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# ADB in the Asian Crisis

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**THIS 'TEASER' IS ADDRESSED TO MY FELLOW** activists/lobbyists participating in the March 1998 strategy meeting of the NGO Working Group on the ADB. Its purpose is to trigger a discussion on the role, if there's any, of the ADB in the Asian crisis that started with the currency crisis in Thailand in July 1997. The intension is not so much to explain what happened as to pose questions that may help us connect our lobby work on the ADB with the larger efforts at facing up to the Asian crisis.

What has the ADB got to do with the crisis? Can ADB be part of the solution? What is the relevance of our ADB lobby work to the search for solution to the Asian crisis? What do we want and can really do as a lobby group? How should we do it? These are some of the questions and there may be more the group might want to take up.

What's the ADB got to do with it? Nothing, if you ask the ADB people. To them, the Asian crisis is basically a currency crisis caused by a combination of factors: lack of financial

discipline on the part of government and private banks; currency speculation; unproductive loans; incomplete liberalization of the economy or resistance to reform. None of these apply to the ADB, so they say. ADB is presumed to be a sound bank with strong discipline and sound banking practices. It is not at all involved in currency speculation and lends only for productive projects. Too, ADB advocates macroeconomic reforms required to sustain economic growth in the region.

Do you buy this line? On the surface I do. On closer examination, no. The Bank's message itself raises many issues which we need to dissect. Here I will raise a few I consider most important for our strategizing exercise.

Talking about financial discipline, wasn't the Bank responsible for pushing tons of money out of the door just because these are secured by sovereign guarantee? How many bad loans have the Banks piled up since 1966? How many poorly performing ones are there?

**O**n currency speculation. Is the Bank not in any way involved in speculative activities? How should we treat ADB's bond selling or borrowing from the public or raising money from the capital markets? Is borrowing money against simply callable capital to be regarded as speculative? Is the Bank earning interest on non-existent, perhaps merely symbolic, asset? Does all the Bank's money really go into the real economy?

On the productivity of ADB's loans. Were all the projects really productive? Are loans being paid back from the earnings of loan-financed projects? How much of the repayment comes from raising taxes? What does productive really mean? Should we consider productive a big dam project which brings electricity and irrigates farmlands but displaces local communities and destroys the environment? What about loans to soft sectors (social and environmental concerns) that don't bring in monetary profits the way hard sectors (infrastructure, energy) do? How much of ADB loans goes to which sector and what impact do they have on poverty, social and environmental justice, people's participation?

About reforms. Have liberalization, deregulation, and privatization given the Asian poor and their living environments a better deal? Or have these simply loaded the dice, so to speak, in favor of market forces, especially the big corporations? Where's the evidence that the equity gap is narrowing down and poverty getting eradicated? Why does Suharto & co. continue to get enormous support? What's really the difference between a bank owned by Suharto and one bought out by



Citi or Chase? Does ADB support the conditions imposed by IMF on countries hit had by the crisis?

Some of these questions are intentionally rhetorical, others are meant mainly to guide further investigation. The Asian crisis is a complex problem caused by many factors that are not automatically linked to the ADB. In any case we need to look into the deeper causes of the current Asian crisis and see how these connect to the ADB. And here two areas should merit out attention: [1] the so-called Asian model of development the ADB and its member-countries and the corporates are promoting; and [2] the money crisis itself.

The first is familiar stuff to us and need no further explaining. Enough to say for purposes of our discussion that it took only a currency crisis to reveal what's fundamentally wrong about a model of high-speed growth, state-directed or otherwise. To me, what is more important is to draw the ADB and its owners in a more engaged debate/dialog about what policy regime is most appropriate to avoid the unwanted outcomes of both the past 30 years of state-led development and the present corporate-led development. I would suggest that the Asian crisis has given more visibility and sense of urgency to the issue of model and the impact of a new liberal policy regime. The question now is how we can take advantage of this opportunity.

The second—the money crisis—is a more complex subject which has not been touched at all in our past strategy discussions. What it's got to do with ADB and our lobby work needs to be explored.

Let me toss a few ideas.

One way to trace the roots of the money crisis is to look at the dynamics of the so-called money game. Today, billions of dollars move in and out of an economy in seconds. Round the clock about \$1.3 trillion (total of world's official foreign exchange reserves in 1995 is about \$1.2 trillion) move around the global economy as computer bytes with little or nothing at all to do with the production and trade of real goods like grains, meat, fish, fruits and vegetables, building materials, television, cars, etc. or doing a service like local resources management, community education and spiritual healing. In other words, wealth in money form can be created without creating value. There are two common ways to do this: [a] borrowing or creating debt; and [b] bidding up asset values. A hundred pesos representing a real chicken can be multiplied several times within a day through a series of borrowing that eventually ends up in a debt pyramid far removed from the original real chicken. A



piece of land may cost nothing if no one wants to buy it but can cost one a fortune if many want it so badly for themselves. This is the casino economy (coined by Keynes) which now rules the greater part, if not the whole, of the global economy.

ADB is a player in this money game. But what role does it play exactly? Should it be treated differently from Citi or Chase? What does it have in common with Soro's Quantum Fund, for example? To what extent and how can we hold the Bank accountable for the current Asian crisis? How is the ADB responding to the crisis, country by country and regionally? Considering your own country situation, is such crisis response doing more good harm or just the opposite? What harm or good, how and for whom? What would you consider as appropriate response from the ADB?

And to end this brief piece. If you had two minutes with President Sato, what would be your core message?

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## About the author

Isagani R. Serrano is Senior Vice President and Board Member of the Philippine Rural Reconstruction Movement (PRRM). He's written for CIVICUS the following: *Civil Society in the Asia-Pacific*, 1994; *Humanity In Trouble But Hopeful* in CITIZENS, 1995; *Profile: Philippines* for CIVIC INDEX, 1997; *Coming Apart, Coming Together* in Civil Society at the Turn of the Millennium, 1999; *A Global Citizens' Commitment*, 1999. A community organizer, educator, writer, guitarist, 'farmer', and political prisoner for seven years during martial law in the Philippines. Trained in education and literature, community organization and development management. Holds a Master of Science in Environment & Development Education (MSc in EE/DE) from the South Bank University-London.

