ASIA'S CRISIS OPENS OPPORTUNITIES FOR MUCH-NEEDED REFORMS

Asia’s social safety net, and its institutions, may need to change fundamentally in response to the financial crisis. A mix of analysts addressed social and institutional issues yesterday, focusing on how to help the vulnerable and how to deal with corruption and corporate misgovernance. Voicing the hope that the crisis will provide the context for addressing long-standing problems, Ronald MacLean of the Harvard Institute for International Development said, “Welcome to the crisis: this gives us a great opportunity.”

First, Latin American experience shows the social costs of macroeconomic crisis can be high. Nora Lustig of the Inter-American Development Bank, pointed out that in Latin American crises of the past two decades, all too often poverty rose, inequality increased and human capital investments were postponed. Social safety nets were introduced in many countries, but frequently late. East Asia, she said, should try to designing sound safety nets as part of the immediate response, and protecting spending that supports the human resources, especially of the poor.

Ms. Lustig also noted that democracy, which is sometimes shaken during periods of economic hardship, was actually strengthened in Latin America during the financial crises of the last two decades. Democracy and participation, she said, can be “an effective safety valve,” providing “a form of psychic income” at a time monetary incomes are diminished.

Second, analysts agreed that poor information flows and weak accountability — at both the corporate and the state level — have contributed to the crisis and must be addressed as the region recovers. Mr. MacLean called for breaking the monopoly power of central government over many realms of decision-making, and increased participation of communities. Local government officials can also fall prey to corrupt practices, he said, but because they are closer to their constituents, they are usually more accountable. “Corruption is a crime of calculation, not a crime of passion,” he concluded.

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ASIA’S CRISIS AND FORESTS

“For the forestry sector, in particular, the impacts of the crisis depends on the palm oil industry. Lower prices and increased demand for palm oil can increase the conversion of the forests.”

Neil Byron, Center for International Forest Research, Indonesia

“There is a recycling of studies done ten or twenty years ago, but we need new information and new strategies.”

Jose Furtado, World Bank

“Due to the economic slowdown, the low prices of forest products may be a blessing in disguise since people may be induced not to cut trees.”

Marian Delos Angeles, Philippine Institute for Development Studies

“Since environmental damage accumulates over time, (the crisis) will not have much effect on the economy in the short run. In the long run, environmental degradation will eventually affect economic development since resources—such as clean-up costs—will be needed to counter the negative impacts.”

Lennart Ljungman, Food and Agriculture Organization

ENVIRONMENTAL WORRIES MOUNT AMID ECONOMIC TURMOIL

Environmental preservation is no luxury in Asia. In the workshop on Economic Growth and the Environment, subtitled “Greening East Asia’s Tigers for the 21st Century,” speakers and participants discussed the region’s environmental damage and sustainable growth, focusing on deforestation issues in particular.

The institutional aspects of forestry were emphasized. Property rights must be well-defined, and the roles and rights of indigenous peoples need special attention. Indigenous peoples should be given incentives to work for forest management. Eventually, the state of forest and protected areas will be determined by the productivity in these areas. The self-sufficiency of the people and the sustainability of forest resources are inter-dependent.

How does the financial crisis affect the environmental situation? Lennart Ljungman, a forestry expert of the FAO, said that the present crisis would lower timber prices and demand, thus, help forestry preservation in the short-run. Nalin Kishor leading the workshop, took a different view: “Rising unemployment would cause migration of people to rural areas and this would increase forest fires.”

(OPPORTUNITIES, continued from page 1)

Addressing the pattern of indiscipline within the banks and private sector, Ammar Siamwalla of the Thailand Research Development Institute, noted that “if you have a growth rate of 8% or 9% year in year out, you can hide a lot of problems.” Facing a period of lowered expectation, and in many area grave hardship, business and government must address weaknesses head-on.

He and others reasoned that the crisis is an opportunity to tackle longer-term social issues, and in particular to put in place the social institutions that can foster equitable, efficient and compassionate growth.
EDI interviewed Peter Sullivan, Asia Development Bank Vice-President for East Asia on March 10, on the issues of the Asia’s financial crisis and changing role of ADB.

Q: Is Asia still a miracle?
Mr. Sullivan: Yes. Economic fundamentals that contributed to extraordinary growth during the last 30 years are still in place, such as solid workforce, good macroeconomy, and openness to global markets. Also, long-term outlook is positive. Looking forward next 30 years, we are projecting that East Asia and South Asia will continue to grow though the growth rate of East Asian countries is unlikely to reach annually 7% as it was.

Q: What caused this crisis?
Mr. Sullivan: One string is insufficient development of the financial sector, regulation, and supervision. With massive investment from abroad, Asian countries have not been matched to such sophisticated investment. Another string is downturn of trade compounded by downturn of global demand, which made Asian countries less competitive.

Q: How has ADB responded to this crisis?
Mr. Sullivan: We participated in rescue package loans to Thai, Korea and Indonesia and continue to work in other affected countries like Philippines and Malaysia. For instance, we already disbursed $3 billion to Korea and also provided $1.2 billion of a program loan, similar to the IMF’s conditionality lending, to Thailand.

Our activities are basically lending, policy advice, and technical assistance. In such respect, we are similar to the World Bank and IMF.

Q: How does ADB differ from the World Bank in terms of its development strategy or priority?
Mr. Sullivan: We are a regional bank. The World Bank is not. Our stress is subregional cooperation. We support cross-board projects, for example, Mekong River Project in which neighboring six Asian countries, such as Vietnam, Cambodia and Laos, participate.

Also, we are an exclusive Asian bank. Any Asian country is, in theory, eligible to become a member. Non-Asian countries cannot become our recepient members.

Q: Within Asia lie some of the world poorest countries, some of the world fastest growing countries, and some of the last communist countries. How does ADB manage this kind of diversity?
Mr. Sullivan: Obviously, there is a wide range of difference (among countries in the region). Even so, it is relatively manageable. Asian countries share common points despite their huge differences. Unlike the World Bank, we don’t deal with Latin American and African countries altogether.

Q: How does this crisis affect ADB’s policy?
Mr. Sullivan: Certainly, it has an effect. An easy example is the case of Korea. Korea stopped borrowing from us about a decade ago, but, again, it has become a member for a concessional loan. This is an obvious change.

Also, we are trying to support social sectors. This year, we approved a $5 million loan to help social safety net in Thailand. In addition, we has put much greater emphasis on finance. Until recent years, our focus was on infrastructure.

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Political Determination Crucial to Successful Decentralization

Decentralization is often regarded as a promising strategy for better governance. Effectiveness in the process, however, is not always guaranteed. Participants in the workshop on Decentralization and Municipal Governance focused on ways to ensure a successful transition to a decentralized governmental system.

Decentralization experiences in Asian countries often vary widely. According to the country presentations, Japan and the Philippines are in a relatively advanced stage, devolving functions, responsibilities, and financial resources to local governments. In contrast, Indonesia and Thailand are in the early stages of the process. Thailand, for its part, has just ratified its new Constitution, a key provision of which provides a stronger basis for devolving some powers of government to local and regional authorities. The Thais have also set targets aimed at sharing tax revenues and spending responsibilities with local government units.

While countries are at different levels of implementing decentralization strategies, all face similar challenges. Some participants noted the need to define the roles of each of the players: the national government, local units, the private sector, and members of civil society. Also, many agreed that decentralization was not just a matter of transferring the central government's authority and resources to lower-level units of government. Successful examples show that a deliberate shift in the mindset of national leaders towards fuller participation of the various development actors. Edward Campos, task manager of the workshop, said, “The real will of the central government is the most important to the success of decentralization.”

Separately, participants in other workshops noted that corruption was much easier to monitor and attack in a more decentralized system.

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**Views from ADF Participants**

**How Does This Crisis Affect Lives of People?**

- "In my newspaper, a hundred persons have been laid off and salary has been cut by 25% because of reduced advertisement revenue."
  
  **A. Rahman, Journalist, Media Indonesia**

- "The impact on the people in Vietnam is more psychological. A few in the joint venture firms lost their jobs."
  
  **Ta Thi Thu, Researcher, Development Strategy Institute, Hanoi**

- "The current crisis has not affected us as much as those in other Asian countries, because we have adopted more prudent economic principles."
  
  **David Simon, Philippine Ports Authority**

- "It has destroyed the normal public environment. The burden was on the poor. Because of inflation and job losses, they are having more difficulty in meeting basic needs."
  
  **Bambang Irawan, Head of Bureau of Planning, Ministry of Industry and Trade, Indonesia**

- "The most serious effect was unemployment, starting with the closure of 56 finance companies. Farmers are better-off because agricultural prices increased due to the currency devaluation."
  
  **Nattapong Thongpakde, Research Director, Thailand Development Research Institute Foundation**

- "Loss of jobs, price hikes and rising interest rates."
  
  **Kadir Dikah, Journalist, Malaysia**

- "This is a challenge for creativity and innovativeness."
  
  **Antonio Lavina, Undersecretary, Department of Environment and Natural Resources, Philippines**