IMPLEMENTING THE MONTERREY CONSENSUS IN THE ASIAN AND PACIFIC REGION: ACHIEVING COHERENCE AND CONSISTENCY

United Nations publication
Sales No. E.05.II.F.8, ISBN: 92-1-120418-6
ST/ESCAP/2351

Developing countries in the Asia-Pacific region are experiencing the highest rate of economic growth in the world but face a formidable challenge sustaining it. Growth within the region is uneven, exacerbating sharp disparities both in levels of social and economic development and the ability of countries to generate the financial resources they need to achieve their Millennium Development Goals. Moreover, the region's demand for investment in infrastructure alone, estimated by the World Bank at more than US$ 1 trillion in the next five years, far exceeds current capital flows or the capacity of existing development finance institutions. The shortfall highlights the need for a concerted, coherent and coordinated effort to fill the gap by Governments, regional and multilateral organizations and the private sector.

This study takes stock of the progress made by Asian and Pacific countries in implementing the six areas of action set out in the Monterrey Consensus of the International Conference on Financing for Development. These include mobilizing domestic and international resources, international trade, financial and technical cooperation, external debt and systemic issues in the region's monetary, financial and trading systems. The study examines whether these systems are sufficient to maintain the region's competitiveness, lays out policy options for the region's Governments and proposes a number of actions to address gaps in both policy and financing.

The study emphasizes the need to develop capital markets at both the country and regional levels. It finds that the region has the world's highest rate of savings but that these are not keeping pace with the rate of economic growth and could become a constraint on future private investment. In addition, the 1997 Asian financial crisis underlined the importance of avoiding dependence on banking systems, which are still the largest source of savings. Improved stock and bond markets offering diversified investment opportunities and higher returns are needed to attract savings and provide entrepreneurs with investment resources. Well-functioning markets are also needed to encourage pension and provident funds that would help to mobilize more savings and will be increasingly important in assisting Governments to shoulder the cost of an ageing population. The study notes that, to develop capital markets, Asian and Pacific countries will need to strengthen their legal and regulatory environment and encourage the emergence of ratings agencies.

The study emphasizes the importance of increased South-South cooperation led by the region's stronger economies. Asia and the Pacific attract the largest amount of FDI, led by China and Hong Kong, China, but the study points out that only a dozen countries in the region have benefited from FDI. It notes that Asian and Pacific countries account for about three quarters of total outward FDI by developing countries, but the volume of South-South investment still represents only a tiny percentage of the region's investment needs.

Similarly, the study urges the region's stronger economies to increase official development assistance to weaker economies. ODA to the Asia-Pacific region accounts for less than one third of global ODA. Although the Monterrey Consensus calls for a rise in ODA to 0.7 per cent of the GNP of richer countries, the actual commitments remain much smaller and multilateral aid is similarly constrained. Bringing aid to the levels called for by the Consensus by 2015 would make a major contribution towards generating the funds needed to develop social and physical infrastructure.

Trade, however, is the single most important source of economic growth and finance for the region's development. The growth of China's economy ranks as the main dynamic in regional trade, which is expanding rapidly among both countries within the region and those outside it. Trade, however, faces numerous obstacles, which take the form of tariff and non-tariff barriers, restrictions on trade in services and trade-distorting subsidies. The removal of these obstacles would make a major contribution towards generating increased resources for development. The region is also experiencing a rapid proliferation of bilateral, regional and intercontinental trade agreements that need to be rationalized, underlining the importance of bringing the WTO Doha round to an early conclusion and providing for greater participation by developing countries. By the same token, the study notes that countries need to build up their negotiating capabilities and strengthen research and analysis.

The study also sets out the need for regional initiatives and cooperation to increase the coherence of monetary, financial and trading systems and to reduce vulnerability in the event of another financial crisis. The region has built up hefty international reserves as a form of insurance against crippling capital movements but it is also debating the associated cost of holding such large reserves, much of them denominated in a devaluing United States dollar, and the options for using these funds more productively within the region. The 1997 financial crisis, however, led to the Chiang Mai Initiative, launched by the ASEAN+3 countries, which created a network of bilateral swap arrangements giving countries access to liquidity in an emergency that is intended to preempt or contain crises. The financial crisis also prompted moves to enhance economic surveillance and monitoring in the region. The Chiang Mai Initiative needs to broaden its membership and develop into a multilateral facility with access to a larger pool of reserves to provide a more effective defence against sudden capital movements. In the meantime, the debate surrounding the 1997 financial crisis has also stirred debate on the possibility of creating an Asian Monetary Fund to complement the work of IMF and the merits of setting up a common Asian currency market, despite the formidable obstacles posed by the region's size and diversity.

The study also calls for consideration of two more concrete initiatives. The first proposes the creation of an Asian Investment Bank, modeled on the European Investment Bank, to help to mobilize investment in infrastructure in particular, borrowing on capital markets and relending at concessional rates to projects that address its priorities. It suggests that ESCAP carry out a feasibility study for an Asian Investment Bank along the lines of the study that it conducted in 1966 for the Asian Development Bank.

The second proposal in the study is for ESCAP to take a more proactive role in strengthening the implementation of the Consensus in the region. It would do this by, first, stepping up technical support and training to strengthen the capacity of countries in the area of resource mobilization, finance and trade and, second, seeking to harmonize and bring together the initiatives of such subregional organizations as ASEAN, SAARC and ECO to develop an understanding of how to exploit the synergies between them.