



WORKING PAPER SERIES  
THE MULTILATERAL DEVELOPMENT BANKS  
AND THE GLOBAL FINANCIAL CRISIS

WORKING PAPER 1  
THE ASIAN DEVELOPMENT BANK AND THE ASIAN FINANCIAL  
CRISIS: OPENNESS AND INCLUSION, 1997-2000

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## **Abstract**

This is the first of three linked working papers which analyse the discourse produced by the Asian Development Bank, principally in successive *Asian Development Outlooks*, from 1996-7 onwards. Very extensive use is made of direct quotation, in order to provide substantial illustration of the analysis offered. The papers will serve as a point of reference for more synthetic analysis to be developed elsewhere. It may be, too, that they will serve a purpose to other researchers interested in the arguments developed by the Bank over the period. An identical common introduction, setting out briefly the analytical framework adopted, appears in each of the three papers. It situates the analysis in a classical Marxist framework which interprets the production of discourse and ideas in their material context, presenting the ADB as a representative of 'Asian capital in general', committed to the development of capitalism on a global scale, and adapting its discourse from moment to moment in accordance with the changing material context in the global economy, and in Asia. The first paper covers the period from 1996-7 to 2000. At its centre, therefore, is the 'Asian financial crisis' and the Bank's reaction to it. It is argued that while the Bank did not predict the crisis, it responded to it quickly by adapting in its discourse in order to orient Asian governments towards the long-term objective of successful integration into the global capitalist economy. With this objective in mind, it interpreted the crisis as providing evidence for the need for further structural reforms, both to further the development of the world market, and to transform state-society relations and social relations of production across Asia.

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**THE ASIAN DEVELOPMENT BANK AND THE ASIAN FINANCIAL CRISIS:  
OPENNESS AND INCLUSION, 1997-2000**

**ANALYTICAL FRAMEWORK**

The analytical framework employed here (set out in Cammack, forthcoming, 2013) applies the historical materialist method outlined by Marx and Engels between 1845 and 1859 to the contemporary world, and in particular to the relationship between the state of development of global capitalism and the discourse produced by the Asian Development Bank. It draws and builds in particular upon the *Critique of the German Ideology*, the *Manifesto of the Communist Party*, and the *Preface to the Contribution to the Critique of Political Economy*, and is set out here in summary form, as a context for the analysis that follows.

The starting point is the 'economic structure of society,' or the totality of the relations of production that individuals enter into in the social production of their existence, and the insistence not only that the history of humanity must be studied in relation to the history of industry and exchange, but also that the development of the capitalist world market on a genuinely global scale is an essential step towards the realization of human freedom through the abolition of private property. Production and foreign trade are the sources of ever-intensifying competition through which the intercourse of individuals with one another beyond national boundaries is shaped. The advent of large scale industrial production plays a particularly crucial role, launching a constant revolution in labour productivity, transforming relations between capital and labour and setting in motion the processes that will eventually create the global proletariat. I place particular weight upon Marx's assertion, in the *Preface to the Contribution to the Critique of Political Economy*, that successive social orders, the modern bourgeois order (or capitalism) included, do not collapse under the weight of internal contradictions until their potential to develop the forces of production further is exhausted, and I suggest on this basis that the late 1980s and early 1990s mark the *beginning* of the transition to global capitalism as Marx and Engels imagined it. Only in the last twenty-five years or so have we begun to see the development on a global scale of the productive forces and social relations proper to capitalism, and only in the last five years has Asia become the 'centre' of the global capitalist economy.

This has clear implications for 'products of consciousness' - conceptions, thoughts, narratives, ideas - in general, but particularly for those associated with international organizations concerned with the governance of the global economy. Marx and Engels rejected the idea that such phenomena could exist independently of the material

circumstances in which people found themselves, arguing that the mode of production of material life *conditions* the general process of social, political and intellectual life. At the same time, the question of what kinds of ideas are produced, when, how and by whom, especially in direct relation to the mode of production of material life and the processes describe above that attend it, is of crucial significance. Here, the essential methodological requirement is that conflicts and transformations at the level of ideas or discourse must be understood not in terms of a dynamic internal to ideas and discourse themselves and in detachment from material circumstances, but on the contrary in terms of the material circumstances from which they spring and from which the impetus for change derives. In this context, I see international organizations whose objectives are addressed to the global political economy as seeking to advance projects that transcend the immediate perspectives of determinate material interests in particular national locations, and enable them to pursue jointly a programme, consistent with the current state of development of forces and relations of production, that promotes the capital relation on a global scale. The project of the contemporary international organizations concerned with the global economy, and the Asian Development Bank in particular, can be described, in other words, as seeking the completion of the world market, and the real subsumption of labour to capital on a global scale. As one would expect, the emergence and development of this narrative at the Asian Development Bank *follows* and *responds to* material developments in the regional and global political economy itself.

### **THE DISCOURSE OF THE ADB: OPENNESS AND INCLUSION, 1997-2000**

In each of the three working papers that cover ADB discourse from 1997 to 2012, my principle focus is on the thematic chapters published as part of successive annual *Asian Development Outlooks*. These chapters supplement the review of the current situation and the brief commentaries on each individual member country that are the other standard elements of each *Outlook*, generally addressing a theme of strategic significance, often reporting on research carried out by the Bank itself, and providing both analysis and comparative data aimed directly at policy makers across the region. they are strongly didactic in character, often spelling out basic principles in textbook style. they can be said, therefore, to reflect the Bank's sense of itself as a 'knowledge' bank - a source of authoritative guidance on development policy, backed by the provision and analysis of comparative data. These annual essays - some more and some less significant in terms of their scope and orientation - are supplemented by other analytical and programmatic work - such as the current strategy document, *Strategy 2020*, and reference is made to these as appropriate.

Between 1997 and 2000, successive thematic chapters in the annual *Development Outlook* consistently addressed the theme of openness and inclusion as guiding principles for insertion into the global capitalist economy (Box 1 below). They are here examined in turn, along with consideration of the additional separate chapters devoted in 1998 and 1999 respectively to the Asian financial crisis.

| <b>Box 1. Asian Development Outlook Thematic Essays, 1997-2000</b>  |   |
|---|---|
| 1997  | Regional Cooperation in Asia                  |
| 'Policies of openness are an instrument for securing efficiency in the use of resources, thereby enhancing growth; and a major purpose of cooperation arrangements is to facilitate the achievement of that efficiency objective by promoting the free flow of goods, services, capital, and labour across national boundaries' (1997: 175-6).  |   |
| 1998  | Population and Human Resources                |
| The globally integrated world economy will be more competitive and efficient than ever before. Firms that are inefficient and unable to adapt quickly to changing global conditions will face declining profits and risk eventual demise. Economies that will be quick to adapt and respond to changing challenges will be those with a highly educated, efficient, flexible labor force (1998: xxx-xxx).   |   |
| 1999  | Economic Openness Growth and Recovery in Asia |
| Openness matters. By offering countries opportunities to trade with the outside world, openness stimulates growth through easier access to new technologies and skills and to international capital markets. Furthermore, it promotes market discipline. ... The ADEs' best route for ensuring economic growth and prosperity is through openness and liberal economic policies (1999: xxx-xxx).  |   |
| 2000  | The Social Challenge in Asia                  |
| Promoting inclusive and sustainable economic growth remains the best path to poverty reduction. Such growth is crucial because it increases demand for the one asset on which the poor depend most - their labor. ... To achieve such inclusive growth, the Asian economies should promote an overall policy environment that emphasizes openness and market orientation, along with labour market flexibility and prudent macroeconomic management. This policy framework for inclusive growth should be part of an overall national anti-poverty program that includes appropriate investments in human and physical infrastructure, improved governance, and strengthened safety nets (2000: xxx-xxx). |   |
| Source: Asian Development Bank, <i>Asian Development Outlook</i> , 1997-2000.   |   |

### **Asian Development Outlook 1996-97: Regional Cooperation in Asia**

The 1996-97 *Outlook* (exceptionally covering two years) highlighted the 'key linkage between openness of economies and their ability to sustain high rates of economic growth over a lengthy time span', and took regional cooperation as its annual theme within this broader context:

Policies of openness are an instrument for securing efficiency in the use of resources, thereby enhancing growth; and a major purpose of cooperation

arrangements is to facilitate the achievement of that efficiency objective by promoting the free flow of goods, services, capital, and labor across national boundaries. ... The focus of nondiscriminatory forms of regional cooperation in Asia is on the exploitation of actual or potential complementarities to promote growth as well as efficiency and competitiveness on a global scale (ADB 1997: 175-6).

The linking of openness to 'efficiency and competitiveness on a global scale' expressed directly the commitment of the Bank to the integration of economies in the region into the global capitalist economy in accordance with the analytical framework set out above, and it would remain a constant.<sup>1</sup> The Bank noted that there was no evidence of trade diversion as a result of regional trade agreements, and drew attention to rising intra-regional capital flows, noting that intra-regional FDI had risen from 36 per cent of the total to 52 per cent between 1992 and 1993 (in the midst of a 'global' recession centred on Europe and the United States).

Similarly, flows of goods had increased from 7.3 per cent of world merchandise in the 1970s to 11.9 per cent in the 1980s and 16.2 per cent in the early 1990s; and by 1994 48.7 per cent of exports and 52.6 per cent of imports were within the region (ibid: 183-84); in 1993 'over 50 per cent of the total value of the stock of foreign direct capital in East and Southeast Asia originated from within the region' (ibid: 196). This material record was clearly fundamental to the stance taken by the Bank, which saw the process as at a relatively *early* stage, and outlined the policy implications for the longer term as follows:

Increased access to domestic markets for producers in other countries increases competition in local markets, increases specialization, makes producers more receptive to the acquisition of new technology and, in general, makes markets increasingly responsive to changes in products and production methods in the global economy. ... The opening up to freer trade in goods, services, and factors has had profound effects on many Asian economies. *A continuation of this process is desirable in all Asian countries, particularly those which have only recently begun to liberalize trade in commodities and in capital movements.* The expansion of existing regional trade arrangements or the creation of new ones should be accompanied by the lowering of barriers to international trade and investment vis-à-vis all countries. Openness needs, of course, to be supplemented by other policies important for human capital formation and for increasing factor supplies, productivity, and economic growth (ibid: 213; emphasis mine).

The 1996-97 *Outlook* may then be seen as a benchmark. Published, as it would turn out, on the eve of the Asian financial crisis, it expressed a clear commitment to the full

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<sup>1</sup> In its endorsement of sub-regional economic zones, the Bank notes that they are 'oriented toward the expansion of resources in the area and the *growth of future output* rather than the realization of static efficiency gains using existing resources' (ADB, 1996: 179; emphasis mine).

integration of the region as a whole into a global capitalist economy shaped by the free movement of goods and capital, and national commitments to technological development, innovation, and the driving up of the productivity of labour. It did not anticipate the crisis. As suggested above, it saw trade liberalisation explicitly as a means to the further development of forces and relations of production in the region, and therefore logically to be complemented by other policies to the same end. In the following year, the present and future character of the labour force took centre stage.

### **Asian Development Outlook 1998: Population and Human Resources**

The 1998 *Outlook* offered a preliminary analysis of the Asia crisis (examined separately below), but focused in the analytical chapter on population and human resources, in the context once again of 'the great convergence toward market-based, outward-oriented economic policies throughout developing Asia in the last few years', along with the challenge arising from export slowdown in 1996, and financial crisis in 1997 (ADB, 1998: 169). The immediate context of 'economic meltdown' was acknowledged, but the long-term focus remained the same, and the significance of the 'size, growth and structure of populations and the quality of the workforce' was spelled out:

Two ... external developments that are shaping the world economy at this time will have critical implications for the development of human resources in developing countries. The first relates to globalization, which implies integration through trade and exchange in goods, capital and financial and other factor markets. The globally integrated world economy will be more competitive and efficient than ever before. Firms that are inefficient and unable to adapt quickly to changing global conditions will face declining profits and risk eventual demise. Economies that will be quick to adapt and respond to changing challenges will be those with a highly educated, efficient, flexible labour force. The second development relates to the ongoing revolution in information and communications technology. *This technological revolution, which is still unfolding, is likely to change human societies in ways that are beyond anyone's comprehension now.* To benefit from this global technological advance, much of which is taking place in the industrial economies, will require significant investment in human resource development in developing Asia (ibid; emphasis mine).

The focus was as always on maximizing benefits and minimizing risk, in this case by adopting policies to ensure that the widespread 'demographic bonus' of a large increase in working-age population did not 'turn into an onus, creating an additional challenge of providing employment for a larger labour force and risking social and political unrest' (ibid: 170). The comprehensive review that followed of changing demographic structure in the context of demographic transition, the implications for education, housing, employment opportunities, labour force growth, saving and social security systems, was systematic in scope and didactic in character. It amounted to an inventory of the

potential labour force in the region for the period to 2025, taking account of growing female participation and the surplus population to be released from agriculture, followed by detailed consideration of policies for improving productivity, on the grounds that 'whether .. labour force growth will be a bane or a boon for economic growth will depend on the success with which the countries can turn human beings into human resources and effectively utilize them for economic progress'. This is to be done by 'equipping workers with more tools, that is, investing in physical capital, but may also be achieved by improving the efficiency of workers through investments in their health, knowledge and skills', while without this 'Asia's developing economies would be seriously hindered in their efforts to sustain economic growth in an increasingly competitive and integrated world' (ibid: 187). Detailed evidence was then assembled to suggest that 'healthier workers are more productive', and 'educated workers earn more', as a prelude to consideration of the 'competitiveness problem' in industry. In a diagnosis applied to the export slowdown in 1996, the Bank urged consideration of policies aimed at improving efficiency and productivity in order to lower production costs, and shifting the structure of production towards more skill-intensive activities (ibid: 205-213).

One underlying structural cause of the Asian financial crisis, the Bank asserted, was the failure of Indonesia, Malaysia, Philippines and Thailand to respond to the challenge of competition from elsewhere in Asia on low-skill and low-technology production by moving up the skill and technology export ladder. Here, the state had a key role to play: 'while the operation of private markets is likely to encourage efficiency and enhancements in production capabilities, it may not encourage building technological capability to the same extent' (ibid: 209). The chapter then set out appropriate policy packages for low-income, middle-income and transitional (Central Asian) developing economies respectively, in a nine-point programme that ranged from introducing targeted programmes to raise enrolments to setting up R&D institutions, increasing reliance on the private sector for R&D and technology development, and providing vocational and technical education and training (ibid: 218-9). Its conclusion returned to the need for 'the effective use and development of that most fundamental of all resources, the people', stressed that 'governments have a crucial role to play in this area' (ibid: 220), and rejected the low-skill, low-wage route to competitiveness:

Nations can maintain their competitiveness either by reducing real wages (or perhaps their growth), increasing productivity in industries that produce traditional low value-added goods, or diversifying into higher technology products. The first is not a long-run option, because it is the antithesis of the concept of successful economic development, which implies sustained growth in living standards. The second option, increasing the level of productivity in traditional labour-intensive industries, is likely to become progressively more

difficult, and there is no guarantee that such improvements will not be matched in the low-wage, unskilled economies. The key to success is the third option, moving into high-technology production, but this is easier said than done (ibid: 221).

Crucially for the argument that the ADB subscribed to what was a universal policy for the development of the global economy along capitalist lines, the Bank laid out for developing economies in Asia the need to pursue exactly those labour market policies promoted in the same period for the advanced economies by the OECD:

Moving toward higher value-added activities will require expanding the technological capabilities of the workforce. Without developing the human resources needed to undertake such activities, the path to future prosperity may well be arduous for these economies. What they now need is a highly flexible, highly skilled labor force. Such a labor force must be flexible, because with increasing globalization and international competition, skill requirements will continuously be changing. The typical worker will have to be prepared to acquire new skills throughout his or her working life, and this cannot be done without high enrollment rates in primary, secondary and increasingly tertiary education. Even economies such as the NIEs, which have already attained high enrollment rates, cannot afford to neglect further investment in their human resources, because the high-growth industries of the future, such as information technology and biotechnology, are precisely those areas for which an increasingly skilled labor force will be vital (ibid: 221-2).

The 1998 *Outlook* addressed concluded with three 'signature' statements that capture precisely the orientation of the Bank and of the international organizations concerned with global economic governance generally. First, it expressed the hope that 'the lessons derived from the current economic crisis are not limited to the need for prudential regulations to govern private financial institutions and for more general reforms of the financial sector;' second, it urged the wisdom of preparing for change by launching the appropriate policies sooner, 'rather than being overwhelmed by the changing world economy later,' commenting specifically that in the future, 'advantages in world trade, like important discoveries, may also come only to countries that are prepared to create them;' and third, it concluded by addressing policy makers in Asian developing economies directly as its partners in the enterprise: 'The road the ADEs [Asian developing Economies] will travel depends largely on their policy makers' foresight and initiative and on the quality of leadership. The cost of doing nothing could be enormous in terms of lost opportunities, as could the cost of wrong policies. Only timely and appropriate policies, implemented pragmatically, can keep the door to continuing prosperity open for the Asian economies' (ibid: 222).

### **Asian Development Outlook 1999: Growth and Recovery in Asia**

The 1999 thematic essay, on *Economic Openness: Growth and Recovery in Asia*, amounted only to eleven pages of fairly large print, figures included. As this suggests, it had the character of an interim briefing note (and was published separately as such), in stark contrast to the preceding essay (approximately ten times as long, and reporting substantial original data). It barely broke new ground, except in passing references to the Asia crisis (examined separately below) and to financial flows. As the title suggests, it reiterated its commitment to a policy of openness, as this stimulated growth through easier access to new technologies and skills, and to international capital markets, and promoted market discipline (ADB, 1999b: 1). It went on to repeat the theoretical and empirical case for openness to trade, labour movement and direct investment, while accepting that the case for financial flows was 'compelling, but nuanced' in theory, and 'inconclusive' in practice: 'It depends on the strength of domestic financial systems; however, rather than providing a reason to postpone financial integration, this means that reform of domestic financial systems is imperative'(ibid). A statement of the benefits in theory from free movement of financial capital was qualified by the caution that 'the recent Asian financial crisis indicates that private capital flows, particularly those relating to short-term debt , can be unreliable and excessively volatile,' so that 'for many developing countries the costs of financial integration may exceed its benefits' (ibid: 8). Significantly, foreign direct investment was explicitly exempted from this judgement, so that in all the conclusion offered was that: 'Trade and FDI are indisputably beneficial for developing countries, while the benefits of other capital flows differ across countries' (ibid: 11-12). At the same time

Economic theory and empirical evidence clearly demonstrate that outward-oriented trade policies should be a central part of development strategies in poor countries. *The financial crisis does not change this; however, it does raise questions about the desirability of completely free capital movement and full capital account convertibility* (ADB, 1999: 15, emphasis mine).

The brevity and limited scope of the essay suggest that it was part of a provisional holding operation pending a full assimilation of the lessons of the financial crisis. As noted above, though, the Bank addressed the crisis itself directly in successive separate chapters in the 1998 and 1999 *Outlooks* respectively. These chapters are examined in the following section, before I turn to the 2000 *Outlook*. They argued that the crisis strengthened the case for structural reforms, and not only in the financial sector.

### **The ADB on the Asian Financial Crisis, 1998-99**

The ADB assessed the Asian financial crisis in detail in individual chapters in the 1998 and 1999 *Outlooks*, and wove the analysis too into the thematic chapters covered above.

The first, covering developments up to the end of January 1998, began by noting that the speed and severity of the crisis 'took everybody by surprise' (ADB, 1998a: 19). It insisted too that it was not caused by 'fiscal profligacy nor by excessive credit creation or runaway monetary expansion' (as was the case in Latin America in the 1980s and mid-1990s), nor preceded by rising unemployment (as was the case in Europe, 1992-3). Rather, widening current account deficits in Malaysia and Thailand reflected an underlying structural problem - 'an erosion in their competitiveness in labour-intensive products, such as garments and footwear, in relation to lower wage Asian competitor countries' (ibid, 25-6). Conjunctural developments in the global economy exposed this weakness, as a sharp cyclical downturn in demand for semiconductors and other electronic products in 1996 coincided with a surge of imports driven by appreciating exchange rates, with these and current account deficits alike temporarily underpinned by surging inflows of private foreign capital, principally in the form of portfolio investment or commercial bank lending.

In the context of weak growth in Europe and Japan and financial liberalization, high interest rates, and pegged exchange rates in developing Asia, a 'false sense of security' took hold as investors felt that 'they could earn relatively high rates of return without any exchange rate risk', creating a vulnerability compounded by herd behaviour. Rising domestic asset prices induced further capital flows, so that by mid-1996 private capital flows into these countries had reached an all time high - mainly into property and equities as a consequence of the fact that other sectors were not open to foreign investors (ibid: 27-30). The mix of rising liabilities backed by real estate and equities and borrowing short and lending long made banking sectors critically vulnerable, and when capital flows reversed currency depreciation, falling asset prices, and weakened balance sheets followed: 'if something goes wrong, a lot of other things suddenly start to go wrong' (ibid: 30). Frailties were then exposed in banking systems, relating to a combination of moral hazard ('an environment of implicit [government] guarantee', and asymmetric information), and weaknesses in prudential standards and their observation. In short

the financial crisis intermingled with the currency crisis to create a vicious downward spiral in the economy. A financial crisis, which makes depositors jittery about the quality of banks, can quickly blossom into a currency crisis, as foreign currency deposits run off. Once the devaluation of the currency takes place, it worsens the financial crisis, as the cost of servicing foreign currency debt increases relative to earnings on assets denominated in domestic currency. That was precisely what happened during the last quarter of 1997 in the affected countries (ibid: 31).

Finally, the Bank identified fused family ownership and management of businesses and the lack of effective bankruptcy laws as sources of vulnerability, as they weakened the disciplining effect of the market, and 'contributed to an environment in which corporations overindulged in investments in risky undertakings' (ibid: 32).

With events still unfolding, the 1998 *Outlook* went on to enumerate the economic impacts of the crisis - reversed private capital flows in commercial banking and portfolio investment (while the much smaller flow of FDI was unaffected), sharp increases in non-performing loans, and a credit crunch that ironically prevented firms from seizing new opportunities in export markets arising from more favourable exchange rates (ibid: 33). For 1998, sharp falls in GDP were predicted, with significant impact on the poor and near-poor. A modest recovery might occur in 1999, but 'recovery to pre-crisis GDP growth rates and per capita income levels will take a number of years' (ibid: 34). In the longer term, strong fundamentals meant that prospects were good. However, this depended on the appropriate policy response, on which the Bank was absolutely clear:

The key element required for rapid recovery of the affected countries will not be the traditional austerity measures, but *structural reforms to improve their financial systems and corporate governance* (ibid: 35; emphasis mine)

This, it argued, was the direction of the IMF reforms currently in place, though a mild note of caution was sounded with regard to high interest rates, and current debate over the advisability of more expansionary fiscal policy was noted. In more general terms, the need for responsible fiscal management, prudent monetary policy and greater exchange rate flexibility was identified as an 'important lesson', with the added rider that 'before opening up the capital account, institutional reforms are needed to improve the soundness of economies' financial sectors to ensure that capital flows are well managed' (ibid: 36). Banking, financial market and business law reforms were therefore essential, but this did not mean that liberalization itself was wrong. Rather, it was essential to get the policy framework right:

Globalization is a double-edged sword. it rewards good policies and punishes bad ones. The difficulties that affected economies have experienced are not grounds for inaction or for adopting measures that will retard the liberalization process. The benefits of globalization are too large to ignore (ibid: 37).

In a second extended response to the crisis, published a year later in the 1999 *Outlook*, the Bank again noted the intense debate over IMF policies, but saw no reason to change its fundamental analysis. It outlined the intensification of the crisis through the middle of 1998, marked by the fall of the Suharto regime in Indonesia, recession in Japan, the devaluation of the rouble in August, and the US Federal Reserve rescue of the Long Term Capital Management hedge-fund in September, but declared that since October

1998 a substantial improvement had taken place, and that by January 1999 'the worst in Asia seemed to be over' (ADB, 1999a: 22-4). Against this background the interest of the document lies in the systematic and didactic manner in which the interpretation of the crisis was now presented.

The Bank identified two competing explanations for the Asian financial crisis - poor economic fundamentals (structural problems) and policy inconsistencies, versus financial panic (self-fulfilling pessimism on the part of international lenders). It went on to outline its own argument for the economic fundamentals explanation, now summarised as involving 'Asian industrial policy' (export orientation, centralized coordination, implicit or explicit government guarantees of private investment, close operational relationships and linked ownership between banks and firms, and consequent heavy reliance on bank credit), weak prudential regulation and supervision and inadequate standards in the financial sector. On the latter, it argued that while 'international capital markets were gradually opened and domestic markets were deregulated, supervision and regulatory oversight did not improve in tandem' (ibid: 26). But it insists that the roots of the crisis lay deeper. Noting the inrush of private capital, the Bank commented that:

The fundamentalist interpretation of the crisis links this extraordinary optimism among foreign investors to their belief that the borrowing was ultimately guaranteed, either by Asian governments or by international institutions. The panic interpretation regards the optimism as rational, based on the correct judgment that these economies were fundamentally sound (ibid: 27).

It then concluded that while the suddenness and speed with which capital fled the region in the second half of 1997 gave credence to the panic interpretation of the crisis ... it was the region's structural weaknesses that initially created the vulnerability to crisis' (ibid: 28).

After a brief reference to 'first generation' and 'second generation' academic models of currency crises, held to demonstrate the importance of fundamentals and consistent policy (ibid: 28-9), the Bank then turned to a lengthy analysis of the policy response to the crisis, led by the IMF - a policy which it again characterized as focused not on retrenchment alone, but on a combination of tighter monetary and fiscal policy, and *structural reform*: 'The IMF saw the structural reforms as essential for a long-term solution to Asia's financial crisis' (ibid: 29). On the possibly counter-productive effects of the policy of high interest rates and fiscal tightening, the Bank notes that it was prudent to seek to amass reserves to pay the heavy cost that would be required to bail out the financial institutions; and in relation to the argument that these policies made a severe recession even worse, it comments that 'it is hard to blame the IMF for failing to gauge the depth and likely persistence of the region's problems. Few policymakers or

commentators foresaw the depths of the crisis' (ibid: 32). Whatever private views may have existed inside the Bank, at this point it expressed publicly only the most guarded criticism of IMF action, preferring instead to highlight the common concern with structural reform.

The Bank turned to the issue of strengthening the international financial architecture, making the case for sequencing financial opening in accordance with prior structural and institutional reforms - a case made in more detail in Part III of the *Outlook*, and reviewed above (pp. 14-15). It came down strongly in favour of improved international standards of financial regulation and supervision, as advocated by the G22 and the IMF, expressed a preference for flexible exchange rate regimes, and suggested that the implementation of 'such regional institutions as the Asian Monetary Fund as part of the newly emerging financial architecture will help both to enhance the efficiency of global financial markets and to minimize their systemic risk' (ibid: 40-42 and Box 1.7, p. 44). Following this review, it set out a five-point 'agenda of minimum necessary reforms': negotiating minimum international standards of financial practice; introducing prudent regulation of capital accounts; reforming exchange rate regimes; creating the framework for an orderly restructuring of problem debt; and encouraging private sector credit lines:

These modest proposals do not constitute a new Bretton Woods. They do not call for a massive new bureaucracy nor a huge investment of public funds. However, they could help to reduce the risk of financial crises and reduce their severity should they occur. That alone would bolster, rather than hinder, the process of financial integration from which both industrial and developing countries have so much to gain (ibid: 46).

In the wake of the Asian financial crisis, then, the Asian Development Bank confirmed its commitment to openness, and used the crisis to strengthen its call for structural reforms. It did not reject financial integration, but rather adjusted its view of how it could best be achieved, through sequencing, prior institutional reform, and a primary focus on foreign direct investment. By the time the next *Asian Development Outlook* was published, it had thought through more fully the manner in which the need for such reforms could be integrated into a more comprehensive assessment of the primary need for longer-term structural reform.

### **Asian Development Outlook 2000: the Social Challenge in Asia**

In the following year, the bank produced a synthetic analytical essay entitled 'As the Century Turns: the Social Challenge in Asia'. Rather than breaking new ground, the essay pulled together three key themes from World Bank output over the last decade: increasing the supply and productivity of labour, reforming labour markets, and social protection. It began with a framing statement that brought these themes together:

Promoting inclusive and sustainable economic growth remains the best path to poverty reduction. Such growth is crucial because it increases demand for the one asset on which the poor depend most - their labor. ... To achieve such inclusive growth, the Asia economies should promote an overall policy environment that emphasizes openness and market orientation, along with labour market flexibility and prudent macroeconomic management. This policy framework for inclusive growth should be part of an overall national anti-poverty program that includes appropriate investments in human and physical infrastructure, improved governance, and strengthened safety nets (ADB, 2000: 177).

This opening statement succinctly recapitulated themes set out first in the World Bank's 1990 *World Development Report* and developed through the 1990s (Cammack, 2002). As was characteristic of World Bank output, the substantive commitment to proletarianization was presented in terms of anti-poverty strategy. At the same time, as the references to prudent macroeconomic management and openness and market orientation demonstrate, there was no break with the past. Instead, there was a deeper integration of the overall policy approach to centre it upon a strategy that sought simultaneously to transform social relations and to legitimize their transformation - in this case, by 'describ[ing] Asia's social challenge, explain[ing] the reasons it exists, and then examin[ing] policies that can be used to confront that challenge (ibid: 178). In fact, the analysis that followed was provisional in character, laying out a substantial body of evidence but failing to produce comprehensive programmes for reform. This reinforces the suggestion, clear from the brief and scrappy character of the 1999 thematic essay, that the Bank was still in the process of assimilating the implications of the financial crisis, and exploiting the potential for a new wave of reform.

The study began by reviewing poverty data, noting dramatic improvements in the 1990s and recognizing that 'these .. have been stymied by Asia's recent financial crisis' (ibid: 181). It then reviewed social indicators (literacy and education; health and nutrition; and environment) and internal disparities (income and wealth; gender; ethnicity, religion and caste; regional), before turning to a discussion of the social challenge and proposed solutions.

In its analysis, the ADB drew attention to 'a complicated interplay of economic, social, and demographic factors' which 'constricted the development of market opportunities for the poor' (ibid: 192). Where economic growth was lacking (in South Asia), there was little demand for 'the one asset that the poor have in abundance - their labour'; growth rates in East and Southeast Asia were twice as good for the period 1965-95, with beneficial consequences for poverty reduction. Where the poor lacked 'human capital' their productive capacity and hence their earnings potential was severely limited, and

investment in education could raise productivity significantly. Without some assets and access to rural credit markets, the poor in the countryside could not prosper. In addition, unequally distributed social capital, poor infrastructure, and poor governance (including corruption, and the 'lack of voice' that would be highlighted in the 2001 *World Development Report*) limited the opportunities of the poor; gender bias was evident not only in employment and education, but also in access to capital and credit markets; ethnic minorities may reject the idea of investing in social capital; changing fertility rates may diminish some pressures and raise others; environmental degradation may stem from institutional and policy failures as much as from poverty or economic growth (ibid: 192-201). All in all, the poor were vulnerable to short-term shocks, which could be partly mitigated by effective social safety net programmes, but those in place were generally inadequate, forcing them to fall back on family support networks or migration.

The Bank's recommendations in the face of these challenges began by noting that the recent crisis had not significantly set back the trend over the previous decade towards liberalization, and identifying 'common elements that should influence every country's anti-poverty strategy': 'an overall policy regime that promotes inclusive economic growth; investments in human capital, infrastructure and micro-finance; improved governance and civil society participation in decision-making; effective social safety nets; and targeted redistributive policies' (ibid: 207). In its further elaboration of policy choices, the mobilization of productive labour provided the thread. Growth was crucial because 'it increases the demand for labour, the asset on which the poor depend' (ibid: 207-8); openness to trade and reliance on market forces encouraged the production and exports of goods that were intensive in unskilled and semi-skilled labour; labour market regulations (in South Asia) 'have generally worked against workers by creating an inflexible market - that is, a labour market that is unresponsive to economic circumstances and changes,' though it notes that the Japanese system of lifetime employment for part of its workforce works well because it 'maintains its flexibility through wage and bonus packages that allow firms to cut pay during downswings' (ibid: 209); in Southeast Asia, factory-level bargaining links wages to factory-specific productivity growth'; so

The contrasting experiences of South Asia and the more dynamic economies of East and Southeast Asia suggest that developing economies will not be able to realize the potential benefits of the large pools of employable labour unless their labour markets are flexible. Workers must have the opportunity and incentives to shift between jobs and sectors as the economy's structure changes. If workers are unemployed or under-employed because they lack skills, because the minimum wage is too high, or because wage increases significantly outstrip productivity

gains, this will limit the potential for rapid economic growth and poverty reduction (ibid: 210).

This analysis, echoing that the 1995 World Development Report, *Workers in an Integrating World*, was complemented by a series of proposals to boost the productivity of workers and small enterprises, and to improve governance, all familiar from World Bank doctrine developed over the previous decade. The Bank then turned to social safety nets, at a moment when the World Bank too was returning to the topic of social protection and its link to efficient labour markets. The Bank recommended 'means-tested social assistance and public works programs', in order to avoid the negative impact on labour costs, international competitiveness and employment growth that broader programmes would entail, as part of a wide-ranging review of reforms and targeted measures. In terms of analytical detail, though, it did not venture much beyond the suggestion that 'All Asian developing economies need to develop fiscally prudent programs that effectively supplement private safety nets' (ibid: 225). By 2000, then, the Bank had assessed the implications of the unexpected financial crisis of 1997-98 and reiterated its support for continued structural reforms aimed at integrating the economies of the region into the global capitalist economy in such a way that they would be able to increase labour productivity and enhance their global competitiveness.

### CONCLUSION

Analysis of successive *Asian Development Outlooks* in the period of the Asian financial crisis shows not only that the ADB was committed to the closer integration of all its member countries into the global capitalist economy, but also that it understood the process of integration in terms of the completion of the world market, and the real subsumption of labour to capital. In other words, the Bank was keen to promote freer trade, both regionally and globally, but it saw this not as an end in itself but as part of a larger objective concerned with heightened competitiveness and increased labour productivity. Similarly, it wished to see increased foreign direct investment, because this too would bring with it not only increased competition in domestic markets, but also advanced production methods from which local producers could learn. What is more, the Bank wanted to see 'all Asian countries, particularly those which have only recently begun to liberalize trade in commodities and in capital movements' (ADB, 1997: 213) exposed to these pressures. At the height of the Asian financial crisis it argued that the unfolding technological revolution was 'likely to change human societies in ways that are beyond anyone's comprehension now' (ADB, 1998: 169), embraced the consequences for efficient and inefficient firms respectively, and urged its member countries to create a flexible labour force, or, in its own words, to 'turn human beings into human resources and effectively utilize them for economic progress' (ibid: 187). In relation to the analytical

framework set out above, then, the Bank addressed member countries that it literally saw as being at the beginning of a transition to capitalism, and urged them to pursue trade, investment and internal reform in order to transform the forces and relations of production in its pursuit.

The ADB is best seen, then, as Angel Gurría would subsequently describe the OECD as a partner of states engaged in the political economy of reform. The thematic essays in successive *Outlooks* in particular have the form of a primer in the political economy of competitiveness – or *Competitiveness 101*. The Bank did not anticipate the Asia crisis of 1997, but after the crisis it maintained its commitment to the integration of the economies of the region into the global market, while adapting its advice to its diagnosis of the new material circumstances it faced. In other words, its intellectual output - or discourse - was clearly conditioned by changes taking place in the 'economic structure of society,'<sup>1</sup> to which it responded very swiftly, in accordance with its ideological commitments. In accordance with the model presented at the outset, it can be seen precisely as seeking to advance a project that transcended the immediate perspectives of its member countries in order to enable them to pursue a programme, consistent with the current state of development of forces and relations of production across the region, that would lead to their successful integration into the global capitalist economy. We may say, therefore, that it represented the interest of 'future Asian capital' in a fully capitalist global economy in the making.

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