

The Asian crisis in 1997 and subsequent ones in Brazil and the Russian Federation highlighted the changed world economic and financial environment within which nation states and enterprises operate today and exposed the limitations of the existing international financial order. They demonstrated very clearly that financial integration, and more broadly, globalization, is a two-edged sword. Integration allows economic agents from economies with liberalized financial sectors to tap into the world's savings; but it also exposes such economies, particularly if they have underdeveloped institutions (both markets and supervisory agencies), to the vagaries of market volatility, largely as a result of sudden shifts in investor expectations. Of course, the factors that lead to instability in financial markets are not all externally driven. Inappropriate policies, such as the maintenance of overvalued exchange rates and poor sequencing of the capital account liberalization, which are determined at the national level, also play an important role. In addition, poor corporate governance and inadequate financial system supervision can contribute to the build-up of vulnerabilities.

In the aftermath of the recent crises, there is a growing consensus in the international community that a review of the international financial order is needed. In essence, this call for reform is motivated by the problems arising from the incongruence of the operations of rapidly globalizing markets with policy-making, which is still being conducted at the national level. Within the context of a new financial architecture, the proposals aim to enhance the functioning of markets as well as improve the modalities for crisis prevention, management and resolution. The proposals emanating from various forums cover wide spectrum: from changes in exchange rate regimes to instituting an international lender of last resort and establishing and enforcing international standards and codes of best practices. As the new financial architecture means different things to different people, the diverse and sometimes contradictory proposals on reforming the system are still under debate.

One of the areas within this general scheme on which there is considerable convergence of views is the need for enhanced surveillance, which includes increased international cooperation in monitoring, sharing of information and early warning. It is the task of the surveillance function to detect and give clear signals of sources of economic and financial vulnerability and instability and to provide analysis of and guidance on the appropriate policy response and corrective actions needed. At the national level, the link between early warning and corrective policy measures is quite direct and under the control of the authorities. At the international level, it is less so, owing to sovereignty issues. In this regard, international cooperation is central to effect the necessary policy changes needed to avert or minimize the severity of crises and their contagion effects.

The preceding chapters reviewed the existing global surveillance mechanisms and identified gaps therein. Because the Asian crisis was largely unanticipated, despite the surveillance efforts at the global level, there is an observed need to evaluate, and where appropriate, improve and complement the existing arrangements. The major international financial institutions responsible for conducting surveillance, particularly IMF and BIS, have in fact taken the lead in enhancing surveillance within the context of the new financial architecture at the global level. As illustrated in chapter V, these institutions have made improvements concerning the quality, quantity and timeliness of the data to be provided to them and in their analyses, and have emphasized the need to develop and encourage adherence to internationally accepted standards and codes of good practices in many areas affecting financial markets. In chapter VI, the case was made for complementing and supporting these global initiatives through action at the regional level and four, increasingly formal, modalities for so doing were suggested. As requested in Commission resolution 55/2 of 28 April 1999 on economic and financial monitoring and surveillance in the ESCAP region, this chapter explores avenues in which regional institutions, in particular ESCAP, can play a role in supporting and complementing global surveillance mechanisms.

ROLE FOR ESCAP IN CONTRIBUTING TO MONITORING AND SURVEILLANCE MECHANISMS

The ways in which ESCAP could contribute and complement the global monitoring and surveillance mechanisms can be analysed at two levels: at the level of its member States and at the level of ESCAP as an international organization.

Of course, ESCAP is not the only organization in the Asian and Pacific region that can make a contribution, though it may have some special attributes which facilitate the activities suggested below. As noted in chapter VI, ADB is already involved in supporting regional monitoring through its Regional Economic Monitoring Unit and has been requested by both the ASEAN members and the Manila Framework group to provide inputs into their surveillance processes. It has a fledgling database system, but this does not appear to have a defined set of leading indicators or very wide country coverage. In any event, cooperation in this area between ESCAP and ADB is a *sine qua non*. There is already an informal understanding between the offices involved on sharing information and undertaking joint activities when and where appropriate. IMF has a regional training institute in Singapore and BIS a regional office in Hong Kong, China. This regional presence should facilitate cooperation and coordination between them and the regional institutions, and some discussions to this effect have already been undertaken.

Action agenda for ESCAP members

There is very little in the area of surveillance that an international organization can do by itself beyond conducting its own analysis of some indicators or of emerging issues. Most of the actions require active initiative and commitment by national governments, either individually or collectively, to request support. It would appear from the foregoing that the actions that developing members can pursue are threefold: participating in consultative activities according to the four modalities outlined in chapter VI; strengthening the technical aspects of surveillance at the national level; and becoming actively engaged in the ongoing process of developing the new financial architecture. Individual member countries or groups of members in the region can pursue

these initiatives themselves, through their existing subregional arrangements or through arranging meetings of like-minded countries on an ad hoc basis.

Elements that comprise the first area of action, which essentially follow the proposals of chapter VI, are as follows:

- Request, help organize, sponsor and actively participate in informal meetings among groups of relevant parties on monitoring processes, leading indicators and data requirements
- Participate actively with other countries in the region in cooperation with BIS, IMF, ADB and/or ESCAP to review recent developments of concern to the grouping of countries
- Request, help organize, sponsor and participate actively in meetings among interested member States to consider issues of mutual concern on the basis of PIN reports or other assessment reports
- Participate in setting up more formal arrangements similar to the ASEAN surveillance process within subregional groups

The second area for action by ESCAP members entails strengthening the technical capacity of national surveillance systems. This can be partly accomplished by upgrading the analytical skills (human resources development) and improving the data collection and management systems. Of course, there is considerable scope for technical assistance in this area. Some avenues for action are as follows:

- Develop a national list of leading indicators and collect the data for the calculation of these indicators on a regular basis
- Request technical assistance for this activity as required
- Develop the requisite human resources through in-house training, attachment training and participation in training courses offered by ADB, BIS and IMF

The experience of the Asian crisis has highlighted the need to step up the level of financial regulation to international standards for prudential purposes; there is little choice for countries that wish

to participate in the international financial system but to adopt or abide by international regulatory rules and practices. It is thus in the interest of member States to monitor progress in the new financial architecture and participate actively in its development. To this end they could:

- Participate in the development of new codes and standards for financial systems and apply them at the domestic level
- Participate actively in assessments of the compliance with these codes and standards, including undertaking a transparency report and a financial sector stability assessment, and in the review and amendment of these codes and standards
- Seek membership in BIS or other relevant global bodies, especially if the concerned states are active in the international financial markets

Action agenda for ESCAP

Discerning the role of the ESCAP secretariat contributing to, complementing or supporting the national and global surveillance mechanisms depends critically on its comparative advantage and value added it could potentially bring to the surveillance processes. One of the comparative advantages of ESCAP is that it has a truly regional perspective. It has as members more than 50 developing countries or areas throughout the Asian and Pacific region, far more than any other institution in the region. Among its unique characteristics is formal relationship with subregional groupings, including ASEAN, ECO, the South Pacific Forum and SAARC. It also has a long tradition of convening and providing substantive backstopping for workshops and seminars in which groups of countries can exchange experience and draw policy lessons from each other. Often these meetings are among groups of countries at differing levels of development and are a vehicle for involving the less advanced countries (the least developed, the economies in transition and the Pacific island countries). By virtue of the breadth of its membership and its network with subregional groupings, as well as modalities for activities, ESCAP is in a favourable position to take the lead in convening seminars for exchange of experience. More concretely, ESCAP could do the following, upon the request of its members:

- Convening and substantive backstopping exchange of experience among groups of interested member States on issues related to the identification, construction and interpretation of leading indicators
- Convening and substantive backstopping exchange of experience among groups of interested member States on issues related to international financial system developments and international surveillance modalities, in cooperation with other relevant international organizations, such as BIS, IMF and ADB
- Convening and substantive backstopping exchange of experience among groups of interested member States on issues related to assessment reports, such as PINs, transparency reports or financial sector stability assessments, in cooperation with other relevant international organizations, such as BIS, IMF and ADB

Furthermore, it can promote cooperation and informal discussions on monitoring and surveillance among the members of different subregional organizations, not only among members of one such organization. The ASEAN surveillance process could be used as the model and could provide the nucleus for this proposal. Given this consideration, ESCAP can backstop and provide resource persons for other seminars and workshops, similar to those organized by subregional groups such as SAARCFINANCE and ASEAN on topics related to monitoring and surveillance, identification, construction and interpretation of leading indicators, standards and codes, transparency initiatives etc. It can thus be a catalyst for any initiatives which these subregional groups might wish to take to develop their own surveillance process, no matter how formal or informal.

ESCAP has been responsible for conducting training workshops for its members for many years. It has developed its own training materials and has run courses with the cooperation of other institutions. In the surveillance area, ESCAP would be uniquely placed to develop joint courses with other institutions such as BIS, IMF, IIF and the World Bank in the various areas of concern, such as leading indicators, codes and standards and banking supervision. These could be run at the national level or for a few countries in close proximity. For example, while BIS

has, through its Financial Stability Institute and the Toronto International Leadership Centre for Financial Sector Supervision, courses on offer to supervisory authorities, these are quite expensive and remote so that only one or two individuals from the developing countries in the region are able to participate. Similarly, the IMF Training Institute in Singapore can cope with only a limited number of participants in year. The IMF and World Bank courses in Washington are of excellent quality but again are only able to train a limited number of the target cadres in any one year. As the demand for courses on various aspects of financial markets is almost limitless at present, and as in-country courses could reach a larger number of the target audience, there is certainly room for ESCAP to organize such collaborative courses in the interests of financial sector stability in the region.

Another comparative advantage of ESCAP lies in its long history and track record in offering technical advice and assistance to its members on an individual basis. Over the years, ESCAP has dealt extensively with the least developed countries, the economies in transition, the Pacific island countries and other systemically unimportant markets but which suffer from contagion just the same. Although ESCAP does not, strictly speaking, engage in high frequency surveillance, it is well positioned, by virtue of its familiarity with its members, to provide advice and analysis in matters related to the surveillance, monitoring and construction of leading indicators for such countries. ESCAP can also extend assistance on basic data collection (in terms of content, timeliness and frequency) to these countries.

A further comparative advantage that augurs well for the advice-giving function of ESCAP lies in its reputation for neutrality. Being a regional commission of the United Nations, ESCAP is perceived to be relatively unbiased in its assessment of policy options. Because political acceptance of policy advice is critical in crisis prevention, this feature of ESCAP could be put to good use. Among the activities that ESCAP can carry out upon request of its members are the provision of advisory services

the interpretation of leading indicators; on the advantages and constraints involved in participation in different monitoring modalities and systems; and on the implications of developments in the global financial system, the new financial architecture and proposed monitoring systems.

ESCAP can play a role in the region in providing inputs into the global surveillance mechanisms by providing a regional perspective on events and developments in the Asian and Pacific region. For instance, ESCAP can look into the applicability of and constraints on applying international codes and standards in developing economies. Among the initiatives that ESCAP can take on its own are continuing to provide independent and critical analyses of (a) economic developments in the region; (b) changes in monitoring systems and their implications for member States; (c) developments in financial architecture and their implications for member States; and (d) experiences in other parts of the developing world. Although ESCAP is already covering some of this ground through its annual *Economic and Social Survey of Asia and the Pacific*, it could put more emphasis on issues of greater relevance to surveillance.

Global surveillance institutions have been hard put to catch up with the demands of globalization. While there is no dearth of initiatives to reform the international financial architecture, there appears to be relatively less discussion on what can be done at the regional level. Addressing this issue is important because, to be effective, the global surveillance mechanisms should be complemented at the regional level. Chapter VI explores a number of modalities and the present chapter highlights the different ways and means in which ESCAP can add value to the surveillance process in the region. Although no one can guarantee that there will be no crises in the future, investments in the surveillance process, including at the regional level, are worthwhile in order to minimize the probability of a crisis or limit its severity if one occurs. The challenge, as always, is how to muster the necessary support for ESCAP to put these recommendations into effect.