



ADB Jumps To Corporate Welfare

by Greg Rushford



THE ASIAN DEVELOPMENT bank is getting close to accomplishing its mission. Established in 1966 to fight regional poverty, the bank has dispensed more than \$130 billion in loans over its four decade history. It now has some 2,400 international civil servants in its Manila headquarters and 26 field offices from Afghanistan to Vietnam. In March 2007, a panel of “eminent persons” reported to ADB President Haruhiko Kuroda that the goal is in sight: “By 2020 we envision a dramatically transformed Asia.” The wise men predicted an Asia which “will have conquered widespread absolute poverty” for more than 90% of its people, who will live in “middle income” countries.

The good economic news raised interesting questions as to the future role of a development bank in eradicating Asia’s remaining pockets of poverty. After all, as Asia’s economies have prospered, they have gained access to capital markets that obviate the need for multilateral, government-backed funding. The eminent personages recognized that the world’s most populous

and fastest growing region “will remain a magnet for private capital flows.” Indeed, China attracted some \$90 billion in private capital investments last year, a number that dwarfed the \$1.3 billion lent by the bank.

So is the ambitious ADB—which doled out some \$10 billion last year, a 37% increase from 2006—intending to declare looming victory and begin to wind itself down? Hardly. Rather, it is busy attempting what all bureaucracies do when their original missions are near completion: reinventing itself and expanding. Last month at the development bank’s 41st annual meetings in Madrid, the board of governors of the 67 member countries voted to launch “Strategy 2020.” Instead of providing cheap financing to build traditional public infrastructure like electricity, roads and irrigation systems, the new strategy will focus on financing private-sector development and operations. By 2020, loans to support private investments, now about 25% of the bank’s annual portfolio, will double. The

∞ *Mr. Rushford is editor of The Rushford Report, an online publication that tracks the politics of international trade and development.*

ADB's capitalization that supports the lending, now at \$56 billion, could also double.

Basically, the ADB plans gradually to morph into an Asian little brother to the World Bank's private-sector lending arm, the International Finance Corp. Like the IFC, which dates to 1956, the ADB intends to be around for a very long time. Whether the reinvented ADB policy shift is wise or not, and whether it will happen as its authors forecast, is subject to various controversies that were aired on the sidelines at Madrid last month. Some advocates of free markets charge that the ADB should not be using taxpayer funds to cover what should be private-sector risk taking. Others with a distinct antimarket philosophy agree, albeit for different reasons. But the most important controversy begins with some of the governments whose taxpayers will be asked to pony up for Strategy 2020's vague plans. It's one thing to propose a policy, another to pay for implementing a budget.

The United States, the ADB's second largest donor country after Japan, tends to defer to Tokyo (while the Japanese accept the Americans' lead in the Washington, D.C.-based World Bank). But in Madrid, the U.S. flatly refused to vote for Strategy 2020, the only one of the ADB's 67 member countries to do so. While there were gripes that, with Washington, it's too often "my way or the highway," the U.S. was not isolated. Switzerland abstained from signing, as did the United Kingdom. Even representatives of governments such as Australia and India that took the pledge expressed concerns over exactly where the money is supposed to come from. And some poor countries, notably Cambodia, that want to stay on the dole reluctantly voted for the new strategy, while openly expressing fears that big countries such as India and China could suck up ADB money at their expense.

"By lending to countries that also boast huge savings pools, those governments don't have to take responsibility for infra-

structure projects they could easily afford," as a skeptical editorial in *The Wall Street Journal Asia*—a sister publication of the *REVIEW*—put it to the Indians and Chinese in a May 2 editorial. The Journal's criticisms caused a stir in Madrid, thanks in part to Supachai Panitchpakdi, the usually unflappable Thai international civil servant who headed the "eminent persons" panel that last year recommended the change in the ADB's direction. Speaking to an audience of some 3,000 members of the international financial elite, Mr. Supachai declared that the Journal's views were as "misinformed" as they were "disturbing." Defenders of the ADB's new strategy insist that the bank's lending and credit guarantees would help encourage investments in risky sectors that private-sector lenders would otherwise not undertake. If there were knowing winks and nods indicating the contrary from scores of bankers who enthusiastically networked in Madrid in their power suits, they were certainly well-disguised. A leaked printout listing executives affiliated with such masters of the game as Goldman Sachs, Clearstream, Deutsche Bank, Marubeni, Nomura Holdings, Sumitomo, Mitsubishi, and the Bank of China who had come to Madrid ran to 48 pages. Nobody could be found who was eager to voice philosophical objections to the ADB's minimizing private risk with guaranteed public monies, at least to inquiring reporters.

To get the flavor, consider one project that was touted in Madrid. On May 3, the ADB announced that it had tapped Standard Chartered Bank (headquartered in London, with operations in some 70 countries) as "the first partner financial institution" in a \$114.5 million partial credit guarantee program to support various private-sector clean energy projects in China. "Standard Chartered is delighted" to have the ADB's backing, declared Jaspal Singh Bindra, the bank's chief executive for Asia.

Meanwhile, Mr. Supachai and other ad-

vocates of the ADB's new strategy deny that it will divert attention from helping Asia's truly poor, whether they live in infamous basket cases like Cambodia and Bangladesh, or rapidly growing China and India. The Strategy 2020 report soberly declares that "poverty" remains Asia's "central challenge." There remain 600 million Asian poor who live on less than \$1 dollar a day, a statistic that is "about double the population of the United States," the document notes. The report adds that "one of every two individuals in the region—or 1.7 billion people—remains poor, as measured against the \$2-a-day benchmark."

Subba Rao, India's finance secretary, argued in Madrid that there are more remaining poor people in Asia than in Africa, and that they will continue to require assistance from the public sector, even if half of the ADB's projects will become private-sector oriented. If the current crisis stemming from rising prices for rice and other commodities continues on its present course, another 100 million Asians could be forced back into deep poverty, Mr. Rao asserted.

The liveliest criticisms of the new strategy that were expressed in Madrid last month came from various regional pressure groups that are hardly known for having a pro-market bias. Australian trade union activist David Carey declared at a May 5 press conference that the ADB should not be using "public taxpayers' funds to underwrite private profits in ADB-funded projects." Mr. Carey is affiliated with Public Services International, a global network of public-sector unions that reports it has members in 163 countries; the private profits he decried were those of European, American and Japanese multinationals that bid for ADB-financed projects.

Added Annie Geron, a personable Filipina activist who is part of the PSI network, "I don't see how a profit-oriented private sector will win the war against poverty." Better, Ms. Geron offered, that "the re-

sources should be given to the public sector," suggesting hospitals, clinics and schools.

For old Asia hands, the criticisms from Manila-based activists of involving the private sector in promoting economic growth seemed as off-kilter as they were sadly familiar. Four decades ago when the ADB began operations, the Philippines was Asia's second richest country, after Japan. Now, think of the long list of economies that have left, or are rapidly leaving, the Philippines behind: Hong Kong, South Korea, Thailand, Malaysia, Singapore, Taiwan, China, India. Who doubts that Vietnam is soon to follow? One can debate the proper role of the ADB in encouraging the growth of free markets, but that begs the question of why the Philippines remains poverty-stricken.

Perhaps the Philippine activists might ask themselves whether their fight is really with European, American and Asian multinational corporations, all of which have representative chambers of commerce in Manila that continually blow the whistle on the real reasons the Philippines is a laggard economy—the country's notoriously corrupt crony capitalists who keep their country in protectionist economic shackles.

And the defenders of the ADB's intended new direction might ponder more deeply whether the needs of Asia's remaining poor are better served by funneling public money to boost capital markets that thrive on their own. As the Strategy 2020 document recognizes, Asia's share of global GDP, only about 20% in 1980, is expected to more than double to 45% in the next 12 years. The region's share of world trade, some 16% two decades ago, will be roughly 35%. In the fastest-growing part of the world, assertions that private-capital flows still depend upon government doles appear increasingly outdated. Rather than reinvent itself, the ADB might be better advised to prepare for the day when the bureaucrats can declare: "Mission accomplished." ■