

Globalization Requires Careful Management for Asia to Capitalize on Opportunities

For developing Asia to capitalize on globalization, it must seize the opportunities the process offers, as well as manage its challenges and risks, according to the Asian Development Outlook (ADO), released by the Asian Development Bank (ADB).

ADO, an annual publication analyzing and forecasting economic trends in Asia and the Pacific, sees globalization as stimulating for economic growth and helpful in poverty reduction. Growing trade should create additional opportunities for the region's economies to develop export markets. In addition, the information and communication technology (ICT) revolution could create opportunities for Asia to export skill-intensive services.

But recent experience with the Asian crisis of 1997 suggests that globalization can also be a source of volatility, impacting not only economies but also their welfare systems, the report says.

The rapid growth of parts of Asia in the last three decades was fueled by exports, accompanied by high savings and investment rates, a supportive macroeconomic framework and inflows of new technology.

But Asia's developing countries will have to "graduate" from a growth model based on accumulation to one based on innovation and adapt their institutions accordingly, says the report. They will have to do so in a manner consistent with the opportunities and constraints of globalization, ADO says.

ICT infrastructure will be increasingly critical if a country is to capitalize on globalization. But first, support will have to come from the telecommunications sector and a partnership between the public and private sectors, as well as technological transfer from more industrialized economies. "Powerful economic and technological forces are at work

that are likely to render the world economy even more globalized in the future than it is today," comments ADB President Tadao Chino.

"The challenge for Asia's emerging economies is, therefore, how to capitalize on the opportunities for growth and development afforded by globalization, while at the same time minimizing the risks."

These risks can range from sharp changes in prices in the world markets to full-blown economic and financial crises. Thus, it is important, ADO says, to adopt policies and develop institutions to restrict volatility that might arise from globalization and limit any impact on society's most vulnerable groups.

Appropriate policies might include the maintenance of a stable economy, prudent financial policies, and adoption of sound regulatory practices. Meanwhile, governments, in cooperation with the private sector, must be able to determine appropriate policies and put them into action.

"Building an effective social safety net and ramping up programs in response to a crisis can be inefficient and time-consuming, and is therefore difficult. This makes it important to put in place lasting social infrastructure protection," according to ADO.

ADO says that a short-term safety net should provide employment for those unable to work, while public works programs must provide jobs for the poor. Where openness leads poor countries to specialize in the production and export of labor-intensive goods, there is the danger that globalization may draw poor children out of school. Thus, ADO suggests targeted subsidies for school attendance, as these have been successful in increasing school enrolment in some developing countries of the region.

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ADB Operations Total \$528.4 Million in First Quarter 2001

The Asian Development Bank (ADB) approved a total of US\$528.4 million for a loan, an equity investment, and 36 technical assistance grants in the first quarter of 2001.

A US\$500 million loan was approved for India for the Gujarat Earthquake Rehabilitation and Reconstruction Project. The loan will support the state government's efforts to reconstruct and restore essential infrastructure, especially in the districts of Kachchh, Jamnagar, Surendranagar and Rajkot. About 40 percent of the loan will be for housing needs and the balance for urban and rural infrastructure, restoring power supply and livelihood rehabilitation.

On 26 January, an earthquake measuring 7.7 on the Richter scale by the U.S. Geological Survey wreaked destruction across the industrialized state of Gujarat. Thousands were killed and thousands more were left homeless. The total cost of the Gujarat Earthquake Rehabilitation and Reconstruction Project is US\$625 million, of which ADB will finance 80 per cent and the state government the remainder.

In the private sector, ADB has approved two equity investments totaling US\$2.36 million for India's Centurion Bank Limited (US\$2 million) and Sri Lanka's National Development Bank (NDB) Housing Bank Limited (US\$360,000).

NDB Housing Bank is the first private sector housing bank investment in Sri Lanka and will be a model for similar projects in the region. The main sponsor in NDB Housing Bank is the National Development Bank, Sri Lanka, which is receiving technical assistance and equity support from the leading housing finance institution in India, Housing Development Finance Corporation. Over time, the bank is expected to diversify and cover most of Sri Lanka, and will provide a wide range of loan products designed to meet the funding needs of low- and medium-income home owners.

Technical assistance grants totaled US\$26 million, including US\$15.5 million for 25 projects for advisory and operational purposes and project preparation to 14 developing member countries and US\$10.5 million for 11 regional activities.

Cofinancing arrangements, meanwhile, have been made for five technical assistance projects amounting to US\$11.6 million. The sources of cofinancing are Australia, France, and Netherlands. ■

Loan Approvals, First Quarter 2001

	US\$ Million	Term (years) including Grace Period	Interest/Service Charge	Date Approved
India				
Gujarat Earthquake Rehabilitation and Reconstruction	500.00	30(7)	Variable	26 Mar
TOTAL	500.00			

Private Sector Operations, First Quarter 2001

(US\$ million)

	Loan	Equity Investment	Total ADB Funds	Complementary Loan	Total ADB Approvals	Project Cost/ Fund Size	Date Approved
India							
Centurion Bank Ltd. (Rights Issue)	—	2.00	2.00	—	2.00	10.00	14 Feb
Sri Lanka							
National Development Bank Housing Bank Limited	—	0.36	0.36	—	0.36	10.00	15 Mar
TOTAL	—	2.36	2.36	—	2.36	20.00	

Loan Disbursements, First Quarter 2001

(US\$ million)

Borrower	OCR	ADF	Total
Bangladesh	0.08	28.22	28.30
Bhutan	0.00	0.10	0.10
Cambodia	0.00	9.49	9.49
China, People's Rep. of	201.46	0.00	201.46
Cook Islands	0.00	0.22	0.22
India	45.37	0.00	45.37
Indonesia	111.23	0.48	111.71
Kazakhstan	0.36	0.40	0.76
Kiribati	0.00	0.46	0.46
Korea, Republic of	0.41	0.00	0.41
Kyrgyz Republic	0.00	2.49	2.49
Lao PDR	0.00	10.56	10.56
Malaysia	5.03	0.00	5.03
Maldives	0.00	0.52	0.52
Marshall Islands	0.00	1.10	1.10
Micronesia, Fed. States of	0.00	0.90	0.90
Mongolia	0.00	3.07	3.07
Nepal	0.29	5.27	5.56
Pakistan	7.25	83.89	91.14
Papua New Guinea	1.82	0.27	2.09
Philippines	15.70	7.62	23.32
Solomon Islands	0.00	0.01	0.01
Sri Lanka	7.15	35.65	42.80
Tajikistan	0.00	0.91	0.91
Thailand	42.97	0.00	42.97
Uzbekistan	14.97	0.48	15.45
Vanuatu	0.00	0.91	0.91
Viet Nam	0.00	30.11	30.11
TOTAL	454.09	223.13	677.22

ADB Hikes Lending Rates for First Half of 2001

The Asian Development Bank (ADB) has increased the lending rates on its US dollar loan facility from 6.53 percent to 6.70 percent per annum. The rate on multicurrency loans, on the other hand, has decreased from 5.68 percent to 5.50 percent per annum. The new lending rates apply from 1 January to 30 June 2001.

The interest rates on the ADB's multicurrency and US dollar loans are adjusted on 1 January and 1 July each year. For each facility, the lending rate is determined by adding a spread (currently 0.6 percent per annum) to the preceding six months' average cost of the respective pools of outstanding Bank borrowings established to fund such loans. ■

Technical Assistance Approvals, First Quarter 2001

	Type ^a	US\$'000	Date Approved
Azerbaijan			
Seminars on Bank Operational Policies and Procedures	AO	150.00	2 Feb
Cambodia			
Strengthening Public Financial Management (technical assistance cluster)	AO	1,200.00	22 Feb
China, People's Republic of			
Formulation of the Government Procurement Law	AO	578.00	20 Feb
Wuhan Wastewater Treatment	PP	500.00	19 Mar
Western Yunnan Roads Development	PP	770.00 ^b	20 Mar
India			
Capacity Building for Earthquake Rehabilitation and Reconstruction of Housing	AO	1,300.00	26 Mar
Indonesia			
Development of a Financial Services Supervisory Institution	AO	1,700.00 ^c	12 Jan
Kazakhstan			
Urban Small Business Development	PP	600.00 ^b	21 Feb
Lao People's Democratic Republic			
Capacity Building in Project Financial Management	AO	400.00 ^b	25 Jan
Institutional Strengthening of Public Investment Management	AO	400.00	2 Feb
Capacity Building of the Lao Women's Union	AO	300.00 ^b	19 Mar
Mongolia			
Establishment of a Central Procurement Monitoring Office	AO	600.00	2 Feb
Nepal			
Institutional Support for Governance Reforms	AO	1,525.00	18 Jan
Second Rural Infrastructure Development	PP	800.00 ^b	25 Jan
Pakistan			
Fiscal Decentralization	AO	1,400.00	17 Jan
Poverty Analysis and High-Level Forum	AO	150.00	7 Feb
Supporting Access to Justice under the Local Government Plan	AO	150.00	19 Mar
Samoa			
Household Income and Expenditure Survey for Socioeconomic Equity Assessment	AO	150.00	19 Jan
Sri Lanka			
Integrating Cleaner Production into Industrial Development	AO	800.00 ^b	25 Jan
Aquatic Resources Development and Quality Improvement	PP	800.00	19 Mar
Thailand			
Participatory Assessment of Poverty in Thailand	AO	150.00	5 Mar
Independent Review of the Samut Prakarn Wastewater Management	AO	150.00	12 Mar
Development of Agriculture Sector Strategy and Policy	AO	250.00 ^b	20 Mar
Planning for Sustainable Urbanization	AO	500.00 ^b	30 Mar
Uzbekistan			
Pilot Testing of Rural Savings and Credit Unions	AO	150.00	5 Mar
TOTAL		15,473.00	

a Type of technical assistance: advisory and operational (AO) and project preparatory (PP).

b Financed from the Japan Special Fund.

c Funded from the Asian Currency Crisis Support Facility.

Globalization Requires Careful Management

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In terms of the policy shifts on economics and trade, human resources, social issues, and institutions that are needed if Asia is to meet the challenges of globalization, ADO recommends the following:

- The efficiency losses and economic distortions brought about by trade barriers have to be minimized, for instance, through replacing nontariff barriers by tariffs and lowering the average level and kind of protection.
- There should be more emphasis on basic education, rather than vocational training, to give semi-skilled workers flexibility in adapting to a rapidly changing environment. Develop-

ing Asia needs a core of highly trained engineers, scientists, financial sector personnel, and technicians who can help absorb new technology and transfer it to domestic firms.

- It will be important to maintain competitiveness in the new economy by investing in telecommunications infrastructure and computer literacy programs, depending on local circumstances.
- Economies relying on centralized bank-based finance might also have to turn toward securities markets, which could prove more efficient in providing venture capital for technology start-ups.

- The process of adapting institutions to globalization takes place at the global, regional, and national levels. Actions at these levels should be seen as complementary.
- Monetary and financial institutions have to be strengthened if volatility is to be reduced. Credibility and prudence have to be the watchwords of these policies.

"Asia's developing countries experienced the economic and financial crisis of 1997–1998 because they failed to recognize the risks that came with large portfolio inflows that were ultimately linked with liberalization of financial markets and globalization," ADO concludes. ■

Regional Technical Assistance, First Quarter 2001

	US\$'000	Date Approved
Promotion of Renewable Energy, Energy Efficiency, and Greenhouse Gas Abatement Projects	5,000.00	4 Jan
Multilateral Financial Institutions Environmental Group Meeting	25.00	5 Feb
Coastal and Marine Resources Management and Poverty Reduction in South Asia	600.00 ^a	6 Mar
Promoting Regional Cooperation in the Development of the Insolvency Law Reforms	1,500.00	5 Mar
Development of a Regional Technical Assistance Home Page, Phase II	98.00	13 Mar
Second Asia-Europe Meeting Seminar on Simplification and Harmonization of Customs Procedures	150.00 ^a	13 Mar
Governance and Poverty Forums	250.00	15 Mar
Impact and Special Evaluation Studies of ADB Operations in Developing Member Countries (DMCs)	1,600.00	15 Mar
Diagnostic Study on Accounting and Auditing Practices in Selected DMCs	230.00	20 Mar
Asia Recovery Information Center, Phase II	930.00	30 Mar
Support to the Sixth International Congress on AIDS in Asia and the Pacific	150.00	30 Mar
TOTAL	10,533.00	

a Financed from the Japan Special Fund.

ADB Adopts New Water Policy to Help Avert Crisis

The Asian Development Bank (ADB) approved in January 2001 a Water Policy, which stresses the need for an integrated water resource management approach to conserve an increasingly scarce resource.

With rapidly rising demand for water—and depleting resources—ADB notes that reallocating water among competing uses is an increasing challenge. This impacts on the poor who are not sufficiently empowered to claim water rights. ADB is encouraging its developing member countries (DMCs) to adopt a participatory and negotiated approach to water allocation.

The region's water shortage is serious. Asia has the lowest per capita availability of freshwater resources among the world's continents. Due largely to population increases, per capita water availability dropped by 70 percent in South and Central Asia, 60 percent in North Asia and 55 percent in Southeast Asia over the last 50 years.

Moreover, the outlook is alarming. Demand for domestic and industrial water is growing rapidly. As a result, water availability per capita is projected to fall further by 2025. To meet the top priority of providing drinking water and sanitation, the use of irrigation water for food production needs to be much more efficient. In some countries, up to 90 percent of water is used for irrigation. Pakistan, Sri Lanka, and Thailand are examples of countries under high water stress and likely to suffer further.

"Twenty years ago, people were talking about food security. Today, they talk of water security," says Arjun Thapan, coauthor of the water policy report and manager of ADB's Water Supply, Urban Development and Housing Division West. "In face of competing demands for water, we have to use it wisely. This means using an integrated water resource management approach. We should also follow nature in basing such an approach on a river basin context."

Within the next quarter century, half of Asia's estimated population of 4.2 billion are expected to live in urban centers. Increasing urbanization, industrialization and wastage will put more pressure on water availability. While cities are reaching out ever further for water, rural areas also suffer from water shortages. In many countries, women and children have to walk long distances to fetch water, sacrificing a large part of their lives—and education—to sustain others.

ADB's water policy stresses the need for integrated cross-sectoral approaches to water management and

development. It emphasizes that water is a socially vital economic good that needs careful management to sustain equitable economic growth and reduce poverty. Conserving and protecting water resources through a participatory approach are at the heart of the policy. The water policy aims to

- promote a national focus on water sector reform. DMCs will be helped to adopt effective national water policies and laws, improve institutional capacities and information management, and develop a national action agenda for water. The needs of the poor will be factored into legal, institutional and administrative frameworks.
- foster the integrated management of water resources. This will be based on comprehensive water resource assessments and concentrating interlinked water investments in river basins.
- improve and expand delivery of water services, mainly water supply and sanitation (urban and rural), irrigation and drainage. Support will be provided for autonomous and accountable service providers, private sector participation, and public-private partnerships. Equity of access to water for the poor and underserved will be emphasized.
- encourage water conservation and system efficiencies. Support will be given for packages that combine water use and resource management charges to recover costs, improved regulation and increased public awareness, and provisions to ensure the poor are not excluded.
- promote regional cooperation and the benefits of shared water resources within and between countries. This will focus on the exchange of information and experiences.
- facilitate stakeholder participation through the exchange of water sector information. This will be achieved largely through public-private-community-nongovernment organization (NGO) partnerships.
- improve governance. This will be accomplished by supporting decentralization, building capacity, and strengthening monitoring, evaluation, research and learning at all levels.

In implementing the policy, ADB will focus on policy discussions and water sector assessments to reach agreement with development partners on national water sector reforms. ADB also will selectively support programs based on a country's water action agenda, which reflect integrated water resource management. Projects in the pipeline will be reviewed and supported if they conform to ADB's broad policy principles. ■

ADB to Borrow US\$18.9 Billion from 2001-2003

The Asian Development Bank (ADB) is expected to borrow a total of US\$18.9 billion during the years 2001–2003. The size of this program will enable ADB to tap the major capital markets regularly in the future and to utilize the region's capital markets. In addition, the size of ADB's issues can be increased to enhance the secondary market liquidity of ADB's bonds. Furthermore, ADB remains committed to supporting the development of the region's domestic bond markets with a view to improving their efficiency, transparency, liquidity, and accessibility.

In 2000, ADB raised a total of US\$1.7 billion. The average life of the borrowings undertaken in 2000, assuming the put option in one borrowing is exercised, was about 5.6 years. After swaps, US\$1.6 billion of the borrowings were in US dollar fixed-rate liabilities, with an average all-in cost of 7.5 percent per annum and an average life of 5 years. The remainder was a US dollar floating-rate liability with a life of 15 years. In addition, ADB raised US\$250 million in short-term funds through issuance of ECP. Such ECP was refinanced by a long-term borrowing in June 2000. ■

Senior Staff Movements

(from 21 March to 15 May 2001)

- **Karti Sandilya**—assumed office as Regional Representative, North American Representative Office on 19 March 2001;
- **Khalid I. Rahman**—Manager, Energy Division West, Infrastructure, Energy and Financial Sectors Department (West), promotion effective 31 March 2001;
- **Phiphit Suphaphiphat**—promotion from Resident Representative to Director, Bangladesh Resident Mission effective 1 April 2001;
- **Christian E. Perez**—Assistant Chief, Office of Information Systems and Technology, promotion effective 7 April 2001;
- **Peter C. Darjes**—assumed office as Resident Representative, Uzbekistan Resident Mission on 10 April 2001;
- **Ferdinand P. Mesch**—transfer and redesignation from Assistant Secretary, Office of the Secretary to Manager, Project Coordination and Procurement Division, Central Operations Services Office effective 16 April 2001;
- **Amarjit Singh Wasan**—transfer and redesignation from Manager, Compensation and Benefits Division, Budget, Personnel and Management Systems Department to Assistant Secretary, Office of the Secretary effective 16 April 2001;
- **David Edwards**—transfer and redesignation from Assistant Chief Economist, Project Economic Evaluation Division, Economics and Development Resource Center to Manager, Operations Evaluation Division (East), Operations Evaluation Department effective 16 April 2001;
- **Cedric Saldanha**—promotion from Manager, Pacific Operations Division (Area B), Office of Pacific Operations to Senior Manager, Poverty Reduction Unit, Strategy and Policy Department effective 16 April 2001;
- **K. H. Moinuddin**—assignment as Director, Infrastructure, Energy and Financial Sectors Department (East) effective 15 May 2001; and
- **Rajat M. Nag**—Deputy Director, Programs Department (West), promotion effective 29 May 2001. ■

Cofinancing Arrangements, First Quarter 2001

Member/Technical Assistance Project	US\$ Million	Source
Bangladesh		
Beneficiary Participation and Project Management (Supplementary) ^a	0.20	Netherlands
China, People's Republic of		
Wuhan Wastewater Treatment Project	0.50	France
Papua New Guinea		
Employment-Oriented Skills Development	5.50	Australia
Regional		
Asia Recovery Information Center Phase II	0.93	Australia
Promotion of Renewable Energy, Energy Efficiency and Greenhouse Abatement Project	4.50	Netherlands
TOTAL	11.63	

a Technical assistance approved in May 1996. The Netherlands provided supplementary financing in 2001.

ADB's New Lending Strategy for Indonesia Stresses Linkage To Reforms

The Asian Development Bank (ADB) is prepared to lend Indonesia between US\$600 million and US\$1.2 billion annually over the next three years, subject to the country improving its performance in key areas of reform such as reducing poverty and improving governance, and macroeconomic stability.

ADB's actual level of assistance will depend on Indonesia's performance, absorptive capacity, and financing needs. However, ADB stressed that Indonesia will only qualify for assistance at the higher end of the lending range after it met the following conditions:

- appropriate measures to improve macroeconomic stability;
- progress in reducing poverty;
- resolving difficulties of decentralization and creating real decision-making capability at local government level; and
- improving implementation of ADB projects to ensure more efficient use of lending resources.

The lending level is part of ADB's new Country Operational Strategy (COS) for Indonesia which focuses on the crucial need for policy reforms and identifies five key areas that will guide its assistance:

- helping to create and strengthen institutions;
- promoting private sector development;
- improving regional equity through stronger geographical focus on rural and less developed areas;
- investing in human and social development, with better social protection of vulnerable groups; and
- strengthening environmental management.

The new strategy builds on ADB's recently completed *Poverty Assessment for Indonesia*. This new report stresses the importance of sound macroeconomic management and financial sector reforms and the need for good governance and sustainable management of the country's natural resources and environment.

"ADB would be flexible and responsive to the country's changing political and economic conditions over the next three years and continue to support policy reforms. However, without improved governance, ADB's programs will not have a sustainable impact on poverty," said Jan van Heeswijk, Director of ADB's Resident Mission in Indonesia.

Indonesia is one of ADB's major clients, borrowing some US\$1.2 billion annually, before the economic crisis in 1997. During the crisis, lending commitments increased substantially to US\$1.8 billion in 1998 and US\$1.5 billion in 1999. To date, Indonesia has borrowed nearly US\$17.7 billion to finance key development projects.

Indonesia has experienced extraordinary upheavals in recent years, and the economic crisis has jeopardized past success. "At the peak of the crisis, an additional 15 million people fell below the poverty line, showing the vulnerability of the poor to economic shocks," said van Heeswijk.

During the crisis, ADB provided assistance in close cooperation with other international funding agencies to support the Government's recovery programs. The new country strategy provides a fresh starting point that includes a more participatory approach to meeting the extraordinary challenges that face the people and Government of Indonesia.

In another development, ADB plans to sign a milestone poverty-reduction partnership agreement with Indonesia this year. "This will be a big step in implementing the new country strategy for Indonesia," added van Heeswijk. ADB is entering such partnerships with every developing member country and has already signed agreements with Bangladesh and Mongolia.

ADB's resident mission in Jakarta was established in 1987 and expanded in 2000 to provide sharper focus on operations, better coordination and more effective representation. ■

Canadian Fund to Manage Climate Change

The Canadian Government has agreed to establish a Fund on climate change to reduce the growth of greenhouse gas emissions in the Asia and Pacific region. The Canadian Cooperation Fund will have an initial Can\$5 million (US\$3.2 equivalent) and will be administered by the Asian Development Bank (ADB).

This is Canada's first Fund with ADB and its first related to climate change. It will enable ADB to help its developing member countries promote renewable energy and energy efficiency at programming and policy levels to manage and abate climate change.

The Canadian assistance dovetails with ADB's recently announced Long-Term Strategic Framework that addresses environmental sustainability by putting environmental planning at the forefront of development planning—one of ADB's three crosscutting strategic themes to broaden and deepen the impact of poverty reduction interventions. ■

ADB Revamps Political Risk Guarantee Policy

The Asian Development Bank (ADB) has revamped its political risk guarantee policy, making it more user-friendly and transparent. The scope of coverage for lenders to private sector projects has also been expanded and made more explicit. Areas of political risk coverage now include expropriation, currency inconvertibility and/or nontransfer, political violence, and breach of contract.

"This represents a major shift in focus in ADB's marketing of our political risk guarantee (PRG) instrument," says Christine Wallich, Director of ADB's Infrastructure, Energy and Financial Sectors Department (West) and Head of the Private Sector Group. "ADB generally offers direct loan assistance to projects. In the future, we will also offer the political risk guarantee to attract commercial lenders and, at the same time, continue to provide direct lending. This will enable us to focus on assessing and mitigating country and political risks, areas in which we have a comparative advantage, leaving commercial risks to private sector lenders."

The improved political risk guarantee program will help catalyze long-term foreign investment in developing member countries, thereby promoting growth, and supporting ADB's overarching goal of poverty reduction. Promoting capital flows and long-term foreign investment contributes to technology transfer, economic development and growth in the industry and services sectors. This creates jobs and contributes to the improvement of social and living conditions.

The enhanced policy also includes a new coguarantee program and a collaboration program. Under the coguarantee program, ADB will issue a contract of guarantee for the entire amount of coverage requested but will retain only a portion of exposure under the contract with the remainder being underwritten by private political risk insurers. The collaboration program will enable private and public political insurers to offer guarantee facilities jointly with ADB, under their respective names.

The improved policy also offers a more market-oriented and transparent fee structure. In recent months, ADB has used the PRG instrument for three projects and hopes to expand its use beyond build-operate-transfer (BOT) and build-own-operate (BOO) projects in the coming years. ■

ADB On-line

Visit ADB's web site <http://www.adb.org>
or send an e-mail to information@adb.org