

Peter Pang: Recent financial and economic developments in Asia

Statement by Mr Peter Pang, Temporary Alternate Governor of the Hong Kong Monetary Authority, at the 38th Asian Development Bank Annual Meeting, Istanbul, Turkey, 4-6 May 2005.

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Mr President, let me first of all congratulate you on your election as President of the Bank. I must next thank Turkey for graciously hosting this year's Annual Meeting. I also join other Governors to thank the Bank's management and staff for the excellent arrangements.

I would like to take this opportunity to welcome the successful conclusion of the 8th replenishment of the Asian Development Fund. This would enable the Bank to continue with its programme in offering much needed relief to the poorest people in Asia. However, while real GDP growth in the region has been impressive, up 7.3% in 2004, income distribution remains highly uneven. The toll on human lives, and the massive destruction left behind by the Tsunami attack last December, reminded us that fighting poverty remains both a continuing – and daunting – task for the Bank.

While the Bank has done a commendable job in reducing poverty in the low-income economies, those members who have attained a reasonable level of development have a different set of needs. With global financial markets awash with liquidity, many of them have ready access to private capital, and have less of a need to turn to the Bank for lending. The greatest challenge to these emerging markets is how to achieve a more balanced and sustainable growth in the midst of globalisation. As more economies in the region move to the middle-income category, I urge the Bank to proactively consider ways and means to help them meet the new challenges of changing times.

Sustainability of the region's future growth seems to lie in the growing trend of intra-regional trade and economic interdependence. Asia is highly integrated in trade. Propelled by vertical integration of the production process, intra-regional trade grew by 14% a year between 1995 and 2003, while world exports increased only 7.5%. Compared to trade, integration in the financial sector has been progressing at a much slower pace. As a result, the very substantial volume of foreign reserves accumulated in the region, of some US\$500 billion last year alone, goes mainly to the developed rather than the regional markets. When some of the capital from the developed market is recycled back to the region, it is of a more volatile and repercussive nature, and can be difficult to cope with as we saw it in the late 1990s.

To reduce the reliance on the recycling of domestic savings through the developed markets, Asian governments have put in place several initiatives to strengthen financial intermediation. A notable example is the Asian Bond Markets Initiative under the ASEAN+3 forum. The Initiative includes studies on issues such as new securitised debt instruments, issuance of debt by international financial institutions, regional credit guarantees and enhancement facilities, and the establishment of local and regional credit-rating and credit-enhancement agencies.

Another initiative, known as the Asian Bond Fund project, represents collective efforts of the Executives' Meeting of East Asia-Pacific Central Banks, or EMEAP, to broaden and deepen the bond markets in the region. The ABF project will bring about many benefits. First, it introduces and promotes new fixed-income products to the Asian markets. Secondly, it helps improve market infrastructure. Thirdly, the initiative has helped accelerate tax and regulatory reforms in both the regional and domestic markets.

The Bank, with its mission as the region's development bank, is well positioned to assist emerging market economies in Asia to cope with the challenges of globalisation. In the past year, the Bank has contributed to the issuance of local currency-denominated bonds in India, Hong Kong, Malaysia and Singapore. The Bank is also providing valuable support to the Asian Bond Markets Initiative through the former Regional Economic Monitoring Unit, which is now known as the Office of Regional Economic Integration. Mr President, your decision to expand this Office and dedicate it to regional cooperation matters is most timely and welcome, as a well defined agenda for the Bank on regional cooperation will enhance financial stability by strengthening regional surveillance and cooperation.

Despite these efforts, developments, and - dare we say it - successes, there are many challenges lying ahead of us. One-fifth of world population is still living in poverty, with the majority of them in Asia. How to address the poverty issue and the uneven distribution of income amid globalisation has become your biggest challenge. Mr. President, I believe more wealth could be generated if savings in

the region could be recycled to finance investments in the region, if intra-regional trade could grow faster, and if investors could move funds easily from one economy to another in the region. Mr. President, I am confident that under your leadership, the Bank will play an even greater role in the integration of trade, finance and investment in the region. You have our unremitting cooperation and support. Thank you.