

## FINANCING FOR DEVELOPMENT

### Implementation of the Monterrey Consensus on Financing for development in Asia and the Pacific: Issues, challenges and a way forward<sup>1</sup>

#### SUMMARY

The Asia-Pacific region has made substantial progress in confronting the challenges of financing for development since the adoption of the Monterrey Consensus in 2002. Savings of the region have increased while it continues to attract foreign resources for development, particularly FDI. International trade has grown faster with a growing trade surplus. The region boasts of having accumulated foreign exchange reserves in excess of US\$ 4 trillion. External debt has gradually declined from the post 1997 crisis levels but increasing levels of short term debt is a cause for concern as it could expose the region to external shocks. The region has also taken several initiatives to address systemic issues but their depth is low and coverage is narrow.

Challenges also remain to make the progress even across developing countries in the region. For example, FDI is concentrated in a few countries while ODA has declined in relative terms. Access to developed country markets by developing countries remains a hurdle for their development. Many new initiatives emerged since the Asian crisis to address systemic issues remains focused on a few countries. Despite high overall regional savings, inadequate financing for development is a major issue for many developing countries of the region.

The present report provides an overview of Asia-Pacific's implementation experiences, new issues and challenges and a regional plan of action as a way forward for future implementation of the Monterrey Consensus on financing for development.

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<sup>1</sup> This report is based on the document (E/ESCAP/64/3) submitted to the 64<sup>th</sup> session of the Commission

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1. Addressing the challenges of financing for development has assumed an increasing importance since the adoption of the Monterrey Consensus on financing for development in 2002. The Monterrey Consensus called upon action on six areas that are closely linked to sustained economic growth and sustainable development and poverty reduction. An overview of the progress made, issues and challenges and future action in each of these areas is provided in this report.

## **I. MOBILIZING DOMESTIC RESOURCES FOR DEVELOPMENT: Bond market could be an important modality for resource mobilization**

2. Mobilizing domestic resources involves many different aspects of a national economy. It draws on available financial savings, both private and public, by using fiscal and monetary measures as well as strengthening avenues for financial intermediation. Enhanced mobilization of domestic savings increases a country's ability to invest more, fuelling higher economic growth, which in turn leads to increased savings. Another important issue is the development of domestic stock and bond markets. The fast growing importance of capital markets in financing investment in the Asia-Pacific region opens an important avenue to diversify saving and investment funds, thereby increasing the financial viability of pension and provident fund schemes.

### *Savings*

3. The average savings rate (savings as a percentage of GDP) in the developing countries of the Asian region showed an increase from 33.6 per cent in 2002 to 43.5 per cent in 2006. Average savings rate in the Newly Industrialized Asian economies increased from 29.8 per cent to 31.6 per cent during the same period. However, much of the increase in the savings was concentrated in a few countries, including China, India, Republic of Iran, Republic of Korea and Singapore.

### *Government Revenue*

4. Another important aspect of domestic resource mobilization is government revenue. The efficiency of generating tax revenues depends on a number of factors such as the extent and structure of GDP growth, tax rates and the quality of tax administration. Large informal sectors, including agriculture, where activities occur outside the formal tax net make raising government revenue difficult. Moreover, a large number of workers are employed in the informal sectors and small and medium-sized enterprises whose income and output are often not properly recorded and are therefore difficult to tax appropriately. To encourage investment in selected sectors, many countries have

provided incentives such as tax holidays and exemptions, which also adversely affect revenue collection.

#### *Tariff revenue*

5. Trade liberalization, while bringing enormous benefits to countries in terms of income and employment generation, among others, has had both positive and negative implications on domestic resource mobilization. One of the main achievements of trade liberalization is the drastic reduction in tariffs. For example, in a selected Asian and Pacific countries the average tariff declined sharply from 29.5 per cent in 1991 to 12.6 per cent in 2001.<sup>2</sup> Declining tariffs have a negative impact on Government revenue in the short term. However, with increasing trade under liberal regimes, the additional government tariff revenues are expected to offset any revenue losses arising from lower tariffs. On the other hand, private companies will benefit from lower tariffs and increase trade as their profits increase. This however, requires a competitive environment for doing business. Most developing countries in the Asian and the Pacific region, except a few, rank low in the Business Competitiveness Index of the World Economic Forum indicating the need for greater efforts in upgrading business environment in respective countries. Efficient institutions, macroeconomic stability, a consistent and transparent policy environment, good infrastructure, strong health and education outcomes, and an efficient labour market are important pillars that support establishing a competitive environment.

#### *Social security*

6. Another area of concern is the impact of an ageing population on social security and the government budget. Population projections show that the number of elderly people (aged 65 years and above) in the Asia-Pacific region will triple by the year 2050. A projected fall in the working population (aged 15 to 64 years) as a percentage of the total population would increase the ratio of dependants (people aged under 14 years and above 65 years) to working population from a little over 9 per cent in 2000 to 32 per cent in 2050. This phenomenon suggests greater attention would be needed to issues such as providing social security, especially healthcare and income support for the ageing population. The fewer share of working age population imply that the pressure on Government revenue could be high from both declining income tax revenue and increasing responsibilities to take care of the elderly. Hence, there is an urgent need to evolve institutional capacity to deal with such a transformation to

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<sup>2</sup> United Nations (2005), "Implementing the Monterrey Consensus in the Asian and Pacific region: Achieving coherence and consistency" Bangkok, Thailand. Calculated based on data in WTO, World Trade Report 2004 (Geneva, WTO, 2004)

ensure sustainability of socio-economic achievements of the region, something that is lacking in many countries in the region. Pension reforms in the direction of funded schemes, in particular, would play a critical role in ameliorating fiscal pressures arising from the demographic transition.

#### *Capital markets*

7. It has been recognized in the recent years that a well-developed capital market that draws on such diverse funding sources as governments, business and individuals and offers investors a diverse range of opportunities increases the efficiency and pace of domestic resource mobilization. The Asian financial crisis also highlighted the need to reduce the heavy reliance on the banking sector and to depend more on the development of domestic capital markets. In response, many Asia-Pacific countries have made efforts to develop their stock and bond markets with some success.

#### *Stock markets*

8. Stock markets are taking on a bigger role in resource mobilization in many Asia-Pacific developing countries. This trend has been facilitated by deregulation and liberalization measures as well as by specific policies to foster their development. Domestic markets which previously had rather restricted national and foreign clientele have widened their investor base and become more robust. In many countries, stock markets have become very popular even with middle and low income classes.

#### *Bond markets*

9. The bond markets of Asia-Pacific economies, however, are under-developed. The shallow nature of bond markets in the region is reflected in 80 per cent of portfolio investment originating from the region going to developed country markets. The lack of a high-quality bond market in many Asia-Pacific countries means that local economies are exposed to the risk of sudden and short-term changes in investor confidence. When foreign funds are withdrawn from a particular economy, institutions and corporations are faced with a real risk of insolvency, even if their asset quality is healthy in the long run. Many countries therefore see the development of local currency bond markets that can act as an alternative means of financing as an extremely important policy priority.
10. In addition to providing more security, bond markets are also expected to revitalize domestic savings and investment, which have been sluggish in many countries. While the actions taken by the ASEAN+3 countries to develop the bond markets through the Asian Bond Fund initiative is a step forward, the benefits would have been much higher had it been expanded by both coverage and size to be benefited by most of

Asia-pacific countries. The enthusiasm of the countries in the region for developing their bond markets is apparently high as shown during the regional and national workshops conducted by ESCAP in 2007 on capacity building for bond market development as a modality for resource mobilization. Regional cooperation could assist member countries to strengthen their institutional and policy environment for the development of vibrant bond markets.

#### *Public Policy*

11. Governments should provide an enabling environment in which domestic private and public investments, especially in physical and social infrastructure, are increased. Prudent policies are required which ensure macroeconomic stability, low inflation, stable exchange rates and availability of adequate financial resources to both the private and public sectors. Reform of existing institutions and laws (such as laws on competition and property rights) are essential to attract private sector investment. Improving governance, especially reducing corruption, would substantially improve the impact of investment on economic growth as well as attract greater volumes of private investment.
12. Other policy areas that countries should pay special attention are (i) establishing a good regulatory framework in order to develop the capital market, (ii) adoption of international standards and practices in accounting and transparency in information provision, (iii) enhancing the effectiveness of trading and settlement systems, (iv) improving corporate governance and corporate social responsibility, and (v) promoting credit rating to provide unbiased analysis and disclosure.

## **II. MOBILIZING INTERNATIONAL RESOURCES FOR DEVELOPMENT: The need for innovative financing**

#### *Foreign Direct Investment*

13. Investment, including Foreign Direct Investment (FDI) remains a primary engine for economic growth and social development of the developing countries in the region. FDI could be a strong factor for productivity gains by providing access to new investment capital, new technologies, management expertise and markets. The contribution of FDI to development is also linked to the nature or quality of investment. FDI is likely to remain a strategically important source of financing for developing countries, specially those with budget constraints and low levels of domestic savings and those dependent on external knowledge, technology and skills for development.

14. Flow of FDI to the region has increased substantially over the last few years and the forecast, at least for the short-term, is that this increase will continue. In 2006 developing countries in the Asia-Pacific region attracted US\$ 258 billion, around one-fifth of the global FDI inflows, more than doubling the inflow in 2002. Three countries; China, Hong Kong, China and Singapore accounted for almost 50% of the inflow to the region. Further improvements in the investment climate of the economies in the region are necessary to increase the flow to other economies, especially the LDCs. The region has become not only a major destination for FDI inflows but also the source of outflow. The region accounted for US\$ 196 billion FDI outflow, or around 16 per cent of the world total in 2006, which may provide new opportunities for LDCs.
15. As for other forms of investments, there are sharp fluctuations in net private portfolio and other net private capital flows to the region. The inflow of this type of finance for development is further hindered by the absence of properly developed national and regional bond markets. Furthermore, the financial markets and financial infrastructure in the region are not fully developed to cope with rapid inflow and outflow of capital.

#### *Remittances*

16. A remarkable development is the increase of remittances, which have become an important source for financing for development for several economies in the region. While remittances have boosted family incomes and thereby consumption at the society level, it has reduced pressures on current accounts, particularly at times of rising oil prices. Globally, remittances through formal channels alone are twice the amount of all the official development assistance, underlining their growing importance as a source of external finance. For some countries in the region, private remittances far exceed inflows of FDI and ODA.
17. As remittances are a non-debt-creating external resource, it has important macroeconomic implications as well. While it boots foreign reserves reducing balance of payment pressures, it facilitates domestic investments and provides opportunities for job creation reducing unemployment. It also facilitates macroeconomic management.
18. Given the fact that both the host and home countries benefit from worker migration, it is essential that the whole process is facilitated by host and home countries through a collaborative approach. Areas that home countries could pay attention include providing job training including on cultural aspects, easy access to efficient funds transfer at competitive rates, regulation of job agencies to ensure protection of worker

rights and facilitating migration. Host countries could consider putting in place regulatory and enforcement mechanisms to protect the rights and safety of workers by providing decent working conditions and wages, and facilitating migration.

19. Notwithstanding the increased inflows mentioned above, there still is a huge gap between the needs and the availability of financial resources for development. The significant accumulation of foreign reserves in some of the countries in the region has initiated a debate on whether or not and how these reserves could be used to narrow that gap. Financial mechanisms that promote and facilitate the transfer of capital from high savers in the region to those in need have to be promoted through regional cooperation. Maintaining macroeconomic stability, including stable exchange rates would be vital for the success of such initiatives.

#### *Innovative financial instruments*

20. The region could also consider introducing innovative instruments for mobilizing resources required for development financing. For example, the region could introduce an air ticket tax as done by France and Chile (and another 11 countries have declared to follow suit). While the entire tax collection through this tax by France is provided for the Global Health Fund (GHF), Chile contributes 50 per cent of the tax collection to GHF. Taxing short term capital flows ( a Tobin-type tax) at a flat rate by all countries in the region could be another option to consider. The daily currency flow is around US\$ 3 trillion and Asia-Pacific contributes largely to this flow through its high savings and foreign exchange reserve holdings. Even a small tax of around 0.001 per cent on currency transactions could generate over US\$ 7 billion a year. Pros and cons of such a tax need to be evaluated before putting it into practice.
21. UNESCAP has been promoting the discussion on these and other issues between governments, the private sector, civil society and academia by yearly organizing the Asia Pacific Business Forum. Furthermore, to better understand the issues and to render enhanced services to the member states, UNESCAP conducts analytical research in these areas and disseminates the findings.

### **III. INTERNATIONAL TRADE AS AN ENGINE OF DEVELOPMENT: Critical role of “Aid for Trade”**

#### *International trade*

22. While Monterrey Consensus indicated that the major source of finance for development (FfD) is in a country’s domestic resources, it also strongly emphasized the role of external resources and the role of trade in mobilization of those resources.

Trade also plays the role of a core connector in building the global partnership within the broader Millennium Development Goal (MDG) 8, by allowing developing countries, and in particular the least developed countries (LDCs), landlocked developing countries (LLDCs) and small, vulnerable States, greater market access to more affluent markets and financial assistance to build up the supply-side capacity.

23. The Asia-pacific region has performed well in international trade over the years and increasing trade surpluses have contributed to large current account surpluses. For example, developing countries in Asia and the Pacific have nearly tripled their share of world trade since 1990. While the value of exports grew by an annual average of 22.3 per cent since 2000, imports increased by 22.2 per cent. China's progress has been the major factor for this rise. It also has created market opportunities for developing countries within the region through intra-regional trade. Reflecting these gains in international trade, the current account surplus of developing Asia-Pacific economies increased from US\$ 38 billion (1.7 per cent of GDP) in 2000 to US\$ 278 billion (5.9 per cent of GDP) in 2006 strengthening the region's financial resource base.
24. Despite Asia-Pacific region's gains in trade, there are immense opportunities that could be reaped under a more liberalized global trade regime. However, the progress in negotiations under the Doha Development Agenda (DDA) has been slow. As a result, intraregional trade is assuming increased importance. Regional and bilateral trade agreements continue to liberalize trade faster than multilateral trade agreements but they are less efficient in trade creation. Developing countries of Asia and the Pacific continue to make more liberal market access in developed countries for products of interest to them the centerpiece of their negotiating objectives. Much could also be done in facilitating trade and associated financial flows.
25. Building a stronger global partnership also implies that the weaker partners are brought up to speed with the capacity of others. Asian and the Pacific developing countries receive very small proportion of the overall trade related assistance. For example, in the four year period since the Millennium Declaration (2001-2004), the fourteen LDCs in the Asia-Pacific region received a total of just US\$ 24 million, amounting to just over US\$ 6 million annually. Although this reflects a substantial increase from the annual inflow of about US\$ 2.4 over the previous nine years, the amount received is much lower than the need.

*Aid for trade*

26. The achievement of a truly development-friendly round will require a set of additional measures broadly visualized as “*Aid for Trade*” as agreed in the Hong Kong Ministerial Conference in 2005. There is a broad consensus that aid for trade measures should work towards increasing capacity to: (a) formulate a home-grown and owned trade policy; (b) effectively participate in trade negotiations; and (c) successfully implement trade agreements. A corollary to this is that additional market access opportunities that will emerge from trade liberalization will be truly beneficial to developing countries only if they have the capacity to supply the market competitively. Supply-side capacity development, including building up trade related infrastructure, therefore also features prominently in the Aid for Trade discussions. A generous and dedicated “Aid for Trade” fund should finally start doing what neither the “Aid not Trade” nor “Trade not Aid” approaches could do in the past: tackle head-on national competitiveness constraints which have so far prevented the eradication of poverty at its sources. At the same time, the Declaration is emphatic that Aid for Trade cannot be a substitute for the development benefits that will result from a successful conclusion to the DDA, particularly on gaining new market access opportunities, as was argued above. However, it can be a valuable complement to the DDA, particularly for LDCs and other developing countries with supply side constraints.

#### **IV. INCREASING INTERNATIONAL FINANCIAL AND TECHNICAL COOPERATION: ODA still plays an important role**

##### *ODA*

27. Official Development Assistance (ODA) plays an important role in economic and social progress in developing countries, especially in those countries that have least capability to attract foreign private capital flows. While it complements other sources of finance for development in many emerging economies, it is still a main source of external financing in many least developed countries, Small Island developing States and landlocked developing countries of the region.
28. Total ODA flows to the region has declined from 0.9 per cent of its GDP in 1990 to 0.3 per cent in 2005, although in absolute terms it increased from US\$ 15 billion to US\$ 20 billion. As a sub-region, Pacific island economies received the highest ODA (9.8 of GDP) in 2005 followed distantly by South-east Asia (0.6%) and South and South-west Asia (0.6%). Significant increases in ODA flows have been recorded in countries such as Afghanistan, Cambodia, Kyrgyzstan, Mongolia, Tajikistan, Timor-Lest and Viet Nam, many of them experiencing a political economy transition.

### *Debt relief*

29. Assistance relating to debt relief (34%), and social infrastructure development and services delivery (29%) comprised the bulk of bilateral ODA in 2005, reflecting a major shift in donor assistance in recent years. Aid received for economic infrastructure and services (13%) and emergency assistance (91%) indicated a sharp decline during the recent past.
30. Despite the impressive growth of the region over the past decade, many developing countries in Asia and the Pacific, particularly those with special needs, are either progressing slowly or regressing in economic and social fronts. In particular, this is clearly reflected in achieving international development goals including MDGs. Lack of financial resources and technical capacity are among the major factors that hamper their progress. Higher levels of ODA flows, particularly to those with special needs will be necessary to overcome such financial resource hurdles. Technical assistance would be a major tool of development assistance to all developing countries in the region.
31. The declining availability of ODA calls for greater effectiveness in aid utilization by recipient countries. This would require strengthening efforts to coordinate and harmonize lending policies, conditionalities and procedures by donors. On their part, recipient countries need to improve their policy environment and governance to enhance aid utilization. Investment would also be required to enhance the absorptive capacity of recipient countries.

## **V. EXTERNAL DEBT AND SUSTAINABLE DEBT MANAGEMENT: Time to monitor private debt**

### *External Debt*

32. The Asia-Pacific region has made significant improvements on its external debt. Total external debt outstanding of the Asia-Pacific region as a percentage of GDP declined from 28 per cent in 2000 to 19 per cent in 2006. As a per cent of export of goods and services total external debt declined from 94 per cent to 47 per cent during the same period, indicating its strong debt servicing capacity. Most significant improvements were made by East-Asia and the Pacific where external debt fell by 23 per cent during 2000-2004. In South Asia the external debt stock fell by 17 per cent from the 2000 levels.
33. However, the share of short term external debt in total external debt has increased almost four fold to 30 per cent during 2000-2006 exposing the region to vulnerability

to external shocks. There is also a shift from official borrowing to borrowing from private sources. For example, the share of borrowing from official sources declined from 43 per cent in 2000 to 31 per cent in 2006, while that from non-bank private sources increased from 30 per cent to 44 per cent. While this shift is expected as economies grow, it emphasizes the need for more prudent economic management to prevent exposure to shocks.

34. The shrinking share of debt in the post-crisis period is a result of several factors: the preference of the corporate sector to borrow domestically rather than in foreign currency due to the perceptions of currency risk, the development of domestic bond markets in countries such as India, the Republic of Korea, Indonesia, Malaysia, and Turkey, and the vigorous macroeconomic adjustments pursued in the crisis affected countries that resulted in reduced demand for external finance. Some of the economies in Asia have sustained a current account surplus and steadily increased the inflows of FDI.
35. The Asian and Pacific region consists of a heterogeneous group of countries facing diverse situations. Some countries in the middle-income group have a good track record of private capital market access while others lack access to private capital markets. Most of the countries in the Central Asia, South-West Asia, and the Pacific Islands are characterized by low savings rates, slow growth and commodity-dependent economic structures with limited access to private capital markets, depending instead on concessionary financial flows.
36. A number of countries in the Asia-Pacific region have nevertheless avoided defaults, although debt situations in some low-income countries such as Indonesia, Kazakhstan, Kyrgyzstan, Lao People's Democratic Republic, Myanmar, Pakistan, Papua New Guinea, the Philippines, and Tajikistan are a cause for concern. These countries are in various stages of debt restructuring and macroeconomic adjustments, but the outcome has not been very significant. Aid flows to some of these countries have declined as donors placed increasing emphasis on economic reforms and structural adjustments. Three countries in the region, namely Afghanistan, Kyrgyzstan and Nepal, are likely to benefit from the Highly Indebted Poor Countries (HIPC) initiative. While Afghanistan had reached the decision point under the HIPC Initiative, Kyrgyzstan and Nepal were at the pre-decision point at the end of September 2007.
37. The Asian crisis brought several new dimensions to the debt problems of developing countries. The issue was not so much to do with the aggregate level of debt but more to do with the balance between private and public sector debt, its maturity structure,

the level of contingent liabilities, reserve management and pursuance of macroeconomic policies consistent with external sector objectives. The contributory factors underlying the financial crisis include the premature liberalization of capital accounts in many countries. Capital flows from developed countries have become less counter cyclical, with shorter maturities and greater volatility. These trends have also underscored the importance of a sound and coherent policy framework for managing and monitoring capital flows in general and debt management, in particular.

38. The Asian crisis highlighted the need for comprehensive measures to manage total external debt management, including both public as well as private sector non-guaranteed debt. The increasing role of the private sector in the development process has been an emerging feature, complemented by the changing composition of capital flows (such as increased importance of portfolio investment flows, and the raising of bonds and loans from a variety of commercial sources). These have brought to the fore new dimensions of the debt problem such as corporate debt problems, exchange rate-debt linkages, domestic-external debt linkages and contingent liabilities.
39. Policy advocacy and capacity building activities were undertaken by ESCAP in several of its indebted member countries with a view to enhancing their capacity to manage debt more efficiently. A regional workshop on debt management was held in Thailand in 2004. National workshops were held in Mongolia, Kyrgyzstan, Indonesia, Samoa, Sri Lanka, Cambodia, Laos Peoples Democratic Republic and Nepal during 2004-2006 aimed at capacity building of debt managers for effective debt management in those countries.

## **VI. ADDRESSING SYSTEMIC ISSUES AND REGIONAL RESPONSES: Need to build on sub-regional surveillance mechanisms**

40. The Asian financial and economic crisis in 1997 led to a flurry of regional initiatives aimed at preventing and tackling potential financial crises and strengthening financial cooperation in support of development. Developing countries were also affected by the level and direction of flows of private capital from developed countries, causing volatile exchange rate movements that affected their export competitiveness. In this situation, managing exchange rates and interest rates in a manner that avoided adverse impacts on international competitiveness and domestic capital formation became a major objective of policy makers in many countries, including those in the Asia-Pacific region.

41. Financial crises, especially the Asian crisis, underscored the need to reform the international financial system to address its inherent instability. Discussions on reform have mainly focused on the actions required to prevent and manage financial crises. The first issue is that self-insurance, which developing countries could pursue to insulate themselves from potential crises, could be a costly option. Policies available to developing countries to counter volatility of capital flows include accumulating high levels of international reserves, building up their credibility by pursuing a sound macroeconomic policy, enforcing prudential regulations in an institutionally weak financial market, and discouraging short-term external borrowings through price-based or quantitative capital controls.
42. Each of these options, however, has associated costs. Instead of relying exclusively on such costly self-insurance policies, a better approach would be to have a more effective international mechanism to make available adequate liquidity in times of crisis and, particularly, to provide contingency financing for countries in difficulties before their international reserves are depleted.
43. A second issue relates to the need to improve the institutional framework in which financial markets operate. This requires improving the information provided to financial markets, adopting common minimum standards in prudential regulation, supervision and financial accounting, adopting codes of conduct in fiscal and monetary policies, and agreeing on principles of sound corporate governance.
44. Asia-Pacific regional initiatives to prevent and tackle potential financial and economic crises have been multifaceted. They have aimed at enhancing liquidity, attempting to harmonize policies, paying attention to surveillance and monitoring as well as financial market development (diversity, prudential regulations, governance and restructuring). The creation of a common currency has also been talked about as a long-term objective. Selected initiatives in these areas are described below.

#### *Regional initiatives*

45. The Chiang Mai Initiative (CMI) aims to enable countries to cope with disruptive capital flows and maintain exchange rate stability by creating a network of bilateral swap agreements (BSAs) and repurchase agreement facilities among ASEAN countries, China, Japan and the Republic of Korea (ASEAN+3).
46. The CMI bilateral swap arrangement, similar to other regional and international “lender of last resort” facilities, provides a short-term facility for liquidity assistance in the form of swaps of dollars with the domestic currencies of the 13 participating countries. The maximum amount that can be drawn under each of the BSAs is

determined in bilateral negotiations. However, it is expected that disbursements to a member requesting liquidity assistance would be made in a concerted manner through consultation among the swap-providing countries. One of these swap-providing countries then serves as the coordinator for the consulting process. The BSA agreement allows an automatic disbursement of up to 10 per cent of the maximum amount a member can draw. A country drawing more than 10 per cent from the facility is required to accept an IMF programme for macroeconomic and structural adjustments. In this sense, the BSA is complementary to the IMF's financial assistance.

47. Before the 1997-1998 financial crisis, most of the region's emerging bond markets were very small and illiquid. Underdevelopment of domestic bond markets and the absence of efficient regional bond markets contributed to outflows of capital during the crisis. Since the crisis, many Asia-Pacific economies have substantially built up their foreign reserves by running surpluses on both their current and capital accounts. At the end of September 2007, the total amount of foreign reserves accumulated by Asian economies, including Japan, exceeded \$4 trillion or more than two-thirds of the world's foreign exchange reserves. This accumulation of reserves has been costly because of the low rates of return on US treasury bills and other dollar-denominated, short-term assets in which most reserves are held.
48. The region's policy makers have realized that such a large pool of saving should be better utilized for long-term investments within the region. For this reason, it is essential to foster efficient and liquid bond markets in Asia, both at the local and regional level. Effective utilization of region's financial resources for its own development, in particular development of infrastructure was discussed at length at a High-level Policy Dialogue organized by UNESCAP in New Delhi in March 2007. UNESCAP will continue its efforts to promote innovative models of financing infrastructure in the region as lack of quality infrastructure could be a binding constraint to the sustenance of its impressive growth.
49. The Asian financial crisis in 1997 illustrated that a crisis in one country could easily spread to other countries as economies and markets are more integrated and closely linked by trade, finance and investment. Since the crisis, Asian countries have looked more closely at developing greater financial cooperation to assist countries in times of crisis and prevent a regional contagion. A regional surveillance mechanism acting as an early warning system was deemed desirable to prevent future crises. Several initiatives have emerged in the East Asian region, including the Manila Framework

Group (MFG), the ASEAN and ASEAN+3 Surveillance Process. These were established to complement existing international surveillance mechanisms used by organizations such as the G7, the IMF, OECD and the World Bank.

50. As a response to the General Assembly resolutions 58/230 calling upon UN regional Commissions, with the support of regional development banks and other relevant entities, to hold regional consultations, as appropriate, during the first half of 2008 to serve as inputs to the preparations of the Review Conference, the secretariat intends to hold an intergovernmental meeting in the second quarter of 2008 to review the progress made and actions to be taken to achieve the desired objectives of the Consensus.

## **VII: WAY FORWARD: REGIONAL PLAN OF ACTIONS**

51. While the region has progressed well in financing for development since the adoption of the Monterrey Consensus in 2002, challenges remain to make the progress even across developing countries. The following actions could be considered as a way forward.

*a. Develop a regional bond market*

Most bond markets in the region are under-developed and do not have the depth to weather sudden shocks such as the Asian financial crisis in 1997. The existing sub-regional arrangements such as the Asian Bond Fund need to be expanded to cover other countries of the region and strengthened while promoting the development of the bond markets at the national level.

*b. Introduce a regional FfD tax*

The short term capital flows have become a source of financial market instability of much larger scale than ever before. These short term flows, which could be largely speculative in nature, have constrained policy makers' ability to deal with macroeconomic management effectively. A nominal Tobin-type tax on short term capital flows at a flat rate by all countries in the region could be another option to consider. Such a tax could not only act as a tab on very short term speculative flows but also as a source of development finance. While such a tax could be administered by individual countries separately, a regional cooperation mechanism could be established to channel part of the proceeds of the region wide tax from developed and advanced developing countries to financially constrained countries.

*c. Establish a regional mechanism to monitor private debt*

High private sector debt, including off-balance sheet debt, has been instrumental in the contagion of the Asian financial crisis. Lack of information on such debt prevented authorities from taking regulatory measures to contain over-borrowing. A regional mechanism to monitor private debt could help reduce such risks by providing information to the public.

*d. Extend the existing surveillance mechanisms*

The growing financial flows would require a region-wide effective surveillance and early warning to prevent future financial crises. While the existing mechanisms at the sub-regional level play an important role, the increasing integration of countries in the region require them to be expanded to cover other countries of the region as well to make them more efficient and responsive.

*e. Establish a regional mechanism for infrastructure development and financing*

Development of infrastructure is critical for the region to sustain its high growth momentum. The issue is not a question of lack of resources but how to mobilize the region's resources for its own development. In this context, a regional mechanism could be established either by strengthening the existing mechanisms or developing a new institution to ensure the ready availability of region's resources for infrastructure development.

*f. Promote "Aid for Trade"*

Trade is one of the most important areas on which developing countries in the region could bank on for economic and social development provided their capacity to negotiate in trade agreements and formulate and implement policies is developed and access to markets is enhanced. Promotion of "Aid for Trade", even at the bilateral and regional level, could provide an impetus for enhanced trade in the region.