—The Engine of Economic Growth and Poverty Reduction.** A dynamic private sector is crucial for sustainable economic growth, a necessary condition for poverty

reduction, public sector lending and private sector finance, including loans and equity investments as well as credit enhancement products such as guarantees. Therefore, ADB can effectively deliver synergistic solutions to development challenges. ADB thinks private sector development in public sector operations, and development impact in private sector operations.

Developing and strengthening capital markets is another important element of our private sector operations. For example, a pioneering rupee bond issue in India earlier this year was the first time that ADB tapped the domestic bond market of a borrowing member country. ADB is also supporting the Asian Bond Market Initiative by ASEAN+3 countries. The increased availability of long-term local currency financing

directly contributes to development of the private sector in our developing member countries. We will continue to examine new and innovative approaches to promote private sector development.

**“ ADB is firmly committed to enhance development effectiveness ”**

reduction. ADB will continue to help create an enabling environment for private sector development by improving basic infrastructure and by supporting policy, institutional, regulatory, and judicial reforms that improve governance, which is so essential for attracting private sector investments. ADB provides, under the same

infrastructure investment requirements for developing Asia and the Pacific will exceed \$250 billion per year in the medium term, and the need for external financing is tremendous. The financing shortfall is a serious constraint to the region's continued economic growth and development, and to achieving the MDGs. ADB is examining means to streamline project preparation procedures and exploring innovative approaches and modalities for effective infrastructure financing.

**Infrastructure and Poverty Reduction.** Ladies and Gentlemen, pro-poor sustainable economic growth is vital for a steady decline in the incidence of poverty. Such growth creates employment and income for all, and increases public revenues that can be invested in poverty reduction efforts. Infrastructure is critical for realizing sustained economic growth, and has strong positive linkages with other sectors. It is required for the efficient delivery of goods, services, and information, including basic social services to the poor; provides an enabling environment for private sector development; and promotes broad-based growth.

Recent initial estimates suggest that the infrastructure investment requirements for developing Asia and the Pacific will exceed \$250 billion per year in the medium term, and the need for external financing is tremendous. The financing shortfall is a serious constraint to the region's continued economic growth and development, and to achieving the MDGs. ADB is examining means to streamline project preparation procedures and exploring innovative approaches and modalities for effective infrastructure financing.



Eric Salas



**BOOST NEEDED** Infrastructure investment requirements for developing Asia and the Pacific will exceed \$250 billion per year; the need for external financing is tremendous

Richie Abrina

**Regional Cooperation.** ADB's Charter mandates the fostering of regional cooperation. ADB has been supporting the Greater Mekong Subregion Program, the Brunei Darussalam-Indonesia-Malaysia-Philippines-East ASEAN Growth Area Initiative, the Central Asia Regional Economic Cooperation Program, and the South Asia Subregional Economic Cooperation Initiative. These initiatives have been making significant progress in enhancing connectivity, reducing barriers to intraregional trade and investment, and addressing cross-border issues such as environmental degradation, human trafficking, and narcotics. The most significant benefits of regional cooperation, however, are stability, peace, and security based on mutual trust and goodwill created by countries increasingly working together.

The Asian financial crisis highlighted the virulent nature of contagion among neighboring countries, and brought the Asia and Pacific region closer together. Regional cooperation has since expanded to cover information exchange and economic surveillance, currency swap arrangements, and regional bond market initiatives. Combating corruption is another area where regional cooperation plays an increasingly important role.

With progress in market-oriented

reforms and a narrowing of gaps in growth performance across the subregions, bridging and linking the subregions has gained momentum. Reconstruction in Afghanistan has accelerated cooperation, particularly between neighboring Central Asia and South Asia. More recently, the South Asian Association for Regional Cooperation Summit in Islamabad has paved the way for accelerated cooperation among South Asian countries and with the rest of Asia. Furthermore, intraregional trade has been increasing, contributing to further integration of regional markets.

Looking ahead, there is a distinct trend toward broader Asia-wide economic coop-

**// Infrastructure is critical for realizing sustained economic growth, and has strong positive linkages with other sectors //**

eration and integration. The number of free trade agreements and other regional cooperation arrangements is increasing, and there is a growing view that Asia and the Pacific as a whole should strive for closer economic integration. ADB's work in regional cooperation over the decades, and particularly since the early 1990s, places

it in a unique position to help the region rise to this historic challenge.

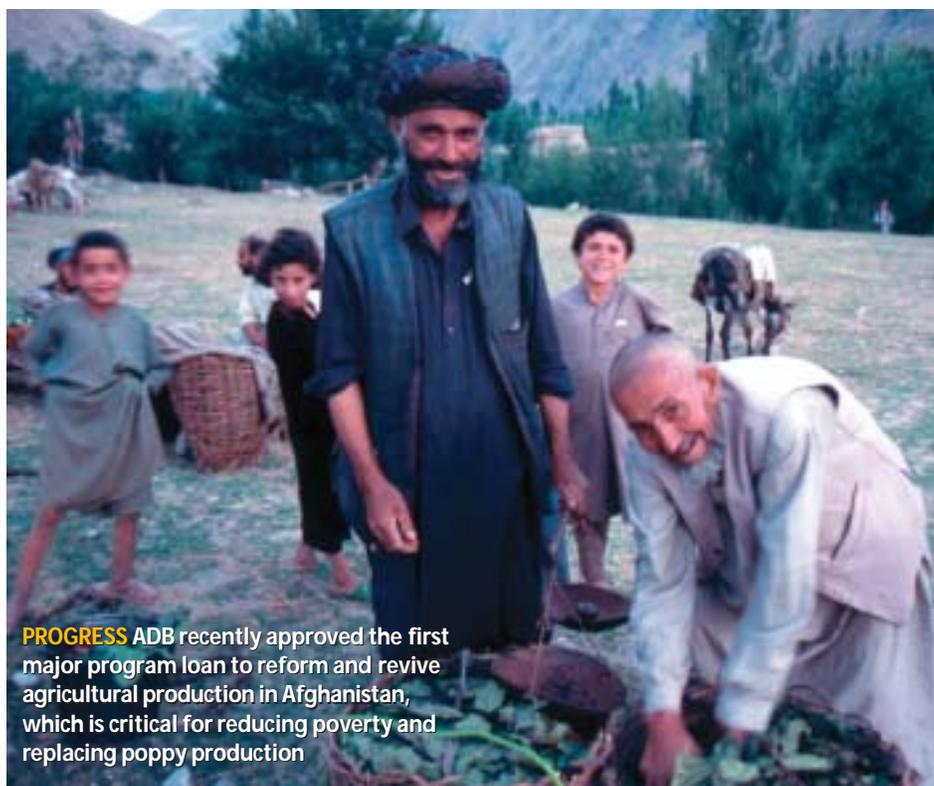
### The Importance of Continued Shareholder Support

Your Excellencies, Ladies and Gentlemen, ADB has benefited greatly from the guidance and support of our shareholders. The meetings for the eighth replenishment of the Asian Development Fund (ADF IX)—in Copenhagen, Tokyo, Lisbon, and Seoul—demonstrated clearly the wholehearted commitment of ADB's shareholders to our institution and to its mission of reducing poverty in the region.

Discussions were characterized by strong partnership and participation among shareholders, as well as between shareholders and ADB. Discussions also contributed to an agreement among shareholders to establish grants in ADF IX, thereby strengthening ADB's capacity to respond to special development needs without increasing the debt burden of the region's poorest countries. With shareholder support, grants will provide a welcome means to help us respond effectively to poor countries facing debt sustainability challenges, to postconflict reconstruction needs, to combat HIV/AIDS and other communicable diseases, and to support deeper knowledge sharing and capacity building.

To underscore their commitment to a better and more effective ADB, donor shareholders have concluded discussions resulting in a total of \$7 billion under ADF IX, significantly higher than the previous replenishment. I sincerely thank the donors for their strengthened support and generosity in the fight against poverty in Asia and the Pacific.

Looking forward, ADB's assistance and operations must also respond to the development needs of middle-income countries, where we still see a large number of people trapped in poverty and persistent inequality. It is essential that ADB have adequate ordinary capital resources (OCR) available to expand, accelerate, and sustain poverty reduction, and respond to emergencies. With full shareholder support, we must continually reassess ADB's capital adequacy in the context of responding to the wide-ranging needs for OCR in our developing member countries.



**PROGRESS** ADB recently approved the first major program loan to reform and revive agricultural production in Afghanistan, which is critical for reducing poverty and replacing poppy production

Ali Azimi

turmoil, full of geopolitical tensions. It was a time of great upheaval, marked by armed conflict in some countries and deep social and political change in others.

Against this backdrop of widespread poverty and instability, it was imperative to accelerate harmonious economic growth of the region as a whole, with special regard to smaller or less developed countries, and to strengthen regional cooperation. These were considered to be the keys to peace, stability, and prosperity in the region, and are reflected in the Charter of ADB. ADB was established in 1966 to serve as the focal point for inclusive development and regional cooperation in Asia and the Pacific.

As we all know, over the past four decades, much of Asia and the Pacific has made remarkable economic and social progress. Today, generally speaking, there is greater peace, stability, and security in the region. The open economic policies of governments, private sector-led growth, high savings, motivated labor forces, and an emphasis on education have all contributed to these achievements.

More recently, we have witnessed developing Asia's impressive recovery and economic growth after the Asian financial crisis. Learning from the crisis, Asian countries are now on a more solid and sustainable growth path. However, much remains to be done. For Asia to maintain this

progress and to achieve peace, prosperity, and freedom from poverty, further structural reforms as well as a deepening and an expansion of regional cooperation are crucial. Consistent with its Charter, ADB must promote ongoing regional economic integration, and ensure that it will be pro-poor and equitable, both within and among countries, and open to the rest of the world.

Ladies and Gentlemen, when ADB was being created, Asia was divided, stricken by conflict, and the poorest region of the world. Today, the vision of an integrated, prosperous, poverty-free, and peaceful Asia is no longer a dream, but an achievable goal. We know the challenges are daunting, but with the strong support of all shareholders and by working together with all development partners, ADB will do its utmost to help realize this vision, not only for the good of Asia and the Pacific, but also for the peace and prosperity of the whole world. ■



**FUNDING FOR THE POOREST** Donor shareholders agreed on a \$7 billion replenishment of the Asian Development Fund

Joe Cantrell

“ Today, the vision of an integrated, prosperous, poverty-free and peaceful Asia is no longer a dream, but an achievable goal ”

will not be sufficient to meet the increasing demand for TA, and ADB will continue to seek additional resources, including trust funds, in accordance with needs across the region.

#### Concluding Remarks

Your Excellencies, Ladies and Gentlemen, it was exactly 40 years ago, in May 1964, when I arrived at the UN Economic Commission for Asia and the Far East (ECAFE) in Bangkok. My assignment was to prepare documents for the meeting of the Working Group of Experts on ADB, held in October that year.

In those days when ADB was being conceived (1964–1965), the Asia and Pacific region was very different from what it is today. Average per capita gross national product (1964) in Latin America and the Caribbean was \$430, in Africa \$150, but in developing Asia it was only \$90. Asia was the poorest region of the world. Asia was in

ADB's expanding role as a development institution has also placed increased demands on our technical assistance (TA) resources. At the same time, the resources available for TA have become scarce. I am pleased that donors to the ADF IX replenishment have agreed to allocate a significant share of new contributions to ADB's TA Special Fund. This is very welcome and greatly appreciated. However, this alone



# In Pursuit of Peace and Prosperity

The Republic of Korea says it is looking for ways to return the favors it received from its long ADB membership, including establishing an 'e-Asia Fund'

Honorable Goh Kun  
Prime Minister, Republic of Korea

**R**espectable Tadao Chino, President of the Asian Development Bank, Delegations from 63 Members, Representatives of International Organizations, Distinguished Guests, Ladies and Gentlemen: on behalf of the Korean Government and people, let me first extend my heartfelt congratulations on the opening of the 37<sup>th</sup> ADB

Annual Meeting. It is indeed an honor for the Republic of Korea to be hosting this year's meeting. I warmly welcome you to the Republic of Korea.

We are truly privileged and excited to host the ADB Annual Meeting for the second time after 34 long years, since the first time the Republic of Korea hosted an annual meeting was in 1970 in Seoul.

As you know very well, since its establishment in 1966, the Asian Development Bank has strived to reduce poverty and promote economic development in Asia and

the Pacific. It has also made tremendous endeavors in the areas of human resource development and environment protection.

As a result of such efforts, ADB has made significant contributions in lowering the proportion of the poor, who live on less than a dollar a day, from 32% in 1990 to 22% in 2000. This is truly a remarkable achievement, equivalent to saving 180 million people from extreme poverty in Asia and the Pacific for a decade.

I believe that these achievements were possible because ADB, without fail, con-

tinues to set achievable goals, taking into account the ground realities in Asia and the Pacific, and implement policies as planned in close cooperation with the member countries in the region.

The Republic of Korea has been enjoying close partnership with ADB since it embarked on economic development in the 1960s. In addition to the \$6.3 billion financial assistance, ADB has provided much-needed assistance and support for the Republic of Korea's economic development, including expertise and experiences in the area of development.

In this regard, I would like to take this valuable opportunity to express my profound respect and appreciation to President Chino, who played a pivotal role in establishing this important organization some 40 years ago, and former presidents as well as former and current employees of ADB for their commitment and devotion.

I would hope that ADB will continue to help reduce poverty and accelerate economic growth in Asia and the Pacific without being complacent with the achievements made so far.

Furthermore, ADB should strengthen its activities to eliminate corruption and enhance transparency of economies in the region. I would believe and also request ADB to be a focal point in our collective efforts to narrow the digital divide among the member countries.

The Korean Government has been contemplating ways to return the valued favors we received through ADB to fellow member countries in need of assistance. In this context, we will establish "e-Asia Fund," to be used to improve the level of information in the Asia and Pacific region, aimed at supporting ADB's commendable effort to reduce the digital divide.

Distinguished Guests, Ladies and Gentlemen, ADB, through its resilient effort I have just touched upon, has contributed to regional and global peace and stability. In line with this, the Republic of Korea, too, has a noble vision, that is the pursuit of peace and prosperity jointly with all of the Asian and Pacific countries.

To put this vision into reality, we have set two major goals in an effort to ensure

that the Asia and Pacific region acts as a new driving force behind world peace and prosperity of the humankind.

The first goal is to build permanent peace on the Korean Peninsula by resolving the North Korean nuclear issue in a peaceful manner.

The second goal is to improve the Republic of Korea's economic systems and business environment so as to promote the Republic of Korea as a business hub of Asia.

Let me further elaborate on the second goal I have just mentioned.

The Republic of Korea is endowed with favorable geo-economic conditions, for the country can serve as a bridge between an economic block of the Eurasian continent and the economies in the Pacific Rim. Also, the country is proud of its world-class information technology (IT) infrastructure, high level of education, and competent human resources.

Based on these merits, we are striving to develop the Republic of Korea into a hub for logistics, financial services, business activities, and research and development in Asia, connecting the Pacific and the Eurasian economies.

**// We are striving to develop the Republic of Korea into a hub for logistics, financial services, business activities, and research and development in Asia //**

The Incheon International Airport, Busan Port, and Gwangyang Port are equipped with excellent logistics infrastructure. In addition, the Republic of Korea became the fifth country in the world to launch the operation of the high-speed train, called the Korea Train Express (KTX). This new railway transportation will mark the beginning of the 21<sup>st</sup> century iron silk road. In other words, this railway will soon be reconnected to the inter-Korean railway, and also linked to the Trans-China Railroad of China and the Trans-Siberian Railroad of Russia. Therefore, the KTX will be one of the core infrastructures to help enhance the Republic of Korea's status as a logistics hub in Asia.

Distinguished Guests, Ladies and Gentlemen, you may be aware you are at the first International Free City in Jeju, Korea. The city remains a symbol of the



Korean Government's commitment to promoting open markets and investment opportunities for foreigners.

The Korean Government is pursuing programs in earnest to attract foreign investors that will play an instrumental role in further developing the Republic of Korea into a business hub.

As part of this, the cities of Incheon, Busan, and Gwangyang each have been designated as a "free economic zone" in which foreign investors are encouraged to freely engage in various economic activities. Gale Corporation of the US and AMEC of the UK have already announced decisions to invest in the airport, seaport, and other logistics complexes in the free economic zones.

The Korean Government is also in the process of revising the Special Tax Treatment Control Act and the Foreign Direct Investment Promotion Act, with a view to improving incentive systems for foreigners, such as tax benefits and support for business establishment in terms of usable land.

In addition, the Korean Government is working to improve the living conditions for the management and employees of foreign-invested companies. Plans to build a multilingual international school in Yongsan, Seoul, and to entrench a tax initiative to apply a flat income tax rate of 17% for foreign employees are in the pipeline. We also plan to introduce a cash grant system for high-tech foreign-invested firms.

Added to it, we have vowed to create a favorable business environment that is par excellence as compared to our competi-



**DETERMINED** The Republic of Korea has vowed to create a favorable business environment that will allow it to develop into a hub

tors. To this end, we are boldly lifting and revising administrative regulations that may in anyway pose as barriers in conducting business.

Recently, within the Office of the Prime Minister, the “One-Stop Business Support Center,” of which I myself am the head, was established to actively push forward with measures to improve business conditions.

The Republic of Korea is successfully upgrading its systems for market competition and foreign exchange to meet global standards. We are also making efforts to develop into a financial hub of Asia.

I believe that the conditions in the Republic of Korea are sufficiently ripe to pursue plans to become a specialized financial hub for asset management, given the high levels of foreign exchange reserves and public pension funds of the nation.

Propelled by this advantage, we have prepared initiatives to foster local asset management firms and to attract foreign asset managers. The Korea Investment Corporation will also be established.

Distinguished Guests, Ladies and Gentlemen, now allow me to come back to the first goal I previously introduced to you.

Peace on the Korean Peninsula is a must, not only for the sake of our own nation but also for world peace and prosperity of all humankind.

The Republic of Korea-US alliance, which has served as the cornerstone of peace and stability on the Korean Peninsula and the greater Northeast Asia, is now entering a new phase of a more

matured relationship.

The Korean Government is dedicated to dialogue with North Korea for a peaceful resolution of the North Korean nuclear issue, with support from the Korea-US alliance as well as neighboring countries. I am pleased to say that we have made progress in recent months toward a peaceful resolution.

With regard to procedural matters as well, the second round of six-party talks has produced successful outcomes, such as the working group, which is a step toward the regularization or the institutionalization of the six-party talks.

To further list the related governmental programs currently under way, I would like to cite the Gaeseong Industrial Complex and Inter-Korea Railway Project as part of the larger North-South Economic Cooperation. Dialogue between the two Koreas, such as the ministerial talks, is proceeding smoothly with no hiccup, and there has been a recent bilateral agreement on holding a top military officials’ meeting.

In short, the efforts to establish peace on the Korean Peninsula are witnessing remarkable progress.

Distinguished Guests, Ladies and Gentlemen, in spite of the unprecedented presidential impeachment vote a couple of months ago, little confusion in the Government nor economic uncertainties were experienced. Moreover, the general election held just last month, April 15, to be specific, is considered to be the cleanest and fairest ever.

The election made the ruling party

become the majority party for the first time in 16 years.

As of yesterday, upon the final verdict announced by the Constitutional Court, all power has been restored to the President. With this reinstatement, the Korean Government shall instill added momentum in the pursuit of a wide range of national initiatives to contribute to world peace and prosperity in the Asia and Pacific region.

On the economic front, we will ensure consistency and predictability in the pre-formulated economic policies based on market principles and the commitment to open markets.

In terms of labor-management relations, we will see to it that the Korean Tripartite Commission’s social pact founded in the spirit of coexistence and cooperation is put to practice, and that the virtuous cycle of growth and equitable distribution persists well on into the future.

With regard to foreign policy, we will continue to embrace the pragmatic approach with emphasis on maintaining a strong alliance with the US.

**“ The conditions in the Republic of Korea are sufficiently ripe to pursue plans to become a specialized financial hub for asset management ”**

Delegates from ADB Member Countries, Ladies and Gentlemen, the Republic of Korea offers to be the bridge of peace and prosperity in opening the era of the Asia and Pacific in the 21<sup>st</sup> century.

I am confident that this year’s annual meeting will be a valuable opportunity to solidifying cooperation among the member countries and opening up the Asia and Pacific era in the 21<sup>st</sup> century along with ADB.

The Republic of Korea will continue to make important contributions to the prosperity of the region by fully utilizing its economic status and strengths and deepening partnership with ADB to the next level.

In conclusion, I would like to place on record my sincere appreciation to the organizers for their hard work and excellent preparations. I also hope you have a pleasant stay in the Republic of Korea and a chance to appreciate the beautiful scenery of Jeju Island. ■



Rollie del Rosario

# Opportunities and Challenges in a New Era

More than ever, the world's economies are going to sink or swim together

Hun-Jai Lee

Deputy Prime Minister and Minister of Finance and Economy, and Chair of ADB's Board of Governors

**G**overnors and Delegations of ADB Member Countries, President Chino and ADB Staff, Distinguished Guests from Investment Banks, Credit Rating Agencies, and International Financial Institutions, Ladies and Gentlemen: Let me welcome you all to the 37<sup>th</sup> Annual Meeting of the Asian Development Bank, here in our beautiful island of Jeju.

Let me also extend my warmest welcome to Luxembourg and Palau as new members of ADB.

I would also like to extend my deep appreciation to the staff for organizing this annual meeting.

It has been a long time, indeed 34 years,

since the Republic of Korea last hosted the ADB annual meeting in Seoul. I consider myself truly privileged to be delivering this speech today, as the Chair of the Board of Governors.

Ladies and Gentlemen, I am pleased to be able to say that we are facing an outlook for the global economy, which is on the whole relatively bright.

For the most part, Asia, US, EU, and other regions have entered a phase of economic recovery, though some more firmly than others.

And Asia has certainly been leading this recovery from the front.

According to ADB's *Asian Development Outlook* released last month, the developing Asian economy is expected to grow 6.8% this year and 6.7% next year.

Asia is likely to remain a major growth engine over the coming years and, given its

dynamism, will increasingly become a player of major weight in the global economy.

In my mind, the next few years are likely to present us with a great opportunity to further our goals of reducing poverty and enhancing co-prosperity in the Asian region.

That said, Ladies and Gentlemen, not all risks to the economic outlook have been lifted.

There continues to be the risk of terrorism, while oil prices are at a 14-year high.

In addition, the global economy appears to be transitioning away from an extended phase of low interest rates.

And this has brought to the surface concerns about how mature and emerging markets will react to rising interest rates.

Ladies and Gentlemen, it is my view that we have entered a new era of unprecedented symbiosis.

More than ever, the world's economies are going to sink or swim together on the tide of the global business cycle.

And more than ever, the world's policy makers must be appreciative of this symbiotic relationship when contemplating their policy actions.

Of course, even more so in the new era, sound macroeconomic policies and continued economic reforms will remain the bedrock of sustainable economic growth.

However, it has also become essential to continue with the push for greater regional financial cooperation to prevent the recurrence of crises.

Efforts in this regard include the Chiang Mai Initiative, the Asian Bond Market Initiative, and short-term capital flow monitoring.

Ladies and Gentlemen, let me now turn briefly to how I see the task ahead for ADB to advance its primary goal of poverty reduction.

First, there has to be focus on growth. This is not the only recipe for poverty reduction, but certainly an important one.

Second, in order to achieve balanced and equitable growth, we must strive to create more jobs, while expanding educational opportunities. I have long felt that equality in education opportunity is an essential element of achieving equality in economic opportunity.

Of course, we must not forget the importance of establishing social safety nets.

Especially in the knowledge-based economy, the digital divide may become one of the major sources of income gaps.

Therefore, as the President emphasized, we must focus more on narrowing the digital divide to achieve balanced economic development.

ADB needs to be equipped with instruments to this end. I will come back to this issue a little later.

Third, we need to increase women's participation in economic activities.

Women's participation will increasingly influence the competitiveness of a country, as future high-tech industries will depend more on women's professional skills and delicate touch.

Fourth, to ensure environmentally sustainable growth, we need to consider environmental issues while pursuing development from the outset.

If investment decisions are not fully

cognizant of environmental considerations, there will be enormous long-run costs from environmental degradation.

Fifth, we must improve transparency and accountability in every sector of our economy.

This has to be a key element of market-based reform, because unless we eliminate corrupt and wrongful practices and improve



Ram Cabrera

**“ It has also become essential to continue with the push for greater regional financial cooperation to prevent the recurrence of crises ”**

governance, growth cannot be sustainable. I believe the Asian financial crisis has proved this point.

Lastly, broad-based and sustainable growth can be achieved only when regional countries work together in our efforts. Cooperation among development organizations is also a necessity. I hope ADB will play a leading role in this regard.

I look forward to hearing your views on the economic outlook and risks, the appropriate set of policies, and the task ahead for ADB.

Ladies and Gentlemen, so far, ADB has performed very well.

ADB is leading the poverty reduction effort in the Asia and Pacific region and has achieved outstanding progress.

Prime examples are the remarkable progress in reducing poverty in China and India.

President Chino's strong leadership and ADB staff's devoted efforts deserve credit for ADB's accomplishments.

Currently, under the objective of the Millennium Development Goals (MDGs), ADB is furthering its reform efforts to pursue results-based management.

Recent steps in this direction include the adoption of performance-based allocation of resources and the reform of the organization, business processes, and governance.

Yet, there is no room for complacency. Considering the World Bank's recent announcement that it will be difficult to expect attainment of the MDGs in many regions by 2015, ADB has to do more.

Above all, ADB needs to address possible risks coming from increasing net transfer of resources from recipient countries back to ADB, speed up disbursement, and put more resources into technical assistance.

In this regard, I welcome the success just a few days ago of the negotiations of the Asian Development Fund IX replenish-

ment, which will provide valuable technical assistance grant in particular.

I would appreciate the views of delegates concerning reform of ADB and future direction.

With the 2015 deadline of the MDGs approaching, we have come to a point where we must set directions beyond 2015.

Now, let me speak briefly as the Governor for Korea. As always, the Republic of Korea strongly supports ADB's continuous reform efforts to attain the MDGs.

As an important step in this direction, let me propose the establishment of a Knowledge Partnership Fund, a trust fund financed by the Korean Government.

This Fund will serve as an effective channel to transfer the Republic of Korea's experience and knowledge.

We additionally propose to establish the e-Asia Fund within ADB, also financed by the Korean Government.

When established, the Fund will be used to promote e-government, e-learning, e-trade, e-commerce, and e-procurement in the region.

In closing, Ladies and Gentlemen, we are likely to face both opportunities and challenges in this new era.

To turn even the challenges into opportunities, ADB must have a robust vision and a clear set of policy guidelines. And effective cooperation among ADB members will be a must.

More than ever before, the world's economies will rise or fall together. Let us embrace this new era, Ladies and Gentlemen, and rise. Rise together. ■

# Governors' Views

## ADB governors stress the need for infrastructure investment in the Asia and Pacific region

Tadao Chino

President, Asian Development Bank

**T**he 37<sup>th</sup> Annual Meeting of the Board of Governors is coming to a close. A program of country presentations and seminars, including a governors' seminar, accompanied the meeting. During the meeting, governors reviewed the economic performance and prospects of the Asia and Pacific region, as well as the many changes and reforms that have been initiated to strengthen the development effectiveness of ADB. I appreciate the insights of governors on the issues and challenges facing the region and ADB in our efforts to reduce poverty and achieve the Millennium Development Goals (MDGs). In their statements, governors also highlighted the priority areas in relation to ADB's operational and organizational directions and the replenishment of the Asian Development Fund (ADF). I also wish to thank governors for their support to ADB's senior Management.

### The Region

Governors observed that the economies of developing Asia and the Pacific generally showed significant resilience in 2003. Despite the prevailing uncertainties both outside and within the region, strong economic growth in 2003 made the Asia and Pacific region the most dynamic region in the world. Governors also observed that the international community, including ADB and development partners, has played an important supportive role in the region's strong performance.

Governors observed that the overall economic growth of the region masks differences among subregions and countries on progress in reducing poverty, and particularly the non-income dimensions, which are so critical for achieving the MDGs.

Governors noted the trend toward greater regional interdependency of trade and investment, and the need for closer financial cooperation. Governors noted that development policies need to emphasize

how growth can be more socially inclusive by addressing gender, education, health, the environment, and governance.

### Asian Development Bank

Governors reaffirmed that ADB's Poverty Reduction Strategy continues to provide a sound operational framework for ADB's overarching goal of poverty reduction and the MDGs.

Governors welcomed the establishment of a results-management unit and stressed the need to focus on implementation of the action plan for managing for development

**“ Governors welcomed the establishment of a results-management unit and stressed the need to focus on implementation of the action plan for managing for development results ”**

results. Governors requested ADB to prepare results-based country strategies that are aligned with national poverty reduction strategies.

Governors pointed to the extensive needs for infrastructure in developing countries in the region to lay the foundation for sustainable economic growth, a necessary condition for poverty reduction. Governors encouraged ADB to work closely with governments and the private sector to meet the urgent needs for physical and social infrastructure.

Governors stressed that ADB's private sector operations need to be closely aligned with country strategies and programs to support sustainable economic growth. Governors requested ADB to promote and support small- and medium-sized enterprises, and to address critical financial issues such as money laundering and remittances.

Governors appreciated ADB's rapid response to urgent reconstruction assistance in postconflict countries, including Afghanistan, Sri Lanka, and Timor-Leste. They also asked ADB to be sensitive to the unique development needs of Pacific



Sohel Rana Ripon

developing member countries.

Governors requested ADB to provide continued support for regional cooperation in trade and investment, and for improving financial intermediation. Governors appreciated ADB's current efforts to issue local currency bonds and the use of partial credit guarantees.

Governors emphasized the key role of education in mobilizing the productive potential of the poor. In this context, they noted the importance of narrowing the digital divide within the region to reduce income inequality, and requested ADB, in cooperation with members, to provide greater support for developing the knowledge-based economy.

Governors welcomed progress on ADB's initiatives to improve the organization and operations to respond effectively to the challenges faced by the region. Governors also welcomed the decision to make the Operations Evaluation Department independent. Governors highlighted the importance of the independent assessment of the reorganization, and look forward to the findings. Governors noted efforts being



made to strengthen senior Management.

Governors drew attention to the role of the new Human Resources Strategy in aligning staff incentives with achieving development results and outcomes. Governors also stressed the need to continue devolving increased responsibilities to resident missions.

Governors welcomed the establishment of a new accountability mechanism to address in a fair and proper manner the concerns of persons affected by ADB-assisted projects. Governors also look forward to the new Public Communications Policy, which will contribute to greater information sharing about ADB operations and encourage more public input.

Governors welcomed progress in ADB's cooperation with its development partners, including harmonization that will benefit the client countries and contribute to greater development effectiveness. ADB's unique role in facilitating greater regional cooperation was also recognized.

Governors expressed satisfaction with the results of the ADF IX replenishment, and requested ADB to pursue efficient and effective resource use within the ADF portfolio, while also making other prudent efforts to mobilize internal resources into ADF. Governors noted that donor members agreed to establish grants in ADF IX.

### Conclusion

Governors, ADB is firmly committed to

# Renewed Partnership

## ADB and UNESCAP sign agreement on regional cooperation and poverty reduction

JEJU, REPUBLIC OF KOREA

**A** new memorandum of understanding (MOU) on future cooperation between ADB and the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) was signed by ADB President Tadao Chino and UNESCAP Executive Secretary Kim Hak-Su.

The MOU, signed at ADB's 37<sup>th</sup> Annual Meeting, follows up on commitments made by ADB and UNESCAP at the International Conference on Financing for Development held in Monterrey, Mexico, and the World Summit on Sustainable Development held in Johannesburg, South Africa. It also reflects the commitment of each organization to support achievement of the Millennium Development Goals (MDGs) in Asia and the Pacific.

Mr. Chino expressed satisfaction that the new agreement emphasizes regional cooperation and poverty reduction. "Two thirds of the world's poor live in the Asia and Pacific region and it is essential that ADB and UNESCAP work together to achieve the Millennium Development Goals," he said. "This new MOU can be a model for interagency cooperation in the true spirit of Monterrey and Johannesburg."

reducing poverty in the Asia and Pacific region, home to two thirds of the world's poor, the majority being women. ADB is your trusted partner, and it has the knowledge, experience, resources, and other institutional strengths that are essential for addressing the complex development challenges facing the region.

ADB will implement all its commitments to become a more accountable, more efficient, and more transparent institution that can effectively assist our developing member countries to fight poverty and achieve the MDGs.

Executive Secretary Kim expressed enthusiasm for the results-oriented content of the new agreement. "Given the magnitude of the development challenges faced in the Asia and Pacific region, regional organizations must work together more closely and focus on results," he said. "It is essential that these two major organizations lead the way in producing



**PARTNERSHIP UNESCAP Executive Secretary Kim Hak-Su and ADB President Tadao Chino after the MOU signing**

results for the benefit of the people in the region."

The agreement ends in 2015, which is also the target date for achieving the MDGs. A joint midterm evaluation of the results achieved will be conducted, officials said. ■

I wish to convey our gratitude to the Chairman, the Deputy Prime Minister and Minister of Finance and Economy of the Republic of Korea, and to the Acting Governor of Jeju for the splendid and excellent arrangements for this meeting. I also thank the two Vice-Chairmen. I congratulate the Governor for Turkey who will serve as Chairman of the Board of Governors for the coming year.

Finally, we wish all of you a safe and pleasant journey back home and look forward to seeing you again in Istanbul next year. ■

# Broadening Horizons

ADB must work closely with civil society groups if it is to meet its commitment to reducing poverty in Asia and the Pacific, ADB President tells NGOs

JEJU, REPUBLIC OF KOREA

**A**DB will not fully deliver on its commitment to poverty reduction and improved development effectiveness unless it works closely with civil society, said ADB President Tadao Chino during a meeting with nongovernment organizations (NGOs) on the eve of the 37<sup>th</sup> Annual Meeting of ADB's Board of Governors.

Mr. Chino made the remark during a wide-ranging discussion on development topics with a group of NGOs from ADB's member countries, continuing a tradition of face-to-face consultations during his tenure as ADB President.

"Our cooperation with civil society has continued to grow and deepen through our regular consultations," he told the NGOs, who raised concerns on issues including accountability, appropriate development, environment, assistance to the disabled, and the participation of youth.

ADB has long realized the benefits of working with NGOs. In the past few years, it has been increasing the number and quality of its consultations at the policy, program, and project levels. Noting the strong contribution that civil society has made during the preparation of recent policies, including the new accountability mechanism, he encouraged civil society inputs into the ongoing consultations on the draft Public Communications Policy.

He also requested feedback on the implementation of ADB's cooperation framework with NGOs and governments. In May 2003, Mr. Chino endorsed the "ADB-Government-NGO Cooperation: A Framework for Action 2003-2005," ADB's first institution-wide work plan for trilateral cooperation in the context of ADB operations.

Cooperation with civil society is embedded in major strategic plans such as the ADB's Medium-Term Strategy (2001-2005) and the Long-Term Strategic Framework (2001-2015).



**COOPERATION** NGO and ADB representatives discussing issues

Eric Sales (x2)

**// We believe that by working with NGOs, the effectiveness, sustainability, and quality of our development services are enhanced //**

Robert Dobias  
Director, Agriculture, Natural Resources, and Social Sectors Division  
ADB's Regional and Sustainable Development Department



**PARTNERS**  
A roundtable discussion

"We believe that by working with NGOs, the effectiveness, sustainability, and quality of our development services are enhanced," said Robert Dobias,

Director, Agriculture, Natural Resources, and Social Sectors Division of ADB's Regional and Sustainable Development Department. ■

# Asian Development Fund Replenished

## Donors agree on \$7 billion replenishment and on establishment of grants

JEJU, REPUBLIC OF KOREA

**T**wenty-eight donor members of ADB have agreed on a \$7 billion total replenishment of the Asian Development Fund (ADF), which includes the introduction of grants, it was announced after the fourth and final donors' meeting in Seoul, the Republic of Korea.

ADF IX, as the replenishment is called, will cover the four-year period from 2005 to 2008. The replenishment amount is significantly higher than the \$5.65 billion agreed at the conclusion of ADF VIII, the last replenishment negotiations covering 2001–2004.

"I am truly gratified by this very strong show of support from ADB's donors. It clearly demonstrates the commitment of shareholders to our institution," said ADB President Tadao Chino. "The \$7 billion replenishment will enable ADB to continue vigorously pursuing its mission of fighting poverty in the Asia and Pacific region."

The successful conclusion of the ADF IX negotiations came on the eve of the Manila-based multilateral bank's 37<sup>th</sup> Annual Meeting of the Board of Governors in Jeju.

ADF loans are provided on concessional terms to ADB's poorer developing member countries with limited debt repayment capacity. They support poverty reduction through pro-poor sustainable economic growth, provision of social development such as education and health care, and the promotion of good governance. They typically carry minimal rates of interest over long repayment periods.

The donors have agreed to establish grants under ADF IX to take into account the burden of development finance in the poorest countries, as well as assist countries in transition from postconflict situations to peace and stability, combat HIV/AIDS and other communicable diseases,

and support capacity building. Grants will represent 21% of the total ADF.

Under the new \$7 billion ADF IX replenishment, donors pledged new contributions on a shared-burden basis of \$3.2 billion, plus some additional voluntary contributions. The balance is expected to be met by additional contributions and/or internal resources.

Japan remains the largest ADF contributor with \$1.18 billion, followed by the United States with \$461 million, Australia with \$218 million, and the United Kingdom with \$202 million. Contributions



Ian Gill

of the University of Ottawa, and cochaired by Peter McCawley, Dean of the Tokyo-based ADB Institute.

Donors agreed that reducing poverty in the region will require a continued focus on sustainable economic growth, inclusive social development, and good governance. This will be aided by greater support for gender equality, improving the environment, assisting countries affected by security threats and conflicts, and strengthening cooperation to address regional issues.

Donors also stressed the importance of improving development effectiveness of ADF IX operations through careful attention to results at the sector, country, and regional levels. Furthermore, ADB has made a commitment to donors to carry out initiatives including, among others, a new accountability mechanism, the further integration of the Millennium Development Goals into ADB operations, and a new public communications policy.

**" I am truly gratified by this very strong show of support from ADB's donors. It clearly demonstrates the commitment of shareholders to our institution "**

President Tadao Chino, ADB

from the Asia and Pacific region accounted for almost half of the total replenishment, with the Republic of Korea's contribution increased to \$113 million.

The People's Republic of China is a first time contributor with \$30 million, while Malaysia has made its first contribution since the ADF VII replenishment.

ADB approved its Poverty Reduction Strategy in November 1999. The Asia and Pacific region is home to almost two thirds of the world's poor, with some 720 million people still living in extreme poverty.

The ADF negotiations were chaired by Mme. Huguette Labelle, Chancellor

Established in 1973, the ADF has played a significant role in promoting sustainable economic development in low-income countries. In 2003 alone, 47 ADF loans were approved amounting to \$1.38 billion.

Projects financed from the ADF have included the reform and improvement of education, health and sanitation, projects designed to raise the status of women, microfinance, environmental protection, and capacity building, in addition to the rehabilitation and building of physical infrastructure. ADF lending also supports regional cooperation to promote further social and economic development. ■

# Build and Prosper

Infrastructure development not only attracts foreign investment, but also has the additional benefits of boosting education and health services, say experts

By Xianbin Yao

Assistant Chief Economist  
Economics and Research Department

## JEJU, REPUBLIC OF KOREA

**W**ith significant forces at work in the region, infrastructure development must play a greater role in ensuring inclusive growth in the future, ADB President Tadao Chino told a seminar in Jeju.

Speaking at the start of the Governors' Seminar on Investing in Infrastructure for Poverty Reduction, held on the sidelines of the 37<sup>th</sup> Annual Meeting of ADB's Board of Governors, Mr. Chino said national infrastructure systems must be connected through global and regional links if countries are to benefit from the expansion of markets and trade through globalization.

"Experiences across the region show that FDI [foreign direct investment] and new technologies are most likely to bypass countries with inadequate and poor investment climates," he said.

"Infrastructure development offers the foundation on which a country can seize and capitalize on the opportunities ushered in by globalization and regional integration."

He adds that infrastructure development has multisector impacts towards achieving the Millennium Development Goals. Access to education and health services, for example, can be vastly improved through better roads, electricity, telecommunications, water supply, and sanitation services.

The seminar offered a chance for ADB governors to share their perspectives on, and visions of, the link between infrastructure investment and poverty reduction.

ADB Governor for Pakistan Shaukat Aziz, who is Minister of Finance and Economic Affairs, said that as "no meaningful poverty reduction can be achieved without growth," critical bottlenecks to growth such as physical infrastructure and social infra-

structure have to be removed.

He called for broadening the concept of infrastructure and, in particular, emphasized that social sector expenditures are to be viewed as investment. With development of infrastructure so broadly defined, government provides an enabling environment for private sector to thrive.

Mr. Aziz also highlighted the importance of prudence and prioritization in infrastructure investment planning, the need to strike a right balance between physical infrastructure and social infrastructure, and to ensure greater transparency and accountability in investment development and operations.

Another speaker, ADB Alternate Governor for the People's Republic of China, Li Yong, who is Vice-Minister of Finance, highlighted the need to balance large-scale



Richie Abrina

**“ No meaningful poverty reduction can be achieved without growth ”**

Shaukat Aziz  
Minister of Finance and Economic Affairs, Pakistan

infrastructure investments as well as small-scale rural infrastructure development.

He pointed out that infrastructure played an important role in "empowering the poor," enabling them to participate in the growth process. Large infrastructure investments may not have immediate effects on poverty reduction, but they are critical to enable a country to achieve long-term growth and sustainable poverty reduction, he said.

Mr. Aziz and Mr. Li emphasized the need to broaden the concept of poverty to include any forms of deprivation. With the broadened concept of poverty, the

means of addressing poverty reduction is also enlarged. This way, one gets better appreciation of the multisectoral implications of infrastructure development, they said.

Both also stressed that infrastructure development should be formulated within each country's overall development strategy and must be supported by conducive policy framework at the macro and sector levels.

The seminar was followed by a panel discussion by representatives of ADB, World Bank, United Nations Development Programme (UNDP), and Japan Bank for International Cooperation (JBIC).

ADB Chief Economist Ifzal Ali said that good infrastructure services would attract domestic private and foreign direct investments. In Asia, there is significant need for modernizing the agriculture sector, revitalizing rural economies, and creating jobs. Infrastructure development, through enlarged markets and increased factor mobility, will contribute to job generation, which is a key to ensuring inclusive growth.

UNDP Assistant Administrator Shoji Nishimoto emphasized the importance

of good governance in infrastructure planning, design, and implementation, and that small-scale infrastructure projects must be developed with strong

community ownership and active participation. Infrastructure services need to be brought down to the doorsteps of the poor through their participation in formulating, mobilizing resources, and implementing small-scale infrastructure to which they can relate and can call their own, and by making them responsible for the operation and maintenance of such infrastructure.

JBIC Director General for Development Assistance Hiroto Arakawa said the continuing challenges include huge financing needs for infrastructure development and the need to pay greater attention to service delivery. ■

# More to be Done

Asia's banks are recovering from years of ill health, but challenges remain

By Henrike Feig

Principal Financial Sector Specialist  
Regional and Sustainable Development Department

JEJU, REPUBLIC OF KOREA

**A**sia's crisis-affected economies have made a substantive effort to clean up, recapitalize, and restructure their banking system and have adopted diverse approaches, according to a seminar in Jeju.

But while restructuring has occurred, the banking systems are not robust and actual nonperforming loans (NPLs) are estimated to be higher than reported, said Shamshad Akhtar, Director General of ADB's Southeast Asia Department.

She was speaking at a seminar on Banking Sector Reforms in Asia, held alongside the 37<sup>th</sup> Annual Meeting of ADB's Board of Governors. At the seminar, experts from around the region discussed the state of reform efforts, and the future challenges facing Asian banks.

Competitive forces arising from World Trade Organization (WTO) commitments and other global developments require regulators and banks to continue to reposition themselves to deal with emerging developments, Ms. Akhtar said. While Asian banking has good potential for growth, particularly in consumer finance, sustained economic growth and increases in personal income levels will be a condition for this process.

On the panel of experts, Liu Mingkang, Head of the China Banking Regulatory Commission, said that changes in ownership and mindset will be critical for successful bank restructuring, and improvements in corporate governance and credit culture in PRC. For large state commercial banks, diversifying ownership would be achieved by introducing private capital and foreign strategic investors. Foreign financial investors would also have a role to play. However, Mr. Liu said that strategic investors would be considered first, as their skills are crucial to improving the capacity of PRC banks, particularly in retail lending.

Mr. Liu said that recent improvements in NPL ratios were mainly due to new loan growth. In the future, banks need to resolve NPLs through all means including legal recourse, which would be facilitated by further improving the legal and institutional environment for NPL disposal.

Shaukat Aziz, Minister of Finance, Pakistan, described the challenges political decision makers face in undertaking

**“ But while restructuring has occurred, the banking systems are not robust and actual nonperforming loans are estimated to be higher than reported ”**

Shamshad Akhtar, Director General of  
ADB's Southeast Asia Department

reforms. “Reformers require a vision, and need nerves of steel to deal with vested interests,” he said. To effectively carry out banking reforms, problems related to non-bank financial institutions, corporate governance, and accounting and audit practices have to be addressed simultaneously. Also, without a legal environment that enables the enforcement of contracts, “banking sector reforms do not work.”

Tarisa Watanagase, Deputy Governor of the Bank of Thailand, outlined Thailand's financial sector master plan, which seeks to broaden access to financial services, increase efficiency through regulatory and tax changes, and improve consumer protection. Remaining weaknesses in the system need to be addressed through continued legal and capital market reforms. Bank risk management, operational efficiency, and business strategies also have to be improved.

Deborah Schuler, Vice-President of Moody's Financial Institutions and Sovereign Risk Group, said that with the exception of Hong Kong, China and Singapore, and possibly Malaysia, most banking systems remain undercapitalized. Although asset quality was generally improving across the region, the share of consumer lending, particularly unsecured credit card

business, is rapidly increasing and gives rise to new concerns.

She said many Asian banks are still not earning a risk-adjusted return. Future bank profitability remains constrained by excess liquidity and capacity. Moody's expects excess capacity and policy makers' financial sector master plans to lead to a further consolidation of the banking industry.

Jeunglak Lee, Senior Executive Vice-President of Kookmin Bank (KB), pointed out the progress made in improving corporate governance structures in the Republic of Korea, citing the example of KB, which had introduced an independent board of directors, a code of ethics for its employees, and increased transparency and accountability for financial management and accounting.

He said that Korean banking sector reforms have managed to eliminate structural risk factors and improve financial performance. Restructuring efforts in the future would need to address the lack of global competitiveness, nonperforming consumer

loans, a weak long-term profit base, and the privatization of government-owned banks.

Dominic Barton, Asia-Pacific Chairman of McKinsey, said that Asian banks and their regulators face a number of challenges including macro-economic uncertainties that could radically affect industry outlook, continued significant levels of NPLs, lack of resilience at bank level, increasing foreign competition, and demographic shifts that could lead consumers away from traditional deposits. His company expects further substantial consolidation of the industry over the next 5 to 7 years.

At the same time there are also significant opportunities for banks. Asia represents the single fastest growing retail market in the world. McKinsey expects new growth in revenues from personal financial services in Asia of about \$180 billion by 2010, which is equivalent to the new growth in the US between 1994 and 2001. Revenue pools from low-income urban populations could be substantial and Asia's high mobile phone penetration may create a unique opportunity for reaching the “unbanked.” Mr. Barton cautioned that a push into consumer lending without positive credit bureaus and adequate risk management systems would be problematic. ■

# Road to Recovery

Limiting government's role to establishing favorable conditions could make private sector more efficient

JEJU, REPUBLIC OF KOREA

**C**orporate restructuring has played a major role in enabling the Republic of Korea to recover so quickly and strongly in the wake of the Asian financial crisis.

But limiting the role of government to the establishment of favorable conditions, including in the areas of bankruptcy law, taxation, and accounting, would allow the private sector to carry out more efficient corporate restructuring.

That was the message at a seminar in Jeju on "Corporate Restructuring in Asia," held ahead of the opening of ADB's 37th Annual Meeting of the Board of Governors on the Korean island. Organized in cooperation with Woori Bank and given by Yoon Je Cho, standing Economic Policy Advisor to the President of the Republic of Korea, the seminar examined the country's experiences on corporate restructuring in the wake of the Asian financial crisis of 1997. Government officials and financial experts from 39 countries attended the seminar.

Among the factors that triggered the crisis were structural problems, he said, including the corporate sector's high indebtedness, low profitability, poor governance, inadequate financial supervision, and a significant misalignment of the exchange rate.

"The combination of an external shock or contagion with these internal structural weaknesses produced severe corporate distress and drove the economy into near-paralysis," Mr. Yoon said.

"More fundamentally, Korea's corporate distress stemmed from a lack of rational business decision making and a lack of the market's ability to discipline such behavior," he said. Korean companies had been run by only a handful of controlling families. These *chaebol* focused more on expansion and increasing market share in a wide range of activities than on profitability and a core set of activities. The heart of the corporate reform agenda therefore lay in *chaebol* reform, he added.

"Under the glare of transparency and accountability, companies would have to

aggressively pursue profitability, while strengthening their financial structure," Mr. Yoon said.

"They would have to make a clear break from past practices of focusing on business enlargement and market share. The management style at Korea's large corporations had to change fundamentally in the new regime." He said in the past six years, there has been remarkable progress on improving corporate governance.

*Chaebol* owners are more accountable for their actions, institutional investors have started exercising their voting rights, and the market for mergers and acquisitions has become fully established and open to foreigners. Also, it is now mandatory for one quarter of all the directors to be appointed from outside the company, while minority shareholders have greater rights.

But a more difficult task facing the country was corporate rehabilitation. With a credit crunch hitting so many companies and banks, the courts were in no position to carry out corporate rehabilitation on the required wide scale in so a short a period.

This led to a Corporate Workouts Program, which was in essence a semi-formal bankruptcy resolution method targeting the 6<sup>th</sup> to 64<sup>th</sup> largest conglomerates in asset size. Since the start of the program in July 1998, 96 companies have been able to reach workout agreements, he said. ■

## Former Employees Meet



Eric Sales

The Association of Former Employees of Asian Development Bank (AFE-ADB) held its Annual General Meeting in Jeju. The meeting was addressed by ADB President Tadao Chino; former ADB President Masao Fujioka, President of AFE-ADB; M. Ikramullah Khan, Executive Secretary of AFE-ADB; and AFE-ADB country coordinators. The 19<sup>th</sup> Annual General Meeting of AFE-ADB will be held in Istanbul, Turkey, on 3 May 2005.

The Thirty-Eighth Annual Meeting of the Board of Governors of the Asian Development Bank will be held in Istanbul, Turkey, from 4 to 6 May 2005. Details will be provided at [www.adb.org/AnnualMeeting/2005/](http://www.adb.org/AnnualMeeting/2005/)



# Entering a New Phase

The Republic of Korea, one of ADB's first borrowers, is now a success story and a major donor

By Graham Dwyer  
External Relations Specialist

## JEJU, REPUBLIC OF KOREA

**T**he Republic of Korea represents a remarkable success story that offers lessons for the rest of Asia, ADB President Tadao Chino said at the opening of a seminar in Jeju.

Speaking at the Korea Day Seminar, held on the eve of the opening of the 37<sup>th</sup> Annual Meeting of ADB's Board of Governors, Mr. Chino said the Republic of Korea's economy had transformed from one that was agriculture-based, with per capita gross domestic product below \$100 in the early 1960s, to among the most advanced economies in the world.

"After the Asian financial crisis struck in 1997, the Republic of Korea recovered quickly, thanks to strong structural reforms, especially in the financial and corporate sectors," he said. "Now building on its success to date, it strides to develop its economy further."

The seminar presented an excellent opportunity not only to assess the factors behind the Republic of Korea's development success, but also to discuss the challenges facing the country and the rest of Asia in striving for "dynamic and sustainable growth," Mr. Chino added.

Hun-Jai Lee, Deputy Prime Minister and Minister of Finance and Economy of the Republic of Korea, told the seminar that as liberalization of trade and financial flows had greatly reduced the meaning of borders, the world will sink or swim together on the tide of the global business cycle.

"More than ever before, the world's policy makers must be appreciative of this symbiotic relationship when contemplating their policy actions," said Mr. Lee, also Chairman of the ADB's Board of Governors.

"In this symbiotic era, greater economic cooperation among Asian countries

will be essential. In this context, it is quite encouraging to see that Asian countries are making some progress in the area of financial cooperation."

Mr. Lee added that without a clear vision for long-term growth, high economic performance in Asia will not be sustainable.

"We are placing the highest priority on building an advanced market economy, where efficiency, transparency, and accountability reinforce one another," he said.

"The role of the government will be to ensure free and fair competition among market participants."

**// As liberalization of trade and financial flows had greatly reduced the meaning of borders, the world will sink or swim together on the tide of the global business cycle //**

Hun-Jai Lee, Deputy Prime Minister  
Republic of Korea

The Korea Day Seminar, with the theme "Dynamic and Sustainable Growth in Korea and Asia," brought together distinguished participants in six sessions from academia, private sector, and international agencies.

"Much has changed in Asia and the Pacific since I first started work on the establishment of ADB 40 years ago," said Mr. Chino.

"One of the most impressive developments is that the Republic of Korea, one of our founding members and one of the first borrowing countries, has become a donor...I hope our partnership will now enter a new phase—as we work together to assist other countries in the Asia and Pacific region develop their economies and reduce poverty," he added. ■



Ian Gill (x4)

# A Single Currency for Asia?

East Asia should start addressing the challenges of adopting a single currency

By Graham Dwyer

External Relations Specialist

JEJU, REPUBLIC OF KOREA

**E**ast Asia should consider whether to follow the global trend toward currency consolidation by moving toward the adoption of a single currency over the long run, ADB President Tadao Chino told a seminar in Jeju.

Introducing the seminar, “A Single Currency for East Asia: Lessons from Europe,” held ahead of the opening of the 37<sup>th</sup> Annual Meeting of ADB’s Board of Governors, Mr. Chino said if the region decides to go for a single currency, the groundwork would require considerable effort, judging from the European experience.

“The time required to complete the process, including the transitional exchange rate arrangements and policy coordination, also will not be short,” he said.

He added that from a global perspective, two sets of factors are likely to encourage the adoption of common currencies—the increased number of countries in the world and the trend toward globalization.

“In an increasingly globalizing world, there is likely to be a greater synchronization of business cycles,” he said. “Hence, the benefits of having fewer currencies to conduct cross-border business, especially at the regional level, are likely to increase.”

There was a general consensus among the speakers at the seminar that East Asia should intensify its various initiatives at monetary and financial integration over the next few years, to achieve over the long run—perhaps the very long run—the objective of adopting a single currency.

In a long journey, the first few steps are crucial; if you get them right, the ultimate destination becomes easy to reach, participants heard.

The conditions and necessary steps to introduce a single currency in Asia are many and daunting, but they could be carried out in the long run, said Haruhiko Kuroda, Special Adviser to the Cabinet in Japan.

Mr. Kuroda said there are five major steps to be taken toward a single currency—strengthening of the Chiang Mai Initiative that was put in place by the Association of Southeast Asian Nations (ASEAN)+3 finance ministers in May 2000; greater regional bond market development; trade cooperation through free trade agreements hand in hand with the fourth step, cooperation on intraregional exchange rate stability. The fifth step is the application of policy convergence criteria and the introduction of a single currency.

participating countries would have to give up independent monetary policy and be subject to a single regional authority,” he said. “On the fiscal side, participating countries would be required to improve their fiscal positions.”

In the long run, he added, there may be many more countries that could support the single currency, such as India, which might want to increase trade and investment integration with East Asia.

“This means that the size of the optimum currency area in Asia should be



Matthew Westfall

**“ Before creating a single currency, the East Asian countries would have to overcome several hurdles ”**

Haruhiko Kuroda, Special Adviser to the Cabinet in Japan

“Before creating a single currency, the East Asian countries would have to overcome several hurdles,” he said. These include fully integrating goods and services markets in the region, greater labor market integration, a large integrated capital market, and a convergence in the economic structures and level of economic development of participating countries.

“On the monetary side, of course,

expanded through intensified economic integration and convergence as time passes,” he said.

He added that a global single currency, which has been advocated by some, is a far more difficult prospect than a regional single currency. Even a regional central bank is not easy to operate and a global central bank would be almost impossible at this stage.

“The current as well as prospective status of global economic integration has not yet made a global single currency a necessary or desirable institution, let alone a possible or likely one.”

Although the European experience is seen as a model for the way forward on financial integration, the question arises whether such a model would apply to East Asia, said Robert F. de Ocampo, former Secretary of Finance of the Philippines.

“In the case of Asia, the concept of ‘region’ is premised on geographical reasons,” he said. “The economic reality, however, is that there is substantial diversity in the economies, each with its own idiosyncracies.”

He cited that ADB’s *Key Indicators* shows that the highest per capita income in Asia is about 140 times that of the lowest as of 2001, in contrast with Europe, where countries were more on a par with each other.

“The key challenge facing the move toward greater cooperation and integration within the region is to find a way forward, that is, set priorities and sequence activities,” he said.

“The European experience does suggest that the adoption of a common currency is the last step in the process of regional economic integration, and hence takes a long time.”

Tommaso Padoa-Schioppa, member of the Executive Board of the European Central Bank, said Asia could benefit from reviewing Europe’s experience.

“The key challenge is to create an exchange rate or monetary arrangement that is consistent with the underlying economic order,” he said. “Since the economic order is evolving all the time, the monetary order can be expected to need adjustment.”

He said there is a major difference between the common locking of exchange rates by different countries that still retain monetary sovereignty and the introduction of a single currency, central bank, and monetary policy.

“At the same time, given the increasing importance of economic relations within the region and the noticeable advancements in regional cooperation, some adjustments in the region’s monetary order may become helpful at some, perhaps not too distant, point in the future and may well entail a greater regional component.” ■

# Fresh Start

## ‘Business as usual’ is not good enough for the Pacific, ADB President says

JEJU, REPUBLIC OF KOREA

**F**resh ideas are needed on development in the Pacific, as a “business as usual” approach will not produce results, ADB President Tadao Chino told a meeting of Pacific Governors of ADB. Speaking on the eve of the 37<sup>th</sup> Annual Meeting of ADB’s Board of Governors in Jeju, Mr. Chino said the Pacific region did not benefit from strong growth in the 1990s.

“As the global environment now regains its strength, it is vital that the Pacific become engaged more successfully than in the past,” he said, calling poverty the most serious development issue in the Pacific.

“We urgently need to accelerate job creation for Pacific youth, and to ensure that we can provide adequate social services, especially education. To do this, economic growth in the Pacific over the next decade will need to improve substantially.”

At the meeting, Pacific developing member country (DMC) delegates expressed appreciation for ADB’s efforts to move closer to its clients in the Pacific by establishing new offices in Port Moresby, Suva, and Sydney.

The meeting’s discussion also provided feedback on the draft Pacific Strategy (2005–2009). The delegates broadly endorsed the two themes of private sector-based job creation and improvement in basic services delivery. They noted that economic growth was a necessary, but not sufficient, condition for achieving poverty reduction.

The Pacific delegation congratulated Mr. Chino for a successful conclusion of the Asian Development Fund (ADF) replenishment exercise. They noted that the new technical assistance grants were particularly important for the Pacific DMCs, where ADB’s policy advice and capacity-building assistance were highly appreciated. The delegates endorsed the suggestion that ADB’s performance in the Pacific should be measured by results on the ground and not mainly by lending volume.

The Pacific DMCs also commended ADB for building stronger partnerships through meaningful participatory approaches. In their view, this would ensure full ownership by the Pacific DMCs of ADB’s assistance programs and would allow ADB and the DMCs in the Pacific to work “hand in hand.” ■

“ It is vital that the Pacific become engaged more successfully than in the past ”

President Tadao Chino, ADB



Guido Sam Martins

# Now's the Time

## ASEAN+3 should consider using strong growth to push for greater regional cooperation

JEJU, REPUBLIC OF KOREA

**T**he bright economic outlook for Asia's economies presents an opportune time to consider and act upon regional cooperation initiatives to enhance resilience to future shocks, ADB President Tadao Chino told the Association of Southeast Asian Nations (ASEAN)+3 Finance Ministers Meeting in Jeju.

In a statement at the meeting, held in parallel with the opening of the 37<sup>th</sup> Annual Meeting of ADB's Board of Governors, he said that since the 1997 Asian financial crisis, regional cooperation had gone beyond trade and investment to include monetary and financial cooperation.

This new cooperation fell into three broad categories: greater information exchange and policy dialogue, reserve sharing and pooling, and regional bond market development.

"ASEAN+3 is now approaching a critical point with these initiatives," he said. "The key issue is how the next steps under these regional initiatives should be sequenced, and at what speed they should proceed." But Mr. Chino added that care should be taken that these regional efforts are complementary and do not compete with global and national level initiatives.

"It is important to recognize that, ultimately, national initiatives are central to

resilience building, with both regional and global initiatives playing a significant supportive role," he said.

He added that information exchange constitutes an important stepping stone toward regional monetary and financial cooperation and there is a strong case for strengthening this.

"One option is to institutionalize the process by establishing an independent, technical body—a regional policy dialogue unit—and a higher-level decision-making body, a regional surveillance group, over the next two years or so," he said.

In a joint communiqué, the ministers—from the 10 ASEAN members (Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Viet Nam)—and People's Republic of China, Japan, and Republic of Korea agreed to further review the Chiang Mai Initiative to explore ways of enhancing its effectiveness.

They agreed that further discussion on regional cooperation by a research group should continue in 2005.

"We are pleased with the overall progress achieved under the ASEAN+3 framework and reiterated our commitment toward forging closer financial and monetary cooperation in this region," the communiqué said. ■



# Market B

## AsianBondsOnline web site Finance Ministers Meeting

JEJU, REPUBLIC OF KOREA

**A**DB President Tadao Chino joined the 13 Association of Southeast Asian Nations (ASEAN)+3 finance ministers and the ASEAN Deputy Secretary General in launching AsianBondsOnline, a one-stop clearinghouse of information on the rapidly growing sovereign and corporate bond markets in the region.

The launch was held following the ASEAN+3 Finance Ministers Meeting, which took place in parallel with ADB's 37<sup>th</sup> Annual Meeting in Jeju.

Supported by ADB and financed by the Government of Japan, AsianBondsOnline is part of the ASEAN+3 Asian Bond Markets Initiative (ABMI), a cooperative effort to help develop mature bond markets in the region. ASEAN+3 comprises the 10 members of ASEAN—Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Viet Nam—plus People's Republic of China, Japan, and Republic of Korea.

The web site provides a common format for accessing information on market infrastructure, rules and regulations, mar-



Eric Sales





Eric Sales

# President Meets the Press

President Chino's press conference was held at 12:00 noon on Monday, 17 May

**President:** Good afternoon, Ladies and Gentlemen. Thank you very much for coming to this press conference.

I am delighted to report to you that our Annual Meeting has been a great success, and I would like once again to express my appreciation to the Government of the Republic of Korea as well as to the government of Jeju Province for the excellent arrangements for this Annual Meeting. I also extend my sincere thanks to the organizers, who have looked after us so well during our stay here on Jeju Island.

Governors have welcomed the recently negotiated \$7 billion replenishment of our Asian Development Fund, which, as I stated in my opening speech, clearly demonstrates the commitment of shareholders to ADB and our overarching goal of poverty reduction in the region.

Governors have also endorsed ADB's continuing efforts to fight poverty. Many governors underlined the need for our Poverty Reduction Strategy to be aligned closely with national poverty reduction strategies and cited our commitment to helping our developing member countries achieve the Millennium Development Goals. Governors also expressed appreciation for the steps ADB has taken to improve its development effectiveness and its new focus on managing for results. Governors

welcomed ADB's new accountability mechanism to better address concerns of project-affected people; its moves toward greater transparency; and its efforts to prepare a new human resources strategy.

Commenting on the generally robust growth prospects of the Asia and Pacific region, some governors warned of possible risks and uncertainties ahead. In this regard, many governors spoke of the need to continue with structural reforms, capacity building, and improving governance.

Citing the extensive investment requirements for infrastructure across the region, governors encouraged ADB to work closely with governments and the private sector to meet the urgent needs for physical and social infrastructure.

Several governors reiterated the important role of the private sector in driving economic growth, which is a necessary condition for poverty reduction, and called on ADB to help improve the climate for private sector-led development.

Many governors called for greater efforts to promote regional cooperation, particularly the need to strengthen regional financial cooperation, citing such developments as bilateral swap arrangements under the Chiang Mai Initiative, the Asian Bond Markets Initiative, and the Asian-BondsOnline web site, which was launched



Rollie del Rosario

just two days earlier here in Jeju.

The decisive ADF IX negotiations in Seoul, followed immediately by this very stimulating 37<sup>th</sup> Annual Meeting of ADB's Board of Governors, have made our visit to Korea most productive. As you know, our next Annual Meeting will be in Istanbul, Turkey. I hope to see many of you there. Thank you very much. I now invite your comments.

**Alan Wheatley (Reuters):** Mr. Chino, I'd like to ask a question about ADB's mission of reducing poverty. When ADB was established in Manila in 1966, the Philippines was one of the richest countries of Asia, it is now one of the poorest. Given your new focus on management for results, do you think ADB bears some responsibility for this sorry performance?

**President:** Since the establishment of ADB in 1966, ADB has been contributing substantially to the development of Asian countries. As a whole, economic and social

conditions in Asian countries are much, much better than when ADB was created. Take Korea for example. Korea was one of the poorest countries when ADB was established. I recall that our third loan, immediately after the establishment of the Bank, was for the Seoul-Incheon express highway. Korea was then a borrowing country, now it is a donor country. In fact, Korea contributed very much to the recent successfully completed ADF. There are many countries which were once poor and which borrowed from ADB. Now many countries have graduated from ADB and have become donors. On the whole, economic and social conditions have improved very substantially over the past three to four decades.

But not all countries have developed at the same rate. Much has depended on the environment for development, and also the effectiveness of policies and their implementation. The Philippine economy is now moving in a better direction, with GDP expected to be 5.0–5.5% in 2004 and 2005, compared with 4.5% in 2003. This is not a bad growth rate, although more can be expected. Complex factors work together to bring vitally needed foreign investment into the country. The budget deficit results in low levels of public investment, and the low levels of public investment in enabling environment including infrastructure, deter private investors. The financing of the Philippines' large deficit keeps interest rates relatively high, and this discourages private investors. It is very important to improve the environment for private sector activities. Another factor is rapid population growth. If major economic and other necessary reforms are effectively implemented, we could expect a much higher growth rate that would reduce the problem of capital scarcity and low incomes.

**Kim Jae-Kyoung (Korea Times):** I understand there are many Asian and Pacific countries that wish to join ADB. However, as far as I understand the US and Japan seem to be opposed to the idea of accepting Russia and North Korea into your organization. Is this a procedural problem, or is it related to a political deal within ADB?

**President:** New membership to ADB is determined on the basis of consensus among current shareholders. We need such consensus before we can proceed with steps relating to new membership. Since the

1990s, North Korea has expressed interest in membership of ADB, but the consensus to proceed with processing this application has not been reached. I don't want to go into details as to which country holds which position. I would just say that since there is no consensus among the shareholders we are not in a position to process this application. Russia also expressed firm interest in becoming a member of ADB in 1997. At that time, Board members were asked to seek the views of the capitals—the same process as in the case of North Korea. When a letter came expressing interest in membership in ADB, the Board members were asked to solicit the position of their capitals. There is no consensus yet.

**Danny Yu (Asset Magazine):** We note, Mr. President, that ADB reported record lending for 2003. We also note that loan disbursements have been on a long-term decline, and that there is a yawning gap

**// Some countries wish to borrow from us in order to pursue economic development and reduce poverty. If they are willing to borrow, we are willing to lend //**

between loans granted and loan disbursements. Can you tell us briefly what are some of the issues you face in terms of loan disbursements? Do you see loan disbursements in a long-term decline trend?

**President:** Thank you very much. The speed of disbursements depends on various factors. As you know, the international development community is increasingly concerned about the impact of projects on the environment, on people living at the site, and on resettlement. People are increasingly concerned about whether ADB—or any development bank—is in compliance with its own policies and procedures.

For both ADB and its member governments, much more time and energy are required in the formulation and implementation of a project. There is a tendency toward slow disbursement, but also there is tendency toward taking more time in project preparation and formulation. Governments, as well as our Bank, are cautious in the implementation of projects.

There are several other factors. For

example, the more complicated a project or program becomes, the more expertise is required. Also, in some countries there may be a shortage of local funds. However, I don't believe that this situation will continue. ADB is reviewing the matter intensively to find a shorter, more expeditious way of formulating projects. We are also encouraging governments to expedite implementation.

**Danny Yu:** In terms of resource transfers to developing member countries, the last couple of years have seen a reversal, so that DMCs have actually been transferring resources to ADB. A big component of that is prepayments. Are you worried about this trend in terms of DMCs actually transferring resources back to ADB?

**President:** Fortunately, several countries are now able to procure the resources they need on their own, and on more favorable terms. This is a good thing. If they have a chance of procuring funds by themselves on more favorable terms, we have no problem with that.

As you know, ADB is dedicated to poverty reduction, and our Poverty Reduction Strategy has three conceptual pillars—pro-poor sustainable economic growth, social development, and good governance. Some countries wish to borrow from us in order to pursue economic development and reduce poverty. If they are willing to borrow, we are willing to lend. Following the introduction of the London interbank offered rate (LIBOR)-based lending, the interest rate of ADB's ordinary loans is not much higher than that of concessional loans. With such competitive lending terms, combined with our technical expertise and know-how, I am sure there will continue to be many countries willing to borrow from ADB. However, if countries are able to procure resources on better terms, that is very welcome.

**Danny Yu:** And the impact on your financial resources?

**President:** With more resources at our disposal, we can lend more to those countries that really need them. I don't think there is a negative impact on our financial position. ■



Eric Sales

**STYLE AND SUBSTANCE**—It had been 34 years since the Republic of Korea hosted an ADB annual meeting, and for the 37<sup>th</sup> Annual Meeting of the Board of Governors of the Asian Development Bank in May, the Government pulled out all the stops. The event opened on an upbeat note with a blaze of Korean culture in a presentation entitled “Light of Dawn,” featuring traditional singers, dancers, drummers, and instrumentalists. This followed the successful conclusion in Seoul of the eighth replenishment of ADB’s concessional financing instrument, the Asian Development Fund. This issue of *ADB Review* highlights the meeting’s events.

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