CHAPTER 5. CONVERGING CRISES: REDIRECTING POLICIES TO ACHIEVE INCLUSIVE AND SUSTAINABLE DEVELOPMENT

ESCAP photo
The stability of global financial markets is a public good. If governments fail to protect this public good, then those who suffer are the working people of the world whose jobs, whose homes, and standard of living depends on it.

Kevin Rudd  
Prime Minister of Australia
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The year 2008 was tumultuous. On the one hand, it continued to deliver impressively on a number of fronts: dynamic trade and investment-led economic growth, continued incisions into poverty and technological advances that opened up treasure troves of prosperity, knowledge and human interconnectedness that may enable us to live longer, healthier and more interconnected lives than we ever thought possible. On the other hand, quite stealthily in the third quarter, 2008 turned out to be a year that shook the world. As the preceding chapters have discussed, the unprecedented occurrence and convergence of three crises left no economy, and very few individuals, unaffected.

How these events will go down in history remains to be seen. Of course, what today appears cataclysmic may with the passage of time become a historical curiosity. This concluding chapter argues that the simultaneous occurrence of the crises will prove to be more significant than a historical footnote. The convergence of the three crises is but a symptom of a larger problem, the enormity of which is still unfolding. It drives home a stark reality that, for all our impressive achievements, the world is under severe stress and more fragile than was thought possible. While in all likelihood the convergence of the multiple threats will not prove catastrophic, we have come frighteningly close to systemic disaster, and such near misses cannot go unaccounted for.

Many questions arise. Have we evolved a global system, with its opaque interplays between financial demanders and suppliers that is too complex? For too long, have we allowed excessive greed to prevail? How much market self-correction is socially optimal? Are we ruining the regenerative potential of our ecosystems? Have we created social inequities that can never be corrected? What is the role of government and its partners? Answers to these questions are central to determining the critical threshold of the world’s endurance. The convergence of the crises suggests that we have a world teetering on the threshold of its endurance.

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This chapter addresses the commonalities and policy tensions across the triple threat to development, and proposes a way forward for government and its partners. The stresses are common to more than one crisis, and there are compounding effects that must be taken into account in devising policy responses. The central idea is that the convergence of the crises provides a unique opportunity to address each threat and jump-start a reorientation towards inclusive and sustainable development in which modernized government will form and frame the region’s future development.
Commonalities among the crises

One characteristic that runs through the three crises is their global scope. The ever-increasing interdependence of countries, with increasing shares of GDP moving across borders through trade, investments and financial flows, means that no country can remain immune from a crisis. A local infection quickly becomes a systemic disease. The larger the initial point of attack, the faster the contagion and the greater the likelihood of systemic shutdown. The subprime crisis hit the United States and, as it worked its way through the financial and real sectors, it quickly evolved into a full-blown world economic crisis. One country introduced a ban on rice exports, and others soon followed suit, all clamouring to secure self-sufficiency and further exacerbating shortages and price spikes. Crises no longer fit into simplistic developed/developing country classifications. Disaster can strike financial capitals with the same ferocity as emerging markets. Hurricane Katrina and Cyclone Nargis tore apart communities in countries at the opposite ends of the development spectrum. What is certain is that the poor, regardless of their location and regardless of the nature of the crisis that hits, suffer a more severe impact and take longer to recover. They are also those least responsible for causing the crisis.

A second commonality is that all three crises are long-term in character. The current global financial crisis is not just an ordinary downturn in the business cycle. It has roots in macroeconomic and financial vulnerabilities that have been building up for decades. The increases in the prices of crude oil and food commodities between 2002 and mid-2008 reflect a long neglect of investment stemming from declining prices in the 1980s and 1990s. And the threats posed by climate change to food production, water resources and livelihoods in coastal areas are the result of a long period of intense industrial production and human activity.

Third, imbalances are at the root of all the crises. The financial crisis is associated with an imbalance between savings and expenditures, both within countries and across countries. A sluggish supply response to fast-rising demand for crude oil and food commodities, especially cereals, caused inventories to fall and prices to increase. An imbalance between the rich and poor in access to water, sanitation, energy, health and education perpetuates endemic poverty and further environmental degradation across the generations. And imbalances tend to grow. Economic wealth is increasingly concentrated in the hands of fewer people, superimposing wider circles of imbalances that will add compounding and self-perpetuating effects to the crises. When imbalances in financial markets were added to those in energy and food markets, commodity prices soared further, in turn compromising both economic growth and the goal of eliminating poverty and hunger.
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Convergence and policy stresses

Given the commonalities across the crises, their convergence brings compounding effects that feed on each other and could result in more stresses and the imposition of new layers of crises. Three pressure points are discussed: a financial crisis that is converging on itself, financial excesses and volatility in commodity prices, and scarce financial resources to address the effects of climate change.

The financial crisis threatens to converge on itself in a deep, downward spiral

The magnitude of the current financial crisis is unprecedented in living memory. Trillions of dollars have evaporated, bringing on a recession in developed countries that will take many months, perhaps years, to turn around decisively. Asia-Pacific countries are experiencing sharp reversals in the growth trend they registered over the period 2002-2007, with the worst yet to come. Setbacks to the region’s progress in poverty reduction appear unavoidable as more countries go off track in their quest to attain the Millennium Development Goals by 2015. The prospects for Asia-Pacific less developed countries, which have made remarkable progress in the past few years, are also deteriorating rapidly.

Financial excesses and commodity price volatility

In the wake of the intensifying financial crisis, the unprecedented volatility in the prices of oil and non-oil primary commodities in 2008 – with oil prices soaring 50% in the first half of the year only to plummet by more than 70% by January 2009, and other commodity prices tracking closely – led to economic losses and huge uncertainties about how to plan for the future. The commodity price collapses that tracked the financial crisis made it clear that commodity and financial markets have become tightly interlinked, that the crises were converging and that they were having compounding effects. The global financial crisis of 2008 was preceded by a period of high international liquidity and low real interest rates, which increased the amounts of risks and leverage that borrowers, investors and intermediaries were willing to take on (Financial Stability Forum, 2008, p. 5). With the bursting of the United States real estate bubble that ignited the subprime crisis, investors tried to reallocate funds to other markets, including commodity markets. In the case of crude oil, the resulting increases in prices, along with the very low real interest rates, created an incentive for producers to save oil for the future instead of selling it today and investing the proceeds in the money market (Frankel, 2008). But with mounting problems in global financial markets and growth projections turning sour, speculative capital rapidly exited from commodity markets, leading to sharp and sustained falls in prices. Looking forward, a key concern is that a massive liquidity injection arising from bailouts may find its way into commodity futures once

The commodity price collapses that tracked the financial crisis made it clear that commodity and financial markets have become tightly interlinked

Further exacerbating this situation is the distinct possibility that, with expansionary global fiscal and monetary policies proving less effective than hoped for, the developed world will fall into the dreaded “liquidity trap”, not unlike the experience of Japan during the 1990s when monetary policy with interest rates close to zero failed to stimulate private consumption and investment. Under these circumstances the financial crisis will converge on itself in a downward spiral. Risk aversion will deepen, and banks will continue to use any liquidity injections to prop up their balance sheets rather than extend loans to households and busi-
Financial resources are scarce, and the costs of addressing climate change challenges are high

A third compounding effect of the triple crisis is the increasing fiscal deficits and public debt. With the list of distressed institutions and people growing every day – be it ailing banks, strategic industries hurt by the downturn and price volatilities, farmers who were unprepared for the collapse in commodity prices, urban poor struggling with higher food prices or the increasing ranks of unemployed – Governments may come under severe pressure to spend their funds on immediate emergencies and the need to maintain social stability and order. They may be hesitant to dedicate scarce resources to long-term objectives, such as climate change, where the returns are not immediately obvious. As economic growth continues to decelerate, automatic stabilizers will trigger a significant revenue decrease, giving Governments even less fiscal space. Governments will be tempted to shift costs to future generations.

It is clear that, given all these huge pressures, aid budgets could come under greater pressure and especially affect low-income countries that rely on official development assistance not only for their poverty alleviation strategies and long-term development but also as a cushion against external shocks. The least developed countries that are experiencing large and growing fiscal deficits will be particularly vulnerable.
The future of Asia and the Pacific: Investing in inclusive and sustainable development

What do the triple threat to development and the policy tensions to which it has given rise mean for the future policy design of the Asia-Pacific region? Solutions are to be found by addressing the commonalities and policy tensions across the three crises.

Future policies must be built around a rebalancing of economic, social and environmental systems, and between Governments and their partners. Putting these solutions to work is a process that reaches beyond market dynamics. It stretches across continents, linking people and societies to each other and, across time, linking generations.

Public spending: Size matters

Given the scale of the global financial crisis, policies commensurate with the challenge are needed. Public spending of a much larger magnitude than in the past, leading to fiscal deficits that could rise above what sound macroeconomic management would prescribe under normal circumstances.

Public spending should also be expedient so that the depth of the trough is contained expeditiously. With about $4 trillion in foreign exchange reserves, large current-account surpluses and low inflation, many major Asian countries are well placed to expand public spending. Supporting economic growth is a fundamental responsibility, and many developing countries of the region will need real economic growth that is well above 4% to meet employment and poverty goals. Social expenditures must, in addition, make the development process inclusive and sustainable. Faster growth makes this goal feasible by generating job opportunities and revenues to fund the extension of coverage for health, education and other social services until they reach the entire population.

Even more important, perhaps, than the size of the investments that Governments will make is what Governments will spend on and how they will decide. Quality matters more: The importance of forward planning

Public expenditures should be carefully targeted. Fiscal resources are limited, and today’s increases in budget deficits will eventually need to be cut. Ensuring that current fiscal expenditures have the highest social rates of return is crucial for Governments to be able to make sound investment decisions. The composition of the package will depend on country-specific situations, particularly the point at which a country finds itself on the development spectrum. No one-size-fits-all. Nevertheless, certain principles are common to all situations.
Public investments in Asia-Pacific developing countries generally have contributed significantly to economic growth, poverty reduction and development. Typically, the first phase of development spending has been focused on reducing widespread poverty through broad-based economic growth that reaches rural areas. In subsequent phases, more attention has focused on reducing inequalities by focusing on lagging sectors and areas of persistent poverty within countries by targeting specific communities and households. More recently, because Asia and the Pacific is the region with the fastest urbanization and the most acute need for pollution control, widespread environmental degradation has resulted in increasing shares being allocated to clean-up operations.

In this reorientation, government spending should be forward-looking

The convergence of the crises has added novel dimensions to the traditional approach. The challenges emerging from the triple threat offer the basis for a major reorientation of the development process: aligning fiscal stimulus packages with a long-term goal for inclusive and sustainable development. In this reorientation, government spending should be forward-looking.

Investing for inclusive growth and human progress

The importance of investing in the region’s richest resource – its peoples in all their diversities and all the wealth in historical heritage, culture and values they represent – cannot be overstated. Spending not only on social infrastructure (hospitals, schools, housing and sanitation) but also on improving the delivery of education and health systems is key to the quality of future economic growth and development in the region. China has recognized the need to invest $120 billion in the reform of its health-care system in the next three years, indicating the priority given to raising standards in public hospitals and on providing basic health insurance for all by 2011.

A related issue is the need to expand social protection systems. Over 80% of the region’s population lacks access to social protection of any form, forcing millions to reduce meals, eat less nutritiously, take children out of school, sell livestock and other assets or borrow money to feed their families. Although domestic food price inflation rates are gradually coming down across the region, there is no guarantee that another episode of fast-rising prices will not be repeated when the global economy resumes growth. It is important to provide all vulnerable individuals with minimum grants to support their food security, especially in countries that are unable to move towards universal coverage of the population.

Forward planning also requires Governments to make provisions for an ageing society. The population of Asia is ageing fast: 17% of its developing-country population is expected to be over 65 years of age by 2025, compared with 6% today. This increase in the aged is twice as fast as that of developed countries. Even more worrying is the narrow coverage of social pensions and a poverty rate among older people that is about double the population as a whole, denying them dignity and security. It prevents older persons from contributing to society as sources of experience, wisdom and heritage or as workers. Investing in pensions will have significant multiplier effects that are immediate – better care of the children whom the older citizens look after, for example, thus making development more inclusive and sustainable while also making societies more cohesive and stable.

If the downturn is prolonged, longer-lasting public spending may be more valuable than fast-acting expenditures

In the current debate about fiscal stimulus packages, some countries have opted for providing tax cuts or transfers to boost private consumption. Such policies are normally viewed as acting faster than public spending for physical or social infrastructure. But that may not be the case in the present circumstances. Given the overall pessimism and uncertainty, many households may opt for saving rather than spending most of these benefits. If the downturn is prolonged, longer-lasting public spending may be more valuable than fast-acting expenditures. Tax reductions, when utilized, should be directed to the poorest members of society, both to meet social goals and because the poor are most likely to spend any extra income, ensuring greater pass-through of tax reductions to national consumption and aggregate growth.

Government should support the development of technological innovations that have yet to reach their peak. Such a policy is not restricted to the more advanced countries of the region; there are numerous examples
of less-well-off countries successfully investing in such innovations. These technologies can provide leapfrogging opportunities in many facets of human endeavour. Innovation feeds on itself, and powerful applications of new technologies will emerge in informatics, biotechnology, and robotic engineering that will see the region transform itself into a global source of renewal and growth. Of course, this will bring new ethical and governance challenges, but Asia and the Pacific has the human skills to contribute to human progress and transformative development.

Investing in environmentally sustainable development and innovation

An important application of new technologies will be related to clean technologies for mitigating the effects of climate change and environmental degradation. A major boost to investments in clean energy and energy efficiency will facilitate the diffusion of such technologies, helping to reduce their costs of production and to create technical capabilities among users and producers. A dramatic increase in the production and use of such technologies will not only contribute to easing pressures on the price of crude oil but also create the possibility of making major progress in the reduction of greenhouse gas emissions. Given the vulnerability of Asia and the Pacific to climate change and the rapid increase of greenhouse gas emissions in the region, it is imperative to forge a low-carbon development path. As discussed in chapter 3, inaction today will prove more costly in the future, when ecological trends may be irreversible. In some countries, the costs of dealing with the effects of climate change could rise above 20% of GDP.

**Government should support the development of technological innovations that have yet to reach their peak**

It is heartening to note that G20 Governments are proposing $2 trillion in additional spending over the next one to two years to revive the world economy, and this could prove a unique opportunity for the world community to achieve, through a coordinated effort, a Global Green New Deal: expediting economic recovery and creating jobs while being consistent with the medium-term objectives of reducing carbon dependency, environmental deterioration and extreme world poverty.

Investment in infrastructure is another important component of a forward-looking planning approach, and has already received a fair amount of attention in many countries, as discussed in box 5.1.

**How? Government as the people’s partner**

Times have changed. Government’s re-entry in the economy will need to be built around the concept of government as a partner of its people. In large part due to the transformative impact of information technologies, society is organized today around fluid and creative systems of decision-making. Initiative is shifting to people who have detailed knowledge of what is needed or desired, who in turn are linked to each other through a dense overlay of networks. Traditional hierarchies in the workplace or in government can no longer impose specific outcomes or methods and see them implemented according to instructions sent from above. Instead, such plans evolve in the context of shared missions and commonly evolved procedures, with the possibility left open that the dynamism and creativity of individuals will lead to further innovations and improvements. Often, authority shifts according to the nature of the task rather than being predetermined by a structure of hierarchical authority. This diffused organization of creativity is not without its risks: it requires exacting conditions for accountability, transparency and integrity. When such conditions are not in place, or when there is a disconnect between the two, systems overshoot or undershoot and break down, the financial sector being a most extreme example. The key is to find a model of government that blends individual creativity and collective aspirations and harmonizes bottom-up with top-down approaches (OECD, 2001).

With the global downturn deepening in a synchronized manner, public spending needs to assume a key macroeconomic purpose, not seen in many decades. A more directive management of the economy by Governments should therefore not mean a return to old forms of governance, reminiscent of the 1960s and 1970s, when Governments owned, regulated and managed large swathes of productive resources. Evidence abounds of the worst excesses inherent in this model.

The private sector is a key player in this process because businesses create employment, support aggregate demand and build wealth. The convergence
Box 5.1. Infrastructure investment during economic downturns

The rapid economic growth of Asia and the Pacific over recent decades has been facilitated by – and placed increasing demands on – the development of economic infrastructure, including power supply, water supply and wastewater treatment, telecommunications and transport (airports, inland waterways, seaports, railways, roads, and inland ports). At the same time, greater emphasis on social development has increased demand for such social infrastructure as hospitals, schools, housing and sanitation. A major criticism of infrastructure investment programmes is that they are characterized by considerable time lags: (1) the time to recognize the need for a policy intervention (the recognition lag); (2) the time to decide upon and commence implementing the intervention (the lag between decision and action); and (3) the time for the intervention to take effect (the effect lag).

But the lag between decision and action can be shortened in a number of ways. First, annual budgets are based upon long-term plans that identify strategic investments. For example, studies for mass-transit schemes in Thailand have already been completed and the British Chancellor of the Exchequer mentioned the “fast-tracking” of construction projects in the United Kingdom “using money now that had been earmarked for future years”. Second, there is a strong case for streamlining all of the elements in the project cycle, including prefeasibility studies, environmental impact assessments, detailed design, land acquisition, competitive bidding, awarding of contracts, mobilization for construction and project management. Unfortunately, cases of corruption have brought large infrastructure projects into disrepute. However, recent developments in information technology, for example e-procurement, can assist in this streamlining process and in improving transparency.

For public works, the effect lag has two main components: the immediate employment benefits and the longer-term developmental effects. While the developmental effects will materialize after the completion of the project, the employment generation effects can be significant and take place as soon as the project begins. In India, for example, the National Rural Employment Guarantee Act and its predecessor Universal Food for Work Programme provided between 750 million and 900 million work-days per year from 2002-03 to 2006-07, principally in rural infrastructure projects.

Despite their time lags, public investments often have high social rates of return. There are complementarities between public-sector capital and private capital in the production and distribution of private goods and services (Aschauer, 1989). For example, investment in public infrastructure serves to support the key housing sector, which contributes a major portion of GDP, employment and growth for many countries and has also been hit hard by the current crisis.

A study undertaken by the United States Federal Highway Administration found that the net social rate of return on highway capital was substantial, about 35%, in the 1950s and 1960s, before declining to about 10% in the 1980s (Mamuneas and Nadiri, 1996). Although the rate of return on highway capital significantly exceeded that of private capital initially, over time, as the economy continued developing, both rates converged to a level similar to the long-term interest rate. As most countries in the ESCAP region are at early stages of infrastructure development and rehabilitation, their social rates of return are likely to be high, realizing the positive long-term development effects of such investments.

In sum, during economic downturns, taking advantage of the need to increase expenditures to promote much-needed investments in social and economic infrastructure is critical for development and a better idea than just to “spend our way out of the recession”. Even if the immediate effect of these projects on employment and consumption is small, its future benefits will more than compensate for that deficiency. In this respect, countries may wish to consider retaining and perhaps intensifying ongoing initiatives, bringing forward projects that have been through the evaluation process, streamlining the processes in the project cycle and improving public confidence in infrastructure development by increasing transparency.
of the crises has shown that business shares with
government common aspirations to achieve a more
inclusive and sustainable path of development,
opening the possibility of new alliances in which it
will be possible for businesses to be profitable
while being socially and environmentally responsible.
As the Secretary-General of the United Nations has
said:

“We live in a new era. Its challenges can
all be solved by cooperation – and only
by cooperation. Our times demand a
new constellation of international coop-
eration – governments, civil society and
the private sector, working together for a
collective global good” (Ban, 2009).

In this regard, the Executive Secretary of ESCAP has
stated:

“Businesses are partners in development.
The financial crisis provides an opportu-
nity to move towards responsible invest-
ment, where there is an incentive for a
long-term vision rather than short-term

Civil society organizations are also key partners in the
new alliances that are forming. Besides monitoring and
tracking the performance of Governments, they add
transparency and provide checks on potential govern-
ment failures and excesses. Evolving a clearer system
of accountability for civil society organizations will add
further legitimacy to their role.
Towards an Asia-Pacific framework for inclusive and sustainable growth and development

Asia and the Pacific has been the fastest-growing region in the world for over 20 years and has made substantial progress in reducing poverty and hunger. Today, the sustainability of such growth is in jeopardy.

The convergence of the crises has changed the macroeconomic landscape in fundamental ways that will see government re-enter the economic sphere. The role of government as planner will need to be given a new priority, as will the need for regional cooperation to guide and support national policies and the development process.

Without addressing the inclusiveness and sustainability of economic growth, the objective of reducing poverty will be substantially more difficult to reach.

But should these investments be the priority when a deep economic crisis is engulfing the global economy? Should policymakers instead devote all their energies to short-term measures aimed at recovering from the recession? The answer to both questions is “yes” because there is no contradiction between counter-cyclical fiscal policies and much-needed investments for the medium to long run. If the only objective of a stimulus package is to counteract the recessionary forces coming from the international economy, almost any measure aimed at increasing domestic spending would suffice. But given the scarcity of public funds available in developing countries and the critical importance of making the Asia-Pacific economies less prone – and more resilient – to future crises, the decision on how to spend these funds should be carefully weighed.

Building on previous regional processes facilitated by the ESCAP secretariat, members and associate members of the Commission could work on a framework of principles that will guide the region towards a commonly shared future development paradigm. This earlier work includes the “Bali Outcome Document” adopted by the High-level Regional Policy Dialogue (ESCAP, 2008b) and the Regional Implementation Plan for Sustainable Development in Asia and the Pacific, 2006-2010 (ESCAP, 2005).

Making growth and development sustainable in the long run is a necessary condition for poverty alleviation. In the ESCAP region, substantial unmet basic needs coexist with rapidly growing demand for resources, giving rise to scarcities, environmental pressures, climate change disasters and increased food insecurity. Without any change in the pattern of economic growth, new crises such as those we experienced in 2008 loom in the horizon.

However, more than sustainability is needed to make growth and development more inclusive and to attain the Millennium Development Goals and other internationally agreed development goals.

To protect the Asia-Pacific economies from the risk of a major recession, the intergovernmental coordination of monetary and fiscal policies is essential.

To protect the Asia-Pacific economies from the risk of a major recession, the intergovernmental coordination of monetary and fiscal policies is essential to boost credibility, help shore up confidence and enhance region-wide and global multiplier effects. But the same is true regarding the medium- to long-term objective of making growth and development more inclusive and sustainable. Just as isolated fiscal stimulus packages are not as effective as coordinated fiscal efforts by Governments, initiatives to boost inclusiveness and sustainability that are isolated in time will not take root, and ultimately they will be less likely to lead to societal transformation.

What is needed at the regional level, then, is a way to coordinate national initiatives to make growth and development more inclusive and sustainable and to im-
part to these policies a planning horizon that is long term and durable. For that purpose, the secretariat proposes that a process be started in which policymakers of the region, in partnership with interested stakeholders, discuss and adopt an Asia-Pacific framework for inclusive and sustainable development. Such a framework would define the region’s collective approach to inclusive and sustainable development, express commitments to specific goals and establish mechanisms for technical cooperation with particular attention to assisting the least developed countries in the region. The framework would also stipulate the creation of a regional forum to track progress in the attainment of the objectives proposed, facilitate the exchange of knowledge about technical and policy issues and catalyse new initiatives.

The contents of the framework should evolve and be determined in a consultative process among members and associate members of ESCAP. The secretariat suggests, as a starting point, that the framework should have three pillars as outlined below.

**Resuming economic growth and preserving macroeconomic stability**

To protect Asia-Pacific economies from present and future risks associated with financial instability and recession, reforming the global and regional financial and economic systems of governance assumes importance.

Enhance the role of Asia and the Pacific in designing a more inclusive and accountable global system of regulating financial markets: At the global level, the political momentum generated by the G-20 leaders ensures that this issue will remain at the top of the international policy agenda for some time to come, and the Asia-Pacific region should have an increasingly influential voice in shaping the future multipartite system of governance in view of its rising contribution to global economic prosperity. Financial regulation and liquidity support, despite the existence of forums and instruments such as the IMF, the Financial Stability Forum and the Basel Framework, have remained to a large extent nationalized, even though financial markets have become increasingly integrated and subject to crises of increased frequency and intensity. Future reforms should centre around a set of key principles that balance the benefits of openness with the need for regulatory strengthening, enhance the accountability of financial institutions, investors and regulators, and revise the provisions contained in international financial standards to increase stability. Financial markets are linked to all markets, and the costs of the excessiveness to which financial markets are prone have come too close to a global systemic breakdown to go unaccounted for.

A world finance mechanism, either through reform of the current architecture, or through the creation of a new organization that balances efficient decision-making with global representation, through a variable geometry configuration of decision-making and consensus building, is certainly needed. The time to act is now. Through a more effective use of existing regional platforms, Governments and their partners in Asia-Pacific countries can debate the policy options, sharpen their focus and build political consensus around the multilateral reforms needed. It is clear that, in the coming years, much more work will be needed towards creating a more stable, inclusive and sustainable system of economic governance at the multilateral level. At the G-20 London Summit on 2 April 2009, meaningful progress on coordinated global policy responses as well as the provision of additional financial sector capacity-building work, is crucial.

**Conclude the Doha Round so that trade can work for development and overall global prosperity**:

On the trade front, there is a need to ensure that the rules and principles embodied in the multilateral trade system are upheld in the service of development. Furthermore, as recession-hit economies scramble to support ailing domestic industries, the conditions of market entry for exports from this region may become disadvantageous. The conclusion of the Doha Round in accordance with its development mandate should therefore be pursued with renewed commitment. In times of deepening recession and heightened protectionist sentiments, a strengthened multilateral trading system offers the most stable, predictable and transparent environment to conduct both global and regional trade for development.
Strengthen the regional coordination of monetary and fiscal policies: At the regional level, coordination of monetary and fiscal policies has become essential. Conventional monetary policy may not be an option when interest rates are moving towards zero, but recessionary and deflationary pressures remain high, while the coordination in the design, scale, phasing-in and financing of fiscal stimulus packages could have synergistic multiplier effects at the regional level. Furthermore, actions taken at the regional level can enhance coherence in multilateral economic governance and serve as building blocks for a truly inclusive multilateral system of economic governance.

**Actions taken at the regional level can enhance coherence in multilateral economic governance and serve as building blocks for a truly inclusive multilateral system of economic governance**

Strengthen regional contingency and surveillance: The need for Asia and the Pacific to establish a regional contingency plan that would have sufficient resources to respond quickly to the liquidity and capitalization problems of domestic banks is well recognized. An accelerated establishment of a regional surveillance system that focuses on emerging risks should also be given equal priority. The Finance Ministers of ASEAN+3, in their Action Plan to Restore Economic and Financial Stability of the Asian Region, adopted on 22 February 2009, made progress by increasing the total size of the Multilateralized Chiang Mai Initiative from $80 billion to $120 billion, and by agreeing to establish an independent regional surveillance unit to promote objective economic monitoring. More needs to be done at the regional level in terms of expanding the membership, size and purpose of the pool.

Establish more durable regional currency arrangements: The region should also consider establishing coordinated and durable regional currency arrangements. Uncoordinated national management can lead to further competitive devaluations with unnecessary foreign exchange losses, higher debt-servicing costs and balance of payments pressures. Related to this is the need to examine further the challenge of managing vulnerability to reversals in short-term capital flows and evolve regional approaches that will stymie current vulnerabilities. In addition to increasing the regional availability of contingency funds, other measures that could be considered involve managing the quantum of such flows, through, for example, deposit requirements on capital inflows or financial transaction taxes.

Establish a regional trade financing mechanism: The precarious situation of Asia-Pacific exporters has been further exacerbated by the drying up of international credit. More attention needs to be paid to the establishment of a regional trade financing mechanisms specifically dedicated to the provision of export credits and export credit guarantee schemes. Somewhat anomalously for this trade-oriented region, it remains the only one without an institution specifically dedicated to this task. The announcement by the Government of Japan that a $1 billion fund would be provided through the Japan Bank for International Cooperation (JBIC) in collaboration with the ADB Trade Finance Facilitation Programme, is an important step in the right direction.

Improve international trade in food: Building on the key principle of promoting coordination among countries to avoid actions that meet national needs but make the problem worse for other countries, the conclusion of the Doha Round of trade negotiations, with an enhanced set of agreed rules for a more transparent and development-oriented international trading system, is an important step in securing more predictable access to food. At the regional level, it is necessary to support mechanisms for improving emergency access to food through stock-sharing and reduced restrictions on the release of stocks to other countries under emergency conditions, including humanitarian crises. Policies to build up national food stocks should be pursued carefully, as they can drive up prices, and care should be taken to keep the costs of managing those stocks under control. Finally, the use of market-based risk management instruments could be helpful to both producers and buyers of food products. Instruments such as futures contracts and options allow producers and consumers of food to transfer risks to financial investors. For that purpose, national exchanges, where they exist, could be developed further as pilot projects, with the idea of scaling them up and regionalizing them in future. As is well known, however, such programmes are complex and risky in nature. They would need to be complemented with intensive capacity-building programmes and the evolution of an appropriate regulatory regime to prevent excessive speculation and volatility.

**Strengthening the social foundation of inclusive development**

Comprehensive national, regional and global strategies to promote growth and macroeconomic stability through sound fiscal and monetary policies are essential. They create resources that can be tapped to make the region’s societies more responsive to the needs of
the poor and vulnerable, thus making it increasingly feasible for countries in the region to achieve the goal, enshrined in Article 22 of the Universal Declaration of Human Rights (United Nations, 1948), of providing all members of society with social security. But increased resources alone are not enough to achieve inclusive and sustainable development.

Strengthen the social foundation through more effective social protection systems: While an in-depth discussion of this issue is beyond the scope of this Survey, it is certain that, as the economic crisis weaves its way through the fabric of society, the need for more effective social protection systems will feature prominently on the future policy agenda of the region. Social protection systems should be designed in a way that builds societies with stronger social foundations and contributes to macroeconomic stability in times of economic downturn, present and future. For example, income and consumption transfers – in kind or cash – to the poor boosts domestic aggregate demand, thus shoring up domestic production and employment levels. These systems should be put in place, however, as part of an overall long-term strategy of building resilient social foundations rather than being ad hoc crisis-driven initiatives. The objective of enhancing social protection as a means of strengthening the social foundation for a more inclusive society should thus be included as part of the framework of a new development paradigm for the region.

As the economic crisis weaves its way through the fabric of society, the need for more effective social protection systems will feature prominently on the future policy agenda of the region

Among some of the elements that could be considered are the provision of a minimum floor of social security benefits for all citizens, including (1) a universal guarantee of access to basic health insurance and services, (2) guaranteed income security for all children through family benefits, (3) guaranteed access to means-tested or self-targeted social assistance for the poor, the vulnerable and unemployed, and (4) guaranteed income security for people in old age and invalidity though basic pensions.

Building a crisis-resistant society with strong social foundations is crucially dependent on how agricultural policies evolve because, despite the continuous of migrants flows to cities in search of better opportuni-

ties, 80% of the Asia-Pacific poor reside in rural areas and lack access to enough land, agricultural inputs, finance and markets to benefit from the higher food prices. The host of policy challenges that recent food price hikes have brought to the fore is but one example of the long-term planning needed in this sector.

Focus on rural smallholders: Smallholders are in need of special attention, both to improve the food supply response and as a means to reduce poverty and make growth more inclusive. To achieve these objectives, increased public and private investments are needed – investments that will alleviate conditions for small farmers throughout the supply chain – at the farm level and in production infrastructure, access to markets and processing.

Promote opportunities for rural non-farm employment: A prosperous rural economy depends not only on agriculture but also on other, non-farm activities, including agro-industries, commerce and a range of basic social services. The localization of such activities in rural areas should be promoted to provide additional sources of income for rural households above and beyond agriculture. Those activities also help boost the local market for food and other agricultural products. In addition, a more integrated pattern of rural development creates both a higher tax base and a constituency that will demand investment in rural infrastructure (roads, electricity) and public goods (schools, health clinics), further contributing to its development and increasing its appeal for private investment. Finally, a more prosperous rural economy reduces incentives for rural-urban migration, relieving pressures on urban infrastructure and the provision of public services in cities.

Engage business as a partner of government in strengthening inclusive development: Public trust and confidence in business, particularly those operating in financial markets, has been seriously eroded. At the core of this crisis is a collapse of trust in the capital markets. There is a need to reorient business-government partnerships by designing incentives and other innovative mechanisms that will build a greater ethical dimension into profit-making decisions. There is a need, therefore, to refocus from short-term profit considerations to long-term sustainable value creation, built around the integration of economic, social, environmental and governance issues into corporate management and operations. With this crisis comes an opportunity to move towards responsible investment, where decisions on investment are not just about returns but are based on a long-term vision of ensuring health, productivity and a sustainable economy and society. The business sector should therefore be a key partner of government in the design of social protection systems for long-term inclusiveness and sustainability.
Promoting sustainable development

Environmental responsibility and its medium-term objectives of reducing carbon dependency and environmental deterioration is an important component of a new development paradigm reoriented to sustainable and inclusive growth.

Implement fiscal reforms for a sustainable energy paradigm: In this regard, ESCAP (2008c) proposes a new sustainable energy paradigm, elements of which are reflected in Commission resolution 64/3 of 30 April 2008 (ESCAP, 2008c). Governments of the region should consider implementing tax reforms aimed at internalizing the ecological costs of carbon emissions into energy prices. Higher fuel taxes deter consumption and encourage the use of more efficient demand-side technologies. By the same token, the removal of subsidies on energy consumption, which according to IEA (2008) amounted to a staggering $310 billion in the 20 largest non-OECD countries in 2007, could make a major contribution to curbing demand and emissions growth.

Promote energy efficiency and invest in renewable sources of energy: Securing energy supplies and speeding up the transition to a low-carbon energy system both call for radical action by governments – at the national and local levels and through participation in coordinated international mechanisms. Households, businesses and motorists will have to change the way they use energy, while energy suppliers will need to invest in developing and commercializing low-carbon technologies. To make this happen, Governments will need to put in place appropriate financial incentives and regulatory frameworks that support both energy-security and climate-policy goals in an integrated way (IEA, 2008). At the same time, Governments should continue to support the development of new oil and gas fields to compensate for the decline in production from existing oil fields.

Re-examine current biofuel policies and support the development of second generation biofuels, particularly if use is made of degraded and abandoned agricultural lands to grow native perennials: Second generation biofuels offer better prospects for balancing food security objectives because they are based on non-food feed stocks; an example is cellulosic ethanol, which is produced from woody biomass, grass and other non-edible parts of a plant. Furthermore, at the global level, biofuel guidelines and safeguard measures that minimize adverse impacts on global food security and the environment can form the basis for an internationally negotiated code of conduct.

Promote sustainable agricultural practices: Increasing food production is a fundamental objective not only for the short and medium run but also for the long run. Thus, it is critical to promote agricultural practices that avoid undue stress on natural resources, for such stress would lead to the depletion of water sources, nitrification and salination of soils, and permanent loss of biodiversity and ecosystem services. If agricultural practices damage natural resources, the future food supply response will suffer. A major area of concern is the use of irrigation systems, which are highly inefficient and poorly maintained in most countries in the Asia-Pacific region (ESCAP, 2006).

Increasing food production is a fundamental objective not only for the short and medium run but also for the long run

Utilize the financial crisis as a window of opportunity for addressing climate change: Climate change is having a severe impact on the Asia-Pacific region; the threats are real and increasing. Just as countries are coordinating their responses to the current financial turmoil, they also need to work together to galvanize support for action on climate change. The stimulus packages for addressing the financial crisis and economic downturn could incorporate action on climate change for sustainable development. In this regard, the region could consider recent initiatives, such as the “Green New Deal” promoted by the Secretary-General of the United Nations and the ESCAP Green Growth initiative, as a way forward. Actions on mitigation and adaptation as well as provision of social safety nets will feature prominently in such initiatives. Technology alone will not solve the issues surrounding climate change.

Shift attitudes towards climate change: A major shift in the way goods are produced and consumed is necessary to stabilize the effects of climate change. Promoting human responsibility to nature and a carbon neutral lifestyle will be critical in this regard.

Enhance the Asia-Pacific role in the global climate change agenda: The region also needs to actively engage in global negotiations on climate change. In
view of the cross-boundary nature of climate change issues, the Governments of the region need to transcend their national interests. Regional cooperation, particularly in financing and technical assistance, is as important as ever for a truly global approach to addressing climate change.

• Coordinated mechanisms for technical cooperation across countries with special emphasis on supporting the least developed countries. The challenges of implementing a comprehensive reform agenda to foster inclusive and sustainable growth are many, both because of the novelty of some of its components and because it requires building capacity and fostering technical knowledge across government agencies. But advanced countries already have much expertise in these areas, so North-South technical cooperation should be fostered. It is also important to consider the contribution of South-South cooperation to the diffusion of technical expertise within the region.

A major shift in the way goods are produced and consumed is necessary to stabilize the effects of climate change

Guiding principles

The following principles are proposed to guide the process:

• Comprehensiveness. Addressing partial aspects of sustainability can create potential inconsistencies if the pursuit of one goal is detrimental to other goals. To avoid this problem, the various dimensions of inclusiveness and sustainability should be considered jointly.

• Flexibility. Sufficient flexibility should be built into the architecture of the framework to facilitate future enhancements or amendments as circumstances and needs change.

• Sufficient details to increase pragmatic relevance. While agreeing on general goals is a step forward, the urgency with which measures must be taken requires that the framework include, as much as possible, references to specific policy actions and time frames.

Conclusion

We need to understand how the three crises are connected and the policy tensions their convergence has given rise to. And it is here by addressing these policy tensions through the principles of sustainability and inclusiveness that the development process of the Asia-Pacific region will take on its full meaning. Rather than playing catch-up with the developed countries, Asia-Pacific countries are now afforded a unique opportunity to work in a collaborative manner with each other and with developed countries to institute a shared paradigm of development that is sustainable over time and inclusive at all levels. Developed countries have as much to gain as developing countries. It may be that 2008 will prove to be a year in which unprecedented crises ushered in an era in which the United Nations vision of creating a world free from want and fear will prevail.
References


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