

**Address by Mr. Takehiko Nakao, President of the Asian Development Bank
At the Graduation Ceremony of the National Graduate Institute for Policy Studies**

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Introduction

Thank you very much for the kind introduction. It's a great honor and a pleasure for me to speak before the graduation ceremony of such an eminent educational institution as GRIPS. I really thank President Akihiko Tanaka for inviting me on this occasion.

First of all, I'd like to congratulate you—173 students from countries across Asia, including Japan, and other regions—on obtaining your master's and PhD degrees. I also congratulate parents, faculty members, and other participants from all over the world.

I believe that after graduation, you will play important roles in the public sector, private sector, and academic fields in different countries. Today, I'll speak about the experiences of Asian development from the perspective of ADB. If there is time remaining, I would like to touch upon what I have been keeping in mind in my professional career and life.

Many of you are from Asian countries, while some of you are from other regions such as East Europa and Africa. Some of you are from the public sector, and others are from the private sector. But I believe that the experiences of Asia can be relevant and informative for all of you.

Story behind the establishment of ADB

First, I would like to talk a little bit about ADB and Asian development experiences.

ADB was established in 1966 by the collective efforts and very enthusiastic support of all countries in Asia. Ideas on establishing ADB came from a banker in Sri Lanka, which was then called Ceylon, an economist from Thailand, and Mr. U Nyun, the Executive Secretary of the Economic Commission for Asia and the Far East (ECAFE), which is today's United Nations Economic and Social Commission for Asia and the Pacific in Bangkok. The Japanese Government and people including Mr. Takeshi Watanabe, who would become the first President of ADB, also strongly supported the initiative.

When we were writing the 50-year history book of ADB, which was published this April, I found that there was a strong wish to have such an institution in Asia. At that time, there was already the African Development Bank and the Inter-American Development Bank, in addition to the World Bank. After gaining independence from colonial powers, governments and people in Asia really wanted to have such an institution in Asia, too. There was a very strong and genuine wish.

Asian experiences over the past five decades

At that moment, Asia was very poor. The Republic of Korea's per capita income was below the level of Ghana or the Ivory Coast. When the Singaporean leader Mr. Lee Kuan Yew went to Colombo, Ceylon, he wondered if Singapore could ever be as developed as a city like Colombo. When ADB was started, there were so many difficult political issues in the region, such as the Cultural Revolution in China, and the ongoing war in Viet Nam.

One of the most important issues at that time for Asian countries was how to feed the growing and large population. Asia had also a shortage of financial capital. When Japan joined the Organisation for Economic Co-operation and Development in 1964, it had a constant current account deficit. As the Japanese economy grew faster, the monetary policy and fiscal policy had to be tightened to avoid a shortage of reserves, which were needed to intervene in the market to keep the 360-yen-per-dollar fixed rate under the IMF regime. As such, Japan also had a shortage of money.

So, one of the reasons why the funders of ADB wanted to include non-regional members, like the United States, Canada, and European countries, was because ADB needed credibility to issue bonds to finance its operations. Of course, the United States has always been a very important player in Asia and the Pacific. Without the United States, maybe this region would be much more unstable.

Since then, ADB has evolved and strengthened, and we lent about \$17.5 billion last year for infrastructure, education, health, and climate change, and for supporting economic reforms and gender equality.

Over the last 50 years, ADB has had three important functions.

The first is to combine finance with knowledge and expertise. While significantly expanded, our lending volume is still limited, compared to the vast financing needs of Asia. But our lending comes with our knowledge obtained through our operations in Asian countries.

The second is the promotion of good policies through high-level dialogue, technical assistance and capacity building, and policy-based lending (budget support loans with certain reform targets). ADB also provided large finance to countries under stress through emergency policy-based lending after the Asian financial crisis and the global financial crisis.

And the third is the promotion of regional cooperation and integration. In this regard, ADB itself, in a sense, is a child of regional cooperation. We started the Greater Mekong Subregion (GMS) Initiative in the early 1990s, and Central Asia Regional Economic Cooperation (CAREC) in the late 1990s. We are supporting similar subregional frameworks in the Pacific, the Association of Southeast Asian Nations, and South Asia.

Since the time ADB was established, Asia has evolved with remarkable growth and achieved poverty reduction. Until the 1960s, there was an idea that Japan was the exception in terms of modernization and industrialization, but it was a mistake to think that way. In the 1970s, the newly industrializing economies (NIEs) of the Republic of Korea; Taipei, China; Singapore; and Hong Kong, China started growing very fast.

And then in the 1980s, after the Cultural Revolution, China adopted policies to open and liberalize its economy, becoming more market oriented.

In Indonesia also, until the 1980s, there was more orientation toward import substitutes and a protective approach, but after the debt crisis in the 1980s, the country started taking a more market-oriented approach.

India was very much influenced by socialist and anti-colonization ideas, so their growth was very slow, but after the 1990s, it started adopting a more open investment and trade regime.

In Viet Nam, in the late 1980s, partly stimulated by Chinese development, the country started Doi Moi policies.

This evolution of ideas in these 50 years about development, political systems, and economic policies is so interesting.

China joined ADB in 1986. Taipei, China had already been a member of the Bank. ADB was successful in keeping Taipei, China, together with the People's Republic of China, in the Bank thanks to the efforts of then-President Masao Fujioka. India started borrowing from ADB, in addition to the World Bank, in 1986.

And then, in the 1990s, Viet Nam, Cambodia, and the Lao People's Democratic Republic became re-engaged with ADB, followed by Myanmar in 2013. They started

borrowing a lot. They started absorbing substantial direct investments from abroad based on their macroeconomic and structural reforms.

All of the Central Asian countries, after transitions in the 1990s, became members of ADB.

Lessons learned through the development of Asian countries

I am so proud that the Asian region has evolved positively both economically and politically, and now we have more stability and prosperity, although there are many remaining issues.

Sometimes I wonder what is the reason behind such success? Of course, it's not a total success. We still have issues, but what are the reasons for the success so far?

I've had the chance to talk with leaders like President Joko Widodo of Indonesia—I've talked with him three times—as well as Prime Minister Narendra Modi of India, Premier Li Keqiang of China, and State Counsellor Aung San Suu Kyi of Myanmar. Through those discussions, I developed the idea that there are eight conditions for development, although they are not necessarily new findings.

The first is investment in infrastructure: power, roads, railways, ports, and urban services such as water and waste management. These are essential ingredients for both growth and people's lives. Without power, roads, and water supply to households, women cannot work in the cities. Children need transport and electricity to get a good education. It's about life, not just about economic development.

The second important condition is spending for education and health. Human capital is the most important part of growth conditions.

The third is macroeconomic stability. If we compare Asia with Latin America, one of the clear differences is Asian countries have attained macroeconomic stability, much more compared to Latin America. If we have an inflation rate of 500 percent per year, people don't invest and save; they just buy things which can be kept. Rich people in Argentina used to buy cars and parked them in their backyards so that they could store value. In those circumstances, it's very difficult to grow based on rational ideas about investment and saving.

Asia has been successful in this regard, especially after the Asian financial crisis in the late 1990s. In Indonesia, Thailand, and the Philippines, the central banks were given more independence and their policies have been much more stable since then.

The fourth element is open trade and investment regimes. If an economy is based on protectionist ideas, such as import substitution and large subsidies for state-owned enterprises, it's not so efficient. Open trade and investment was one of the most important reasons for high growth in China since the 1980s, and in particular, after China became a member of WTO in 2001. Market-oriented reform is also a very important reason India has enhanced its growth rate. Bangladesh and Viet Nam have also been growing very fast for the same reason.

In the past, socialist ideas were very popular because of huge societal inequality in many countries. Protection of domestic industries was very appealing because Asian countries had long suffered under the influence of colonial powers. But, in the end, to achieve development and poverty reduction, we need a more open and market-oriented approach to growth.

The fifth element is governance. We need governance in terms of anti-corruption and an efficient bureaucracy. A talented, professional, and diligent public service, which supports political leaders, is essential.

The sixth element is inclusiveness. If people are so divergent in their wealth and income, poor people don't share the goal of achieving development together. If they are not given enough opportunities for education and health, they will give up. We need an inclusive approach in society, including for different ethnicities and women.

Seventh is the importance of strategy. As I said, a centrally-controlled system turned out to be inefficient, but we still need a strategy. What kind of country do we want to build? If we look at the Korean experience under President Park Chung-hee or in Singapore under Prime Minister Lee Kuan Yew, we can easily tell that we need a certain vision and strategy for what kind of country we will aim to have.

Finally, the eighth point, we need stability and safety in countries, together with cooperative, friendly relations with neighboring countries. In that regard, the end of the Vietnam War, and domestic conflicts in Sri Lanka and Cambodia, mattered. Even if there are differences of view between countries, managing friendships based on a sense of cooperation is what we really need. I hope that Asian leaders and people will make their utmost efforts in continuing and enhancing their friendships and cooperation among countries.

Key issues for Asia's future

Of course, Asia still has a lot of problems. 330 million out the region's 3.5 billion people still live under the absolute poverty threshold of \$1.90 a day. We need to address the issue of climate change with the commitment of COP21. Gender equality needs to be ensured. We need more investment in energy, transport, cities,

and so on. And there is growing concern about aging and urbanization, which are both opportunities as well as challenges.

Yes, there are many remaining challenges. But I think Asia can grow further if we keep stability and friendship in the region because we have a strong capacity for production and consumption. The growing middle class wants to spend more for motorcycles, cars, air-conditioners, cosmetics, and all other things. Like Japan in the 1960s and the 1970s, people have a strong wish to consume more goods and services, and enjoy a better life. This is a base for growth.

There is a discussion that the 21st century is the century of Asia. But Asian countries shouldn't be complacent. Africa and East European countries are also growing. We live in the same dynamic global society, and one region cannot dominate the world anyway.

Asia, including Japan, has a population that is half of the world's population. It will be half of the world's population in 2050, too. So it's not so surprising that Asia will have one half of world GDP by 2050, expanded from one third of world GDP today. We should continue to pursue good policies and achieve better lives for people.

Since Western countries have accumulated a lot of knowledge, ideas, and institutions over the past 500 years, it's not so easy to catch up with or surpass the influence of the West. At the same time, it is not true that all good things for human society such as democracy, markets, human rights, and others came from the West. Asian countries also have their own ideas, ethics, and long histories of civilization.

Asia has a chance to be a more important and influential region in the world, but we need to continue to pursue good policies and develop good ideas. We must work together with partners from around the world.

I have just shared ideas about the eight conditions for development. While those are about states or governments, I believe that ideas such as the importance of openness, education, inclusiveness, strategy, and leadership are relevant to the private sector as well.

Three principles cherished throughout my personal and professional life

Now I would like to touch upon what I have kept in mind in my professional career and life. I don't want to be preachy, and I don't have the capacity to do so. I'm not in the position to say what to do. But I want to share some thoughts about what I have been paying attention to.

- (i) Balance between work and life

First is to strike a balance between work and life. Work is important. It is an essential part of our dignity and it delivers a sense of accomplishment. Especially in Japanese society, people tend to be perfectionists in their work. But how about our own life and family? Without the balance of individual joy and family, if it is all about work, what is the meaning of life?

I have paid special attention to this balance in my life. When I became a director-level staff member in my early 40s, I usually left my office at the Ministry of Finance in Japan around 7:00 pm and reached home by 8:00 pm. Then I cooked meals and washed dishes. Shopping during the weekend was also my share of family work. My wife, working full time also, took care of our small children, cleaned the house, and did laundry. I was in charge of food, from shopping, to cooking, and then dishwashing.

When I said to my wife, “I help you a lot, and I should be a good husband,” she was upset and said, “It’s not helping; it’s doing your duty which is necessary for the family.” My wife was a writer at a Japanese newspaper and she has a very strong view about this.

Such work as cooking, laundry, and cleaning should be the basis of human life. Without knowing and doing these things, men and women cannot be independent as humans. And, I really believe, unless we enjoy our own lives as individuals, our work itself is not pursued in an efficient and balanced manner. We even would be less innovative.

(ii) Leadership

The second point is about the roles of leaders. Especially after I became the leader of ADB, which has more than 3,000 staff—I strongly believe that the leader’s role in any organization is so important. What is the role of the leader? It should start from grasping facts in a very objective, comprehensive, and fair manner. We also need candid discussions with the team. Leaders shouldn’t suppress the opinions of others.

Then it’s the leader’s role to judge and decide. This is the most important part of their responsibilities. Sometimes judgment is more intuitive. It could be based on the philosophy of the leader. Once the leader decides something, it is more difficult to reverse it because a leader is chosen and given power to decide things. That is the role of leaders. Leaders should be prepared to accept the responsibility for whatever the consequences of their decisions.

I believe that the leader’s role is more important than many people believe. In a democratic system, there are checks and balances. In corporate governance, there

are board members. But still, a leader's fair judgement is critical. Sometimes leaders in countries, including Japan, have made serious mistakes in their histories. Why could it happen? Of course, there are many ideas and views about it, but leaders should always pursue the long-term and sustainable interest of the organization, state, or company, and of its members, based on a solid, realistic, and longer perspective.

Leaders must always consider what is the objective of the organization? Whether we can do it or not? What is the best policy to do it? What should we give up? At important crossroads, leaders need to persuade people and have the guts to overcome difficulties, based on their beliefs.

I am not confident about whether I myself am observing what I have just said. But please think about the role of leaders when you move into senior positions and become leaders.

(iii) Academic thinking

The third point is the importance of academic thinking. Since I graduated from the undergraduate economics department, I've always tried to interpret economic issues in the real world from the perspective of economic theories. I asked whether this is an issue related to efficiency of resource allocation or fairness of income distribution. Income distribution cannot be achieved through the market function. In addition, markets sometimes cannot maximize efficiency when there are market failures such as externality.

When I was a budget examiner at the Budget Bureau in charge of economy, trade, and industry, I wondered whether the budget for supporting small- and medium-sized companies is to address market failures, like imperfect markets, asymmetry of information, or externalities, or whether this is a social policy to redistribute income and ensure fairness. When I was working in the International Department, I tried to analyze the euro system using the optimal currency theory.

When I was studying economics at university, I thought this was more theoretical and not so usable in real life. But after I graduated, over time I have felt more and more that academic thinking is relevant and important. I value scholars' ideas, which are based on long and devoted study in certain areas.

Even if you are not a scholar, and will work in the public sector or private sector as a practitioner or administrator, my advice is that it's better to keep academic thinking when you approach any issue. In the end, what we study at school, whether it is political science, economics, law, or any other discipline, is a collection of the wisdom of human society. It is collections of ideas and thoughts based on histories of the world, whether Western or Eastern.

I have been trying to have a connection to academic life. I taught international finance for two semesters on Saturdays at the University of Tokyo when I was Director General of the International Department. I also taught public finance and fiscal policies at Yokohama National University to students from transition economies in the early 2000s. I have also published papers and books occasionally on economic issues.

It was tiring to do these things over weekends or after work, but I believe it was worth doing because it's good to organize my thinking from time to time instead of just doing things. I could convey my ideas using more general terms based on theories when I discussed difficult issues, for instance, with colleagues at G20 Finance Deputies meetings. Teaching to young people and sharing knowledge through papers based on ideas obtained from our experiences in government can make a certain contribution to society.

I also would like to stress that it is very important to keep our pride as intellectuals instead of just senior officials or senior business persons in companies.

In short, I feel that what you studied in this school will be much more useful in the course of your life and work than you may think now. This is not to flatter President Tanaka and other professors of this school, and it's not to please them.

Conclusion

The future depends on you, and other young people. I was told such a thing when I was in my 20s, and I felt it was just a cliché or rhetoric, but I really mean it now.

After graduation from this school, I hope you will embark on your careers vigorously, engage the world well, work hard, enjoy your life, and live a good life.

Congratulations again, and thank you very much.