

in several ways. In the first place, shortfalls in food production, of which the decrease in rice yield of one million tons for 1966-67 over the previous year is an example, must be offset by imports. These imports have the direct effect of reducing already-scarce regional foreign exchange reserves; reserves which could otherwise have been employed for the importation of necessary raw materials, capital goods and spare parts for industry.

Secondly, shortfalls in the agricultural sector are frequently accompanied by rising prices, which affect industry both directly and indirectly. Directly, increased input costs to established agricultural output-processing industries are incurred. And, indirectly, as the purchasing power of the agricultural community declines, the domestic market, upon which infant industries must rely as an outlet for their manufactured goods, particularly those intended to serve as import substitutes, disappears as well. In the absence of a domestic market, industries in developing countries are unable to accumulate the revenues required to finance the costly, but vital, refinements in their methods of production and cannot hope to realize economies of scale, without which it will not be feasible to embark upon the course of international competition.

It is the expressed desire of all those concerned with the development of this region, the founders of the ADB included, to initiate the diversification of developing economies as rapidly as is practicable. The wisdom of this aim is amply borne out by the records of economies like those of Thailand, Taiwan, Korea, and that of your own country. Those four cases have demonstrated that, the higher the percentage of manufacturing in the total GNP, the higher overall economic growth tends to be. This correlation is no statistical accident; rather, it bears out the complementary nature of agriculture and industry. However, based upon the foregoing line of thinking, at least as I have endeavored to present it, the increase of agricultural production poses the critical first phase in any well-ordered program of economic development whose ultimate objective is the achievement of truly well-balanced economies.

I do not mean to imply, however, that the Asian Development Bank is now, or ever will be, a panacea for the economic ills of the region. Its institutional existence encompasses barely six months, and even in another month, when the second installment of its paid-in capital falls due, the Bank will have less than \$200 million of ordinary capital resources at its disposal, of which only a little over \$100 million will be freely convertible. Moreover, no single institution can be expected to shoulder the responsibility for the economic advancement of nearly one billion people.