

Good afternoon. I am Nobu Hirano. I would like to thank you for joining the MUFG·IIMA seminar today.

It was 1859 in Yokohama when the Edo Shogunate ended their two hundred year-old closed-door policy and opened the country to the world.

That was the start of modern Japan, and I am pleased today to see that Yokohama is once again playing its part in a historic event, the 50th annual meeting of the Asian Development Bank. I am honored to host this seminar on the future of Asian finance.

1. Asia today

Let me start with the heritage of Asia. I would cite three features of Asia's legacy that will drive its future economic development, those are human resources, ample savings, and economic openness.

As for the human resources, Asian countries share a common culture of emphasizing the quality of their people. Families are education-minded, and, at the work place, diligence is highly valued.

On savings, Asian countries tend to have a higher savings rate and larger volume of financial assets in their banking systems, and regional savings are relatively well-mobilized through banks to promote economic development in the region.

On economic openness, Asia has long had a tradition of free movement of people, goods, and capital, without having centralized organizations as in Europe. One outcome is that Asia has efficient supply chains on a massive scale.

I am sure the combination of human resources, high savings, and economic openness has significantly contributed to raising productivity and increased the income of the people of Asia.

2. Roles of Finance in the development of Asia

In addition to the three legacies, finance has long been an indispensable element in creating wealth in Asia. As I've just mentioned, in many countries bank deposits' savings have been recycled as credits to local commerce and industry.

However, as for currency, dollar-denominated finance was an overwhelming feature in Asia until the outbreak of the Asian financial crisis in 1997. That crisis called into question the long-standing practice of foreign currency borrowing and led policy-makers and bankers

to promote local currency finance and the creation of regional safety nets, such as the Asian Bond Markets Initiative and Chiang Mai Initiative.

These policy initiatives in turn contributed to an increase of finance in local currencies. In last decade in Asia, finance in local currencies has increased in six-fold, whereas, the one in foreign currencies has only doubled.

And this trend is continuing further thanks to expanding consumption in Asia. Companies are increasingly selling goods in local markets. Instead of external demand, domestic consumption is now the leading growth driver in many Asian countries.

3. Views on the Future of Asia

Let us turn to the future of Asia, say in 2030.

We all hope and believe that Asia will continue to grow richer. But I think there are three hurdles to be cleared.

The first one is the further development of infrastructure and protection of the environment. There is no doubt about the openness of the Asian economy, but its openness is still mainly in the coastal areas.

The openness of Asia can be enhanced by connecting one coastal area to another by extending inland road, rail, and sea links. To this end, we need to develop cross-border infrastructure and provide more finance for it.

The infrastructure for protecting the health and security of people is critically important for Asia's future.

The key areas would include clean air, safe drinking water, and attractive cities.

Since air has no borders, measures for protecting clean air require, again, region-wide cooperation. Safe fresh water will become an even more precious resource in the future. Its supply requires much closer cross-border regional cooperation.

The second hurdle is the wealth gap. A widening of income inequality would lead to a divided society if inequality goes beyond the limit of tolerance.

Once society has gone past such a point, the public could lose their sense of responsibility and seek only what they want, by becoming “Me First.”

I believe the present state of wealth inequality in Asia

has not reached such a critical level, but we need to be very mindful.

The third hurdle is aging. It is probably the most difficult challenge, because an aging population is the happy result of advances in living standards.

The more a society advances, the more it requires workers with advanced skill sets. And such a high-spec labor force is only possible with higher and more costly education.

The result is a reluctance of having a child because of the likely heavy financial burden of education. Ironically, longer life expectancy and fewer children seem to go hand-in-hand.

In an aging society, the growth of productivity per capita

is crucial, but the question is how to do it.

4. How can we unlock the Future of Asia?

I believe key drivers to overcome these three hurdles are the power of technology, managerial skills, and finance.

Infrastructure needs continue to spread across Asia. The growth of connectivity and technology within the continent will further raise the mobility of production factors.

Protecting the environment and developing fresh water resources will secure the lives of millions of people. But, it is a challenge to agree a fair sharing of the costs and benefits among different nations involved.

We look forward to hearing the views of our panelist

from China on these issues.

Turning to the wealth gap, I believe the first thing that financial institutions can do is to improve financial accessibility for every citizen.

It is one of the strengths of Asia that even people in the lower strata of society have some amount of savings and that their literacy rate is high. We will be able to unlock more of their potential if we can incorporate them into efficient financial networks.

We would like to hear about this aspect from our panelist from India, who has been in the forefront of meeting the challenges of financial inclusion.

Finally, the wall of aging may well be the highest hurdle to clear. Finance alone will not solve this problem.

The important thing is that we increase the productivity of the economy as a whole, and explore how finance can help this process. It may simply come down to nurturing of new ideas and incubating new businesses by extending financial support.

But, we can also place high hopes on financial innovation, or FinTech for the improvement of productivity. Financial innovation could contribute to productivity growth even in conventional businesses.

We would like to learn about this new and exciting development from our panelist from Singapore.

Concluding remarks

While the future of Asia may well be uneven, let me

emphasize two key messages:

The first one is the importance of collaboration, or role-sharing, between public and private organizations in finance. I know the word “collaboration” may sound a bit cliché. But, what I mean here is not a panacea, but something based on a pragmatic rationale: what the private or public sector can do better than the other to achieve the same goal.

The public sector can be more resilient in taking risks arising from local economies, but their funding sources are limited.

On the other hand, the private sector tends to be capable of channeling large amounts of funds from around the world, and drawing on its expertise of risk analysis and management from a commercial

risk-return point of view.

Knowing the different competitive advantages of the public and private sectors should lead to the development of an appropriate role-sharing model. But how can we strike a balance to optimize the respective contribution of each sector?

My second message could hold the answer to this question. It is the importance of commercial viability in any business venture. This principle is fundamental to good role-sharing.

From the private sector point of view, a deeper and longer-term engagement of the public sector would be welcome and give comfort to mitigate risks. But, should this go too far, it might undermine the efficient development and economic rationale of the entire

project.

Some projects may be guaranteed by governments to attract more private money. Other initiatives may benefit from broader macro or legislative frameworks as part of a grand policy design.

But, the public sector should ultimately exit from such projects to let them develop on their own in line with economic reality. In short, commercial viability is of vital importance.

By adhering to these two messages, we hope to develop a private-sector vision of the future of finance in Asia in the following session.

We are honored to have with us today distinguished panelists from China, India, and Singapore to enrich our

discussion.

I look forward to learning from each panelist how the financial industry can address the “many needs” in the “many forms” of finance, and to exploring the ways how we can contribute to “Building Together the Prosperity of Asia,” the theme of this year’s ADB annual meeting.

Thank you.