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Presentation of "Asian Development Outlook 2008"
Introductory Remarks

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Thank you Ángel and good morning to everyone. It is for me a great pleasure to be here today at the presentation of the Asian Development Outlook for 2008: An excellent piece of work that the Asian Development Bank has once again put together, this year with a special focus on the topic "Work and Workers in Developing Asia".

As in previous editions, the report that the ADB is presenting today provides a state-of-the-art analysis and a thorough assessment of the economic situation in Asia. It addresses issues so topical in the current policy debate as the resiliency of Asia to a potential US recession, the increase in inflation, and the risks and policy trade-offs that such complex combination of events (slower growth and higher inflation) might entail. The report also deals with the challenges facing Chinese authorities when trying to cool an overheating economy and gearing it into a more sustainable growth trend. And finally, a number of other very relevant subjects in the labour markets sphere, such as the importance of improving the employment prospects for young people, the skills gap and labour mobility are also addressed, all of them key challenges to the economic policymaking in Asia.

There is thus a lot of ground to cover this morning, and do not want to overextend my intervention. Therefore, I will focus my remarks on the first topic of the long list I just referred to--the ability of emerging market economies (not only Asia, but also Latin America and Emerging Europe) to weather the turbulence still unfolding in global financial markets.

Few would question the fact that over the past decades Asia has taken the centre stage in the world economy along many dimensions (growth, trade, FDI flows, official reserves) but as I will argue, the economic performance of Asia has recently become specially relevant, since its ability to weather some of the potential spillovers from the global financial turbulence might be key to cushion the negative effects of the US downturn on the world economy, and more specifically, the effect on other emerging market economies, like those in Latin America.

In fact, for many observers including myself, possibly one of the most striking features in the performance of the world economy since the subprime event hit global markets, in the early summer of 2007, has been the outstanding resilience of most emerging market economies to the unravelling of the global turbulence. If we look at their recent performance, IMF figures show that the emerging market economies grew 7.5% in 2007, accounting for around 45% of the world production and contributing close to 70% to world growth. Developing Asia grew almost 9% and more specifically China expanded over 11%. These rates of growth and the subsequent per capita increase they entail are truly outstanding achievements by themselves, let alone in times of considerable stress. They also illustrate clearly how important Asia is to sustaining global growth. On the financial side, it is also encouraging that basic financial market indicators of risk, such as sovereign spreads, exchange rates or equity markets behaved, on the whole, significantly better than comparative asset classes in the industrial economies over the past six months. In addition, credit has generally continued to be available in these economies, and creditworthy emerging market borrowers have not been shut out from international markets, contrary to developments in the past.

The question that quickly comes to mind is whether this resilience is bound to last, or whether the turbulence that has spread, swiftly in some cases, from the US to other industrial economies, will end up affecting the emerging economies too, if only with a lag. In other words, is this remarkable resilience just temporary or will it be persistent? Let me just say that, on this, the jury is still out, what makes me even more eager to learn about the conclusions of today´s presentation.

Let me just explain why I think this is such a difficult and complex issue. On the one hand, it is widely shared that emerging markets show today considerable strengths as compared to the past. Growth has become more broad-based, with a stronger contribution of domestic demand, south-south trade linkages and intra-regional trade linkages among emerging economies have increased and, very importantly, economic policies have been generally sound. How "shielded" these economies would be in the case of a severe downturn in their external demand from industrial countries remains an open question though. In addition some emerging economies have greatly benefited from the "tail winds" of record high commodity prices, which are in turn partly explained by the industrialization processes of countries like China or India, a process which is undeniably long-lasting. Moreover, there has also been an important reduction of the financial vulnerabilities in emerging markets that were widespread in the past, and which led to costly crises with important output losses and poverty, as the Asian crises ten years ago crudely demonstrated. So, all in all, there is little question about the improvement of macro fundamentals in emerging economies that has taken place over the last decade or so, coincidentally since the Asian crises erupted.

On the other hand, it goes without saying that vulnerabilities and risks remain. Despite decades of diversification efforts, Latin America, a major commodity producer and exporter, would still be vulnerable to a terms-of-trade shock, given its high dependence on commodity prices, which in turn correlate with the world business cycle. Eastern Europe has become very capital-dependent to finance its convergence process, and capital, let´s face it, has become more scarce. Globalization˜ the tremendous increase in economic and financial integration that has happened over the past decades˜ means that spillovers may always take place.

The good news˜ so far˜ is that the most visible spillovers into emerging markets have been confined to the trade channel, that operates with longer lags and in a less virulent way than the financial channel, through the gradual weakening of export demand. In most cases, the financial channel, which so many times in the past quickly changed the economic outlook for emerging economies, has remained largely "off" in this occasion. The bad news may be however that there is no guarantee that this channel will continue to be so well behaved if global financial tensions persist.

I would like to end my intervention on a cautiously positive note. Asia has become increasingly relevant for the world economy over the past few decades, and all indications are that going forward it will continue to be so. Increasingly Asia and specifically China have become some kind of "second pillar" to world growth and particularly to other emerging market economies, a very positive development in a world where the US economy continues to have the leading role. But in the short term, as economic and financial risks are tilted to the downside, the months ahead could be challenging times, reinforcing the need for policy cooperation from different areas and countries.

The Asian Development Bank and the Asian Development Outlook make an outstanding contribution not only to better understanding the Asian economies and their role in an increasingly integrated world, but also to analyzing the scope and impact of different policy responses. And I believe that the capacity to understand well the nature and essence of underlying economic problems to form good judgement and provide adequate policy responses can truly make a difference in the challenging times we are living today.

Thank you.