

# ADB Discussion Paper for SRF 2015

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## **Asian Development Bank Institute**

The Asian Development Bank Institute (ADBI) was established in Tokyo in 1997, the year the Asian financial crisis started. As a think tank of the Asian Development Bank (ADB), ADBI has focused its research on medium- to long-term development challenges facing Asian developing economies. ADB is a multilateral development bank that provides its developing member countries with infrastructure finance. ADB loans have been used effectively to build infrastructure for economic development. Interaction between ADB and its developing member countries has also helped build the capacity of policy makers in recipient countries. ADBI puts high priority on capacity building and training.

## **Asian Development Bank Institute and Infrastructure Finance**

ADB and ADBI published *Infrastructure for a Seamless Asia* in 2009. The report estimated that Asia would need to invest \$8 trillion in infrastructure between 2010 and 2020. It recommended two plans of action:

- (i) Establish a pan-Asian infrastructure forum to help coordinate and integrate existing subregional infrastructure initiatives.
- (ii) Establish an Asian infrastructure fund to help mobilize Asian and international funds, and to meet the challenges of preparing and financing “bankable” regional infrastructure projects.

The recommendations call to mind the aims of the Asian Infrastructure Investment Bank (AIIB), which will be established this year. ADB President Takehiko Nakao has expressed ADB’s willingness to cooperate with AIIB and help it meet internationally accepted environmental and social standards for

infrastructure projects.

## **Financial Cooperation in Asia**

The Asian financial crisis catalyzed regional financial cooperation in Asia. Crisis-hit countries thought that International Monetary Fund (IMF) programs were insufficient to turn things around and came with too many nonessential conditions. Members of the Association of Southeast Asian Nations (ASEAN) supported a Japanese initiative to establish an Asian monetary fund as a regional safety net to supplement IMF programs. Fierce opposition from the United States (US) Treasury and IMF stopped the initiative, but in Chiang Mai, Thailand in 2000, ASEAN+3<sup>①</sup> finance ministers launched a network of bilateral swap agreements between ASEAN+3 monetary authorities. In 2003, they also started the Asia Bond Market Initiative to develop local-currency bond markets to reduce double mismatches of currency and duration of financial intermediation. ADB and ADBI supported these initiatives to promote regional financial integration and make Asia resilient against financial shocks.

## **Relevance of the European Experience in Monetary Integration to Asia**

Asia studied the European experience in monetary integration and calculated the Asian Monetary Unit (AMU), following the precedent of the European Monetary Unit (EMU)—the precursor of the euro and a milestone in monetary integration. Asia lags far behind Europe in regional financial integration. Regional integration in Asia has always been market-driven through expanding links of trade, foreign direct investment, and supply chains. Asia is much more diverse than Europe economically, politically, geographically, and culturally. Therefore, even as they watched financial and economic developments in the euro area with great interest, proponents of regional integration in Asia admitted that it was a long way from monetary integration. When countries on the periphery of Europe, such as Greece, were hit by a debt crisis after the global financial crisis, and the structural problems of the monetary union surfaced, the risks of financial integration became so evident that monetary integration completely lost steam in Asia.

## **The Chinese Exchange Rate System**

In the past decade, the economy of the People's Republic of China (PRC) became increasingly important globally and the renminbi became an important currency in Asia. Many countries choose to stabilize their currencies against the renminbi. When the PRC abruptly devalued the renminbi in August, it sent a shock wave felt around the world. Moving to a peg against a basket of currencies, including the

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① N plus Japan, the People's Republic of China, and the Republic of Korea.

dollar, euro, and yen, would improve the stability of the PRC economy and its capital flows. When a country pegs its currency against just one currency such as the dollar, it risks undervaluation or overvaluation and induces excessive capital inflows or outflows.

## **Coping with Volatile Capital Flows**

How to cope with international capital flows has recently been on the minds of Asian policy makers. When the central banks of the advanced economies loosened monetary policy to counter the deflationary impact of the global financial crisis, Asia faced surging capital inflows. Facing appreciating pressure on its currency and mounting risks of increasing external borrowing with possible reversal of capital flows in the future, Asian emerging markets introduced macroprudential capital flow measures to counter surging capital inflows. When the US Federal Reserve System (Fed) changed course in 2013 and prepared for a rate increase, Asian emerging markets felt the pressure of capital outflows. ADBI studies these issues and holds seminars to examine the impact of the Fed's moves or the PRC economy's slowdown on Asia. ADBI works with the ASEAN+3 Macroeconomic Research Office, which was established in Singapore in 2011 as a surveillance unit to promote financial stability in Asia. ADBI also seeks to cooperate with the IMF–Singapore Regional Training Institute in capacity building and training to foster financial development.

## **Research on Financial Inclusion**

ADBI conducts research on financial inclusion and microfinance such as (i) crowd funding for start-up businesses or hometown investment funds; (ii) the use of post offices to provide financial services such as bank deposits, mutual funds, or insurance in remote areas; (iii) mobile banking; and (iv) small and medium-sized enterprise (SME) credit databases and credit scoring. ADBI is discussing with authorities in Indonesia and Myanmar how to use post offices to improve access to finance nationwide, and helping build SME credit databases in Iran and Thailand.

## **Revival of the Silk Road**

ADBI published *Connecting Central Asia with Economic Centers* in 2014. The study systematically analyzes economic relationships—trade ties, foreign direct investment links, financial flows, and international cooperation—between the Central Asian republics and global economic centers in Asia, the European Union, the Russian Federation, and the US. The study focuses on the five Central Asian economies: Kazakhstan, the Kyrgyz Republic, Tajikistan, and Uzbekistan, which were once part of the Silk Road connecting Asia with Europe.

## Asia Think Tank Secretariat

ADB has established the Asia Think Tank Secretariat. ADB and the Think Tanks and Civil Societies Program (TTCSP) at the University of Pennsylvania successfully co-organized three Asia Think Tank Summits in Asia. They provided opportunities for networking at the highest level of think tank management, and a venue for open and frank discussions (following the Chatham House Rule) on topics and challenges faced by think tanks today.

The theme of first summit, hosted at ADBI in Tokyo, Japan, was “The Role of Think Tanks in the Asian Century: Seizing the Opportunities and Managing the Threats.” ADB President Nakao gave the inaugural speech. Heads of over 45 think tanks from 23 countries in Asia and the Pacific participated, and dozens of observers and heads of think tanks from outside the region joined the summit. The major topics discussed were (i) the role of think tanks and civil societies, (ii) long-standing regional issues in Asia and their solutions, (iii) regional and global developments in a changing world order, and (iv) global economic turbulence and Asia.

The second summit, held in 2014 and also hosted at ADBI, revolved around the theme of “Promoting Regional Economic Cooperation and Integration.” Heads of over 35 think tanks from 19 countries from the region as well as a dozen observers from around the globe were in attendance. Think tank heads discussed (i) the role of think tanks in promoting economic integration, (ii) the role of think tanks in supporting sustainable and inclusive development in Asia, (iii) development challenges for economic cooperation and integration in Asia, and (iv) the impact of global economic issues on Asia.

The third summit was co-sponsored by ADB, ADBI, and TTCSP in 2015. Held at ADB’s headquarters in Manila, Philippines, it was attended by over 50 think tanks from about 20 countries in the region, along with a few dozen observers from other parts of the world. The theme was “Inclusive Knowledge Partnerships for Development.” Participants discussed (i) priorities and challenges for future knowledge partnership initiatives in Asia, (ii) the role of international organizations and think tanks in promoting knowledge partnerships, and (iii) urban resilience and smart cities.

The need for more permanent infrastructure (both tangible and intangible) to support the Asia Think Tank Summit Series, coupled with ADBI’s desire to play a more critical role in improving the capacity for sound development of agencies and organizations, including think tanks in the region, led to the creation of the Asia Think Tank Secretariat at ADBI in 2015. ADBI’s strong connection to ADB, which is supported by 67 member countries, including 48 in the region, made ADBI an ideal choice for hosting a secretariat to support regional think tank activities.

The Secretariat, as the hub of think tanks in the region, will continue to organize the Asia Think Tank Summit Series with TTCSP annually. The Secretariat will also track and coordinate the work of other think tanks, promote collaboration, and encourage greater awareness, harmonization, and knowledge-sharing within and across regions. Best business practices and know-how in research, publishing, and event organization will be shared with developing-country counterparts that need support and mentoring in these areas. In particular, the fledgling think tanks of Africa and Central Asia would benefit greatly from Asia’s wealth of know-how and experience.

Other major activities of the Secretariat will include (i) supporting activities of various think tank networks that ADBI belongs to, (ii) developing and maintaining a comprehensive database of think tanks in the region, (iii) making this database available as a public good (via webportals and printed material), and (iv) providing infrastructure for an online repository of publications of think tanks in the region.