

## Keynote Address

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As always, the Asian Development Bank is very pleased with the opportunity to organise this Forum jointly with the OECD Development Centre for an exchange of views and communication with our European member countries.

At the beginning of the new Millennium, Asia faces many critical challenges. Despite significant progress over the last few decades, the region continues to be afflicted by unacceptable levels of deprivation, illiteracy, malnutrition and environmental degradation. Even today, nearly 30 per cent of Asians have no access to safe drinking water. Nearly 70 per cent of them have no access to sanitation. Almost 50 per cent of the adults in South Asia are illiterate. Close to 900 million people in the region still live in poverty. In other words, almost two-thirds of the world's poor live in the Asian region. Therefore, in order to win the global war on poverty, we must fight the battle against poverty in Asia. If the world is to halve poverty by 2015, Asia must be the spearhead. The overarching goals for Asia and the Pacific, and for the ADB, should, therefore, be to reduce poverty. How do we fight against poverty? Our approach is based on the three conceptual pillars: *i*) pro-poor, sustainable economic growth; *ii*) social development; and *iii*) good governance.

To win the battle against poverty, Asian countries, and the ADB, need to be empowered through provision of adequate resources. Take an example of the first pillar of our poverty reduction strategy, namely pro-poor, sustainable economic growth. To sustain and accelerate economic growth, there is obviously a need for investment and for mobilising adequate resources to finance the investment. Our theme of discussion in the International Forum on Asian Perspectives on development resources mobilisation is therefore of critical importance, if we are to reduce poverty and to improve the quality of life of all people so that every human being on this planet can live in dignity and hope.

Four points, which I think are particularly important for Asian economies to improve development resource mobilisation and deserve emphasis. First, mobilisation of domestic resources. Second, further mobilisation of long-term foreign investment such as foreign direct investment (FDI). Third, improvement in investment efficiency,

which calls for continued reforms in the financial and corporate sectors. And, fourth, partnership and co-ordination between private and public sectors in mobilising resources. The key is for the two sectors to complement each other.

## **Mobilisation of Domestic Resources**

Savings ratios, relative to gross domestic product in many Asian economies, especially Southeast Asian countries, are among the highest in the world. However, many Asian economies have not been able fully to utilise this high level of savings for productive use, owing to the inefficient functioning of their financial and capital markets. For these countries, therefore, the main challenge is how to transform high savings into more productive use through an appropriate system that can ensure quality of investment.

One of the lessons learned from the recent Asian crisis is that too much reliance on short-term foreign capital for financing long-term investments will make an economy vulnerable to external shocks. In addition to the increased risks associated with the exchange-rate and maturity gaps, the experience of the Asian crisis has shown that short-term foreign capital can quickly evacuate. In fact, this is a global issue. Capital flows, including short-term capital, have increased both in terms of magnitude and frequency under the increasingly globalised world. A lesson from the recent crisis is that the prevention of excessive volatility, especially as a result of reversals of short-term capital flows, needs to be addressed in connection with a new international financial architecture, and that one way of decreasing dependency on short-term foreign capital is to develop domestic capital markets to utilise Asia's abundant domestic savings better for development purposes.

Further, while capital inflows from outside the region will continue to play an important role, they cannot alone meet the high investment requirements of the region. Effectively tapping domestic resources will be essential for marshalling the necessary financial resources.

For all these reasons, there is a need for strong initiatives and policy reforms to be taken to develop domestic capital markets, particularly bond markets. This will also serve to ensure a multiplicity of funding sources and reduce dependence on bank borrowing. Many countries have recognised the importance of capital-market development. It is thus satisfying to see all major Southeast and East Asian developing economies making strong efforts to develop or strengthen domestic bond markets in the aftermath of the financial crisis. Transparent and effective regulatory and supervisory frameworks are the key for proper functioning of the markets. In addition, institutional investors, like pension funds and insurance companies, need to be developed to participate in capital-market development.

In developing bond markets, a well-functioning government securities market plays a vital role in fostering corporate bond issues, since it provides financial markets with a risk-free benchmark yield curve and facilitates the formation of a liquid secondary market. In addition, an effective and sound regulatory and supervisory framework for bond suppliers, intermediaries, institutional investors, and other market participants is crucial for adequate investor protection and to reduce systemic risks.

Resources can also be mobilised from public-sector savings. Governments can generate such savings through better expenditure management and appropriate tax systems and administration.

## **The Importance of Long-term Foreign Investment and FDI**

While domestic resources need to be tapped, it cannot be assumed that they will replace foreign resources. Foreign investment brings not only financial means, but also a raft of other tangible assets such as management know-how, best business practices and advanced technology. Therefore, foreign investment should continue to be pursued. It will continue to play an important role in development of Asia. Conducive environments for long-term foreign investments are, among others, political stability, the rule of law, well-developed physical and institutional infrastructure, and good governance in both public and private sectors ensuring transparency, predictability, accountability and participation.

## **Improving Investment Efficiency**

In order to improve the efficiency of investments, Asian economies are expected to continue reforms in the financial and corporate sectors. In this connection, it is reassuring to note that in the wake of the Asian crisis, good progress has been made in establishing a legal and institutional framework in banking and in corporate restructuring. In the banking sector, targeted compliance has been set for international best practices for capital adequacy, loan classification and loan loss provisioning. Practices in the areas of foreign-exchange exposure, liquidity management and connected lending are also being improved. However, much remains to be done. For example, the banking sector needs to be further strengthened where capital adequacy is still low and bank lending has not returned to a normal level.

A more serious problem in the region is slow progress in corporate restructuring. A prerequisite for effective restructuring is sound corporate governance. Poor corporate governance, driven largely by the ownership structure, is one of the important causes for the Asian financial crisis. It is claimed that transparency is lacking and the check and balance system does not function well in the corporate sectors in the region. It is a long-term task for the region to improve corporate governance.

## **The Need for Co-ordination and Partnership between the Public and Private Sectors in Mobilising Development Resources**

Given the enormous need to reduce poverty and achieve sustainable development, Asian countries should further improve mobilisation of private sector resources for development purposes, especially in areas where the private sector can deliver services more efficiently. In the past, we have seen the growing participation of the private sector in a number of areas that were traditionally handled by the public sector. Examples include the development, operation, and maintenance of highways, mass transport systems, water supply, and provision of health care and education. The public sector should further facilitate private sector participation for development purposes, and in areas that create public goods yet attract little interest from the private sector, as well as in areas where it can perform a catalytic role effectively.

What should governments do to facilitate private-sector participation for development purposes? It is important for the government first to examine and define the optimal role of the state. In doing so, the government must ensure that the mobilisation of private capital is not done at the cost of social objectives. Where private-sector participation is encouraged, the government should ensure that adequate regulatory and supervisory mechanisms are in place to protect the interest of the public, especially that of vulnerable people, while providing a conducive environment for the private sector to operate. In addition, the government and other public-sector institutions can encourage private-sector participation by extending guarantees or co-financing opportunities to reduce the risks associated with transactions, which may otherwise discourage the private sector.

### **Conclusion**

Asia faces daunting development challenges ahead. At the same time, official development aid is becoming increasingly scarce. The roles of the state and the private sector in developing countries are also changing gradually. We must explore ways to mobilise and utilise resources better to meet the needs of our developing partners.