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SIXTH INTERNATIONAL FORUM ON ASIAN PERSPECTIVES
"Development Resource Mobilisation in the Post-Crisis Period"
Jointly organised by the Asian Development Bank and the OECD Development Centre

Paris, 3 and 4 July 2000

SUMMARY

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SUMMARY OF THE SIXTH INTERNATIONAL FORUM ON ASIAN PERSPECTIVES

1. The OECD Development Centre and the Asian Development Bank jointly organised the Sixth International Forum on Asian Perspectives on the topic of mobilising resources for development. It consisted of a Public Conference held at the French Ministry of Finance on 3 July 2000 (attended by close to 300 participants and featuring keynote speeches by the presidents of the two institutions) and an Experts' Seminar held at OECD headquarters on 4 July.

2. Two-thirds of the world's poor live in Asia. To combat poverty, pro-poor sustainable growth is a necessary (though not sufficient) precondition. The mobilisation and efficient use of resources is an important policy target to underpin growth through financing. While aid can still serve as a catalyst to strengthen weak financial structures and to attract new funds, concessional finance has been falling steadily in real terms since the early 1990s. For these reasons the Sixth Forum focused on mobilising domestic resources; attracting reliable foreign flows; improving the allocation of resources; and fostering public-private partnerships.

3. Mobilising domestic resources for development has become a policy imperative, not least as a result of the Asian financial crisis. Domestic savings rates have been very high in East Asia, but reform policies — e.g. bank recapitalisation, corporate restructuring and import liberalisation — can lead to temporarily lower levels of government, corporate and household savings. Hence, fiscal reform is needed to stimulate government savings and financial reform is needed to stimulate the efficiency of capital allocation. Both reforms generate deep-rooted resistance, however.

4. As a result of the ongoing and extremely costly resolution of the region's banking crises, the issue of bank recapitalisation debt has saddled many Asian governments with heavy public debt burdens. This calls for public expenditure reform, with action required to move towards a downsized role of government; clearer priorities; a leaner and more effective civil service; increased budgetary transparency and accountability; and decentralised management. Likewise, tax bases should be broadened by reducing tax exemption and by more wide-reaching tax collection. These reforms are difficult to implement because they impact well-organised rent-seeking groups and because they affect a politician's power to grant privileges and to obtain voter support.

5. Another legacy of the Asian crisis is that banking systems now often shy away from lending to private borrowers. Therefore, in order to diversify large companies' access to finance and to build up liquidity for small enterprises, efficient capital markets have to be nurtured. Direct securities markets would assist banks in intermediating capital. Authorities and international financial institutions should therefore: (i) strengthen treasury securities markets and corporate bond markets; and (ii) integrate small enterprises into the formal banking systems. Governments have to recognise that it is costly to impede the information flows which permit investors to distinguish between companies' prospects. Improved capital allocation is not just a supply problem: it also depends on better handling corporate demand for funds which, in the past, has favoured relationship banking over bond finance.

6. Long-term growth can be enhanced by encouraging certain forms of foreign savings, namely in the form of foreign direct investment and portfolio equity inflows. It is hoped that the evidence presented will help dispel the unease in some Asian countries regarding equity finance. Reaping the full benefits of foreign inflows requires regulatory regimes with extensive and mandatory disclosure of financial information by the corporate sector, the accuracy of which must be enforced by tightly regulated financial intermediaries. Better information by foreign investors — by using risk management methods based on standardised host-country information — would also help to make global capital flows less risk-prone than in the past.

7. Several factors point in favour of private-public partnerships: the demand for better public services at low cost; the lesson that private-sector involvement in the provision and management of infrastructure often improves the efficiency with which these services are supplied; and the perception that finance needs for future infrastructure projects exceed, by a considerable amount, public-finance possibilities. However, private-public partnerships lack clear division of responsibilities and thus often need to be bailed out through public money because of: the absence of self-enforcing contracts; the lack of regulation to avoid private monopolies; and the difficulty in managing the different layers of government.

8. While Asia has made an impressive recovery since the big slump two years ago, further progress for sustained, equitable growth will hinge on continued reform momentum. Financial sector reform driven by international competition for capital, including from Asian residents, is the engine of liberalisation. Greater pressure for returns to capital will act as a disciplining device not only on politicians but also on corporations.