

**Keynote Address by
Mr. Haruhiko Kuroda, President
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**at the
9th Ministerial Conference on Central Asia Regional Economic
Cooperation**

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Excellencies, Distinguished Guests, Ladies and Gentlemen,

I. Introduction

Once again, it is a pleasure to welcome you to Cebu. I would like to thank the Government of Afghanistan for your adept chairmanship of the CAREC Program this year. I would also like to thank all the delegations and our multilateral partners for taking part in this 9th CAREC Ministerial Conference.

2010 has been a time for reflection. First, CAREC has been looking back over the years in order to chart its course for the next decade. Early in the year, we embarked on an initiative to review our achievements and lessons in order to prepare for an important milestone in 2011: the tenth anniversary of CAREC's institutional framework. Looking back has helped us to understand what we need to focus our attention on in order to refine our strategic direction and deliver even greater results as CAREC moves toward 2020.

The second impetus for retrospection is one very personal to me: the passing away in August of Mr. Takeshi Watanabe, ADB's first President. He is known affectionately as the "father of ADB" because of his instrumental role in creating ADB and shaping its direction. His passing led me to reflect on where ADB has been over the past 44 years, and where it will go in the future.

II. Cooperation and the New Economic Realities

In one of his first speeches as ADB President in 1966, Mr. Watanabe said, "The speed with which ADB grew from a dream to a reality serves notice to the world that the spark of regional cooperation exists." There is, perhaps, no better statement to characterize the CAREC Program. From its origins in the mid-1990s under a series of technical assistance initiatives that explored the potential for regional cooperation, CAREC quickly expanded its membership and institutionalized its cooperation among countries facing enormous economic challenges.

Today we face a new set of challenges. The global economy is slowly recovering from the worst recession since the 1930s. While the outlook is positive, the recovery is subject to three risks. First, a disruption in the recovery in advanced economies of the West. Second, destabilizing capital flows. And third, unintended policy errors, or an inappropriate policy mix when unwinding stimulus policies. The main challenge is to reduce the stimulus without disrupting growth, and this will require a skillful mix of appropriate timing, pace, and introduction of supportive policies. Recovery can be sustained and economic rebalancing

facilitated if Asian countries collaborate and coordinate their exit strategies and macro-economic policies, particularly on exchange rate policy.

Perhaps more fundamental is the need to adjust to a new external environment. The external environment today is less supportive and more uncertain than just a few years ago, and this has implications for regional cooperation.

Likely, one of the most contentious global issues that we will face in the short-term concerns currencies in some of the emerging Asian countries. The possibility of increased protectionism in developed countries is very real, and Asia might have to adjust to the new conditions. More flexible exchange rates are desirable to reduce the region's current account imbalances. However, unilaterally allowing a country's exchange rate to appreciate will create the fear of losing export competitiveness. Developing Asia would benefit from a shift toward intraregional exchange rate policy coordination to promote greater exchange rate flexibility in the region. This would result in less concern over a loss of export competitiveness to neighboring economies.

Another economic reality brought about by the recent crisis is the need to rebalance growth. ADB, in its recent *Asian Development Outlook Update*, and the IMF, in its October *World Economic Outlook*, concur that emerging economies that once relied heavily on demand from the advanced economies must now rebalance their growth toward domestic sources of demand, as well as demand from neighboring countries and regions. Domestic demand and intraregional trade are increasingly recognized as a vital driver of growth along with exports.

Many of the CAREC countries have relatively small economies and relatively small populations; therefore, cooperation among them is more imperative than ever to develop economies of scale. Becoming markets for each other's final products, and producing goods and services together in an integrated way to serve other markets, are keys to sustaining the region's growth. These can only be made possible by reducing the barriers to cross-border transit and trade; expanding and improving the transport and logistics infrastructure; and ensuring efficient and reliable energy supply through cross-border interconnections. These conditions are at the very core of CAREC's priorities.

Cooperation is also required among the CAREC countries to diversify their economies away from a dependence on natural resources. Reliance on natural resources exposes resource-abundant countries to the vagaries of international markets. It also limits the potential spillovers to neighboring countries. CAREC countries, therefore, must move away from low productivity, low value added activities to higher productivity, diversified, and sophisticated products.

Research has shown that greater regional economic integration would lead to higher export sophistication. So it is important to reduce the barriers that inhibit the flows of resources and capital in the region to where they can best be utilized. For example, further development of the oil and gas processing industry might require, among others, building a new port in or near the region, adding more railways, and establishing wastewater treatment facilities and specialized higher education programs. Governments will have to coordinate with each other on these matters.

Fortunately we have come a long way in regional cooperation among CAREC members in a relatively short time. Indeed, CAREC has made commendable achievements, and I expect that CAREC will help the countries adjust to the new economic realities. But we all know that regional cooperation is not always easy. At times, countries have different interests and

face dissimilar challenges to economic growth. We must not let these differences hold back the region's development. Looking back on the early years of ADB, Mr. Watanabe wrote, "The first step towards cooperation in [countries'] development is to show more understanding for the individual problems of each country." This was sage advice for ADB forty years ago and, I believe, will serve us well, now and as we support CAREC in the many years to come.

This afternoon the Ministers, ADB Vice President Zhao, and I will come together in a retreat to share thoughts on CAREC moving toward 2020. Among the questions we will examine are: What should CAREC countries do to expand work on regional cooperation? How do you see regional cooperation as a means to achieving development goals? What is your vision for the CAREC region between now and the year 2020? These are challenging questions, but the answers to them are vital for the region's growth. I look forward to a relaxed and productive afternoon.

III. Conclusion

Excellencies, Ladies, and Gentlemen,

In closing, allow me to share one final thought. Building on the successes of the past ten years, the CAREC countries should not only reach high, but reach higher—together—to fulfill shared dreams. However, these dreams are not only about us; they are also about future generations. At ADB's Annual Meeting this past May, I posed a question that I believe must remain at the forefront of our minds: What will be our legacy to the next generation and beyond? As we go forward with the next decade of cooperation in CAREC, let us remind ourselves repeatedly of that question. The destiny of future generations will be shaped by what we do today.

Thank you very much.
