

## **Economic Collaboration and Asian Prosperity**

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Distinguished Guests, Ladies and Gentlemen:

It is my great pleasure to be here in beautiful Islamabad and have this opportunity to explore with you certain key issues regarding Asian economic cooperation.

We live in a world of increasing globalization and regional integration. External and internal factors compel us to recognize that we occupy a common Asian economic landscape, with the necessity for collaborative endeavors. Our industries, nations and regions must leverage their inherent strategic assets and advantages to enhance our global competitiveness or we will suffer in terms of economic and financial growth. Moreover, if we turn our backs on these economic imperatives, economic stagnation and decline may even threaten our social and political stability.

Here in Asia, I shall cite two glaring realities: (1) we are a continent endowed with tremendous economic potential and diversity, and collectively we have seen our economies grow as a percentage of the world aggregate; and (2) we face an increasingly united European economic entity and a growing economic free trade area in the Americas. Many of us in Asia are now conscious of the urgency to launch our own challenge to these collaborative European and American initiatives.

After years of concerted efforts, it is understandably heartwarming that we have been able to successfully define a mutually beneficial, robust and open general framework for regional economic collaboration in Asia. We hope and anticipate that most Asian regional economies will gradually join in this declaration of principles and work towards its goals. However, mere lofty

goals and empty promises will not ensure our growth and stability.

As suggested by experiences of the EU, financial collaboration holds the key to integrating Asian economies. Of course, financial collaboration requires the formulation of effective regional financial cooperative mechanisms. However, we in Asia cannot simply adopt in wholesale those market concepts, instruments and instrumentalities already in place in Europe and North America, since most Asian countries (including China) remain burdened with a legacy of immature financial frameworks. In Asia, credit lending continues to dominate the available modes of financing, as there is an absence of mature and broadly accepted mechanisms for securities financing. Consequently, cumulative system risks tend to gravitate towards banking institutions, thereby undermining the capacity for risk mitigation within the financial system.

In other words, our lack of effective capital markets often leads us to loan portfolios that necessarily expose our banks to unacceptable risks, considering that our banks are linchpins to our economic systems. If we crusade for risk prevention and common growth, we have but one viable option – we must turn to enhanced regional financial collaboration, with well-defined and meaningful underlying financial strength of those assets upon which our promises are given and received.

As has been the case with the EU, there can be no cooperation without financial homogeneity and standardization across national lines, so the importance of internal reforms needs to be highlighted in particular. Effective regional collaboration requires robust and highly efficient economic entities. In addition to developing a stable and sound framework of financial infrastructure as highlighted by the Asian Cooperative Declaration, it is my belief that setting in motion the evolution of the micro system architecture and pledging commitment to enhancing internal regulatory structures will also prove instrumental in driving Asian financial collaboration. I liken the micro system architecture to the organism that defines financial system metabolism on the cellular level. In contrast, the financial infrastructure is the functional

set of organs, skeleton, muscles and other components that comprise an entire living body; it defines and limits the financial system in terms of overall operating efficiency. These two elements are both independent and interdependent; robust growth and vitality requires both healthy organs and healthy cells.

China remains committed to assuming a leading and positive role in driving Asian financial collaboration. The synergy between the Chinese economy and the economies of other Asian countries has grown increasingly apparent as evidenced by increased mutual dependence. The sustained and rapid growth of the Chinese economy has presented enormous business opportunities for other Asian countries, thereby fueling their own economic growth and prosperity. However, like many nations, because of an underdeveloped financial sector China has limited abilities in its efforts to positively impact the grand scheme of Asian economics. We are working mightily towards a robust and highly efficient financial system architecture that will sustain our continuing growth so that we can continue to fuel pan-Asian economic prosperity.

Our noble quest calls for a synthesis of government and market forces. Driving the evolution of market mechanisms is highlighted as a key priority on our agenda and we are defining and establishing those parameters that will insure sound micro system architecture and an effective financial infrastructure. While the government must remain committed to accommodating structural reforms of the financial system, its own involvement must further effect the shape and character of our market and systems, so governmental intervention is a catalyst and creator, rather than an inhibitor, of market reforms and evolution.

My talk has been of goals, priorities, problems and theories. My work is in development finance, where we have demonstrated the reality and soundness of these objectives and theories. Development finance is a bridging of the gap between the government and the market, and it plays an important role in financial system reforms. As the head of China

Development Bank, I have participated in the effective leveraging of its financing prowess and government coordinative strengths, thereby navigating the evolution of regulatory structures, corporate systems, cash flow mechanisms and credit systems while embracing both project management and market reforms.

As a body of developmental finance on behalf of the Chinese government, we have blazed new trails in cooperating with other Asian countries in a variety of fields. By leveraging the inherent strengths of both domestic and international markets, we have been instrumental in ensuring the availability and reliability of state energy resources and key raw materials for input to our industrial base.

Our experience confirms that good governmental banking is good banking. As of the end of 2004, our ratio of non-performing loans measured a low 1.21%, while we maintained a sound 10.50% capital adequacy ratio and a 142.23% reserve for non-performing loans. This combination of solid market performance with an affirmation of state economic policy objectives lends creditability to our cause in sustaining the growth of our own economic society through a mechanism that develops collaborative ties with the financial community abroad.

Ladies and gentlemen, all of Asia shares a vision of a world at peace, with growth and prosperity. As a member of the Asian community, we hope to work with you and bring this vision into reality.

Thank you.