

BROOKINGS

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Don't Bank on the Asian Development Bank

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Pity the Asian Development Bank. It is trying to come up with a reason to exist for an Asian continent that already is achieving development and doesn't need a Development Bank. Given all the economic success stories in today's Asia, you'd think the ADB could pat itself on the back for a job well done and then pack up and go home. But not so fast, says the ADB, which is desperately trying to find new things to do with its 2,000 employees and \$6 billion of annual lending.

To that end, the ADB is working on a Long Term Strategic Framework 2020, a project best read as bureaucratic jargon for the ADB's promise to keep producing bureaucratic jargon through the year 2020. For help with the framework, the ADB commissioned an Eminent Persons Group to tell it what to do with itself. The learned committee was chaired by Supachai Panitchpakdi, Secretary-General of the United Nations Conference on Trade and Development, a body that has long distinguished itself by promoting all the bad ideas that stifle both trade and development. The end result was a report called "Toward a New Asian Development Bank in a New Asia." The eminences have pointed out to the ADB what should be obvious to anyone who reads this newspaper: The ADB's original *raison d'être* of providing capital is obsolete in a capital-surplus region with a large excess of saving over investment.

But rather than recommending that the ADB shut down, the eminences instead posit that the ADB should focus on transmitting "sophisticated, up-to-date knowledge . . . on major development issues." That would be a good idea, but it's tarnished by the poor quality of the ADB's current knowledge efforts. To take two recent examples, consider the ADB's recent report "Inequality in Asia," and its Aid-for-Trade project.

The inequality report is a good example of an iron law of aid: Aid agencies need bad news to justify their existence. Frantically trying to find some bad news in the greatest mass escape from poverty in world history, the quarter-century-old Asian boom, the ADB complains that economic growth worsens "absolute inequality." This is true, but meaningless. If I had a tenfold income increase and Bill Gates only a 10% raise, such economic growth would still worsen the "absolute" income gap between Mr. Gates and me because billionaire Gates's raise is larger in absolute size. But I think most of us would take this growth anyway. Even the ADB concedes the poor are growing richer with economic growth. But this obsession with inequality leads to bad policies, since the only way to avert rising absolute inequality is to stop growth. And anyway, if indeed that's the goal, we don't need the ADB to tell us how to accomplish it -- the Burmese junta has done an admirable job of avoiding growth, and the resulting "absolute inequality," without much advice from the ADB at all.

Then there is Aid-for-Trade. The program is intended to give poor countries financial assistance to "prepare"

themselves for trade. But there's evidence that aid inflows actually make exporting more rather than less difficult by fueling currency appreciation. And even setting aside this inconvenient fact, the ADB more generally seems to be rather at sea as to how aid would increase trade. It has produced a lavishly illustrated Aid-for-Trade brochure, which says that aid will result in recipient countries' "mainstreaming trade in national development strategies."

But any Asian leader who hasn't already figured out that trade should be mainstream after Asia's world-historical trade explosion is past the point of rescue anyway. The ADB talks a lot about financing the supply of infrastructure like bridges and ports, overlooking that infrastructure must be demanded as well as supplied. Successful trade booms (and the accompanying infrastructure demand) come about through letting free market entrepreneurs run wild to find things foreigners want rather than consulting ADB bureaucrats on designing a "national development strategy."

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All of which goes to show that the ADB's fundamental problem is that it needs advice from successful Asian countries more than they need advice from it. In the face of this, much of the ADB's framework contents itself with rearranging the deck chairs on the Titanic, tinkering with the bank's management structure perhaps in the hope that some function will follow the form.

The strategic framework suggests creating "prioritized sectors," distinguishing between "core operational areas" and "sectors from where ADB should plan to move out of operations." Unfortunately, the document fails to mention any sectors in the latter category, even while it has scads of ideas for new "operational areas."

Indeed, the ADB is currently following and will surely continue to follow another iron law of aid: Not only do old aid agencies never die, neither does any single old department of an old aid agency. The ADB's focus has if anything gotten less "prioritized," not more, over the quarter century that Asia has been booming. The foreign aid part of ADB, for example, is currently operating in 14 different sectors, each of which averages about 7% of the budget. A summary measure of this kind of splitting up of the budget into many small pieces at the ADB shows it getting steadily worse over the past quarter century.

The ADB should use any creativity it has to think about how it can specialize in something Asia wants instead of finding the imaginary bad news. Given the emergence of Asia as a development success story that doesn't need development banking, the Asian Development Bank must change or die.