

## Kuroda's Dilemma

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The Asian Development Bank (ADB) president Haruhiko Kuroda wants regional integration but the Bank's big owners, the US especially, would not let him have his way.

Kuroda envisions an Asia-Pacific region much like the European Union and wants the ADB to move in this direction. "Regional cooperation and integration is an idea whose time has come," Kuroda insisted. "Imagine an Asia-wide economic community, a community of nations where borders are fully open to trade and investment and that offers competitive, complementary markets for the benefit of all its members as well as the rest of the world. If we can envision this, I know we can achieve it."

That's precisely the problem for US and for Europe. They oppose ADB's new strategy blueprint on the ground that this would divert the Bank from its core mission of poverty reduction. Ironically, Kuroda defended his new agenda on the very same poverty rhetoric, not to mention the Millennium Development Goals (MDGs) which ADB and all its members promised to deliver on.

For Kuroda regional integration would help achieve ADB's vision of an Asia free of poverty. He said "regional integration elsewhere (referring to European Union) have shown unmistakably that growth accelerates and income disparities are reduced as a result." Kuroda has acknowledged that "regional economic cooperation and integration does not make much sense by itself." It is just one of the five pillars along with "inclusive development, pro-poor sustainable growth, governance issues and environmentally sustainable growth."

The US temporary alternate governor Kenneth Peel did not think so, though he conceded that regional economic cooperation is certainly a key part of Asia growth. Peel complained that Kuroda's new emphasis on the study of potential regional currencies and on regional economic surveillance must not be allowed "to divert scarce human and financial resources from the ADB's core mission of poverty reduction."

A chorus of support to the US position came from France and Germany. France's temporary alternate governor Ramon Fernandez charged that the link between ADB's medium term strategy plan "and the goal of poverty reduction was too tenuous." Germany's governor Karin Kortmann was even more blunt in her criticism of Kuroda, saying " We need a clear decision on the ADB's course. We feel that such a decision is still missing in the new strategy documents."

In a rare display of unity, the Asians came to the defense of Kuroda's controversial vision. China's governor Jin Renqing, praising the achievements of the ADB in the first year of Kuroda, said that the ADB "should further regional cooperation, a mission that is enshrined in its charter. Regional cooperation is full of potential. It is our hope that the ADB will

continue to play a role of facilitator and financier, so as to promote deeper regional cooperation.”

Indian prime minister Manmohan Singh added his own. “While being a regional bank, the ADB has acquired a global relevance, because of Asia’s rising global profile,” he said.

Korea’s governor, finance minister Han Duck Soo, insisted that “it is crucial for ADB to emerge as an agency that reflects the unique characteristics of the Asia region, while pursuing harmonization with other multilateral development banks.”

Japan’s governor, finance minister Sadaku Tanigaki, said the ADB under Kuroda has become a “more accountable institution because the president has sent messages on what the bank should do.”

What’s going on really?

Underlying this controversy is the concern of US and Europe about an Asia monetary union, first brought up after the 1997 Asian crisis. Behind this idea is the ASEAN + 3 (ASEAN member-countries + Japan, China, and Korea). The original idea came from Japan’s former deputy finance minister Eisaku Sakikabara who dreamed of a single Asian currency like the euro for the EU. Naturally, the opponents were quick to accuse that this was a “Japanese agenda”.

Maybe it was. But the greater fear could be that it is backed up by the Asians. And since China and India were already sold to the idea we can only expect greater resistance from the US and EU.

Asian countries have accumulated some \$2.73 trillion of foreign exchange reserves that are invested elsewhere, mostly in America, instead of their own region. These reserves are parked abroad, mostly in American Treasury bonds, and find their way back into Asia in the form of institutional portfolio flows and foreign direct investment.

America consumes most of Asia’s exports using borrowed money invested by Asians in American banks. The seemingly insatiable American consumption habit in turn helps sustain the Asia’s high-level production. America would buy the next pair of Chinese shoes as long as China invests its earnings in US bonds. The situation is all right for as long as Americans continue consuming as they do and the Chinese continue to lend the money to finance such consumption. What if one day America stops buying or China starts redeeming its US Treasury bonds?

Many Asian leaders are beginning to question the sense in the merry-go-round of Asian savings. In a London conference, following the 39<sup>th</sup> Annual ADB Governors’ Meeting in May in Hyderabad, South Korea’s finance minister Han Duck-soo said that investing the region’s foreign-exchange reserves in Wall Street may not be the most efficient way of using those resources. Already Asian finance ministers are discussing their own region as alternative destination for that abundant liquidity. Most likely they would not be sympathetic to the advice of former US Treasury chief Larry Summers about letting the IMF and the World Bank help them decide where to invest those excess money.

The new destination being considered is the Asian bond markets, said to be the most neglected part of the region's capital markets. Though as yet small in size---less than \$2 trillion by end 2005 compared to Japan's \$7 trillion and America's \$22 trillion---Asia's bond markets could gradually grow if the region's huge savings shift to the region's own bond markets. Asia's bond markets could then support ADB's bond flotation which in turn could sustain the ADB's lending operations.

There's enough reason to believe Asian development could be financed by Asian savings. As well, Asian trade could be furthered by the creation of a single Asian currency and the establishment of an Asian Monetary Fund.

With firm backing from its strongest regional members, and despite US and EU opposition, President Kuroda just might have his way and see some positive movement in the future. But then again, he has a lot to explain as to how regional integration will redound to the improvement of the lives of millions of Chinese and Indian peasants who had been bypassed by the much-heralded economic growth.

**References:**

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