



The ADB President on China's transition to democracy, the global economy, the benefits of multilateralism, and more.

By Stephen Howes
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On August 16, I sat down with Haruhiko Kuroda, President of the ADB, after he had met with ANU faculty, to discuss *Asia 2050* and his visit to Australia. Footage of the interview can be found [here](#).

Asia's 3 main long-term threats

[Asia 2050](#), the premise of Mr. Kuroda's visit to Australia, is an attempt to set out a vision of Asia in the long run. The study presents two potential scenarios for Asia. The first is an optimistic scenario of continued rapid growth, under which Asia's share of global GDP will double by 2050 to more than 50% of global GDP. The second scenario is less optimistic. Asia continues to grow, but much more modestly and its elevation out of the low- and middle-income brackets will be slower.

I began by asking Mr Kuroda how confident he was that the optimistic scenario would be realized. He replied that he was hopeful, but stressed that Asia's rise was not pre-ordained.

Mr Kuroda highlighted three major hurdles which might keep Asia in a middle-income trap. The first is governance. Governance must be improved, including through heightened transparency and combating corruption. The second is inequality, which, if not properly addressed, would undermine the potential of high economic growth to produce sustainable development. The third is the threat of international and regional conflict. Some countries may start to compete with each other to secure resources for economic growth. Conflict would surely undermine sustained growth within the region.

China and democracy

On the governance front, I asked Mr. Kuroda, specifically in relation to China, whether, under governance challenges, he included the transition to democracy – a much-debated subject in Australia. His response was prefaced by stressing that ADB is a non-political institution. However, since political situations affect the trends of economic growth, the ADB must remain interested in political situations, particularly that of China. Mr. Kuroda noted the impressive economic growth that China has experienced in the last three decades and he expects this trend to continue into the future. Over time, however, economic growth will gradually decelerate as China moves towards a more developed economy.

As this deceleration occurs, whether the social-political system changes or not is a very large question. Mr. Kuroda said:

From looking at global experiences, not just in Asia but Latin America, Africa and so on, we can see a strong trend towards democracy in all parts of the world. Asia is not an exception and a typical and very successful example of this is Indonesia. Indonesia has been transformed into a complete democracy very smoothly and also (its) economic growth has recently accelerated. So I think China is not an exception. But in what way and at what kind of pace depends on the Chinese people to decide.

On the economic situation in Europe and the United States

Turning from the long-term to the here and now, I asked Mr Kuroda whether we were heading for a second global financial crisis. He said that he remained optimistic about both the global economy and the economic situation in both Europe and the United States. Asian growth will likely remain very high in the short- to medium-term, being driven by high growth rates in China, India and Indonesia.

On the United States, Mr. Kuroda said that the US fiscal position is actually not so bad compared even with many European countries.

The US fiscal situation is sustainable but, of course, should be further improved.

The Euro debt crisis, however, is more serious a concern. The wave of countries that have been affected is quite large. Mr. Kuroda is hopeful that the leaders can solve the current problems because the Euro system is so firmly established.

The European leaders are determined to sustain, maintain and even strengthen the system. So at this stage, yes some Euro countries... are affected seriously, but the Euro

system itself will definitely survive

In defence of multilateralism

Turning to aid, I noted that Australia has mainly been a bilateral donor. Why should we increase the amount we give to multilaterals that we can't control?

Mr. Kuroda responded that bilateral and multilateral aid are both necessary because they have different characteristics. Multilateral aid is important because, for instance, the ADB is owned by 67 countries, which include developing countries within the region. In this way the lending policies and strategies can reflect a broader array of interests. As he put it,

Multilateral aid can be owned by developing countries.

Mr. Kuroda also noted that multilateral institutions can also benefit from the broader experience gained by working in a large variety of countries and regions.

The ongoing relevance of the Asian Development Fund (ADF)

With Asia booming and becoming even more prosperous, my last question was whether the ADF, the ADB's concessional arm, is still relevant. Mr. Kuroda noted that from the outset the ADF has not been available to the big economies of China and India. Rather, the ADF has been crafted as concessional assistance to smaller, lower-income, poor countries. While many countries in the region have graduated from this status, there are still many poor and low-income countries remaining that will require ADF assistance to graduate. Mr. Kuroda also noted that other countries, such as those in the Pacific, are very vulnerable and are also going to require constant aid support into the future.

Professor Stephen Howes is Director of the Development Policy Centre. This article was co-authored by Jonathan Pryke.

The Asia 2050 report can be found [here](#). A speech Mr. Kuroda gave at the University of Sydney during his trip can be found [here](#), and the interview with Mr Kuroda is [here](#).

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