

**ASIAN DEVELOPMENT BANK ACT
AMENDMENTS OF 1968**

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CONF

HEARING
BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL FINANCE
OF THE
COMMITTEE ON BANKING AND CURRENCY
HOUSE OF REPRESENTATIVES
NINETIETH CONGRESS
SECOND SESSION
ON

H.R. 13217

A BILL TO AUTHORIZE THE APPROPRIATION OF \$200,000,000
FOR A UNITED STATES CONTRIBUTION TO MULTILATERAL
SPECIAL FUNDS OF THE ASIAN DEVELOPMENT BANK

FEBRUARY 27, 1968

Printed for the use of the Committee on Banking and Currency



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ASIAN DEVELOPMENT BANK ACT AMENDMENTS OF 1968

TUESDAY, FEBRUARY 27, 1968

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON INTERNATIONAL FINANCE
OF THE COMMITTEE ON BANKING AND CURRENCY,
Washington, D.C.

The subcommittee met, at 10:05 a.m., in room 2128, Rayburn House Office Building, Hon. Henry S. Reuss (chairman of the subcommittee) presiding.

Present: Representatives Reuss, Moorhead, Gonzalez, Rees, Bingham, Widnall, Stanton, and Mize.

Mr. REUSS. Gentlemen, will you take your seats, please.

Good morning. The Subcommittee on International Finance will be in order for the hearings on H.R. 13217, a bill which would authorize the appropriation of \$200 million for the U.S. contribution to multilateral special funds of the Asian Development Bank.

Our witnesses this morning include the Honorable Eugene Black, Special Adviser to the President, and for many years a good and faithful servant of the American people; our old friend, the Under Secretary of the Treasury, the Honorable Joseph Barr; and our effective U.S. Director of the Bank, the Honorable Bernard Zagorin.

Mr. Barr, will you identify the other gentlemen for the record?

Mr. BARR. I have with me Mr. Hirschtritt and Mr. Niblock is with Mr. Black.

Mr. REUSS. I will place at this point in the record a copy of the bill—H.R. 13217; a copy of the President's message to Congress from the first session of the 90th Congress on this subject, and, thirdly, a special report of the National Advisory Council on International Monetary and Financial Policies on this legislation, dated September 26, 1967.

Without objection, they will be received.

(The material referred to follows:)

[H.R. 13217, 90th Cong., second sess.]

A BILL To authorize the appropriation of \$200,000,000 for a United States contribution to multilateral special funds of the Asian Development Bank

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That it is the sense of the Congress that—

(a) the United States national interests would be served by an expanded cooperation in a multilateral effort for the acceleration of economic and social progress of the developing nations of Asia and that this is important to the achievement of peace and stability in that region;

(b) such progress can best be advanced by the continued cooperation of regional and other interested countries;

(c) the Asian Development Bank, established as a result of Asian initiative is well designed to formulate and execute cooperative programs that will promote regional development;

(d) the United States should participate with other interested contributing countries in financing, through special funds of the Asian Development Bank, regional programs in areas such as agriculture, transportation, Mekong development and other priority areas, on terms which are not appropriate to the Bank's ordinary lending activities;

(e) in participating in such activities of the Bank, the President should insure that the contribution of the United States represents a minority of the total contributions of all contributing countries, that it is used in a manner designed to safeguard the balance of payments of the United States, and that it is devoted to meeting the priority needs of the countries of the area.

SEC. 2. In order that the United States may respond to Asian initiatives and join in a multilateral effort to provide assistance to the developing nations of Asia consistent with the provisions of section 1, there is hereby authorized to be appropriated to the President without fiscal year limitation \$200,000,000 which shall remain available until expended for United States participation in special funds of the Asian Development Bank.

THE PRESIDENT'S MESSAGE TO CONGRESS

[H. Doc. 171, 90th Cong., first sess.]

PEACE IN ASIA

To the Congress of the United States:

This generation of Americans knows the importance of peace in Asia.

Twice since 1950 we have fought for the right of small Asian nations to be free from coercion by their neighbors. In Vietnam this struggle continues. It will continue so long—and only so long—as aggression persists.

Yet lasting peace in Asia requires much more than resistance to armed aggression.

Peace will come to stay when despair gives way to hope . . . when insurrection gives way to peaceful opportunity . . . when hunger gives way to harvests.

Peace in Asia will rest on the citizen's trust—in his government, in his nation's economy, and, most of all, in his ability to improve the conditions of his life.

Asians must create this trust. Only they can decide to build the schools, the roads, the dams, and the clinics that provide the foundations of trust. Only they can decide to put aside their ancient differences and join in a common effort to improve the life of all.

There is good reason to believe that Asia has made that choice.

Hope is a living fact in the rugged hills of Korea, in the thriving cities of Thailand, and in the lush rice land of the Indonesian Archipelago.

Free Asia has determined to break the vise of poverty which has killed and maimed many more Asians than all the wars ever fought.

The nations of Asia are working together to provide more food, better housing, and more education for their growing numbers. They have given a clear signal to the world that they are ready to make the sacrifices progress demands.

And they have asked for help.

These are the facts. They are established by the reports of Mr. Eugene Black, my Special Advisor on Asian Development. They are confirmed by the many Senators and Congressmen of both parties who joined in the founding of the Asian Bank.

Mr. Black has traveled widely in Asia in the past 30 months. He has talked with nearly every Asian leader. His careful judgment is that the hopeful signs in Asia are real.

With his help, we have begun the transition from *American* programs to build Asia to *world* programs to build Asia.

The Asian Bank was born out of the belief that international cooperation is not only possible and desirable, but absolutely necessary to the growth of freedom and prosperity in Asia. It united thirty-one nations, and distributed the financial burden of assisting Asia among them.

After consultation with Mr. Black, with senior officials of the United States Government and with many members of the Congress, I propose that we join

with other nations to strengthen this international instrument of peace and progress.

I propose that the Congress authorize a United States contribution of up to \$200 million to new Special Funds of the Asian Development Bank.

This authorization will not involve any budget expenditures in Fiscal 1968,

Our contribution would be made over four years, and would constitute a minority share of total contributions to the Special Funds.

This must not and will not be an American effort alone. The development of the most populous region of the earth affects every nation. It must be supported by all who are able to help.

Several leaders of the Congress and the Nation have urged that we transform the bulk of our foreign assistance from bilateral aid programs to multilateral, cooperative efforts where all the wealthy nations of the world join to help the developing nations through the World Bank, regional development associations, and other multilateral arrangements.

We look to the day when our foreign assistance can be handled under those arrangements.

The proposal I make today is a step in this direction. It is an example of multilateral assistance that we fervently hope will be followed increasingly in the years ahead in Asia and throughout the developing world.

THE PEACEFUL REVOLUTION IN ASIA

Free Asia has done more in the last two years to create a true community of interest among its peoples than in all the long centuries that went before. Here is part of that extraordinary record:

- Asian initiative founded the Asian Development Bank with assets of \$1 billion, to finance development projects throughout the great arc from Afghanistan to Korea.
- Nine nations joined to form the Asian and Pacific Council, the first regular forum for discussion of the full range of Asian problems.
- The nations of Southeast Asia and Indonesia formed a subregional association to foster better understanding and economic cooperation.
- The Mekong Coordinating Committee and other existing agencies moved with new energy and urgency, producing such important projects as the Nam Ngum Dam in Laos.

Asians are gaining new insights into the needs of their region:

- The Asian Development Bank is sponsoring a comprehensive study of Asian agriculture which will identify the specific projects necessary to meet the food crisis of the next decade.
- The Southeast Asian Ministers of Education are planning regional centers of academic excellence, to open the way toward improved education, more broadly shared among their peoples.
- Led by Malaysia, representatives of eight Asian nations met last week to plan the transportation and communications networks Asia needs to achieve trade, travel and economic integration.

These are the beginnings of a peaceful revolution in Asia—a constructive revolution which serves not just the interests of the United States, but of all humanity.

It is a revolution which seeks to build, not to destroy; to succor, not to subvert.

But planning is only the first stage. Blueprints must become bricks and mortar.

Most of the money Asia needs must come from the Asians themselves. Some will come from the World Bank, from national aid programs, and from private sources. Some will come from the ordinary capital of the Asian Bank. But there remains a gap, particularly for projects in the most critical areas—agriculture, education, transportation and development of the Mekong River Basin.

It is that gap that I propose we help close.

THE PROPOSAL

Experience in the World Bank and with regional development banks suggests that development finance requires two different and separate funds:

- Ordinary capital*, largely to finance the foreign exchange costs of projects which have a relatively rapid and direct return on investment, and
- Special Funds*, for longer-term loans at lower interest rates, to finance the foreign exchange costs of projects such as schools and roads which do not yield immediate financial returns, but which add powerfully to economic growth.

This is the investment structure of the World Bank and the Inter-American Development Bank. The 31 member nations of the Asian Development Bank have determined that it should also be the structure of their organization.

The Asian Bank now has subscriptions totalling \$1 billion in *ordinary capital*. This appears sufficient for the foreseeable future.

Today's need is for *Special Funds* to complement the ordinary capital. Development cannot be limited to projects which can be financed at commercial interest rates. Where there are factories and power plants there must also be dependable all-weather roads, farm equipment, and clean water supplies. The Bank must be able to lend for these long-term, as well as for short-term, necessities.

The Government of Japan has already announced that it will contribute \$100 million to these Special Funds, mainly to support projects in agriculture. The Government of Canada indicated its willingness to contribute at the Asian Bank's inaugural meeting. Other governments have contributions under consideration.

I propose that the United States pledge up to \$200 million to be provided over four years, on the following conditions:

- The United States contribution must comprise less than one-half of the Special Funds. The Executive Branch would make every effort to assure that our share of total contributions is as modest as possible.

- Because of our balance of payments problem, our contributions must be available only for the purchase of United States goods and services for use in Asia.

- The Funds will be used only on the firm understanding that they will supplement, not supplant, the efforts of Asian nations to help themselves. *Self-help will be the watchword in these programs, just as it is for all our foreign assistance.*

This proposal would result in no cash disbursements during this fiscal year. Appropriations would be sought from the Congress as other contributors pledge their share to the Special Funds.

I believe this proposal represents our fair share.

I believe it protects our vital interests in Asia.

I believe it provides the American taxpayer with the assurance he demands, and deserves, that his money will be put to careful and productive use.

THE ASIAN FUTURE

It is hard for any of us to visualize the face of Asia in the decades ahead. Caught up in the trials and frustrations of the day, many people assume that the poor will always be poor, and that this new wave of Asian determination will falter and dissolve.

But Americans know what can be done with natural resources. We know that a single river can transform the lives of millions. Properly developed, it can provide food, jobs, and transport. It can be an avenue to the bounty of modern life.

What has worked here will work in Asia.

Flowing through Thailand, Laos, Vietnam and Cambodia, the Mekong river drains an area 60% the size of the Missouri Basin. But only 8½ million people live in the Missouri Basin. Thirty million draw their sustenance from the lands surrounding the Mekong. The Mekong's flow is eight times greater than the Missouri's, and its hydroelectric potential is two to three times as great.

Ten solid years of work have already gone into careful and comprehensive planning for the Mekong area. The Mekong Coordinating Committee, along with 23 donor nations and 18 United Nations agencies, have:

- invested \$30 million in the most detailed study of the area.

- invested \$70 million in three major projects which set the stage for full development of the region.

- identified 34 potential tributary dam sites and completed detailed studies on 11 of them.

- conducted feasibility studies on 3 of the 12 potential mainstream dam sites.

These are examples of the sound ideas and projects which will be financed by the Special Funds I propose today. They are the Asian equivalents of the Erie Canal, the Transcontinental Railroad, and the land-grant college system which transformed our own society.

These are the productive works which build nations. They carry with them social progress as well as economic growth. Our decision to support them is a test of faith in our own vision. Meeting that test is as important to us as it is to Asia.

More than two years ago, when I first announced our willingness to respond to Asian initiatives, I said:

"I would hope that all other industrialized countries, including the Soviet Union, will join in this effort to replace despair with hope, and terror with progress."

The task is nothing less than to enrich the hopes and the existence of more than a hundred million people. And there is much to be done."

Much has been done since then—more than we could reasonably have hoped. Thirty-one nations have joined to build a Bank, and the nations of Free Asia have joined to strengthen a continent.

The task now is to capitalize on the progress of the past 30 months.

The Congress knows this record of progress. Its Members have been deeply involved in the birth and growth of the Asian Development Bank.

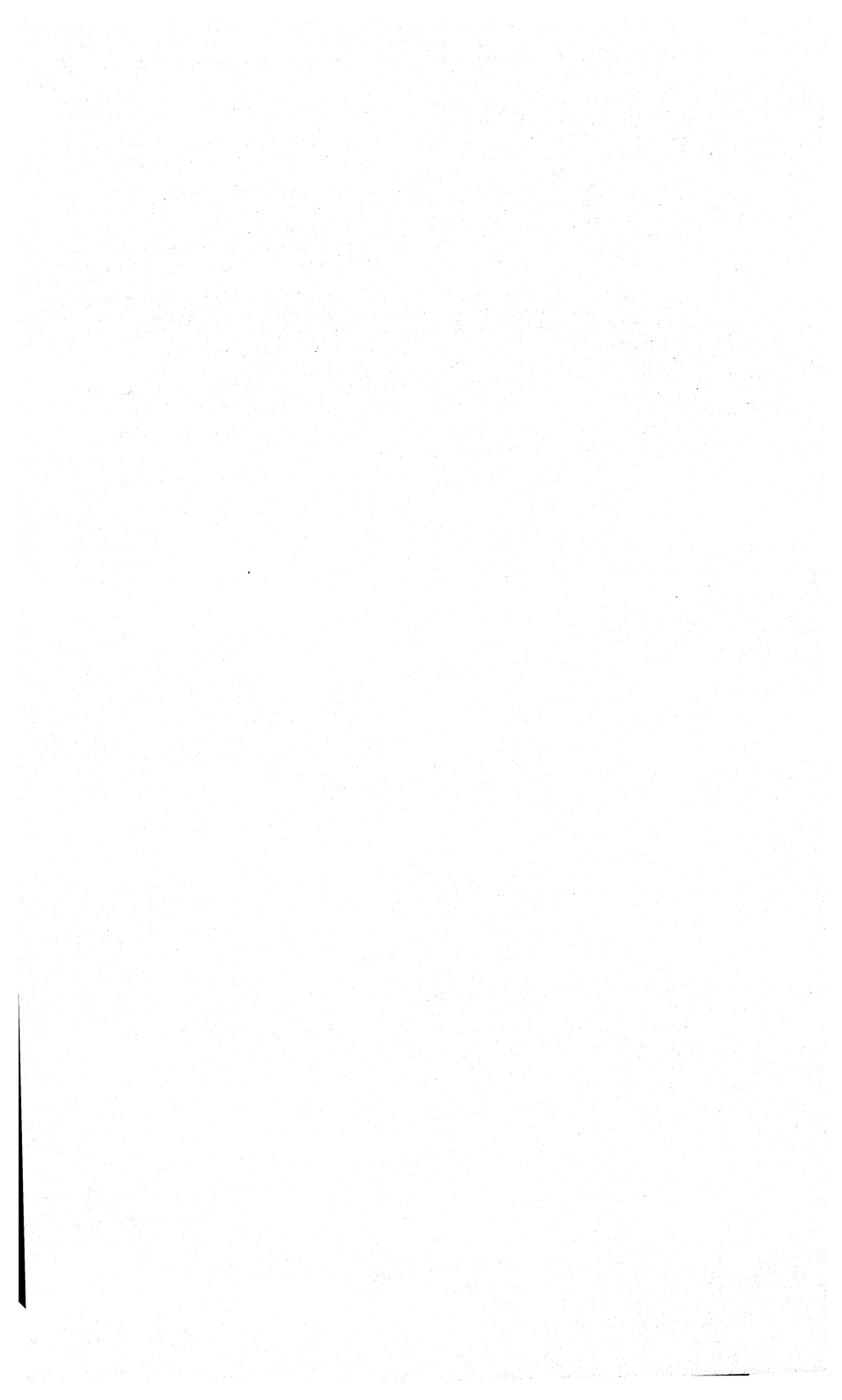
Now the question is whether the United States will join other nations to provide the Bank with a new dimension of productive effort in the basic areas of human need.

The United States knows many needs in this critical hour. Many worthy causes compete for our time, our attention, and our limited resources. In the last analysis, only the people's representatives in Congress can decide where the priorities lie.

I offer this proposal because I believe whatever we do to strengthen Asia, and to enable her people to achieve security and growth in the years ahead, is in our national interest—and thus deserves consideration among our national priorities. In that spirit and with that understanding, I urge its consideration by the Congress.

LYNDON B. JOHNSON.

THE WHITE HOUSE, *September 26, 1967.*



SPECIAL REPORT OF THE NATIONAL ADVISORY
COUNCIL ON INTERNATIONAL MONETARY
AND FINANCIAL POLICIES

LETTER

FROM

THE NATIONAL ADVISORY COUNCIL
ON INTERNATIONAL MONETARY
AND FINANCIAL POLICIES

TRANSMITTING

THE SPECIAL REPORT OF THE COUNCIL ON U.S.
PARTICIPATION IN PROPOSED SPECIAL FUNDS OF
THE ASIAN DEVELOPMENT BANK



SEPTEMBER 28, 1967.—Referred to the Committee on Banking and
Currency, and ordered to be printed

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LETTER OF TRANSMITTAL

THE SECRETARY OF THE TREASURY,
Washington, September 26, 1967.

Hon. JOHN W. McCORMACK,
Speaker, House of Representatives,
Washington, D.C.

DEAR MR. SPEAKER: The National Advisory Council on International Monetary and Financial Policies transmits herewith its special report on U.S. participation in proposed special funds of the Asian Development Bank.

The Council recommends Congressional authorization of a U.S. contribution of up to \$200 million to special funds under the administration of the Asian Development Bank. As indicated in the report, these funds would be used to support regional economic development, primarily in Southeast Asia. U.S. funds would represent a minority share of the total provided by developed countries, and would be used to finance exports of U.S. goods and services. The proposal involves no budget expenditures in fiscal year 1968.

Copies of the report are also being submitted to the President and to the President of the Senate.

Sincerely yours,

JOSEPH W. BARR,
Acting Secretary of the Treasury, Acting Chairman, National
Advisory Council on International Monetary and Financial
Policies.

NICHOLAS DEB. KATZENBACH,
Acting Secretary of State.

ALEXANDER B. TROWBRIDGE,
Secretary of Commerce.

ANDREW F. BRIMMER,
Member, Board of Governors, Federal Reserve System.

WALTER C. SAUER,
First Vice President and Vice Chairman, Export-Import Bank of
Washington.

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REPORT OF THE NATIONAL ADVISORY COUNCIL ON INTERNATIONAL MONETARY AND FINANCIAL POLICIES ON SPECIAL FUNDS OF THE ASIAN DEVELOPMENT BANK

I. SUMMARY OF PROPOSALS AND RECOMMENDATIONS

The United States joined last year with 30 other countries in establishing the Asian Development Bank. That institution is now completing its organizational phase and is well on the way toward full operational status in the financing of economic development among its Asian member nations. The Bank's normal operations are to consist of development financing on conventional terms along the lines proven over time by the World Bank and, on the regional level, by the Inter-American Development Bank. The process of economic development, however, requires the financing of projects that cannot be handled on conventional repayment terms. For such projects, special funds must be made available on terms adapted to the repayment capacity of the borrowing country. This report deals with a proposal that the United States join with other advanced countries in equipping the Asian Development Bank with special funds which it will administer as contemplated under its charter and which will complement its normal loan operations.

The Asian Development Bank is itself one of the first fruits of a new spirit of regional economic cooperation in Asia. Special funds administered by the Asian Development Bank will play a vital role in carrying forward the momentum of economic cooperation already achieved among the Asian countries themselves. Planning for a number of specific forms of such Asian regional cooperation is now in an advanced stage. The Asian Bank has accepted in principle the administration of a fund to speed agricultural development in the region; a comprehensive program for development of the Mekong River Basin is being formulated through the mechanism of the Mekong Committee with assistance of the United Nations; and a plan for a regionally integrated system of transportation and communications in Southeast Asia is being developed by a regional group of the nations involved. Financing of these broad programs—which are primarily focused on Southeast Asia—as well as key individual projects for which multilateral support is forthcoming, would be the main purposes for the special funds now being proposed. Such financing cannot be carried out with the resources made available earlier for the Bank's ordinary operations.

As indicated in his State of the Union message in January 1967, President Johnson is requesting legislative authority for U.S. contributions of up to \$200 million for a 4-year period for special funds of the Asian Development Bank. U.S. contributions to such funds would represent a minority of the total, the balance being made up of contributions by other developed countries. Every effort would be made to assure that the U.S. share of total contributions is as modest as possible. Consistent with current policies related to the U.S. balance-

of-payments position, U.S. contributions would finance only the export of U.S. goods and services needed for projects and programs financed by special funds. No cash disbursements would occur during fiscal year 1968.

The National Advisory Council has carefully considered the present proposal from the standpoint of U.S. financial and economic objectives and the economic development objectives of the countries involved and from the standpoint of the benefits deriving from intensified regional cooperation among the countries of Asia. In the Council's view, a U.S. investment in special funds under the administration of the Asian Development Bank, like our subscription to the capital of the Bank itself, will serve U.S. interests by promoting peaceful economic relations in Asia.

Special funds will, moreover, take advantage of the demonstrated willingness of other developed countries, Asian and non-Asian alike, to increase their degree of support for development of the Asian region through the multilateral channel of the Asian Development Bank. Thus our interest in a more equitable sharing of the cost of development assistance will be helped by the establishment of such funds. Without an affirmative U.S. response to the initiatives now being mounted by the countries in the region, the forward direction of these initiatives will falter. We strongly recommend, therefore, passage of legislation to give the President authority to support this most promising of avenues toward lasting peace in Asia.

II. BACKGROUND

A. ASIAN DEVELOPMENT BANK

The Asian Development Bank came into formal existence in August 1966 upon the ratification of its Articles of Agreement by the United States and 14 other countries. The Bank, which has its headquarters in Manila, now has a membership of 31 countries, 19 of them Asian and 12, including the United States, from outside the Asian region. Membership of a 32d country, Switzerland, is in process. The Bank's authorized capital is \$1,100 million, of which \$965 million has been subscribed by the present membership.

The creation of the Bank is the result of Asian initiatives which gathered momentum in late 1963 and 1964 under the auspices of the United Nations Economic Commission for Asia and the Far East (ECAFE). Intensive preparatory work on the Bank was undertaken in 1965 by a committee of nine Asian nations. Mr. Eugene Black—the President's Adviser on Asian Economic and Social Development and former president of the World Bank—worked closely with the Asian group during this period. The decisive event insuring that the Asian effort would have major support from outside the Asian region was President Johnson's announcement in April 1965 that the United States would be prepared to become a member of a properly conceived Asian Bank. By the fall of 1965, Articles of Agreement for the Bank had been negotiated among the Asian and interested non-Asian countries and in December 1965, an Agreement embodying the proposed Articles was signed at Manila, subject to ratification by Governments. Mr. Eugene Black and Under Secretary of the Treasury Joseph W. Barr signed the Agreement on behalf of the United States.

Legislation providing for U.S. membership in the Bank was submitted to the Congress in early 1966. Congressional support was bipartisan and prompt. On March 16, 1966, the President signed Public Law 89-369, authorizing U.S. membership in the Bank with a subscription of \$200 million. The first installment of subscriptions to the Bank was paid in September 1966. In November 1966, the Bank Governors held their inaugural meeting in Tokyo, at which Takeshi Watanabe, of Japan was elected the Bank's first President. The Bank's first Board of Directors was also elected at this meeting. In December 1966, the Directors held their first formal meeting and declared the Bank open for business. Since that time the Management has been actively engaged in assembling a staff of high caliber, in making the necessary arrangements for the effective conduct of the Bank's operations and in formulating operational policies that will guide the Bank. It is estimated that the Bank's first loans will be made late this year.

B. SUBSCRIPTIONS TO THE BANK

Half of each member country's subscription to the Bank's capital stock consists of paid-in shares and half consists of shares that are callable only if necessary to make good on borrowings by the Bank. Payment of the paid-in capital stock is in five equal annual installments of 20 percent each and half of each installment may be paid in noninterest bearing notes or similar obligations instead of in cash. Of the U.S. subscription of \$200 million, therefore, \$100 million represents paid-in capital and \$100 million represents callable capital. The first and second of our five \$20 million installments of paid-in capital have been paid, and three further \$20 million installments will be paid in August of 1968 and the 2 succeeding years. Each of these payments consists of \$10 million in cash and \$10 million in a letter of credit which bears no interest and will be drawn only in future years when the Bank's disbursement operations require. The \$100 million of U.S. callable capital was fully subscribed—no cash payment was required—concurrent with the first payment on paid-in capital.

The U.S. subscription to the Bank is exactly matched by the \$200 million subscription of Japan. In addition, other nonregional countries are providing subscriptions totaling \$150 million. Australia and New Zealand, within the region, are subscribing \$85 million and \$22.6 million respectively. Thus the total subscriptions by economically advanced countries, including the United States, is \$657.6 million. The subscriptions of the developing country members of the Bank total \$307.4 million. The paid-in subscriptions of the economically advanced countries are payable entirely in hard currencies, whereas the paid-in subscriptions of the developing members are payable one-half in hard currencies and one-half in their own currencies. When payments have been completed, hard currency availabilities of the Bank will total \$367.21 million. The U.S. paid-in subscription represents 30.4 percent of the paid-in subscriptions of the advanced countries, 24.7 percent of the hard currencies available to the Bank, and 20.7 percent of total paid-in subscriptions of all countries including those of the developing member countries.

Table 1 shows the subscriptions of member countries as of June 30, 1967.

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TABLE 1.—*Subscriptions to the original authorized capital stock of the Asian Development Bank (as of June 30, 1967)*

Part A. Regional Countries		Part B. Nonregional Countries	
[Amount of subscription (in million U.S. dollars)]		[Amount of subscription (in million U.S. dollars)]	
1. Afghanistan.....	4.78	1. Austria.....	5.00
2. Australia.....	85.90	2. Belgium.....	5.00
3. Cambodia.....	3.50	3. Canada.....	25.00
4. Ceylon.....	8.52	4. Denmark.....	5.00
5. China, Republic of.....	16.00	5. Finland.....	5.00
6. India.....	93.00	6. Germany, Federal Republic of.....	34.00
7. Indonesia.....	25.00	7. Italy.....	20.00
8. Japan.....	200.00	8. Netherlands.....	11.00
9. Korea, Republic of.....	30.00	9. Norway.....	5.00
10. Laos.....	.42	10. Sweden.....	5.00
11. Malaysia.....	20.00	11. United Kingdom.....	30.00
12. Nepal.....	2.16	12. United States.....	200.00
13. New Zealand.....	22.56		
14. Pakistan.....	32.00	Total.....	350.00
15. Philippines.....	35.00		
16. Republic of Vietnam.....	13.00	Total.....	965.00
17. Singapore.....	5.00		
18. Thailand.....	20.00		
19. Western Samoa.....	.06		
Total.....	615.00		

C. BORROWING BY THE BANK

The Bank's subscribed funds may be supplemented by Bank borrowing in member countries or elsewhere against the backing of the callable capital. No borrowing may take place in the territory of a member or in the currency of a member, however, without the prior approval of that member. The Bank may also add to its lendable resources by selling portions of loans from its portfolio, with or without a written guarantee providing again that the prior approval of the member in whose territory the loans are sold is obtained. It is not expected that the Bank will be in a position in the early years to obtain funds in significant amounts from private capital markets. Accordingly, the Bank will rely for its early period of ordinary operations on its subscribed capital. When the Bank does commence borrowing, the Articles require it to follow the principle of spreading its borrowing equitably among the various financial markets, thus avoiding undue concentration on any one financial center.

D. VOTING

As in the other financial institutions of which the United States is a member, a system of weighted voting is in effect in the Asian Development Bank, that is, voting strength varies according to the size of the country's subscription. On the basis of present subscriptions, the United States exercises 17.23 percent of the vote, both in the Board of Governors (which consists of a Governor—usually the Secretary of the Treasury, Minister of Finance, or Central Bank Governor—for each member country) and in the Board of Directors, which exercises day-to-day supervision of the Bank's management. There are at present 10 Directors, one from the United States, two

from other nonregional countries and seven from the Asian region. Table 2 shows the distribution of voting strength in the Bank as of June 30, 1967.

TABLE 2.—ASIAN DEVELOPMENT BANK
A. ALLOCATION OF VOTING RIGHTS OF REGIONAL MEMBER COUNTRIES

Country	Amount of subscriptions (in millions)	Basic votes	Proportionate votes	Total votes	Percent distribution of regional voting rights	Percent distribution of total voting rights
Afghanistan.....	\$4. 78	778	478	1,256	1. 65	1. 04
Australia.....	85. 00	778	8,500	9,278	12. 16	7. 69
Cambodia.....	3. 50	778	350	1,128	1. 48	. 94
Ceylon.....	8. 52	778	852	1,630	2. 14	1. 35
China, Republic of.....	16. 00	778	1,600	2,378	3. 12	1. 97
India.....	93. 00	778	9,300	10,078	13. 21	8. 36
Indonesia.....	25. 00	778	2,500	3,278	4. 30	2. 72
Japan.....	200. 00	778	20,000	20,778	27. 24	17. 23
Korea, Republic of.....	30. 00	778	3,000	3,778	4. 95	3. 13
Laos.....	. 42	778	42	820	1. 07	. 68
Malaysia.....	20. 00	778	2,000	2,778	3. 64	2. 30
Nepal.....	2. 16	778	216	994	1. 30	. 82
New Zealand.....	22. 56	778	2,256	3,034	3. 98	2. 52
Pakistan.....	32. 00	778	3,200	3,978	5. 21	3. 30
Philippines.....	35. 00	778	3,500	4,278	5. 61	3. 55
Republic of Vietnam.....	12. 00	778	1,200	1,978	2. 59	1. 64
Singapore.....	5. 00	778	500	1,278	1. 68	1. 06
Thailand.....	20. 00	778	2,000	2,778	3. 64	2. 30
Western Samoa.....	. 06	778	6	784	1. 03	. 65
Regional total.....	615. 00	14,782	61,500	76,282	100. 00	-----

Note: Figures may not tally due to roundings. Data as of June 30, 1967.

B. ALLOCATION OF VOTING RIGHTS OF NONREGIONAL COUNTRIES

Country	Amount of subscriptions (million dollars)	Basic votes	Proportionate votes	Total votes	Percent distribution of regional voting rights	Percent distribution of total voting rights
Austria.....	\$5	778	500	1,278	2. 88	1. 06
Belgium.....	5	778	500	1,278	2. 88	1. 06
Canada.....	25	778	2,500	3,278	7. 39	2. 72
Denmark.....	5	778	500	1,278	2. 88	1. 06
Finland.....	5	778	500	1,278	2. 88	1. 06
Germany, Federal Republic of.....	34	778	3,400	4,178	9. 42	3. 46
Italy.....	20	778	2,000	2,778	6. 27	2. 30
Netherlands.....	11	778	1,100	1,878	4. 24	1. 56
Norway.....	5	778	500	1,278	2. 88	1. 06
Sweden.....	5	778	500	1,278	2. 88	1. 06
United Kingdom.....	30	778	3,000	3,778	8. 52	3. 13
United States.....	200	778	20,000	20,778	46. 86	17. 23
Nonregional total.....	350	9,336	35,000	44,336	100. 00	-----
All-member total.....	965	24,118	96,500	120,618	-----	100. 00

E. ORDINARY OPERATIONS

The Bank's hard loan operations will normally take the form of direct loans from capital funds or funds borrowed in private markets, on terms similar to those of World Bank loans to developing countries. World Bank loans are presently made on terms of 6 percent with maturities normally up to 25-30 years. The Bank's Articles also confer authority to guarantee loans made by others and, at a future time to be decided, to invest in equity capital of entities or enterprises.

Convertible currencies used for ordinary loans would normally cover only the foreign exchange costs of projects. The Bank may also provide local cost financing by use of its local currency holdings, and only in special cases may the Bank use convertible currency for a portion of local costs involved. In addition to its direct loans for particular projects, the Bank could lend to national development banks which would sublend for smaller projects. No loan could be made in a country if the government of the country objects. The guarantee of the government is not required if the loan is not to the government itself. The Bank may, however, if it deems it desirable, require such a guarantee. The Bank must pay due regard to the ability of the borrower to find financing elsewhere on reasonable terms before it approves a loan.

The Articles do not specify any particular types of development projects for emphasis in the Bank's ordinary lending operations. Loans may be extended for the usual infrastructure projects such as roads, ports, power, and the like, for agricultural projects such as irrigation systems and agricultural credit institutions, and for private enterprise activities in manufacturing and service industries. While specific loan terms are not prescribed, the Bank is required in its first 5 years of operation to charge a commission on its ordinary loans of 1 percent, the proceeds of which must be held in a special liquid reserve to meet possible future liabilities of the Bank. Such a special reserve was a feature of the charters of both the World Bank and the Inter-American Development Bank. The subscribed resources of the Bank may be used only for procurement in Bank member countries or, in special circumstances, in a country which permits the Bank to raise a significant amount of capital in its markets.

F. AUTHORITY FOR ASIAN BANK ADMINISTRATION OF SPECIAL FUNDS

From the outset, the Asian Development Bank was designed as a financial institution that would have at its disposal resources for both ordinary operations and special operations. Articles 9 and 10 of the Bank's Articles of Agreement draw the distinction between operations with each of these types of resources and prescribe that the ordinary capital resources and special fund resources "shall at all times and in all respects be held, used, and committed, invested, or otherwise disposed of entirely separate from each other." Article 19 of the Bank's charter, after providing that the Board of Governors may by a special vote set aside not more than 10 percent of the paid in capital of the Bank for special funds purposes, states that the Bank may—

"* * * (ii) accept the administration of special funds which are designed to serve the purpose and come within the functions of the Bank * * * [Such Funds] may be used in any manner and on any terms and conditions not inconsistent with the purpose of the Bank and with the agreement relating to such funds * * *

It was thus clearly the intention of the drafters of the Bank Articles that the institution be endowed with all necessary powers to accept and administer funds with which to carry on special financing operations.

Administration spokesmen presenting the Asian Development Bank bill to the Congress clearly outlined the great potential of the Bank's special fund powers. In a special report accompanying the President's

submission of legislation to the Congress in January 1966, Secretary of the Treasury Henry H. Fowler said "The Bank could not only provide needed new capital of its own but also made available to it by developed countries on special terms and for special purposes, as for example a portion of the President's Southeast Asian multilateral program for economic and social development." No firm plans for submission of a request for authority to participate in special funds had been formulated at the time of the original submission of the Asian Bank legislation, and Administration representatives made it clear that such U.S. participation would have to be pursuant to new authority granted by the Congress.

In his State of the Union message last January, President Johnson announced his intention of seeking \$200 million as a U.S. contribution over a period of years to be administered by the Asian Development Bank.

The Administration's preliminary views as to special funds and their relationship to new regional programs in Asia were outlined to Congressional committees in March and May by Mr. Black.

The balance of this report is devoted to an analysis of the objectives and mechanisms involved in the proposal for which the President is requesting a \$200 million, 4-year authority from the Congress.

III. ANALYSIS OF THE PROPOSAL

A. THE PROPOSAL IN BRIEF

The proposal now being submitted to the Congress would provide the basis for implementing those provisions of the Charter of the Asian Development Bank that will enable it to engage in lending in support of regional development projects and programs in Asia on the easier financial terms such projects and programs require. From the U.S. viewpoint, the proposal is to authorize \$200 million for appropriation over a 4-year period which would be used to contribute the U.S. share of multilateral special funds under the Bank's administration. In order to avoid any unfavorable impact on the U.S. balance of payments, our contribution would in fact take the form of U.S. goods and services.

In order to assure a multilateral character to the fund and an appropriate sharing of the burden, the United States would make its contribution available only to the extent other advanced countries contribute the majority of the resources for special funds so that our contribution would constitute a minority of the total. These multilaterally shared funds would be used to finance high priority development projects, primarily in Southeast Asia. In immediate prospect are special funds for regional agricultural development, development of the Mekong River Basin and a regional transportation and communications program in Southeast Asia. Individual projects for which multilateral financing could be arranged but which were outside the scope of these three broad programs might also be handled as special funds under Asian Bank's administration. Thus, use of some of the funds under the Bank's administration in high-priority projects in member states in other parts of the Asian region than Southeast Asia

would not be excluded. The funds could, in addition, finance technical assistance that would support the overall purposes for which special funds are established.

Existing programs of financial assistance to the countries of Asia, both bilateral and multilateral, are not explicitly aimed at furthering the process of regional economic cooperation. Asian Bank special funds on the other hand, would be so designed, consistent with a fundamental purpose of the charter of the Asian Bank itself. The limited proportion of the Bank's own capital available for lending on terms appropriate for special funds is inadequate in relation to the needs for financing of this type. Early establishment of special funds in the Asian Bank is intended to equip that Bank with the full range of financial facilities necessary to meet the request for financing the Bank will receive over the years ahead. The Congress has already recognized the importance of such a facility in association with hard lending development institutions by its agreement to U.S. participation in the International Development Association and the Fund for Special Operations of the Inter-American Development Bank.

B. SHARING OF CONTRIBUTIONS

It is inherent in the nature of special funds that the particular projects and programs financed will be of different degrees of interest to different advanced countries which are contributing to special funds. This will be particularly true of the smaller of the economically advanced countries, whose programs of development assistance may be directed to a particular sector. For a particular program or project, the exact list of contributor countries and the specific amounts they are prepared to put up cannot be known until international negotiations have taken place and a satisfactory financial plan is approved by the Board of Directors of the Asian Development Bank.

In the circumstances of the newly established Asian Development Bank, it appears to the National Advisory Council that the practical approach would be the establishment of an overall limit on the share the United States should take of financial contributions to special funds as a whole. In the normal case, our concern is that the aggregate of the contributions of the other developed countries should represent a reasonable sharing of burdens, and not that there be a particular distribution of the contributions among the other contributors. The Council recognizes that in past proposals for U.S. participation in financial institutions, a fully negotiated agreement, indicating specific countries and the amount each would provide, was available at the time of the approach to Congress by the Administration. Although such an approach is preferable when feasible, U.S. goals and objectives would be benefited by our being in a position, through the proposal as now structured, to respond in a timely manner to Asian initiatives.

In the present situation in Asia, planning has already gone forward in different forums for the initial objects of special funds financing. Somewhat different clusters of advanced countries have indicated their interest in the different programs. Because of their differing histories, these programs are likely to come to the point of financing at different times. In these circumstances, the Council endorses the concept that an appropriate burden sharing should be achieved by

establishment of the principle that U.S. contributions to these various funds will on the average constitute a minority of the total contributions from all participating developed countries, measured over reasonable periods of time, say annually. This concept will permit the Congress to be assured that U.S. funds will not be made available unless an appropriate volume of funds from other countries is also made available, without requiring in advance the specific distribution of other country funds. It should be pointed out that it would not be inconsistent with an overall U.S. minority position on the average, for the U.S. contribution to a specific fund to be in excess of this average, provided our share of other funds is correspondingly below the average.

C. PROJECTS AND PROGRAMS TO BE FINANCED UNDER SPECIAL FUNDS

The programs to be financed out of special funds administered by the Asian Development Bank will all share one important characteristic with the Bank itself: they will all be Asian initiatives, emanating from the cooperative judgments and pooled energies of the nations of the region. U.S. funds would be offered to encourage and support those initiatives that are soundly based and bear the endorsement of Asia's own regional financial institution. In some cases, proposals for special fund financing may be initiated within the Asian Bank, elaborated by its staff and brought to fruition in consultation with representatives of the developing and developed countries involved. In other cases, the Asian Bank will build upon work already done in other forums of Asian regional cooperation; for example, the Ministerial Conference on Southeast Asia Economic Development and the United Nations-sponsored Mekong Committee. The paragraphs that follow describe the major uses now foreseen for the special funds toward which the United States would contribute the \$200 million currently being sought from the Congress.

Special Agricultural Fund (SAF).—In one of their early major decisions, the Directors of the Asian Development Bank in April 1967, acknowledged the importance and urgency of agricultural development in the region, and accepted in principle the idea of a Special Agricultural Fund (SAF) under the administration of the ADB. The Management of the Bank having recruited an international task force of distinguished agricultural experts is now surveying the needs of the region. The task force is expected to complete its report late this year and thereby to provide the Bank with a sound basis for the operations of the Special Agricultural Fund.

The Asian Bank's decision to undertake the establishment of a Special Agricultural Fund was taken against the background of more than a year of increasing concern and activity on the part of Asian governments regarding stepped up production in the agricultural sector. The Japanese Government played an especially active role by convening, in April 1966, a ministerial meeting of Southeast Asian countries devoted to economic and social development. This conference, in turn, voted to hold a special conference in Tokyo in December 1966 to study agricultural development, and from the latter conference emerged a resolution calling on the Asian Bank to establish and administer a Special Agricultural Fund.

With the basic decision on establishment of a Special Agricultural Fund taken and the work of the task force of agricultural experts getting underway, the Asian Bank is now focusing on the preparation of a detailed statement of the operating principles of the fund. The recommendations of the Management in this regard will take into account the views of the United States and other governments and will be discussed by the Board of Directors of the Bank during the coming months. Among the types of projects which may be expected to be financed by the proposed Special Agricultural Fund are the following:

(a) Projects or programs for the improvement of agricultural infrastructure such as those for irrigation and drainage, land improvement and reclamation;

(b) Projects or programs for the introduction or the improvement of farmers organizations such as credit cooperatives and of marketing facilities for agricultural products;

(c) Projects or programs related to manufacture of the materials directly necessary to stabilize or to increase agricultural production, or those related to simple processing of agricultural products to improve their marketability;

(d) Projects or programs for research and extension or agricultural techniques;

(e) Other projects or programs designed to achieve economic and social progress in rural communities.

Financing provided under administration of the Asian Development Bank for projects and programs of these and related types will be of great importance in attacking the problem of the "food gap" in east Asia, which by 1970 will be an acute problem. Indonesia, the Philippines, Malaysia, Laos, and Vietnam do not now produce enough rice to feed their populations. Exports of two of the region's principal rice producers—Burma and Cambodia—declined markedly this year. Increasing populations place additional pressures upon traditional agricultural patterns and thus further widen the food gap. A Special Agricultural Fund in the Asian Bank would permit financing of direct efforts to reduce the food gap just described through loans and technical assistance not available from the Bank's ordinary resources.

In view of the strong Japanese support for a Special Agricultural Fund, it may be expected that—as in the Asian Bank's ordinary capital—the Japanese would provide an important share of total contributions. It is anticipated the U.S. share in this particular fund will be no greater than that of Japan. A substantial portion of the \$200 million authority would be used for our contribution to a Special Agricultural Fund under the Bank. A significant volume of contributions from other advanced countries would also be sought.

Mekong Development Program.—In May 1967, the Executive Agent of the Mekong Committee initiated preliminary discussions with the President of the Asian Development Bank regarding the longer term relationship between the Committee and the Bank and the possibility of establishing a Mekong Development Fund under the Asian Development Bank. (The Mekong Committee is a four-nation planning and coordination body established in 1957 by Thailand, Laos, Cambodia, and South Vietnam, under the auspices of the U.N. Economic Commission for Asia and the Far East [ECAFE].) Such a Fund would provide resources for further feasibility surveys in the Lower Mekong River Basin and, as priority projects are identified, for the capital requirements of constructing such projects.

The economic potential of the region that would be served by a Mekong Special Fund in the Asian Bank is vast. The Mekong River has a total length of 2,600 miles, longer than the Mississippi proper. The Lower Mekong (below China) is 1,500 miles long. The drainage area of the Lower Mekong is some 238,000 square miles (equal to the area of California and New York State combined), with a population of 30 million people.

In addition to the substantial benefits in terms of flood control and navigation improvement, the potential capacity of proposed dams has been estimated at 14 million kilowatts, and the irrigation potential placed at 9 million acres. Development of the Mekong could make a significant contribution to increased food production in Asia. Over the last 10 years, some 27 nations have contributed about \$40 million for data gathering and studies necessary to determine the Mekong River's characteristics as a basis for formulating an overall basin development plan. The United States has provided approximately \$13 million toward this effort. Roughly \$70 million has been provided or pledged during the last decade for construction of projects within the Mekong program, and again the United States has made available about \$13 million of this.

The following types of activities would be expected to benefit from special fund financing under the Asian Development Bank:

(a) Feasibility studies on potential main-stream damsites (three such studies are now in progress; nine further ones remain to be done).

(b) Feasibility studies on tributary damsites (11 such studies have been completed and a further 23 remain to be done).

(c) Construction financing for dam projects that provide power, irrigation, or both to the riparian states.

(d) Feasibility studies of bridge crossings (to date the main channel of the Mekong has no bridges along its entire bank), cargo handling and boatbuilding facilities, and improvement of the navigation channel.

(e) An overall appraisal of the existing Mekong development program by competent international experts in the field of river basin and area development.

The operating relationship and division of responsibilities between the Asian Development Bank and the Mekong Committee will have to be worked out between those two bodies. The Council envisions that their agreement might provide that the Asian Bank would supply multilateral financial management and administration of operational arrangements in connection with Mekong projects. Such projects are expected to contribute significantly to implementation of a comprehensive development program in the Mekong Basin. The Bank could examine, and if it found them acceptable, could finance out of special funds major capital projects referred to it by the Mekong Committee. For its part, the Mekong Committee could provide the main forum in which the riparian countries discuss their mutual development priorities and problems and regional plans for coordinated economic development. Through the Mekong Committee, the riparian countries could consider the international agreements and policies that must guide the joint development and control of the Mekong River water resources for navigation, irrigation, flood control, and electric power generation and transmission. The Bank

may at the same time be financing projects in the Mekong Basin from its ordinary capital resources, based on applications submitted directly to it by the relevant governments.

Southeast Asia Regional Transportation and Communication Fund.—Special funds of the Asian Bank could be used to support a comprehensive plan of transportation and communications development in Southeast Asia. Implementation of such a plan would contribute directly to regional economic integration and thereby support a basic policy of the Asian Bank. Representatives of Southeast Asian countries met earlier this month "to consider measures for improving coordination of transport and communications development and, more specifically, to identify and prepare regional-type transport and communications projects in a manner suitable for foreign assistance and financing." This meeting, and a followup meeting at ministerial level, are expected to endorse the idea of a special fund under the Asian Development Bank to meet the financing needs of Southeast Asian regional transportation and communications plans.

The Government of Malaysia is taking the initiative in developing proposals for cooperation in these two fields. A planning group of Asian officials has recently completed a tour of Southeast Asian countries by way of preparing for the regional meetings. The group has met with and discussed its plan with the President and officials of the Asian Bank.

Financing needs in the transport sector include the cost of broad-scale studies to identify priority regional transportation and communications projects and the subsequent capital costs of projects identified as suitable for financing. Among the types of projects that might be financed from special funds are:

- (a) Common port arrangements and upgrading of national ports as a benefit to regional cooperation.
- (b) Improved land transport facilities related to the Asian highway.
- (c) Improvement of air transport facilities.
- (d) Improvement in the Southeast Asia communications net, particularly for traffic between capitals of countries in the region.
- (e) Improvement of coastal shipping facilities, particularly those affecting regional commerce.

Special Funds for Other Purposes.—On a limited case-by-case basis the ADB may propose, or be asked, to administer funds which do not fall within the scope or terms of the three special funds described above.

A variety of conditions might call for financial arrangements for individual projects outside the particular funds created for Agriculture, Mekong and Transportation/Communications, although, of course, still within the basic scope of the Bank's Articles of Agreement:

- (a) Some potential donor(s) may be willing to contribute to a particular project which for one reason or another has special appeal to them, whereas they would not contribute to a general fund.
- (b) A project might not be within the terms of reference of the then existing special funds.
- (c) The terms required for some particular project may be different from those allowed by agreements relating to the three general funds.

D. GEOGRAPHIC SCOPE OF SPECIAL FUNDS

The Bank's Management and Directors recognize that countries prepared to contribute special funds may have particular areas of interest to which they would wish to see their funds devoted. In the case of the United States, the \$200 million which is now being sought for contributions to special funds relates back directly to President Johnson's Johns Hopkins speech of April 1965, in which he pledged that the United States would provide up to \$1 billion to support economic and social development in Southeast Asia. An east Asian emphasis in the use of special funds was clearly set forth in the President's State of the Union message in 1967. It is, therefore, the U.S. intention that the \$200 million now requested be used primarily for projects and programs in Southeast Asia. This intention has in fact been communicated to the Bank by U.S. representatives.

In connection with the Bank's approval in principle of its administration of a Special Agricultural Fund, the Bank's Directors agreed that the fund would be available for agricultural development of all developing member countries. They also recognized that the views of donor countries as to any special emphasis should be taken into account. Thus, the United States and other donor countries would be assured that they could give emphasis to a particular geographic region (to Southeast Asia in the case of the United States—and of Japan as well). It would not be the U.S. intention to exclude use of U.S. funds for meeting high priority needs of nations elsewhere in Asia.

E. REPRESENTATION OF INTERESTS OF CONTRIBUTING COUNTRIES

In considering the proper extent to which countries that contribute to special funds should exercise a direct voice in the utilization of those funds, the Council has conceived of special funds as additions to the resources available to an international institution. Many of the major advantages of multilateral administration of development resources would not be realized if special funds were conceived of as a collection of extensions of bilateral assistance programs for which the international institution has only a bookkeeping responsibility. Accordingly, the Council regards it as fundamental that the Management of the Asian Development Bank is basically responsible for the administration of special funds, including the selection of projects for submission to the Directors for approval. Project implementation following approval would also be a function of the Bank itself.

Thus, the main channel through which the United States would exercise its influence in shaping Bank decisions regarding special funds would be the U.S. representation on the Bank's Board of Governors and Board of Directors, in which the principle of weighted voting applies. In approving U.S. participation in the Asian Development Bank in early 1966, the Congress gave its full endorsement to the arrangements by which U.S. interests would be represented.

In addition to U.S. participation in Bank decisions on special funds through normal voting procedures, we and the other contributing countries would be able to stipulate, at the time they initially agree to provide the funds, the purposes for which the funds could be used and the basis on which they would be made available. A special geographic

emphasis, such as that referred to in the preceding section, would be an example of such a stipulation. The Bank could not, of course, accept funds with stipulations so restrictive as to render impossible their effective use or to vitiate the multilateral character of special funds placed under the Bank's administration. Additional techniques, including close consultation between representatives of contributing countries and the Bank Management on a continuing basis, might be desirable so that the Management could assure itself prior to recommending a project for Board action that the project in fact was supported by a consensus of the countries contributing to the special fund involved.

F. TERMS OF SPECIAL FUNDS ASSISTANCE

By definition, special funds are intended to be utilized for financing of projects and programs that are not appropriate for hard loan financing out of the Bank's ordinary capital. All special funds financing is expected to be in some degree concessional; that is, repayable on less than normal banking terms.

The decision on the type or types of terms on which special funds should be made available is one that rests with the Board of Directors of the Bank and will be taken when specific financing proposals are in view. At this time, therefore, it is possible only to cite the general considerations that are expected to enter into the Board's decision. Long maturity periods, extended periods of grace before repayment commences, and low interest charges would be the normal means of reducing the servicing burden on special fund lending. Since special funds are intended to revolve, capital financing would not be extended on a grant basis. In making its judgment on the appropriate financial terms in a member country, the Bank can be expected to take into account the practice of other international lenders and available appraisals of the country's financial situation by the International Monetary Fund.

The nature of the project or program involved and the country or countries in which it is located would also be important factors in determining the terms to be applied. Many of the potential borrowing countries have extremely weak external payment positions and would require very easy repayment terms, similar to those of IDA. Stronger countries might be able to service loans on terms approximating the intermediate concessional terms of AID.

Where projects involve a long-payment period, as in the case of roads, dams, ports, and the like, or where the benefit of the project is to be realized more in social than in economic and financial terms there may be further grounds for easier loan terms based on the nature of the project. The Board of the Bank will have to make judgments in the light of the total information available on the country's external position and on the rate of internal return on the project. In order for the Bank Management to insure that special funds are revolving funds in foreign exchange, it would be necessary for all special fund lending to specify repayment in convertible currency.

The Council wishes to re-emphasize that special funds of the Asian Bank are special with respect only to the regional purposes they support and the easier terms of repayment on which they are made available to borrowers. In all other respects, special funds lending operations will be carried out under the same rigorous project selection criteria and

project implementation procedures as the Bank applies to its own ordinary capital operations. The majority of the detailed terms and conditions of particular loans, therefore, will be identical to ordinary capital loans, including requirements for borrower performance, self-help, end use supervision of funds, and the like.

G. SPECIAL FUNDS AND THE U.S. BALANCE OF PAYMENTS

In all of its activities, the National Advisory Council is deeply concerned with the effect of U.S. policies and programs on the U.S. balance-of-payments situation. With respect to the present proposal, the Council is able to state that there are no grounds for concern over an adverse effect on our balance of payments. The Articles of Agreement of the Bank permit contributing countries to make special fund contributions available on any terms and conditions agreed to by the Bank and not inconsistent with its purposes. This complete flexibility with respect to special funds includes the right of a contributing country to tie the use of its contributions to procurement of its own goods and services. The Management of the Bank is already aware that it is the intention of the United States to make its contributions to special funds available for capital financing and technical assistance only in the form of U.S. goods and services. It is, further, the U.S. intention that its contributions be used only for foreign exchange costs of the projects or programs financed; that is, none of the U.S. contribution would be used to finance local costs. These costs would be met instead by borrower contributions, use of local currency subscriptions to the Bank by the country involved or by local funds from other sources. It can fairly be assumed that the projects financed by special funds would not have been undertaken in the absence of such financing, so that there is a high degree of assurance that the U.S. goods and services financed out of our contribution are additional to normal U.S. exports to Asian countries.

On the basis of these factors, the Council concludes that the operational use of U.S. contributions to Asian Bank special funds will be fully compatible with the balance-of-payments policies of the United States.

H. TECHNICAL ASSISTANCE

It has already become apparent that the Management of the Asian Development Bank attaches great importance to the Bank's role as a provider of nonreimbursable technical assistance to member countries (in addition to any technical assistance that may be provided on a loan basis). The Bank foresees financial needs to cover the costs of feasibility studies that would identify projects for later capital financing, of technical assistance in the preparation of project proposals that are already at the financing stage and of technical assistance to regional institutions engaged in training, research, and demonstration activities in key economic sectors. Certain resources are already available to the Bank for financing technical assistance. These include current net earnings on ordinary operations and the use of up to 2 percent of its paid-in capital during the first 5 years of its existence.

Net earnings available for financing technical assistance are likely to be very small in the immediate future, however, and there is doubt as to the desirability of the Bank's drawing down its capital for

expenditure on technical assistance, at least in its early years, since the resulting impairment of the Bank's balance sheet position could affect the Bank's ability to market its bonds at a somewhat later period.

The Bank thus appears not to have the resources to finance a volume of technical assistance commensurate with the demands likely to be made on it. The Council therefore believes that a minor portion of any special funds that are set up should be available for technical assistance related to the purpose of that fund and that such use would represent money well spent, either by increasing the efficiency of use of the Bank's own capital or enhancing the effectiveness with which resources already in the developing countries are used. U.S. funds provided for technical assistance purposes would be made available in the form of U.S. goods and services, principally the cost of U.S. technicians and consulting firms. In general, present thinking is that 5 percent of amounts actually made available to special funds might be used for technical assistance which would be nonreimbursable to the Bank.

I. FORM AND TIMING OF U.S. CONTRIBUTIONS

As is now generally the case with U.S. financial participation in international institutions, U.S. contributions to special funds of the Asian Bank would be made in the form of letters of credit and not as cash payments. These letters of credit would only be drawn on at a later time when cash is required for project disbursements. Only at that later time would the amount drawn appear as expenditures from the U.S. budgetary standpoint. It should also be pointed out that, even though appropriations had been obtained for U.S. contribution to special funds, letters of credit would not be issued to the Asian Bank in the absence of the necessary matching funds from other contributing countries.

J. ADMINISTRATIVE COSTS

In accordance with normal practice in the major international financial institutions, the administrative costs incurred by the Bank and attributable to special funds operations would be expected to be met out of service charges on special fund loan operations. During the early periods of special fund operations, an interim arrangement would be required to permit free cash drawings by the Bank for administrative costs.

K. ADB SPECIAL FUNDS AND U.S. BILATERAL AID POLICY

The proposed U.S. contribution to special funds in the Asian Development Bank has been examined by the National Advisory Council with the major policy objectives and guidelines of the U.S. bilateral aid program very much in mind. The Council regards the proposed uses of the special fund as fully consistent with the meaning and spirit

of the general provisions which the Congress has deemed it advisable to apply to U.S. bilateral programs.

For example, should the "Hickenlooper Amendment" be invoked so as to require a suspension of U.S. assistance to any Bank member because of expropriations of private U.S. property without adequate compensation, the Council would seek to have a parallel attitude adopted in the Bank with regard to special funds dollar financing to that country. In this connection, last August the Council approved a formal action reaffirming the policy of the United States to instruct its representatives in international financial institutions to oppose assistance by any such international financial institution to any country during a period when that country is ineligible for bilateral assistance because of its expropriation, without adequate compensation, of American-owned private property.

IV. LEGISLATIVE ACTION REQUIRED

During the hearings on the Asian Development Bank Act in early 1966, Administration spokesmen pledged that U.S. contributions to Asian Bank special funds would not be made except pursuant to further legislative authority from the Congress. Such authority is now being sought.

In order for the United States to be in a position to make commitments to other governments for participation in special funds, authorizing legislation is necessary at this session of the Congress. Such legislation is desirable at this time because the Asian Bank is a significant vehicle for increased involvement by other developed countries in Asian economic development. The Asian developed countries—Japan, Australia, and New Zealand—provide a much higher share of assistance through the Asian Bank than they normally provide through other channels. The European response to membership in the Asian Bank was widespread and substantial. Special funds under the Asian Development Bank's administration would take advantage of this willingness on the part of both Asian and non-Asian developed countries to enlarge their financial support of Asian development. In particular, small developed countries are likely to find the special funds channel a desirable one which is more economical and effective than establishing bilateral country programs. Encouragement of a greater degree of involvement of other donor countries in Asian development was an important consideration in the original U.S. support for the establishment of the Asian Bank. It remains a compelling argument in favor of making maximum use of special funds to achieve the same end.

A draft of legislation providing for U.S. contributions of up to \$200 million is being submitted. This draft is broad and flexible in form, in order to deal with circumstances that are still evolving with respect to special funds. The draft legislation would authorize appropriation of the \$200 million without fiscal year limitation. It would also provide that funds would remain available until expended, as is normal in our financial participation in international institutions where the

timing of payments and disbursements depend in part on the actions of other governments. Once paid, U.S. contributions would remain with the Asian Bank as revolving funds, but the United States will insist on the right of recovery of its proportionate share of the assets of special funds should the operation of such funds be terminated. It is an objective that the other countries also make their funds available on a similar revolving fund basis. It is expected that the authorized funds would be appropriated over a 4-year period. The actual schedule on which appropriations will be requested, however, will depend on the pace at which discussions now under way in Asia move forward, and other contributors pledge their fair share. No budget expenditures are contemplated in fiscal year 1968.

V. CONCLUSION

The National Advisory Council has carefully examined the proposal that the United States make available \$200 million for U.S. participation in multilaterally shared special funds under administration of the Asian Development Bank. Such funds would support important new initiatives now being taken by the Asian countries themselves toward regional economic cooperation. U.S. interests in Asia are served by all steps that promote peaceful development in that region and that bring the nations there into closer and more harmonious contact. Asian Development Bank special funds would, therefore, serve our interests and deserve our support. Being on a multilateral basis, they further the principle that the burden of financing development should be spread among the economically advanced countries. The availability of special funds to the Asian Bank will enhance the stature of that institution as a broad-spectrum facility capable of assisting in regional and national programs of development now being pursued in Asia. The specific mechanisms for making U.S. funds available have been closely examined and the Council is satisfied that the United States is fully protected from adverse balance-of-payments consequences. In the light of all these considerations, the Council strongly recommends the adoption of the necessary legislation to permit U.S. participation of \$200 million in special funds under the administration of the Asian Development Bank.

ANNEX 1

SELECTED ECONOMIC INDICATORS OF LESS DEVELOPED MEMBERS OF ASIAN DEVELOPMENT BANK

	Population (million) ¹	GNP per capita ¹	Gross reserves (million) ²	Total imports (million) ³	Imports from United States (million) ³	Assistance from international institutions (million) ⁴		
						IBRD	IFC	IDA
Afghanistan.....	15.2	\$85	\$46	\$63.9	\$15.1	-----	-----	\$3.50
Cambodia.....	6.0	120	(⁵)	103.1	3.1	-----	-----	-----
Ceylon.....	11.0	130	43	309.8	11.8	\$30.82	-----	-----
China.....	12.1	190	337	556.7	178.9	39.48	-----	-----
India.....	471.6	90	608	2,818.6	974.8	693.71	\$5.58	13.20
Indonesia.....	103.1	70	(⁵)	597.4	45.6	-----	-----	-----
Korea.....	27.6	120	245	449.7	182.3	-----	-----	13.99
Laos.....	2.3	60	(⁵)	29.9	9.3	-----	-----	-----
Malaysia.....	7.8	260	681	1,332.9	98.4	133.10	1.28	-----
Nepal.....	9.9	70	62	38.9	1.3	-----	-----	-----
Pakistan.....	111.7	90	200	1,042.0	365.0	311.84	9.22	310.24
Philippines.....	31.3	140	194	895.1	311.7	99.39	.21	-----
Singapore.....	1.8	460	(⁵)	(⁵)	(⁵)	-----	-----	-----
Thailand.....	29.7	110	924	731.3	141.0	151.90	.49	-----
Vietnam.....	15.7	110	307	356.4	161.8	-----	-----	-----
Western Samoa.....	(⁵)	(⁵)	(⁵)	(⁵)	(⁵)	-----	-----	-----

¹ Source: World Bank Atlas of Per Capita Product and Population, September 1966.

² At end of 1965.

³ Data for 1965. Source: IMF Direction of Trade, Annual 1961-65.

⁴ Source: Annual Reports 1965-66.

⁵ Comparable data not available.

⁶ Not available.

ANNEX 2

OFFICIAL BILATERAL AID TO DEVELOPING MEMBERS OF ASIAN DEVELOPMENT BANK BY DEVELOPED MEMBERS OF ASIAN DEVELOPMENT BANK, 1966¹

[Commitments and disbursements amounts in millions of dollars]

	Australia	Austria	Belgium	Canada	Denmark	Germany	Italy	Japan	Nether- lands	New Zealand ²	Norway	Sweden	United Kingdom	United States	Totals	United States (percent)	
Afghanistan:																	
a	0.11	0.03		0.33		2.87							0.27	0.71	19.90	24.22	82.2
b	.44	.03		.33		16.41		0.10					.27	.37	31.00	50.60	61.3
Cambodia:																	
a	1.86			.12		5.04											
b	.63			.12		.61		.56		(³)				.01	7.03		.1
Ceylon:																1.92	
a	.90			3.76	0.11	11.55	11.55	10.00									
b	1.11	-.02		5.15		6.00	-1.15	6.93		.17	(³)	.27	11.12	13.06	61.94	21.1	21.1
China (Taiwan):																	
a		(³)				.79	.34	16.42						29.35	46.90	62.6	62.6
b	(³)	(³)		2.18		.35	-.25	8.84						32.00	43.12	74.2	74.2
India: ⁴																	
a	13.14	6.38	1.20	105.87	4.43	50.45	17.30	46.99	8.18		1.12	7.91	122.62	771.38	1,156.97	67.7	67.7
b	10.95	4.53	.06	110.68	4.60	55.34	1.43	49.45	9.48	.33	1.60	4.26	89.44	744.00	1,086.15	68.5	68.5
Indonesia:																	
a	1.96	.13		.42		9.41	51.38	52.50					2.82	48.62	167.24	29.1	29.1
b	1.07	-1.17		.10		4.85	1.08	20.58		.07	(³)		.01	27.00	83.59	32.3	32.3
Korea (South):																	
a		.02		.97	.11	9.67	1.99	75.05		.28	.28	.38	.15	211.64	299.77	70.6	70.6
b	.27	.02		.05		6.03	5.25	31.18		.05	.49		.40	166.00	210.23	79.0	79.0
Laos:																	
a	1.22			.21		.27		2.70					4.90	54.77	64.07	85.5	85.5
b	1.29			.20		4.85		2.53		.01			4.89	55.00	68.77	80.0	80.0
Malaysia:																	
a	5.02			1.56	.44	.37							4.31	6.17	17.87	34.5	34.5
b	2.32		.11	4.08	.77	1.12	.33	.38		4.85	(³)		13.15	6.00	33.11	18.1	18.1
Nepal:																	
a	.56			.01		.67						.12	.33	6.48	8.17	79.3	79.3
b	.06			.01		.57		.07		.07		.07	1.07	10.00	11.92	83.9	83.9

	(c)	.50	25.25	2.47	39.16	4.48	30.00	2.76	-----	4.48	5.41	51.53	218.11	384.15	56.8
	.14	.03	31.68	.70	35.62	-----	21.32	2.91	.02	-----	2.96	24.04	198.00	319.47	62.0
Pakistan: ¹															
a.															
b.															
Philippines:															
a.	1.51	---	.11	---	.57	.03	28.33	---	---	.03	---	.28	41.04	71.90	57.1
b.	-.40	---	1.71	---	.60	.02	30.50	---	.14	.02	---	.29	22.00	55.57	39.6
Singapore:															
a.	.30	---	.78	---	.05	---	---	---	---	---	.30	---	---	1.43	---
b.	.17	---	.50	(c)	.06	-.02	.14	---	.14	---	.43	---	---	1.79	---
Thailand:															
a.	3.06	3.70	1.44	.03	2.81	.03	---	---	---	---	.62	.62	63.92	75.61	84.5
b.	3.25	1.82	.83	.15	17.66	.09	3.66	---	.81	.02	---	.62	21.00	49.82	42.2
Vietnam (South):															
a.	.40	---	1.41	---	4.45	---	.20	---	---	---	.01	.26	701.32	708.04	99.1
b.	1.54	.03	.83	---	4.43	---	- .63	---	.34	(c)	.01	.37	500.00	506.95	98.6
Western Samoa:															
a.	---	---	.02	---	---	---	---	---	---	---	.02	.02	---	.04	---
b.	.58	---	.02	---	---	---	---	---	---	---	.02	.02	---	.62	---
Total 1966 commitments.	28.23	12.07	142.26	7.37	138.13	87.10	262.19	10.94	---	5.91	13.71	199.97	2,185.77	3,095.35	70.6
Total 1966 disbursements.	26.26	5.51	158.34	6.44	154.50	7.78	205.61	12.39	7.02	3.76	8.23	141.68	1,817.00	2,554.78	71.1

1 a equals 1966 commitments; b equals 1966 disbursements net of repayments (except New Zealand).
2 Gross disbursement data for fiscal year ending Mar. 31, 1966; most aid to countries was via auspices of Colombo Plan; commitment data not available.
3 Under \$5,000.

ANNEX 3

ASIAN INITIATIVES TOWARD REGIONAL COOPERATION AND ESTABLISHMENT OF ASIAN SPECIAL FUNDS

A. Representatives of many Asian developing nations have expressed need for Special Funds. Among these are the following:

1. Thailand

The Governor for Thailand, Dr. Sern Vinichayakul, when addressing the ADB Inaugural Meeting, expressed his nation's appreciation:

"* * * for the U.S. Government's offer of Special Funds for development to be entrusted to the Asian Development Bank for administration. We hope many more offers from other developed countries will be forthcoming."

2. Korea

In the statement presented by the Korean Governor, Kim Hak-Yul, at the Inaugural Meeting of the ADB, he suggested that the delegates should:

"* * * explore every available means of acquiring additional resources to augment the funds other than the authorized capital of the Bank * * * In order to materialize the augmentation of the funds, the Special Funds should have an important role. Since most of the member countries of the Bank are at the developing stage and their need of capital is far exceeding their domestic availability, it is regarded essential that the Bank functions as the channel of capital flow from the developed countries to the developing countries. At this juncture, I would like to ask the developed countries to make utmost contribution to the Special Funds for use or administration by the Bank."

3. ECAFE

(a) U Nyun, the Executive Secretary of the United Nations Economic Commission for Asia and the Far East, urged at the ADB Inaugural Meeting the support of the advanced nations of the world for the Bank's Special Funds:

"As the problems of economic and social development facing the countries of the region are indeed formidable, varied and urgent, I take this opportunity to make a strong appeal to the developed countries to contribute generously toward the Bank's Special Funds to enable greater and urgent consideration to be given to desirable projects calling for special implementation."

(b) As recorded in the Annual Report of the 23d Session of ECAFE held in April 1967, in Tokyo: The Commission appealed to the developed countries to augment the Bank's resources through the establishment of Special Funds. It expressed warm appreciation for the intention of the Government of the United States to contribute \$200 million to Special Funds, on a matching basis, and the initiative taken by the Government of Japan to contribute to a Special Fund for Agricultural Development.

The ECAFE report also notes a suggestion was made regarding the possibility of the establishment of a Special Fund for the Development of the Lower Mekong Basin. And the report noted that such a fund might assist the Mekong Coordinating Committee to find resources for the implementation of some of its projects in both the preinvestment and construction categories.

B. In addition to expressing the need for special funds, Asians have taken the initiative in many directions.

1. Economic

(a) *The ADB itself, of courses, is an Asian initiative, having long been an ECAFE proposal.*—Eight months following its inauguration in December 1966, the Bank is almost fully staffed and is now considering potential loan projects, performing basic studies and making preparations to administer a Special Fund for Agriculture.

(b) *Japan takes lead in organizing ministerial conference for the Economic Development of Southeast Asia.*—Eight countries met in Tokyo in April 1966, at the invitation of the Government of Japan to explore prospects of increasing regional cooperation in Southeast Asia. The meeting gave evidence of substantial interest in increasing cooperation. The second conference in Manila, in April 1967, called on developed countries "to contribute on a substantial scale to an agriculture fund," and "unanimously adopted the proposal to convene a meeting of senior officials from Southeast Asian countries in Kuala Lumpur to formulate regional development programs for transportation and communications." These annual conferences provide a forum for intergovernmental review and endorsement of cooperative programs in Southeast Asia.

(c) *Japan sponsors proposal for Special Agricultural Fund.*—Following the initiative of Foreign Minister Miki of Japan, the ADB has agreed to administer a Special Agriculture Fund and is now developing detail plans. Japan has announced it will make a substantial contribution and has asked all developed members of the Bank to contribute.

(d) *SEA Ministers of Education Council and Secretariat (SEAMES) formed.*—Eugene Black met with the SEA Ministers of Education in November 1965 and heard their expression of interest in cooperating on establishment of academic “centers of excellence” to serve the region. He told them if they did develop sound proposals for regional education projects that the United States would assist in financing them. At a second ministerial meeting with Mr. Black a year later, the Ministers endorsed some 10 project proposals and the United States promised to seek AID funds for 50 percent of project costs up to \$28 million.

(e) *Malaysia proposes SEA Transportation/Communications Program.*—Following discussions with the Black mission in Malaysia in November 1966, the Malaysian Government publicly announced its intention to convene a regional meeting to explore prospects for integrated transportation and communication development in Southeast Asia. An Asian group has visited countries of the region in preparation for a planning meeting September 4-9.

(f) *Mekong Development Fund proposed by Mekong Committee Staff.*—President Watanabe held discussions in May 1967, with the Mekong Committee's Executive Agent on possibility of a Mekong Development Fund under ADB administration. They considered a draft agreement between the ADB and the Mekong Committee. Three of the four Mekong countries have endorsed such a proposal.

(g) *Increased ECAFE interest in practical development problems in the region.*—An ECAFE Resolution in April 1967, underscored ECAFE's hopes and that of its subsidiary bodies for programs which emphasized “action orientation and regional cooperation.” An Asian Industrial Development Council was created within ECAFE; a port survey team was organized and highway transportation (Asian Highway) is receiving special attention.

(h) *Central banking and planning officers in Southeast Asia* have initiated regular consultations on common financial and economic problems in Southeast Asia (Thailand, Malaysia, Philippines).

(i) *Asian Productivity Organization has expanded its program.*—The APO has expanded its activities by undertaking for its 12-member countries a new small business management and consultants course; the development of a production-level personnel program; and an information and visual aids program.

(j) *The Philippine Government is planning establishment of a regional coconut research center.*—A detailed proposal has been submitted to the United States and to the United Nations.

(k) *The Chinese Government is sponsoring establishment of an Asian vegetable research center.*—Plans are well advanced and consultations have been held with other Asian governments, the United States, Japan, and private foundations.

(l) *The Chinese Government is hosting a regional conference on population growth.*

2. New political-economic organizations

(a) *ASPAC (Asian and Pacific Council) formed by nine Asian countries in Seoul in June 1966.*—In establishing ASPAC, the Ministerial representatives of Australia, New Zealand, Republic of China, Japan, Philippines, Thailand, South Vietnam, Malaysia, and Korea formally and publicly acknowledged the “pressing necessity for more active and fruitful cooperation among participating countries for mutual benefits of their peoples in economic, technical, social, and cultural information fields.”

(b) *ASEAN (Association of Southeast Asia Nations) formed by five SEA countries, including Indonesia, in August 1967.*—This organization was established at a conference in Bangkok in August 1967, by the Foreign Ministers of Indonesia, Malaysia, Philippines, Singapore, and Thailand. Its announced aims are to accelerate economic growth, social progress, and cultural development in the region through joint endeavors; to promote regional peace and stability through the rule of law and adherence to the U.N. charter; to help each other with training and research in educational, technical, and administrative matters; to cooperate in trade, agricultural, transportation, industrial, and communications matters; to promote Southeast Asia studies; and to cooperate closely in all existing international and regional organizations.

ANNEX 4

COMPARISON OF U.S. PARTICIPATION IN INTERNATIONAL DEVELOPMENT FINANCE INSTITUTIONS

(Dollar amounts in millions)

	IBRD	IDA	IFC	IDB (ordinary capital)	ADB
Total paid-in subscriptions of all members.....	\$2,166.3	\$995.7	\$99.0	\$850.0	\$482.50
Total paid-in subscriptions of developed country members.....	1,580.1	751.3	81.1	350.0	328.78
U.S. paid-in subscription.....	635.0	320.3	35.2	350.0	100.00
U.S. paid-in subscription as percent of subscriptions of all members.....	29.3	32.1	35.6	41.2	20.7
U.S. paid-in subscription as percent of paid-in subscriptions of developed country members.....	40.2	42.6	43.4	-----	30.4

ANNEX 5

ASIAN DEVELOPMENT BANK

BOARD OF DIRECTORS AND COUNTRIES REPRESENTED

Helmuth Abramowski: Federal Republic of Germany, Austria, Belgium, Italy, Netherlands.
 Cornelio Balmaceda: Philippines, Pakistan.
 Byung Kyu Chun: Republic of Korea, Republic of Vietnam, Republic of China.
 Masaru Fukuda: Japan.
 J. M. Garland: Australia.
 Bian Tie Karmawan: Indonesia, Ceylon, Afghanistan, Cambodia, Laos, Nepal.
 Lim Taik Choon: Malaysia, Thailand, New Zealand, Singapore, Western Samoa.
 P. V. R. Rao: India.
 W. K. Wardroper: Canada, United Kingdom, Denmark, Finland, Norway, Sweden.
 Bernard Zagorin: United States of America.

PRINCIPAL OFFICERS

Takeshi Watanabe, President.
 C. S. Krishna Moorthi, Vice President.
 Douglas C. Gunesekera, Secretary.
 Timothy B. Atkeson, General Counsel.
 Howard Farrelly, Director, Operations Department.
 Koji Suzuki, Deputy Director.
 Sam-Chung Hsieh, Director, Economic and Technical Assistance Department.
 George Rosen, Deputy Director.
 Masao Fujioka, Director, Administration Department.
 Raymond B. Lyon, Deputy Director.
 S. M. A. Kazmi, Treasurer.
 P. S. Hariharan, Chief Information Officer.

ANNEX 6

ASIAN DEVELOPMENT BANK,
Manila, August 14, 1967.

DEAR MR. BLACK: As you are aware I shall be going over to New York and Washington in September ahead of my visit to Rio de Janeiro to attend the World Bank/IMF annual session. I am glad that I shall have an opportunity of visiting with you and with your colleagues so that we could have fairly wide-ranging discussions on matters relevant to our mutual interests in the work of this Bank. In this context, I have been reviewing in my mind certain aspects of present efforts toward setting up special funds and I would like to share with you, in advance of my coming, my thoughts on this subject.

As you know, article 19 of the Bank's charter authorizes the Bank to accept the administration of special funds on terms and conditions not inconsistent with the charter of the Bank. Under the charter, the portion of our ordinary capital that can be used for loans with longer maturities and lower interest rates than those prevailing in normal banking operations is relatively small. We were gratified that at the Bank's Board of Governors meeting in Tokyo last November there were many statements by representatives of Asian countries expressing the hope that developed members of the Bank would make available special funds to supplement the ordinary capital of the Bank. These statements reflect a recognized need for such funds in amounts, which in my own professional experience and, I am sure in yours, is substantial. In my address to the 23d session of the ECAFE I referred to this aspect, and I said at that time that we are determined to actively solicit contributions to the special funds portion of the Bank's resources.

As you would recall, a Conference of Southeast Asian Ministers, with Japan participating, recommended in December 1966 the establishment of a special agricultural fund in this Bank. The joint communique issued by that Conference stated: "The Conference agreed to call on the developed countries and the Asian Development Bank to cooperate in setting up such a fund and to request the Asian Development Bank to start immediately deliberation on various problems concerning the establishment of the fund, giving due consideration to the views of participating countries of this Conference as well as of other interested parties." We had extensive discussions at the Board of Directors about this subject and arrived at a decision in principle that the Asian Development Bank should accept the administration of special funds for the development of agriculture. I reflected this decision in my address to the Southeast Asian Conference of Ministers held in Manila in April 1967. That Conference endorsed the establishment of such a fund and the entrustment of the fund to the Asian Development Bank; the statements made at the Conference reflected the sense of urgency felt by member governments as well as the expectation that the fund should become operative as early as possible. Since then, the Bank has constituted a task force of internationally recognized experts to survey the requirements of the developing member countries of the Bank and to submit recommendations, *inter alia* on the nature, scope, and methods of Bank action in the field of agriculture development which would be supported by the fund. The work of this team will be guided and reviewed by a consultative committee consisting of such distinguished experts as Prof. T. W. Schultz, of the University of Chicago. We expect the report on this survey to become available early in 1968; and, funds permitting, we would become operative in a significant way in agricultural development soon thereafter.

Another direction which has evoked considerable interest in the Southeast Asian region is joint consideration of development of transport and communications. As you would recall, the initiative came from Malaysia, in a proposal by that Government also at the April 1967, Manila Conference on Southeast Asian Development. A conference at officials' level is proposed to be held in September in Kuala Lumpur, to be followed possibly by a Conference of Ministers of Transport and Communications some time thereafter. In the meantime, a panel of officials drawn from Malaysia, Thailand, Indonesia, and Singapore is preparing for the September meeting. During the course of the panel's visits to various countries they called on us here and said that the agenda for the September Conference would in all probability include consideration of how the Asian Development Bank could assist in this field of activities. The panel mentioned the possibility of a recommendation emerging from the Conference that a regional fund be organized. The question was posed to me whether the Asian Development Bank would be receptive to a request to take up both these items of work. I replied that, if such a request were to be made, I would be happy to raise it with the Board of Directors. In the meantime, the Bank has accepted the invitation of the Malaysian Government to participate as an observer at the Kuala Lumpur Conference.

You are aware of the work of the Mekong Coordinating Committee in planning the activities necessary to exploit successfully the potential of this great river. While we have as yet no specific proposal before us from the Mekong Committee (consisting of the four riparian states), I have sufficient ground to believe that there is clear recognition that this Bank may have a suitable role to play as and when the circumstances make it appropriate.

In these and other directions, the recent months have seen a steady development of thinking in terms of promoting mutual cooperation, on a regional or subregional basis, among the different countries that are members of this Bank. The emphasis which President Johnson, in his various pronouncements, has rightly placed on regional economic activity as one of the chief methods of improving conditions in this continent has been quite clearly a major factor in the promotion of a regional approach to economic growth. Further encouragement has been derived from the specific announcement, in his State of the Union Message last January, of his intention to seek legislation that would authorize a U.S. contribution of \$200 million for the support of regional programs. We in the Bank have been particularly interested, of course, in his suggestion that these resources take the form of special funds assigned to the Asian Development Bank. Such funds provided by contributing countries would be significant recognition of our need, and our capacity, to respond to requests from our members to support economic development in the region.

We greatly appreciate the understanding and support of the needs of this area as revealed in these pronouncements of President Johnson. We are greatly heartened by the efforts that are being made and no doubt will continue to be made by Secretary Fowler and yourself to further the program indicated by President Johnson. I am confident that other parts of the developed world would show, even as they have done in their membership in this Bank, that their support can also be counted upon in this regard.

I think you know how much we all value your personal interest and encouragement in our work in this new venture. I look forward with great pleasure to seeing you again shortly.

Sincerely,

TAKESHI WATANABE.

Mr. REUSS. The Asian Development Bank was created in August 1966, and now includes membership from 32 countries, 19 of them Asian, and 13, including ourselves, from outside the region.

This Asian Development Bank represents the first such institution in which the United States participates which has been created by the initiative of the countries in the region itself.

The proposal contained in H.R. 13217 calls for our participation in the establishment of special funds of which the U.S. share would be not in excess of \$200 million, to be lent on concessional terms within the region for such programs as agriculture, Mekong River development, transportation and communications, and other priority areas as may be determined subsequently.

This bill provides that the U.S. contribution to this special fund shall represent a minority contribution compared to that made by the other contributing countries in the aggregate and that the utilization of our contribution shall be conducted in such a way that our balance-of-payments situation is fully protected.

We will first hear from Mr. Black and then from the other members of the panel.

STATEMENT OF HON. EUGENE R. BLACK, SPECIAL ADVISER TO THE PRESIDENT ON ASIAN ECONOMIC AND SOCIAL DEVELOP- MENT

Mr. BLACK. Thank you, Mr. Chairman, and distinguished members of the committee.

It is an honor and a privilege to testify before this distinguished committee in support of the President's request for an authorization of \$200 million for special funds to be administered by the Asian Development Bank in support of regional programs in Asia.

In my remarks this morning on the President's request I would like—

Mr. REUSS. Without objection, your entire statement will be received and made a part of the record, and you may, therefore, continue either to read it, elaborate on it, summarize, or proceed in any way you like.

Mr. BLACK. In my remarks this morning on the President's request I would like to discuss three major topics:

First, the purpose and programs which the U.S. contributions to the Asian Bank under this authorization are envisaged to serve;

Second, the encouraging growth of regional cooperation in Asia which these programs will sustain and accelerate; and

Third, the terms and conditions under which U.S. funds appropriated under this authorization would be made available.

PURPOSE OF \$200 MILLION AUTHORITY

The legislation before this committee authorizes the contribution of up to \$200 million, which we expect to make available over a 4-year period, to the Asian Development Bank for the U.S. share of special funds in support of regional programs in Asia—in priority areas such as agriculture, communications, and transport, and development of the Mekong River Basin. Aside from these three fields, it is envisaged that a part of these funds would also be available for multi-

laterally supported projects in certain other priority sectors which the Bank might be asked to administer from time to time.

These funds would be loaned at more lenient repayment terms than those applying to the Bank's ordinary lending operations.

The question is why should the United States support special fund arrangements in the Asian Development Bank, I believe there are strong and persuasive reasons for doing so.

First, the United States will be responding to Asian initiatives for cooperation in vital areas of economic development. The Asian Bank—itsself a prime example of such initiative and of the principle of self-help, as well as regional cooperation—has undertaken to set up a multilateral special fund for agriculture development in Asia in response to a proposal cosponsored by the countries of Southeast Asia and Japan. Eight countries of Southeast Asia have been developing a regional program in the field of transportation and communications which the Asian Bank has agreed to assist. And consideration is being given to suitable ways in which the Asian Development Bank might assist in carrying out the plans of the Mekong Coordinating Committee.

Second, U.S. participation in these programs will help bring about a greater and wider participation on the part of the more advanced countries in the economic development in Asia. Japan has announced its intention to contribute \$100 million in ADB special funds over several years. We hope Japan will do even more, and we think they will. The Netherlands has said it would contribute \$1.1 million in 1968 as its first contribution to the special agriculture fund. Canada has said it very much favors special funds for the ADB and that it intends to participate in appropriate proportion to its participation in the regular capital of the Bank. Canada's share of the capital in the Bank is \$25 million. Indications from some other countries have also been favorable. And the steps taken first by Japan in preparing its own legislation and now by the United States by way of the President's proposing this legislation will do much in encouraging other countries to join in this cooperative effort to provide additional resources to the Asian Bank.

In other words, what I am saying is, if the U.S. Government approves this participation, I see no difficulty at all in getting other countries to match this or more than match this.

Third, only through the availability of special funds will the Bank be able to provide a substantial volume of financing on concessional terms. The job of development can be assisted greatly by availability of capital at different rates of interest which rates depending on the nature of the project, some of which are slow payout but of high benefit, or on the external payments position of the borrowing country.

Mr. REUSS. May I interrupt you at this point. Do you later in your presentation discuss the nature and extent of these concessional terms?

Mr. BLACK. Yes, sir.

Mr. REUSS. Thank you.

Mr. BLACK. The Bank in its regular lending operations must remain a hard-money institution. To preserve the Bank's credit standing its own subscribed funds must be lent on conventional hard-loan terms—similar to those of the World Bank. Therefore, certain projects, however worthwhile the purpose or sound the

economic justification, will be excluded from the Bank's normal lending operations. The Bank's ability to extend technical assistance is likewise limited. A small but important portion of these funds would be used by the Bank to provide technical assistance on a nonreimbursable basis.

If carried forward vigorously these programs promise to contribute significantly to the pace and quality of the development effort in Asia. While development is and must remain first of all a national effort, nevertheless, in many fields Asians rightly believe that they have much to learn from one another and should coordinate and pool their efforts to deal with common problems and gain mutual benefits.

If these reasons for U.S. support of special funds are persuasive, it may still be asked why it is important to do so now. I believe valid reasons exist for prompt action. The nations of Asia, indeed, of the whole world, are looking to us now for assurance that our determination to defend freedom in Southeast Asia is matched by our determination to assist the cause of economic and social progress among Asia's peoples. President Johnson pledged us to this goal as long ago as his April 1965 speech at Johns Hopkins University.

Our leadership in helping establish these special funds will affect the vision and daring with which our friends in Asia go about their task as well as the readiness of other donor countries to join in these efforts; it will also encourage this young but strong Asian Development Bank to carry on its constructive role with greater certainty and dispatch.

Let me comment in some greater detail on the Asian programs and initiatives for which we are seeking special fund authority in the Asian Bank.

One of Asia's greatest needs is a stepped-up effort to modernize its agriculture. Many of the countries of Asia are losing the race of food production and population. Traditionally, Southeast Asia has been a rice surplus area. Today, only Thailand has a substantial exportable surplus. Burma's exports, once a very significant component of international rice trade, have been declining. The other major countries in Southeast Asia—the Philippines, Indonesia, and Malaysia—all have been having rice deficits. The food situation in Indonesia is nothing less than desperate. Thanks to wise investment of technical assistance over past years and improved agriculture programs today, the Philippines are making rapid strides in increasing its rice production.

Nevertheless, the overall unsatisfactory growth of agricultural production in Asia has adversely affected rural living standards, resulting in new sources of social tension and unrest.

The proposed agricultural development fund would emphasize projects promising a quick payout in terms of higher agricultural output. Special attention would be given to—

Rural infrastructure, such as small irrigation and drainage works, land improvement and reclamation.

Research in soil productivity and improvement of seeds, support of extension work designed to make available improved methods of cultivation;

Farmers' organizations such as credit cooperatives and marketing facilities; and

Facilities for manufacture of materials directly necessary to stabilize or increase agricultural production, or those related to simple processing of agricultural products to improve their marketability.

The Asian Bank has recruited a group of distinguished agricultural experts to survey the needs of the region and to identify key problem areas requiring attention and assistance. This team of experts spent nearly half a year visiting many countries in Asia and developing specific ideas which should provide a sound basis for the operations of the Bank's special agricultural fund. The experts have already completed their work; visits to the regional developing member countries were undertaken before the end of last year; and the reports of the experts have already been completed earlier this year.

The experts' report of the Asian agricultural survey conducted by the ADB is just now being reviewed and discussed in Manila by a consultative committee of international renown, among them Prof. T. W. Schultz of the University of Chicago. From what I have heard about the Bank's agricultural survey and its report, I am sure that this activity of the Bank will make an important contribution to development in this vital economic sector in Asia and to the Bank's own efforts in this field especially through special funds.

Mr. REUSS. Could we insert a copy of the experts' report of the Asian agricultural survey in the record?

Mr. BLACK. As soon as it is printed, yes.

Mr. REUSS. Do you have that, Mr. Zagorin?

Mr. ZAGORIN. It is not printed yet, but when it comes in we will provide you with a copy.

Mr. REUSS. We would like it for our deliberations. We will settle for a mimeographed copy.

Mr. ZAGORIN. During this stage of review by the Consultative Committee, the summary report is still in draft form. That I can make available.

Mr. REUSS. We would like the summary for this record. Also we would like to have, for the permanent record, the final report and recommendations.

Mr. BLACK. The report, when available, will be provided to the committee for the permanent file.

(The summary report referred to, as presented by President Watanabe to the Consultative Committee, follows:)

ADDRESS BY TAKESHI WATANABE, PRESIDENT, ASIAN DEVELOPMENT BANK TO CONSULTATIVE COMMITTEE ON ASIAN AGRICULTURAL SURVEY, FEBRUARY 26, 1968, MANILA

I would like this morning to renew the very cordial welcome which I extended to you last July—an interval which has produced fourteen noteworthy volumes on Asian agriculture.

When I last addressed this Committee, my remarks indicated my excitement at the prospects of turning such a splendid array of expertise loose on the problems impeding agricultural development in this region. This morning, I am excited by the results—results which reflect the guidance of this Committee, translated into more than seven months of productive spadework by an eminently qualified Survey Team, ably led by Dr. Chung with the invaluable assistance of Dr. Hopper. I would like to also express our gratitude to the Bank's member governments, whose generous cooperation made this endeavor possible.

At our previous session, I observed that the Asian Agricultural Survey was "the first operational step of the ADB in pursuit of its stated goal: to promote economic growth in the region of Asia and the Far East". Since that time, the Bank has not been idle. In January, we granted our first loan, of US\$5 million, to the Industrial Finance Corporation of Thailand (IFCT). That same month, we concluded a technical assistance mission to Indonesia, designed to assist that country in the identification of measures aimed at improving its supply of essential food-

stuffs. Most recently, the Bank has agreed to dispatch a similar mission to the Agriculture and Fishery Development Corporation (AFDC) of Korea, to help promote the increase in productivity and incomes of Korea's farmers and fishermen. Other projects for capital and technical assistance are also under consideration.

During the course of your deliberations, I am certain you will want to address yourselves to the Bank's efforts to mobilize additional resources which can be used for concessional financing. The Board of Directors has progressed in the consideration of a framework which would facilitate the acceptance and optimum utilization of these vital resources. The material information presented by this Survey, with such further comments as you may have, would be a key element in impressing upon potential donors the importance of aiding agriculture without overburdening the credit capacity of the developing countries.

The conclusion of the Agricultural Survey is especially timely for this Bank, since it comes on the eve of the first Annual Meeting of the ADB's Board of Governors, scheduled for April 4-6. This Meeting constitutes an opportune forum for the Bank to set the tone for its future operations and the Survey will undoubtedly loom large in the demarcation of that role as it relates to agricultural development.

When the rationale for this Survey was first outlined to you, I emphasized that it was intended to be "action-oriented"; that is, "to assist the ADB in evolving a valid and up-to-date framework within which (by promoting agriculture) it can make tangible contributions to the economic advancement of the developing member countries."

Subsequently, this Committee propounded three specific objectives to guide the Survey Team in their pursuit of this goal. The Team was directed first, to identify investment opportunities for increasing the productive capacity of agriculture in this region; second, to point up major economic, administrative, social, and policy constraints which have functioned to depress the incentives to adopt modern technology; and third, to highlight those types of investment opportunities which placed a premium on the incorporation of scientific technology.

In the *Regional Report and General Summary* before you, the Team made certain assumptions regarding the role of the ADB, upon which it has based its response to the terms of reference specified by this Committee. These assumptions correspond closely, in my judgement, to the concept of the Bank as interpreted by the Board of Directors and prosecuted by the management thus far.

There is, I think, distinct evidence that the Team has kept in mind the ADB's presently available resources and has, within the scope of activity it deems necessary for agricultural growth, brought out the magnitude of the effort required, both financially and otherwise.

The Team's reports include a detailed analysis of the various individual disciplines which, taken together, foster agricultural growth. I am sure you would have comments on these, as well as on the *Regional Report and General Summary*. The transformation called for in Asian agriculture is seen from these studies to be many-faceted: scientific, organizational, administrative, educational, and financial. While finance as such may be a major constraint, it would be incorrect to suppose that sufficient capital is an end in itself. The reports point to other essential factors, such as the research efforts required to ensure the perpetual development and refinement of modern agricultural inputs.

The greater number and variety of inputs resulting from adequate resource allocation to research will make agricultural growth increasingly dependent upon a multitude of industries. This type of close interrelationship between the two sectors is one which we have underscored in our own policy formation. We would hope that our capital and technical resources could be instrumental in some manner in expanding the productive capacity of agriculture-related industries in Asia.

Like other sectors in developing economies, sustained agricultural growth is contingent upon the existence of at least an elementary level of infrastructure. In this context, you will be interested to know that the Bank has recently agreed to attempt the formulation of a framework for a regional transportation survey of the Southeast Asian region. While a minimal system of transportation may be all that is required to initiate and sustain the early stages of the growth process in agriculture, the transportation network must be expanded and elaborated as agriculture develops. Any suggestions which you may have in this regard would be welcome.

I have not attempted this morning to deal with all the various aspects of the Team's findings; rather, I have highlighted some of the points which struck me

on my first reading of the drafts. You have had some time, however brief, to consider these documents in the light of your knowledge and experience. The ADB anxiously awaits your discussions and comments, confident that they will prove of relevance and import for this Bank.

Before concluding, I would like to commend the authors of the Survey report on the lucid style of the text—an attribute which, regrettably, does not accompany all studies of this nature. The uniquely forthright presentation of the Team's observations conforms to my belief that there is a need to strip away much of the sugar-coating which has traditionally encumbered many economic surveys. The problems and issues of the Development Decade as a whole can only be resolved by a full and frank dialogue between technicians and administrators, financiers and developers, statesmen and citizens. The Team's reports are true to this mandate.

While the Survey may at times appear stern in its criticism of some of the methods traditionally employed to transform Asian agriculture, it is equally resolute in stressing the promise for the future. I feel it is appropriate in this regard to quote one statement in the report: "there are now new opportunities for a vast expansion of agricultural output which set the stage for an exciting and brilliant future".

These opportunities, and the recommendations for the ADB's role in exploiting them, as contained in the Team's and this Committee's final reports, will be made available to the Bank's Board of Directors, and, through them, to the member governments, sometime in mid-March. Copies will of course be forwarded to you. For the time being, the Survey will be restricted to "official use," although, at a later date, the Board of Directors may determine to make the Survey documents public.

For your part, I am certain you will want to formally express your gratitude to the Survey Team for the fund of information and observations which they have produced.

On behalf of the ADB, I would like to thank you in advance for opening a door of knowledge to the Bank through the Asian Agricultural Survey which will, in turn, open a broad new avenue toward progress for this region.

Mr. BLACK. The next is transportation.

Transportation is one of the basic requirements for economic development. This need is particularly great in Southeast Asia. Existing systems there, dating from the colonial period, were built largely to carry export products to ports for shipment to metropolitan markets. Better internal transport systems are needed to give rural areas access to urban centers and to create national markets in the countries of Southeast Asia. Better facilities are also needed for travel, trade and communications between the countries of Southeast Asia. As the area develops, its trade with the United States and other developed countries will expand.

In recent years Asians have widely discussed the need for accelerated investment in communications and transport facilities to eliminate a major bottleneck to the region's development.

Representatives of eight Southeast Asian countries met in Kuala Lumpur in September 1967, to consider plans for coordination of regional communications and transport development. This conference was also attended by representatives of Australia, Belgium, Canada, Denmark, France, Germany, Italy, Netherlands, and New Zealand.

The conference proposed a special fund under the Asian Development Bank to provide the financing for a Southeast Asian transport and communications program. It also proposed that a comprehensive survey be undertaken of the region's transport requirements and priority investment needs, and requested the Asian Development Bank to undertake the survey. In response, the Bank's Board of Directors recently approved President Watanabe's recommendation that the Bank immediately undertake the work of evolving the frame-

work and terms of reference of the transport survey for Southeast Asia. The objectives of this transport survey, to which AID plans to provide financing through the Asian Development Bank prior to establishment of special funds now being proposed, are as follows:

First, a comprehensive analysis of the prospects of development in Southeast Asia;

Second, recommendations on an investment program, divided into medium- and long-term phases, based on economic priorities of individual projects; and

Third, recommendation on the policies and measures—including fiscal policies and government regulations—which should be taken to insure that the development of transport and communications in the region best serve the economic and social development plans of Southeast Asia.

The Southeast Asians are hopeful that the Asian Development Bank will, together with the World Bank, become a source of conventional and, as appropriate, concessional financial assistance.

MEKONG DEVELOPMENT

I have frequently spoken of the importance, even necessity, of this ambitious long-term development program under the auspices of the United Nations.

The importance of the Mekong development program is both political and economic. The Lower Mekong Basin, an area twice the size of Japan, has a population of some 30 million people, about equal to that of Thailand or the Philippines. Parts of the basin are among the least developed areas of Southeast Asia. Its agricultural cycle is one of 6 months of floods followed by 6 months of drought. Poor drainage and salt intrusions have reduced vast tracts of land to extremely low yields.

There is a tremendous potential for development here. Despite an expected doubling of population in less than 25 years, the basin could become a substantial exporter of food. Irrigable land is estimated at 9 million acres. Potential hydroelectric power capacity could for years to come meet the burgeoning demand for electric energy. And the benefits from flood control and navigation improvement are considerable.

On the political side, coordinated development offers great opportunity for constructive cooperation among the four countries whose territories extend into the basin. It is partly for this reason that Secretary General U Thant has been keenly interested in this program and its potential for bringing diverse peoples and ideologies together for a constructive purpose. President Johnson shares this enthusiasm. For my part I view development of the resources of this great river basin as one of the great and exciting opportunities and challenges of our time.

To date, the Mekong development program has been a truly international effort. Since its inception under United Nations auspices in 1957, the total of our contributions, including the contribution of 50 percent of the cost of the Nam Ngum Dam in Laos, comes to \$26 million. This compares with total contributions of roughly \$113 million—including some \$70 million in pledges for construction—from the participating countries, foundations and international agencies.

The first 10 years of this program inevitably were devoted in considerable part to collection of data and feasibility studies. Little was known about this remote region. The studies have identified some 34 possible damsites on tributaries of the Mekong as meriting detailed engineering study. There has also been extensive work on the river's flow characteristics, the basin's soil conditions and topography, possibilities for irrigation, the existence of mineral deposits, and the educational and institutional needs for development of the basin. In addition, there have been completed the first two tributary dams in northeast Thailand, which now produce the only electric power ever to flow from the Mekong. Detailed studies are in process on three main stream dams.

I believe that the time has come to put the funding for this promising program on a firmer basis, to assess the progress made during the first 10 years, and to prepare a comprehensive and systematic development plan. There is a need to examine the question of the long-term relationship of the Mekong Coordinating Committee to the Asian Development Bank. The committee's executive agent has held exploratory discussions with the President of the Bank. We are hopeful the Bank will work out arrangements with the Mekong Committee under which the Bank will provide financial management and administration of agreed projects.

This is, roughly, the status of the various programs which would be eligible for support from the U.S. special fund contributions. All of them are the result of Asian imagination and initiative. All of them deal with priority needs of the area. They will undergo further changes as the Asians refine their thinking. The role of the United States is to offer sympathetic support and assistance as and when it is requested by the Asians, in partnership with other developed countries.

While these are the areas of cooperation in which Asian thinking is most advanced, there will no doubt be other proposals from the Asians which will merit our support. For this reason, we believe the legislation now before this committee, while placing emphasis on these three sectors of development, should allow for the possibility of contributing to projects which may fall outside the scope of these programs.

DEVELOPING REGIONALISM IN ASIA

Before outlining, briefly, some of the specifics of the proposal contemplated in the legislation now before you, I would like to place what I have already said about Asian Bank special funds in a broader context. I favor the proposal for such funds because I think the Asian Bank is a sound institution; the proposed programs are sound; and because these funds would support the historic trend toward Asian regional cooperation. This is the most promising way I can see toward peaceful progress in Asia.

President Johnson has called the growing interest in Asia in regional cooperation one of the truly constructive developments of our time. Under Asian leadership, programs designed to promote peaceful reform and development are moving forward more rapidly than many would have imagined 2 or 3 years ago. Asians are coming to know each other better; they meet more frequently to consult on common problems. They are increasingly conscious of the benefits of closer economic, social and political cooperation.

This developing regionalism will, if it continues to grow, make an important contribution to the cause of peace and social progress in Asia by—

Bridging over age-old rivalries and divisions among the peoples of Asia;

Accelerating social and economic progress;

Committing the leaders of the Asian nations even more strongly to the cause of development as their principal national objective;

Creating a sense of increased self-confidence and solidarity among the nations of free Asia; and

Helping to build a community of more independent and economically viable nations capable of meeting the aspirations of their peoples and less susceptible to destructive Communist aggression and ideology.

Support of these encouraging trends is in the national interest of the United States. The growth of regional cooperation in East Asia complements our effort to make Communist aggression unprofitable in Vietnam. The United States is on record as willing to support these Asian initiatives.

Indeed, Asian progress in regional cooperation over the last 2 years has been impressive. I would like to briefly note some of the high points of the progress achieved to date.

First, as I have already noted, there is now the Asian Development Bank, a landmark in Asian cooperation. Its membership includes virtually all the non-Communist developing countries in Asia, from Afghanistan to Korea. It has received broad support, not only from the affluent countries in the region—Australia, Japan, and New Zealand—but also from 11 Western European nations as well as Canada and the United States. The most recent addition to this multilateral group was Switzerland which joined the Bank at the end of last year.

Second, a whole series of initiatives among the Asian nations serves to dramatize their new interest in regional development. Japan has exercised constructive leadership in this process. In the spring of 1966, a conference of nine Southeast Asian governments convened in Tokyo to consider problems of Southeast Asia's development. The same countries met again in Manila last year and will meet again in Singapore in April. In December 1966 an Asian Agricultural Conference was convened in Tokyo. The proposal for an Asian agricultural fund under the administration of the Asian Development Bank was originally put forward at that conference.

On the political side, a significant recent development was formation of the Asian and Pacific Council—ASPAC—a consultative ministerial level organization, which has now had several meetings to discuss common social, cultural, and political problems. In August 1967 five countries of Southeast Asia—Thailand, Malaysia, Singapore, Philippines, and Indonesia—formed the Association of Southeast Asia Nations—ASEAN. In recent months distinguished leaders of some of these countries have visited the others and further strengthened the unity which has been forged among them in ASEAN.

In the economic and social field, the Southeast Asian Ministers of Education have constituted themselves as a ministerial council to promote educational activities on a regional basis. I met with the

Education Ministers for their first two meetings—in Bangkok and Manila. They met again last month in Singapore and signed a charter for their organization, selected a permanent Director, and agreed on a headquarters site. They heard detailed reports of progress on the first six regional projects and endorsed their implementation.

This program is most encouraging evidence that the countries of Southeast Asia do wish to cooperate on development programs, and can reconcile differences and submerge their strong nationalistic feelings in a common undertaking. We plan to support this effort from AID funds.

And as I mentioned earlier, Malaysia hosted a conference of representatives of eight Southeast Asian countries in September to examine regional communications and transportation needs of the area and consider coordinated development plans.

The region's central bankers and planners are now meeting regularly to consider common economic, financial, and development policies.

Third, there is the continuing role, and growing involvement, of other international agencies. The World Bank and its affiliates have stepped up their capital assistance to the area. The World Bank is administering the funds for the construction of the Nam Ngum Dam in Laos. It chairs consultative groups of donor nations for Thailand, Malaysia, and Korea. And the World Bank, in close cooperation with the IMF, is helping Indonesia determine its priority needs. In that connection may I add that the Asian Development Bank made its own contribution with a technical mission, already completed, to advise the Government of Indonesia on production and marketing of foodstuffs. The Mekong Committee is pursuing work, on comprehensive development plans for the Mekong Basin.

Fourth, there is a slowly increasing involvement of Western European donor countries in Southeast Asia, both bilateral and through the IBRD's consultative groups, and more recently through the Asian Development Bank. Some 27 countries are contributing to the work of the Mekong development program. Nine countries have contributed to the Nam Ngum Dam in Laos. The Dutch Government is the chairman of a group of donors in support of Indonesia's stabilization program. Thirty-six countries, including Western European, have contributed economic assistance and war relief to South Vietnam.

Lastly, there is reason to feel encouraged about the long-range development prospects in most of East Asia. Thailand, Malaysia, Singapore, the Republic of China, and Korea are examples of what can be accomplished under sound economic policies in East Asia. There is a new sense of confidence in the area to which our stand in Vietnam has contributed significantly. And while per capita income in most countries is still low, East Asia, overall, enjoys a favorable balance of resources to population offering great promise under sound management.

U.S. CONTRIBUTIONS

Let me now outline briefly the major terms and conditions on which we would expect to make our funds available to the Asian Bank. The favorable report on this legislation by the National Advisory Council also deals with these points in detail.

As to our share of the total funds to be provided, we envisage that other developed countries would contribute a majority of the total.

Our share of some special fund undertakings might be higher or lower than the overall target.

We expect to utilize the contributions to special funds authorized under this legislation primarily for the priority needs of countries of Southeast Asia. This would not exclude some use of U. S. and other funds for priority projects outside Southeast Asia.

As in our participation in other international financial institutions, we would make our funds available to the Asian Bank under letters of credit, which would be cashed at a later date when needed for disbursement. Funds would remain with the Asian Bank on a revolving basis, and we would retain our residual rights to the resources if the special funds were ever terminated. As usual, our funds are being requested on a no-year appropriation basis, with the money to remain available until expended. However, we expect to contribute approximately \$50 million a year for 4 years.

This proposed authorization will not involve any budget expenditures in fiscal year 1968.

We expect the Asian Bank management, under the supervision of its Board of Directors on which we are represented by Mr. Zagorin here, to be responsible for administration of these funds and the detailed program judgments involved. At the same time, we will be in a position to make stipulations regarding use of our funds when given, and it could be understood that projects would only be proposed for approval by the Board of Directors if there were appropriate consultations with the countries contributing to the special funds.

The nature of the projects to be financed will require that special funds be made available on concessional terms. Exactly what these terms would be might vary depending on the country and type of facility involved, and the Bank will have to decide particular cases. The range, however, might be from IDA-like terms to the middle range concessional terms employed by AID. No capital financing would be on a grant basis. Limited funds would, however, be available for technical assistance on a grant basis.

Finally, I want to give firm assurance to the committee that the financing we provide for projects and technical assistance through our contribution to special funds will take the form of U.S. goods and services. Such tying of our contribution is necessary in the light of our present balance-of-payments problem. We will not finance the local currency costs of projects.

This concludes my remarks on the legislation before this committee. We are confronting here a great opportunity, even while the fighting continues in Vietnam, to encourage and support important constructive developments leading toward greater opportunity and more rapid progress of the peoples of free Asia. U.S. support is required for these opportunities to be realized.

Mr. Chairman, I urge approval by your committee of this legislation.

Thank you.

Mr. REUSS. Thank you very much.

Secretary Barr?

Mr. BARR. I have no prepared statement. I am here to answer any questions that the committee may have on the entire range of proposals that the administration will be submitting this year.

Mr. REUSS. I take it the Treasury concurs in Mr. Black's—

Mr. BARR. Most heartily.

Mr. REUSS (continuing). Enthusiastic endorsement of this legislation.

Mr. BARR. Yes, indeed.

Mr. REUSS. Mr. Black, I notice that in your report reference is made to the fact that the U.S. bilateral AID is now providing financing through the Asian Development Bank for the transport survey of Southeast Asia; is that correct, sir?

Mr. BLACK. That is correct.

Mr. REUSS. That indicates that AID and the Asian Development Bank encounter no particular difficulties in working out an arrangement whereby the Asia Development Bank accepts AID funds and administers them, does it not?

Mr. BLACK. That is correct.

Mr. Chairman, in supplying the funds for these surveys, or working out plans for a program, AID and other countries have contributed money for the use by the Bank in setting up these programs. It is not just AID money.

Mr. REUSS. One of the hopes entertained by the Congress in helping set up institutions like the Asian Development Bank and the Inter-American Development Bank was that, to the maximum possible extent, we would move away from a bilateral aid approach and instead channel American aid through these international institutions. This desire, of course, is thought preferable because the international institutions can more readily impose conditions on the prudent use of resources than can a bilateral institution; in addition, international institutions have the advantage of attracting capital from other donor countries and thus either diminishing our burden or helping the free world generally to do a more adequate job.

Mr. Barr, I notice in the Treasury report of the National Advisory Council on International Monetary and Financial Policies which has been placed in this hearing record, there is a table which indicates the extent of our bilateral aid program to the developing members of the Asian Development Bank. This indicates that, for the year 1966, despite the setting of the Asian Development Bank we continue to seem to have AID missions and bilateral and programs in almost every developing country, including Ceylon, Malaysia, the Philippines, to mention just a few, which is a member of the Bank. Will you supply for the record a similar table for each of the years 1956-67? In addition to this material I would like to have for these same years data indicating the number of personnel of the U.S. AID mission in these various countries and the budgetary cost of maintaining these AID missions.

Also, will you provide for these countries the plans the U.S. Government has for phasing those AID missions down or out, and where you do not have plans for phasing down or out, an explanation of why you do not?

Mr. BARR. We will be delighted to supply that for the record, Mr. Chairman.

(The material referred to follows:)

OFFICIAL BILATERAL AID TO DEVELOPING MEMBERS OF THE ASIAN DEVELOPMENT
BANK BY DEVELOPED MEMBERS OF ASIAN BANK

TABLES 1-8

1956 through 1959 figures are available only for the U.S. and not the other donors. Statistics on the other donors begin in 1960 and are done on a calendar year basis. These statistics are available from the Organization for Economic Cooperation and Development (OECD) in Paris. Commitment figures of other donors, however, are not available before 1965.

Switzerland is included in the 1960-64 tables but not in 1965-66 since we have no figures on the Swiss program in those years.

1967 (calendar year) figures are not yet available for the other donors or for the U.S. but will be in several months.

The following tables, therefore, give the best available figures that we have on aid to the developing members of the Asian Development Bank by other members of that Bank.

Aid includes flows from all official sources such as A.I.D., PL 480, Export-Import Bank, etc., for the U.S.

TABLE 1.—OFFICIAL BILATERAL AID TO DEVELOPING MEMBERS OF ASIAN DEVELOPMENT BANK BY DEVELOPED MEMBERS OF ASIAN BANK, 1960
[Net disbursements only;¹ Dollar amounts in millions]

	Australia ²	Austria	Belgium	Canada	Denmark	Germany	Italy	Japan	Nether- lands	New Zealand ²	Norway	Sweden	United Kingdom	United States	Total	U.S. per- cent of total	
Afghanistan.....						\$0.65	\$0.01	\$0.01	\$0.01					\$15	\$15.67	95.7	
Cambodia.....				\$0.14		.01		.48						25	25.63	97.5	
Ceylon.....				1.85		.55	(³)	.10				\$0.03		8	10.53	76.0	
China (Taiwan).....						.04	.01	.03						110	110.08	99.9	
India.....				26.60	\$0.02	82.79	2.96	16.20			\$0.70		\$82.84	524	736.11	71.2	
Indonesia.....				1.12		.11	—	14.28	\$21.90					44	81.06	54.3	
Korea (South).....					.52	(³)	.01				.47	.45	.01	249	250.46	99.4	
Laos.....				.02				.07						33	33.13	99.6	
Malaysia.....				.28		.01		.04					.04	33	13.27	7.5	
Nepal.....				(³)		(³)	(³)	.01					11.94	1	8.18	97.8	
Pakistan.....				11.71		.16	.02	.20				.15	3.23	239	254.47	93.9	
Philippines.....				.07			.01	27.85						23	50.93	45.2	
Singapore.....				.04				.01							—	33	0
Thailand.....				.06		.07	.02	.32						43	43.47	98.9	
Vietnam (South).....				.47		(³)	.01	.90						185	186.38	99.2	
West Samoa.....																	
Total.....				42.36	.54	84.17	2.92	60.50	21.90	—	1.17	.63	97.85	1,507	1,819.04	82.8	

¹ Commitments not available for 1960.

² Figures not available on Australia or New Zealand for 1960 although they undoubtedly did have some flows to these countries.

³ Less than 0.005.

Note: No known aid from Switzerland to these countries during 1960.

TABLE 2.—OFFICIAL BILATERAL AID TO DEVELOPING MEMBERS OF ASIAN DEVELOPMENT BANK BY DEVELOPED MEMBERS¹ OF ASIAN BANK, 1961[Net disbursements only;² Dollar amounts in millions]

	Austria	Belgium	Canada	Denmark	Germany	Italy	Japan	Nether- lands	Norway	Sweden	Switzer- land	United Kingdom	United States	Total	U.S. per- cent of total
Afghanistan.....					\$3.38		\$0.17						\$30	\$33.55	89.4
Cambodia.....			\$0.05		.01		.46						24	24.52	97.9
Ceylon.....			2.38		.47		.10			\$0.04			9	11.99	75.1
China (Taiwan).....							.02						119	119.02	100.0
India.....				\$0.01	131.78	\$2.45	23.23		\$0.90		\$0.02	\$60.60	376	619.66	60.7
Indonesia.....			.60		— .25	— .11	30.81	\$25.90					53	109.95	48.2
Korea (South).....				.51	.01				.50	.50			228	229.52	99.3
Laos.....							.01					13	51	51.16	99.7
Malaysia.....			1.08		.01		.05					15.97	2	19.11	10.5
Nepal.....							.01				.05	.19	10	10.25	97.6
Pakistan.....			13.44		5.33	.38	8.54			.29		11.37	222	252.60	87.9
Philippines.....			.04		.09		.02				.01		10	19.06	52.5
Singapore.....			.07				.28							— .18	0
Thailand.....			.08	.05	.09	.22							28	28.72	97.5
South Vietnam.....			.24	.01	.05		15.46				(³)		151	166.76	90.5
West Samoa.....															
Total.....			39.31	.58	140.97	2.94	79.33	25.90	1.40	.83	.08	87.99	1,313	1,695.69	77.4

¹ Figures on Australia and New Zealand not available although they undoubtedly contributed some aid to several of these countries.² Commitments not available.³ Less than 0.006.

TABLE 3.—OFFICIAL BILATERAL AID TO DEVELOPING MEMBERS OF ASIAN DEVELOPMENT BANK BY DEVELOPED MEMBERS¹ OF ASIAN BANK, 1962
[Net disbursements only;² Dollar amounts in millions]

	Austria	Belgium	Canada	Denmark	Germany	Italy	Japan	Nether- lands	Norway	Sweden	Switzer- land	United Kingdom	United States	Total	U.S. per- cent of total
Afghanistan.....					\$2.15		\$0.11						\$13	\$15.26	85.2
Cambodia.....			\$0.10		(³)		1.08						20	11.18	84.4
Ceylon.....			1.83		.71		.12						8	12.78	62.6
China (Taiwan).....					(³)		.05			\$0.04		\$2.08	81	81.05	99.9
India.....			9.80		54.06	-\$3.74	8.66			.07		61.96	535	666.70	80.2
Indonesia.....			.50		3.58	1.26	22.04	\$37.00		.45		.11	88	152.94	57.5
Korea (South).....				\$0.56	.28		.03		.36	.50			234	235.73	89.3
Laos.....			(³)				.62						30	30.72	57.6
Malaysia.....			1.01		.20	.01	.03					10	11	21.51	51.1
Nepal.....							.07					9.22	8	8.32	31.1
Pakistan.....			9.48		19.73		1.37			.35		29	329	377.71	96.1
Philippines.....			.06		.24	-.10	7.02					17.78	23	37.71	57.1
Singapore.....			.11				.05					.12		30.34	73.8
Thailand.....					.45	.10	3.20					.57		36.13	88.6
South Vietnam.....					.13		17.32					.25	32	36.13	88.6
West Samoa.....			.28									.05	158	175.78	89.9
Total.....			23.28	.56	81.53	-2.47	61.77	37.00	1.25	1.41		92.53	1,570	1,866.86	84.1

¹ Figures on Australia and New Zealand are not available, although they both gave some aid to several of these countries.

² No commitment figures available for 1962.

³ Less than 0.006.

TABLE 4.—OFFICIAL BILATERAL AID TO DEVELOPING MEMBERS OF ASIAN DEVELOPMENT BANK BY DEVELOPED MEMBERS¹ OF ASIAN BANK, 1963
 [Net disbursements only; ² dollar amounts in millions]

	Austria	Belgium	Canada	Denmark	Germany	Italy	Japan	Nether- lands	Norway	Sweden	Switzer- land	United Kingdom	United States	Total	U.S. per- cent of total
Afghanistan	(³)				\$2.81		\$0.07					(³)	\$32	\$34.88	91.7
Cambodia			\$0.11		.06		.78					\$0.06	20	21.01	95.2
Ceylon			1.86		2.56		.17			\$0.08		2.04	4	10.71	37.34
China (Taiwan)	\$0.04				.78		.14						77	77.96	98.8
India	— .31		25.13		44.46	\$0.70	32.48		\$0.88	1.65	\$0.19	57.70	740	902.88	81.9
Indonesia	.01		.45		7.56	.72	17.93			.49	.02	.15	77	104.33	73.8
Korea (South)					3.45		5.48		.54	.51	.01	.02	239	249.01	96.0
Laos					(³)		1.97					1.14	31	34.20	90.6
Malaysia			.09				.18					3.69	6	11.33	52.9
Nepal			1.30		.16		.03				.26	1.39	14	15.88	89.3
Pakistan	— .02		20.22		42.01		11.32			1.53	.01	26.32	382	483.38	79.0
Philippines	.54		.10		2.17	— .10	10.75					.15	8	21.61	37.0
Singapore			.25				.09					.09	30	34.87	86.0
Thailand	— .02		.11		1.16	.05	3.23			.05		.29	211	221.13	95.4
South Vietnam	(³)		.29		2.71		7.07					.06			
West Samoa															
Total	.23		49.91		109.89	1.37	91.69		1.42	4.31	.49	93.10	1,871	2,223.41	84.1

¹ Figures not available on Australia and New Zealand although they gave some aid to several of these countries.

² Commitment figures not available.

³ Less than \$0.006 million.

TABLE 5.—OFFICIAL BILATERAL AID TO DEVELOPING MEMBERS OF THE ASIAN DEVELOPMENT BANK BY DEVELOPED MEMBERS¹ OF ASIAN BANK, 1964
 [Net disbursements only; ² dollar amounts in millions]

	Austria	Belgium	Canada	Denmark	Germany	Italy	Japan	Nether-lands	Norway	Sweden	Switzer-land	United Kingdom	United States	Total	U.S. per- cent of total
Afghanistan					\$6.63	\$0.03	\$0.10					\$0.44	\$37.00	\$44.22	83.7
Cambodia	\$0.02		\$0.12		.16		1.16					.07	7.00	8.51	82.2
Ceylon		.01	2.32		1.32		.22					1.38	4.00	9.38	42.6
China (Taiwan)		.01			1.44	-.03	.17			\$0.13			48.00	9.38	96.8
India	3.77				72.31	-3.12	35.46	\$2.90	\$0.82				862.00	1,113.49	77.4
Indonesia	.12		40.71	\$0.90	14.17	1.98	15.01			.44			31.00	63.25	49.0
Korea (South)			.01		10.68	.01	.19		.63			.09	158.00	169.59	93.2
Laos			.12		.09		.11					.06	39.00	42.82	91.1
Malaysia			1.76		.50		.21					3.50	17.00	14.23	14.0
Nepal					.04		.02		.03			9.76	2.00	18.50	91.9
Pakistan			22.68		46.04	.05	16.23		0.1	1.49		28.01	379.00	493.91	76.7
Philippines	.41		.09		1.84	-.15	21.35					.20	49.00	72.34	67.7
Singapore							.15					.30		45	0
Thailand			.11		7.52	.11	3.48					.52	18.00	29.54	60.9
South Vietnam	-.02		.45		5.37	.09	5.86					.18	221.00	232.97	94.9
West Samoa															
Total	4.32	.01	68.79	.90	168.11	-1.25	99.72	2.90	1.49	4.88	.62	140.30	1,872.00	2,362.79	79.2

¹ No figures are available on Australia and New Zealand but they gave some aid to several of these countries.

² Commitments not available.

³ Less than 0.006 million.

TABLE 6.—OFFICIAL BILATERAL AID¹ TO DEVELOPING MEMBERS OF THE ASIAN DEVELOPMENT BANK BY DEVELOPED MEMBERS OF THE ASIAN BANK, 1965 (CALENDAR YEAR)

[Commitments and net disbursements; amounts in millions of dollars]

	Australia	Austria	Belgium	Canada	Denmark	Germany	Italy	Japan	Nether- lands	New Zealand ²	Norway	Sweden	United Kingdom	United States	Total	U.S. percent
Afghanistan:																
Commitments		0.02		0.01		12.60	0.06	0.10					1.82	40.34	54.85	73.0
Disbursements	0.03	.02		.01		15.81	.06			0.01		0.15	1.51	33.47	51.17	65.4
Cambodia:																
Commitments	1.53			.01										.53	2.07	25.6
Disbursements	.32			.10		.64		.45					.04	1.62	3.17	51.1
Ceylon:																
Commitments		.08		4.14			.86									
Disbursements	1.53	.08		4.84		2.41	.74	.13		.18	0.01	.28	6.26	3.45	14.79	23.3
China (Taiwan):														3.90	13.85	28.1
Commitments				4.62			.38	44.54						71.53	121.07	59.1
Disbursements						.47	.39	.25						52.72	53.83	97.9
India:																
Commitments	13.30	5.27		56.74	2.89	83.20	3.60	60.00	6.39		1.09		68.60	506.74	807.82	62.7
Disbursements	9.56	4.26		27.15	.20	44.30	-.59	53.23	13.89	.35	1.37	6.17	65.36	857.37	1,082.82	79.2
Indonesia:																
Commitments	.89			.09			27.68	20.00		.12			.03	4.89	53.55	9.1
Disbursements	1.94	.33		.08		15.13	5.52	21.52						-2.92	41.35	-7.1
Korea (South):																
Commitments				.05	.57	15.10	3.07	50.30		(³)	.49		.14	205.65	274.66	74.9
Disbursements	.27			.05		4.49	.91	43.88			.54			164.75	218.09	75.5
Laos:																
Commitments	1.76			.11		.29		.50	3.30	.21			.01	62.08	67.76	91.6
Disbursements				.12				.56					3.98	58.40	64.31	90.8
Malaysia:																
Commitments	1.99			5.07		3.70							.98	4.77	16.51	28.9
Disbursements	2.65	.22		1.82		1.03		.24		.44			11.08	3.58	21.06	17.0
Nepal:																
Commitments	.58			.01		.60		.09		.02			.77	6.32	7.66	82.5
Disbursements	.05			.01									.10	13.71	16.58	94.7
Pakistan:																
Commitments	1.74	.04		53.98		29.40	.08		6.63				.13	65.33	157.33	41.5
Disbursements	1.71	-.30		13.95	.08	42.29	.08	32.69	1.38	.05	.01	2.39	28.26	331.36	433.59	73.0
Philippines:																
Commitments	1.05	.04		.11			.04	25.00					.01	25.16	51.41	48.9
Disbursements	.18	-.04		9.81		1.17	.01	35.30		.01	.01		.19	44.22	90.86	48.7
Singapore:																
Commitments				.70		.06	.12	.07		.12			.91	.01	2.27	.4
Disbursements	.60			.50												
Thailand:																
Commitments	6.94	4.70		.66	.15	11.80	.50			.12	.01		.63	42.33	66.93	63.2
Disbursements	2.07	4.64		.28		8.16	.12	3.86		.12	.01			26.13	46.17	56.6

See footnotes at end of table, p. 56.

TABLE 6.—OFFICIAL BILATERAL AID¹ TO DEVELOPING MEMBERS OF THE ASIAN DEVELOPMENT BANK BY DEVELOPED MEMBERS OF THE ASIAN BANK, 1965 (CALENDAR YEAR)—Con.
[Commitments and net disbursements; amounts in millions of dollars]

	Australia	Austria	Belgium	Canada	Denmark	Germany	Italy	Japan	Nether-lands	New Zealand ²	Norway	Sweden	United Kingdom	United States	Total	U.S. percent
South Vietnam:																
Commitments	2.08			0.52			0.09						0.16	407.26	410.11	99.3
Disbursements	.84			.58		4.88	.14	— .68		.17			.23	300.10	306.26	98.0
West Samoa:																
Commitments				.01											.01	0
Disbursements				.01											.01	0
Total 1965 com- mitments	31.84	10.15		126.83	2.89	155.80	36.48	200.34	16.32		1.58		78.74	1,446.38	2,107.35	68.6
Total 1965 net disburse- ments	22.10	9.21		58.95	1.00	141.29	7.38	193.69	15.27	1.80	1.95	9.48	112.21	1,890.42	2,465.39	76.7

¹ Bilateral aid includes aid from all official sources (e.g., AID, Public Law 480, Eximbank, Peace Corps, etc.).

² No commitments available on New Zealand. Disbursements are on a gross basis and cover the year ending Mar. 31, 1965.

³ Less than \$6,000.

Sources: All figures except those on New Zealand are taken from OECD/DAC documents (geo-graphical distribution of financial flows to less-developed countries—1965) and various DAC memorandums.

TABLE 7.—U.S. AID TO DEVELOPING MEMBERS OF ASIAN DEVELOPMENT BANK 1956-56¹
[In millions of dollars]

	1953-57 ² cumulated	1958	1959	1960	1961	1962	1963	1964	1965	1966
Afghanistan.....	63.90	14.10	27.50	15	30	13	32	37	33.47	31
Cambodia.....	119.70	28.20	25.70	25	24	20	20	7	1.62	5
Ceylon.....	16.60	20.50	16.40	8	9	8	4	4	3.90	32
China (Taiwan).....	529.50	99.80	99.00	110	119	81	77	48	52.72	744
India.....	700.40	307.60	366.00	524	376	535	740	862	857.37	727
Indonesia.....	111.17	27.20	55.70	44	53	88	77	31	2.92	166
Korea (South).....	1,521.40	286.80	272.30	249	228	234	239	158	164.75	58
Laos.....	134.40	31.50	25.10	33	51	30	31	39	58.40	2
Malaysia.....	1.80	7.40	20.50	1	2	11	6	2	3.58	10
Nepal.....	10.10	7.50	2.70	8	10	8	14	17	13.71	198
Pakistan.....	566.30	158.20	225.50	239	222	329	382	379	331.26	22
Philippines.....	156.10	29.20	111.40	23	10	23	8	49	44.01	21
Singapore.....	132.20	25.90	58.90	43	28	32	30	18	26.13	500
Thailand.....	823.30	188.70	207.10	185	151	158	211	221	300.10	1,817
Vietnam.....										
West Samoa.....										
Total.....	4,890.87	1,228.60	1,517.80	1,507	1,313	1,570	1,871	1,872	1,890.42	1,817

¹ 1956-59 figures are commitments on a fiscal year basis. 1960-66 are net disbursements on a calendar year basis. ² Figures for 1956 and 1957 are not available individually.

TABLE 8.—NUMBER OF U.S. DIRECT HIRE PERSONNEL¹ AND APPROPRIATED ADMINISTRATIVE EXPENSES² IN THE A.I.D. MISSIONS IN DEVELOPING MEMBER COUNTRIES OF THE ASIAN DEVELOPMENT BANK, FISCAL YEARS 1956-1967

[Costs in thousands of U.S. dollars]

Country	Number					Fiscal year 1962		Fiscal year 1963		Fiscal year 1964		Fiscal year 1965		Fiscal year 1966		Fiscal year 1967		
	Fiscal year 1956	Fiscal year 1957	Fiscal year 1958	Fiscal year 1959	Fiscal year 1960	Number	Cost	Number	Cost	Number	Cost	Number	Cost	Number	Cost	Number	Cost	
Afghanistan.....	49	56	57	77	103	111	115	626.0	125	648.7	114	650.1	107	682.6	87	683.5	110	631.4
Cambodia.....	49	64	86	103	123	109	107	704.8	106	688.9	114	443.6	107	0	2	50.3	2	60.4
Ceylon.....	7	24	33	45	47	41	33	292.8	8	239.9	49	560.0	17	479.0	2	455.0	6	253.8
China.....	71	82	74	71	73	77	75	739.5	72	790.2	117	605.2	113	978.6	104	1,060.4	109	1,011.6
India.....	123	140	109	117	123	117	117	697.3	108	701.6	117	605.2	113	978.6	104	1,060.4	109	1,011.6
Indonesia.....	91	107	100	110	128	127	129	614.1	120	688.1	104	663.8	10	604.0	2	132.9	11	154.0
Korea.....	177	286	290	339	337	284	160	1,337.0	122	1,125.0	100	763.7	103	789.0	125	752.9	140	908.1
Laos.....	57	88	103	133	160	133	77	617.0	137	711.1	186	684.1	213	789.8	264	894.6	291	861.9
Malaysia.....	35	34	43	51	55	57	70	408.3	69	445.5	66	437.7	62	429.5	53	473.6	60	516.3
Nepal.....	125	149	140	154	143	136	137	826.2	157	764.1	169	866.0	166	920.0	131	973.5	143	1,123.6
Philippines.....	116	108	93	89	83	74	59	464.8	55	461.7	72	448.0	71	454.8	65	480.2	63	384.5
Singapore.....	96	116	119	145	148	153	148	623.5	158	661.0	160	701.3	162	797.7	194	858.8	266	1,058.2
Thailand.....	152	157	163	171	193	199	207	962.1	286	1,060.0	355	1,131.4	542	1,587.4	820	1,695.1	1,660	2,353.7
Vietnam.....																		
Western Samoa.....																		
Totals (excluding Vietnam).....	996	1,254	1,247	1,434	1,517	1,425	1,227	7,951.9	1,237	7,961.8	1,137	6,838.5	1,024	6,925.0	1,034	6,815.7	1,201	7,163.8
Total (including Vietnam).....	1,148	1,411	1,410	1,605	1,710	1,624	1,434	8,914.0	1,523	9,021.8	1,492	7,969.9	1,566	8,512.4	1,858	8,510.8	2,861	9,517.5

¹ Excludes consultants.² Fiscal data prior to fiscal year 1962 not immediately available.

A.I.D. ASSISTANCE TO DEVELOPING MEMBER COUNTRIES OF THE ASIAN DEVELOPMENT BANK

A.I.D.'s programs are designed to help less developed countries move toward self-sustaining growth and combat economic and political instability.

Development is a long-term proposition requiring a considerable flow of resources to the developing countries. While the Asian Development Bank will contribute to the development of Asia, it does not have, and will not have at least for some time to come, enough resources to do the whole job. Development capital and technical assistance from a number of sources, including the ADB and A.I.D., will therefore continue to be necessary for progress in Asia.

Furthermore, the United States, through A.I.D., is providing Supporting Assistance to Vietnam, Thailand, Laos and Korea. This assistance, which is not loaned, but granted, is closely tied to U.S. security interests in that part of the world and is not the kind of aid—in its terms, amount or purpose—which the ADB was set up to provide. As long as it is needed, it will have to be provided by the United States.

This does not mean that A.I.D. plans to provide assistance indefinitely to all the countries which might receive loans from the ADB. In six of these countries, over a third of the total, A.I.D. has no program. One of the six is the Republic of China (Taiwan), a notable development success story, where A.I.D. phased out its program in 1965.

In Korea, the A.I.D. program has been considerably reduced over the last few years and we and the Koreans expect to continue this trend. A.I.D. has no plans for terminating assistance in the other nine countries (Afghanistan, India, Indonesia, Laos, Nepal, Pakistan, Philippines, Thailand and Vietnam) while development or security needs remain as great as they are now. To the extent Special Funds are available to the Asian Development Bank and are committed to projects in a country where A.I.D. has a program, A.I.D. will, of course, take this into account when determining its own program in that country.

Mr. REUSS. Obviously what I am interested in is this: We seem now to have an instrument for sensible multilateral aid, and while the Congress has diminished the bilateral aid program. I see no reason why we should continue to leave large missions in the countries.

As noted before AID and ADB seemed to have developed a mechanism for ADB's administering portions of AID money.

Why not more? What is the hangup? Why do we maintain all of these rather expensive AID missions?

Mr. BLACK, I believe both France and the Soviet Union participated in the early discussions emanating from the United Nations Economic Commission for Asia and the Far East, but when the roll was called at Manila for membership neither of them joined; is that correct?

Mr. BLACK. That is correct. They were both invited to join and they both declined to join.

The U.S. Government made it clear that they had no objection if Russia joined the Bank, but Russia decided not to join the Bank, nor did France.

Mr. REUSS. Speaking purely for myself, I wish they both had. They both are needed, not only for their financial resources, but also for their intellectual contributions.

Now, in this legislation we have what I think is a very desirable second round to set up concessional special funds.

Have France and the Soviet Union been invited to pony up for those special funds?

Mr. BLACK. You mean this particular—

Mr. REUSS. This \$200 million special fund we are talking about.

Mr. BLACK. I think they will be invited. Whether they will participate or not, I don't know.

I think that it is quite possible that over the next few years France will contribute money to some special projects in this area.

As a matter of fact, France did contribute some money to the dam being built in Laos. They were one of the nine countries besides the United States that made a contribution. So I think it is quite possible that over the next period of years that those countries may contribute either to these special funds or some specific projects in that area.

Mr. REUSS. Again speaking purely for myself, I think it is highly important that the Asian Development Bank formally invite France and the Soviet Union to contribute to the special fund.

I wouldn't like it be said a few years from now by France and the Soviet Union, "Oh, had we known you were in need of funds we would have been delighted to contribute."

Mr. BLACK. We will certainly convey that to the Bank and I see no reason why they should not do that. I think they should.

Mr. REUSS. Would it not be useful either in the legislation or legislative history, if my colleagues feel as I do, that we inserted some directive to the U.S. Director, Mr. Zagorin, to use whatever good offices and voting power he may have on the Asian Development Bank Board to make sure that France and the Soviet Union and any other countries similarly situated know that the welcome mat is out, the light is burning in the window, and we would welcome their contributions?

Mr. BLACK. I see no reason not to. I think this is a good idea.

Mr. REUSS. Mr. Widnall.

Mr. WIDNALL. Thank you, Mr. Chairman.

Mr. Black, it is a fine day when you appear before this committee. We have enjoyed your friendship and our association over a period of years. The same with our former colleague Joe Barr, and it is good to see you, Mr. Zagorin.

I would like to read from page 8 of the special report of the National Advisory Council on International Monetary and Financial Policies, House Document No. 166, under "B. Sharing of Contributions."

It says:

In the circumstances of the newly established Asian Development Bank, it appears to the National Advisory Council that the practical approach would be the establishment of an overall limit on the share the United States should take of financial contributions to special funds as a whole. In the normal case, our concern is that the aggregate of the contributions of the other developed countries should present a reasonable sharing of burdens, and not that there be a particular distribution of the contributions among the other contributors. The Council recognizes that in past proposals for U.S. participation in financial institutions, a fully negotiated agreement, indicating specific countries and the amount each would provide, was available at the time of the approach to Congress by the administration. Although such an approach is preferable when feasible, U.S. goals and objectives would be benefited by our being in a position, through the proposal as now structured, to respond in a timely manner to Asian initiatives.

My question is this: Does this mean that the Congress will have no idea of the total contributions to the Bank soft-loan window by other nations?

Mr. BLACK. The proposal is that the U.S. share would be less than half of the fund.

We are asking for \$200 million. This would be less than half of a fund of more than \$400 million.

Now, if the other countries don't contribute that, our share would be reduced.

In other words, if the total amount is \$300 million, our share would be in the neighborhood of \$150 million.

So I think to answer your question, that if Congress approves this \$200 million, we will be able to get other countries to contribute an equal amount or slightly more than that.

As a matter of fact, \$100 million is already promised from Japan out of the other \$200 million we need.

Mr. WIDNALL. But, Mr. Black, couldn't it be true that the United States could contribute up to 75 percent of the Mekong River project?

Mr. BLACK. Of the Mekong River project?

Mr. WIDNALL. Yes.

Mr. BLACK. Well, I think it depends on what you mean by the Mekong River project.

There are going to be a number of projects on the Mekong River. To illustrate, about 34 tributary dams have been recommended for the Mekong River.

Now, it may be that some of our friends might contribute more than half to a specific project, but the overall would still be we would not put up more than half of the money in special funds.

Mr. WIDNALL. This is what I am getting at, in the case of the Mekong River, in the overall project, as I understand it, we could contribute up to 75 percent of that entire development.

Mr. BLACK. Well, the entire development of Mekong River?

Mr. WIDNALL. The initial project.

Mr. BLACK. Well, it could be that a dam or a powerplant would be ready to be financed and that might mean \$25 or \$30 million. We might put up 75 percent of that. But if the money we put up would come out of our share of the total special funds, we wouldn't exceed half of those funds. It wouldn't necessarily be half of each particular project, but it would be within the overall amount, you see.

Mr. WIDNALL. I just wanted to have that clear for the record.

Mr. BLACK. That is right.

When you talk about Mekong projects, this is a very important thing because over the next 10 years or 15 years there are going to be some of the biggest projects in the history of the world done on the Mekong River and its tributaries.

There is one project in particular in Thailand called the Pa Mong project which is being studied very extensively now as to the feasibility with comparison to the economics of it as to atomic power and thermal power.

These studies are taking place right now and when these studies are completed, if they prove the economics of this, this one project will cost \$800 million. It will be one of the biggest power projects in the world. It will be bigger than the Grand Coulee Dam or bigger than the Aswan Dam.

So when you are talking about Mekong over the next 10 years, you are talking about big money. But these projects won't be ready for several years and this particular project I am talking about would probably take until 1980 to complete, if it is decided to go ahead with it, and that money will come from various sources, the World Bank, bilateral programs, or whatever it may be.

Mr. WIDNALL. I am bothered in my thinking about this, as to what extent we can have peaceful development of the Mekong River proceeding at a time when \$35 billion per year is being spent for leveling the cities and defoliation.

Mr. BLACK. The answer is, you can't do anything in that nature in South Vietnam when the war is going on. We are talking about the future.

As a matter of fact, the project that I am talking about, this big project would be entirely in Thailand and Laos.

Mr. WIDNALL. What about Cambodia and Laos?

Mr. BLACK. I think it would be difficult to do much in these countries, although progress is being made on construction of a dam in Laos and steps are being taken to proceed on a project in Cambodia.

So I think it is possible to do something with those countries but, of course, it is impossible to do anything today of that nature in South Vietnam.

Mr. WIDNALL. It almost looks as if we will have to be dealing with North Vietnam for Cambodia and Laos and they are not participants.

Mr. BLACK. I didn't understand the last question.

Mr. WIDNALL. I say it almost looks right now as though we would have to be dealing with North Vietnam on behalf of Cambodia and Laos. They are certainly moving in through there and taking over, and it could create quite a problem down there.

Mr. BLACK. That is possible.

Mr. WIDNALL. And they are not part of the Asian Development Bank.

Mr. BLACK. Laos is a member of the Asian Development Bank. Cambodia is a member. And North Vietnam is not a member. But I think if you have peace eventually, North Vietnam could become a member.

Mr. WIDNALL. This I understand. But the realities right now aren't very bright.

Mr. BLACK. Could I give you one set of figures which you might want for the record, Mr. Chairman?

Talking again about the Mekong, in the last few years there has been spent \$113 million in the Mekong River and its tributaries; \$39 million of that has been for the purpose of preinvestment investigations and plannings; and \$73 million has been for building dams and powerplants. There have been two built in northern Thailand and one is being built in Laos. This is \$113 million.

Now, we have put up \$26 million of this, the United States has, and the other countries have put up the rest of it, and the "other countries" means 27 other countries have contributed to the money spent so far in the Mekong River. And a lot of this, as I say, is spent in making plans for projects that will take place over the next 10 or 15 years.

Mr. WIDNALL. Mr. Black, I ask you if it is not a fact that the initiative for the early formation of the soft-loan window originated more with the U.S. delegation at Bangkok in 1965 than with the Asian delegates?

Mr. BLACK. I think there is a universal recognition of the need for it. I do not believe the United States initiated it. Many countries have recognized the need for it.

Mr. WIDNALL. I think I rather clearly recall at that time the Asian delegates cautioning against an ambitious approach in the early years of the Bank's operation.

Mr. BLACK. That is right, as far as the Bank's ordinary capital funds were concerned.

Mr. WIDNALL. And they wanted the original operation to be on a sounder basis, if possible.

Mr. BLACK. That is correct. But that is the ordinary capital in the Bank.

Mr. WIDNALL. Secretary Barr, it is claimed because of tied loans and local project costs being assumed by host countries that the balance-of-payments impact in this bill would be minimal.

Do you think that the extent an additional \$200 million U.S. contribution would add to our Federal budget deficit, that indirect balance-of-payments considerations remain, in short, increased Federal deficit are inflationary and inflation is a primary cause of fact in the balance-of-payments deficit?

Mr. BARR. Mr. Widnall, first of all let me speak to this question of the indirect effect on balance of payments.

As Mr. Black has indicated to you, in this special fund for the Asian Bank, we do not anticipate financing any local costs, so we will not have that trouble, some issue of additionality or substitution of U.S. dollars for the exchange that they might otherwise have spent. So this is out of the way in this institution.

Now, the second portion of your question as to the inflationary impact of a budgetary deficit, I think you will also see in Mr. Black's statement that there is no impact on the fiscal year 1968 budget and it would be my best guess, the impact of 1969 would be small. I would think there might be, if you were going at a rate of \$50 million a year, I think on the expenditure basis I would doubt that more than \$25 million would be expended, more might be committed, but no more than \$25 million spent.

So for the 2 years, for the fiscal years that we are looking at at the moment, I would think that the expenditure impact of this proposal would be confined to an area of not more than \$25 million in the next 18 months.

Mr. WIDNALL. What you are trying to gain by this bill is the ability over a period of 4 years to have an authorization of \$50 million per year?

Mr. BARR. That is correct; that is the authorization which the Bank will use to make commitment.

Its disbursements, as you know, would run considerably behind its commitment.

As I understand your question, you addressed to the inflationary impact on the United States.

Mr. WIDNALL. That is right.

Mr. BARR. And I would give the committee my best judgment that any inflationary impact, and by that I mean in addition to our expenditure deficit, would be in the area of \$25 million at most in the next 18 months.

Mr. WIDNALL. That is all, thank you.

Mr. REUSS. Mr. Gonzalez.

Mr. GONZALEZ. Mr. Black, are any of the nations contributing to the special funds earmarking their funds for any special project?

Mr. BLACK. I think the other countries that will contribute to this fund may have the right to earmark their money for specific purposes.

For example, we will earmark our money, if this legislation is passed, primarily for the use of Southeast Asian countries.

Now, there are a number of other countries in the Bank besides Southeast Asian countries, but we are saying we want this used primarily for the Southeast Asian countries.

Some of the other countries may come along and say they would like to have theirs for some other specific area.

For example, the Japanese said they are interested primarily in agriculture, and they were the originator of this conference on agriculture, and they may say they would like to have their money used primarily for agriculture.

Mr. GONZALEZ. I had been aware of Japan doing that. I did not know if that was advisable or inadvisable. And I just wondered if we had, and I think, of course, that it is wise that we should want to be concentrating in Southeast Asia.

I also am very gratified to see that there is hope and that the creative and the hopeful are still with us and not the despairing and the pessimistic.

I think it is a very good thing that you are proposing because it is looking forward to the creative at a day and time when the destructive forces have been eliminated, particularly in Southeast Asia, and it may help to militate against those who ascribe to the United States nothing but the worst of motives.

So I compliment you on that.

The minority leader brought out this question of the balance of payments and I noticed that both in the Advisory Committee's report, as well as in the bill itself, this question is anticipated.

I think it will be one of the big issues if and when this bill gets on the floor. And what I was going to ask is essentially this:

Other than the general phraseology in the bill itself, would you consider it advisable to specify restrictions or narrow the conditions under which this money could be utilized in order to avoid any imbalance or adding to the imbalance?

Mr. BLACK. Well, if you are talking to me personally, I am not in favor of tied loans. I have never been in favor of them and I spent years and years in the World Bank trying to persuade other countries not to tie any money.

On the other hand, I have to recognize the balance-of-payments problem, and this has been set up to meet that problem.

But as far as my philosophy is concerned, I am against tied money.

Mr. GONZALEZ. And, of course, as the report and your statement stated, these special funds are really being realistically advanced, in view of the real conditions you have to meet, but in order to maintain the reputation and the credit of the Bank, your regular funding will still have to be hard?

Mr. BLACK. That is correct.

Mr. GONZALEZ. Well, thank you very much, and good luck as far as one member is concerned. I am for you.

Mr. BLACK. Thank you, sir.

Mr. REUSS. Before I recognize Mr. Stanton, on the point pursued by Mr. Widnall and Mr. Gonzalez of the relative costs of the proposed U.S. contribution to the special fund of the Asian Development Bank and relative costs of our military activities in Southeast Asia, I think, Mr. Barr, you testified that the expenditure impact for the next 18 months of this special fund aid program would be on the order of \$25 million.

Mr. BARR. Yes, sir; Mr. Chairman. This is my best guess.

Mr. REUSS. At the present rate of expenditure for the war in South Vietnam of around \$30 billion a year, at a rate of a year and a half, it would be \$45 billion; hastily calculating, I deduced a ratio of war-making versus peacemaking of 1,200 warmaking, 1 peacemaking, and my question is, Do you think that 1 against 1,200 is an outrageously high ratio?

Mr. BARR. Mr. Chairman, the figures we use for Vietnam, of course, are printed in the Bureau of the Budget document submitted to the Congress in the President's budget statement. We print the figure \$25.8 billion for fiscal year 1969.

Mr. REUSS. If you care to amend my question, then, to a ratio of 900 to 1, I will accept it.

Mr. BARR. Mr. Chairman, may I say that I wholeheartedly concur with the sentiments expressed by Mr. Gonzalez, that I deeply favor this small amount of money. I wish it could be more. As a representation that this Nation is dedicated to peace and peaceful pursuit of the economic development of this region, I know of no project in which I have been engaged in my period of public service that has given me more personal satisfaction than this Bank. Partly, I think, it is because of a feeling that this is a way to show to the world that we are not a nation of warriors bent on destruction; that our ultimate goal is the peaceful development of these nations.

Mr. REUSS. Mr. Stanton.

Mr. STANTON. Thank you, Mr. Chairman.

Gentlemen, I could not help but agree with Mr. Gonzalez in part too, and I have the feeling the good luck that has been offered to you probably came from people like myself who are a little skeptical.

I do not think anybody could argue with the objectives of having a special fund, but I think you would have to disagree with the approach.

Two years ago I enjoyed my experience in Japan in talking to Mr. Watanabe about the Bank. It was a feeling of pride of the countries in helping to develop Asia itself. I get the impression here we are going to overwhelm these countries with our initiative. We are going to be asked to put up the \$200 million and really not know what percentage the rest of the Bank is going to contribute.

You are asking us to put up 55 or 45 percent of the amount. Yet we have one Director on that Bank. We have 17 percent of the voting rights in that particular Bank.

Once again I wonder if we are taking the initiative away from the Asian countries. I miss the point in some way. We have not heard first from somebody from the Asian Development Bank stating that the Board of Directors passed a resolution that this is a favorable thing to do, to ask the different countries to contribute to a certain percentage. I also worry and perhaps you could answer this question, Mr. Black: Japan and the United States are equally in the hard window. We say we will match the hard window of \$200 million, and Japan says they will go 50 percent. I read somewhere the Netherlands is going to go one-tenth and Canada put up \$25 million to the hard window. They might put up a fraction of a couple of million in this.

Have you checked with all the countries involved? What has the Bank been doing to promote this particular legislation?

Mr. BLACK. Well, in the first place, we will know the exact proportions that we put up of this special fund. It won't be 55 or 75 percent. It will be less than 50 percent of whatever the fund is. If the fund is \$400 million, our maximum figure would be \$200 million.

If it is less than that, it would be less than half of what the fund is. So we will know exactly what the fund is.

As far as other countries are concerned, there have been some discussions with other countries. The Bank itself is very keen to have this fund.

I have a statement here by the President of the Bank which I think might be put in the record. This is a plea by the President of the Bank for the special fund, and it is giving reasons for the need for these special funds.

As far as other countries are concerned, Japan has already agreed to put up \$100 million in this special fund we are talking about. What I said in my statement was that Canada has not made the specific commitment but would probably put up the same amount that they put up in the Bank.

In other words, it would not be \$2.5 million, it would probably be \$25 million.

The Netherlands has put up \$1,100,000 this year. This may be every year.

Now, it has been very difficult for the Bank to go around and request other people to put money up unless they know we are going to put money up. The minute we decide to do it, I can assure the members of this committee we are not going to have trouble getting the rest of the money.

You cannot ask other people to put money up when you are not sure you are going to do it yourself. You have to be sure of it yourself before you can ask them.

I am not worried at all about getting their participation in this fund, and there is no question of a percentage in this at all.

We state here that we are going to put up less than 50 percent of this special fund.

Mr. STANTON. Mr. Black, the thing that appeals to many of us about the bill of the Inter-American Development Bank is that they have met and passed a resolution. They have come up with the requests. The United States, if it is going along may say yes. The Bank has said we will go through with this if so many different countries agree with it. It is a solid proposal. You know exactly where you stand. All the other countries know and it is a type of operation that I think has great appeal to the Members of Congress, whereas this is a different approach.

This is U.S. initiative on the surface to promote worthwhile objectives. On the other hand, I think it should come from the Bank itself after due consideration and time.

I have one other question. Does the Bank, and I am very happy to see the progress the Bank is making, have within its charter the ability of the Bank itself to change the charter to provide that a certain amount of its funds could be changed to soft loans? Can the Bank itself with its \$965 million change its own charter to provide a certain amount of capital for accomplishing the same purpose?

Mr. BLACK. Could I answer your inquiries? The first question, in the case of the Latin American Bank, as I recall it, Congress approved

\$300 million a year for the next 3 years as a contribution to the special funds of the Latin American Bank.

Now, that \$300 million a year could be used for local currency purposes. In that respect it is different from what I am talking about.

Mr. STANTON. That is the case over the objection of many of us who were here on that particular bill.

Mr. BLACK. I am not making any comment. I am saying there is a difference.

Now, the second point is that you said that the countries contributed their share. If you analyze what they contributed, it was local currency. They contributed local currency as their share of this fund, while the United States contributed \$900 million.

But whatever the amount was—I do not know what it was—whatever it was, it was in local currency and we are talking about convertible hard money in this case. And the countries that put money up, put up convertible money.

Now, when you talk about the members of the Bank, whether they want this or not, some of the gentlemen here went to the inaugural meeting of the Asian Development Bank and they will recall that practically everybody—this includes the representatives of the Asian countries—got up and made a very strong plea for special funds.

Now, the last part of your question as to whether or not the Bank could change their charter and allow for a certain percentage of their money to be used for soft-loan purposes, I want to describe what the funds of the Bank are.

The Bank started out with a billion dollars of authorized capital. Now you have got to break that down. What does this mean in money? It means that you only have to pay up half of that so you don't have a billion dollars. You are going to have \$500 million of loanable funds and you have to break that down. When you break it down it means—taking the U.S. subscription, which is \$200 million—we have to put up \$100 million and we have 5 years to put that up.

So all the United States put in this Bank so far is the first two payments of \$20 million each, \$40 million in all, and that applies to all the other countries. So the Asian Bank has started in business instead of having \$1 billion available to lend, they have got about \$80 million a year of convertible currency for the next 5 years. So you can break that \$500 million down into hard- and soft-loan money, and you are not doing much each year to meet the real need of the countries of this area.

So instead of \$1 billion you have \$80 million of convertible currency a year for 5 years. Our share of that is \$20 million. So all this Bank is costing the United States has been \$40 million so far.

Mr. STANTON. A direct answer to my question, Does the Bank have the authority?

Mr. ZAGORIN. The Bank has the authority in article 19 of the charter, by a special vote of two-thirds of the Governors representing three-quarters of the total voting power of the members, to use not more than 10 percent of the paid-in portion of the Bank's resources for special funds. Perhaps this is what you may be referring to.

So if you take, as Mr. Black said, about \$80 million in convertible currency contributed each year, the total amount of convertible currency which could be used for setting aside ordinary capital for special funds would be limited to 10 percent of this \$80 million a year.

So the availability of soft-loan money from the Bank's own resources, its ordinary capital, would be no more than \$8 million a year for a total of \$40 million of convertible currency over the 5-year period. And what is intended is that these special funds, if the Board of Governors so decide, would be contributed and added to the contributions from donor countries.

Mr. BLACK. May I add one thing, Mr. Stanton?

In describing the capital structure of the Bank, the \$1 billion, I broke it into half. The other half that the countries do not put up is used as a guarantee fund when the Bank later may sell bonds, but that other half cannot be called up for lending purposes. So all they are going to have at the end of 5 years is about \$400 million of paid-in convertible currency and the only way to get any more of that is through special funds or through future bond issues.

Mr. STANTON. Mr. Zagorin, would you furnish me a copy of that?

Mr. ZAGORIN. Yes.

(The material requested follows:)

ARTICLE 19—SPECIAL FUNDS

1. The Bank may:

(i) set aside, by a vote of two-thirds of the total number of Governors, representing at least three-fourths of the total voting power of the members, not more than ten (10) per cent each of the portion of the unimpaired paid-in capital of the Bank paid by members pursuant to paragraph 2 (a) of Article 6 and of the portion thereof paid pursuant to paragraph 2 (b) of Article 6, and establish therewith one or more Special Funds;

(ii) accept the administration of Special Funds which are designed to serve the purpose and come within the functions of the Bank.

Mr. REUSS. Mr. Rees?

Mr. REES. Mr. Black and Mr. Barr, in the World Bank meeting they had last year, there were several meetings on what to do about the International Development Association, which is the soft-money operation of the World Bank. I can remember two or three very frustrating meetings of the major countries; they couldn't come to any conclusion and as a result we find that IDA really is broke. The funds it has are already committed and it does not have any new funds.

Do you think this type of situation could happen with the Asian Development Bank? You have a different situation between the Asian Bank and the Inter-American Development Bank in that the United States is the only major rich country in the Inter-American Bank, but in the Asian Bank you have a nonregional group which subscribe a total of \$965 million.

Can you see the IDA frustration arising within the Asian Bank?

Mr. BLACK. Yes, quite possibly.

Mr. REES. Is this not a problem? There is no way of compelling the nonregional countries to come into the problem?

Mr. BLACK. I have not found any certain way of doing it, no, except persuasion.

Mr. REES. How do you think you are coming along in persuasion? We are talking about \$200 million, which is our capital in the original Bank stocks, so the United States is matching their original capital.

Mr. BLACK. That is correct.

Mr. REES. And Canada has said that they will match their capital. What about the other countries? Do they give you any hint about what percentage?

Mr. BLACK. For the record, I did not say definitely that Canada will. I think that they will. We have had indications that they will.

Mr. REES. Do you have any other indications?

Mr. BLACK. I would be very glad to go on record before this committee that if the U.S. Government approves this \$200 million, that I think there would be no difficulty in getting this money more than matched by other countries.

Now, that is all I can say. I mean, there has not been a determined effort to do that because it is very difficult to do unless you know what the United States is going to do. But I feel very confident that can be done.

Mr. REES. Would the regional countries give their contributions in their own currency or in dollar equivalent?

Mr. BLACK. I would think it would be in their own convertible currency, and I would imagine that they would have the same conditions that we do, that it would be tied money. But I would think it is convertible money. It does not make any difference whether it is dollars or not.

Mr. REES. Concerning tied money—let's assume you were having a meeting of the Bank Board and you were discussing a project in Indonesia and the Dutch have expressed interest in Indonesia as they are certainly familiar with the country. Could they raise their hand and say, "We will commit out of our soft window contributions so many million dollars for this project"?

Mr. BLACK. I think that this is a problem that the Bank will have to work out. When you raise the fund in the neighborhood of \$400 million and the contributors all demand that their contribution is tied, you have to match this up with the project that comes along.

In other words, as Mr. Widnall was talking about, it may be that you have a project in the Mekong River and the United States might put up more than half of the money because this would be a chance to use U.S. goods and services, so that the Bank just has to work that out. That is too bad, that the money is tied, because if you didn't have it tied, you could have competitive proposals which would be a saving of money to the Bank, but if we are going to tie our money, other countries will unquestionably tie theirs, and we are going to have to work it out the best we can.

Mr. REES. What portion of the \$400 million soft-window money will be used for grants and what portion will be used strictly for loans?

Mr. BLACK. Well, in the first place, it is not certain that all of this money will be soft-loan money. The bulk of it will probably be soft-loan money, and I do not want to be misleading to say that it will not.

But there is a possibility you might use some of this on a hard-loan basis, depending on the country that is using the money.

What was the last part of your question?

Mr. REES. What percentage would be in actual grant for technical services?

Mr. BLACK. I think that there would be no grant money at all for capital projects. This would all be loan money.

As I said in my statement, that there may be cases in technical assistance, small amounts of money that may be on a grant basis, there would be no grant economic development money. This would be on a loan basis.

Mr. REES. In the payback of soft-window loan, the two subsidiaries would be a lower interest rate and perhaps the ability of the country to pay back in soft currency?

Mr. BLACK. No, if you make a soft loan in dollars, the repayment will be in dollars. It will not be in the currency of the country.

Now, the soft part of it will be the amortization period before you start making payments and the interest rate and also the ultimate term. This is the soft part as compared to what you call the hard loan.

Now, countries that get that will be countries that are troubled with balance-of-payments problems or who would not be able to service their loan requirements on conventional terms. But it would not be a case at any time of lending convertible currency and getting paid back in local currency.

That is not what we mean by soft loans. Whatever currency is loaned, it is paid back in that currency.

Mr. REES. Has the Asian Development Bank planned to go out into the open market and sell bonds?

Mr. BLACK. That is right.

Mr. REES. Have you sold any yet?

Mr. BLACK. No; it would be premature to sell the bonds because the Bank hasn't been in business long enough, and the Bank has only made so far one loan. They have made their first loan to a development bank in Thailand. They are looking at several other loans now. But the Bank has made plans to sell these bonds. They have selected their bankers on Wall Street, and it takes quite a long time to make preparations to sell a bond issue.

For example, if you sell bonds in the United States, you have to go to all the important States and get the States to pass legislation to make these bonds eligible for investment by insurance companies or savings banks or fiduciary funds.

Now, the Bank is in the process of doing this today, so that they are not ready to sell bonds yet, but they will be able to sell bonds, I suppose, within a year or a year and a half, something of that sort.

Mr. REES. As a member of the subcommittee I would like to endorse the efforts which are being made in this area. I think the whole future of developing the less-developed countries is through these regional projects, and I am pleased that you are making the excellent progress that you are making.

Mr. REUSS. Mr. Mize?

Mr. MIZE. It would appear that the balance-of-payments controls provided in this project are pretty good.

Joe, would you be willing to accept the same controls when the IDA authorization comes up here in the next month or so?

Mr. BARR. The IDA negotiation is just in the final stages of completion.

I think the proposal will go to the Executive Directors in the next few days and you will get a bill, I would assume, in March. The proposal as it stands now, I think, is roughly comparable though in the fact that the IDA proposal would envisage no U.S. payment in any year in which we were in balance-of-payments difficulties, above and beyond the amount that was expended in the United States from IDA resources for U.S. goods and services.

It would be a deferment provision until our balance-of-payments situation was cleared up.

Mr. MIZE. All right, thank you.

Mr. REUSS. Mr. Bingham.

Mr. BINGHAM. Thank you, Mr. Chairman.

I would like to join in welcoming Mr. Black here. I have the greatest admiration for the work that Mr. Black has done over the years in promoting the idea in this country and abroad that aid is a hardheaded business, not something that we do for reasons of pure altruism or because we are humane. These factors may enter in, but the development of the underdeveloped world is something that is in our national interest and we can and should go about it in a businesslike and sensible and hardheaded way. I think Mr. Black, in his years at the World Bank and since then, has contributed enormously to that atmosphere.

I would like to say also that I am very much in support of this legislation. I believe that these regional banks are at the heart of our developmental effort, and the best possible approach.

I wonder, Mr. Black, if you could tell us a little bit more about the membership in the Bank and the staff of the Bank. I am particularly interested in the degree to which countries that are very neutral in their attitude and timid about alining themselves with efforts we consider pro-free world are active in this project, and are supplying staff and otherwise taking an interest. I have in mind a country like Burma, for example.

Mr. BLACK. Like what?

Mr. BINGHAM. Like Burma.

Mr. BLACK. Burma is not a member of the Bank. They didn't join.

I would like to have Mr. Zagorin tell you more about the staff of the Bank—rather than give you my own impression.

In the first, I think that the President of the Bank, Mr. Watanabe, is an extremely able man. I have known him for a good many years. He was the Director of the World Bank and Director of the Monetary Fund, and he was the Japanese Finance Minister here in Washington, and I have known Watanabe for 8 or 9 years. I have a very high regard for him. I didn't have the choice, but he was my pick for the presidency of the Bank because I think it is very important who heads an institution.

I think he has been very careful about picking staff, and Mr. Zagorin can tell you more about that. But I know of several people he has put in there that I knew were very competent people. I think he is going about his initial operations properly. He has been very careful. He hasn't rushed out to make loans. He has personally, I think, traveled to every one of these developing countries. He has also had missions go there to take a look at what their problems are and what their top priorities are in the development programs. I think he has gone about it exactly right, and I have nothing but the highest praise for Mr. Watanabe and his operations to date in the Bank.

Now, on the membership of the Bank, Burma is not a member. It is the only country there in that area that did not join.

Mr. BINGHAM. Do we know why they didn't join?

Mr. BLACK. Burma has a peculiar policy of what you might call being aloof. They are aloof from everybody. They accept no aid from the United States; they accept no aid from Russia. They accepted no aid from the World Bank, and they even threw the Ford Foundation out of there. So they are completely aloof.

I visited Burma on my last visit there and had a talk with them, and I would say there is the beginning of hope that they might join in some of these operations, but so far they are not ready to do that.

The other countries that are members, the nonregional countries, are Austria, Belgium, Canada, Denmark, Finland, Germany, Italy, Netherlands, Norway, Sweden, Switzerland, the United Kingdom, and the United States. They are the nonregional countries.

A very interesting membership is Switzerland. Switzerland would never join anything before. This is the first international financial organization they have become a member of. They have joined this institution. All the other countries in the Asian area are members, as I said this morning, including Australia, New Zealand, and Japan, which are capital contributing countries.

Mr. BINGHAM. It is interesting that Cambodia is a member.

Mr. BLACK. Cambodia is in a peculiar position right now. They made their first payment of the five payments that I have told you about. They are a member and they are represented by someone on the Board, although they have announced they are going to resign. They have not yet resigned, and I am not sure that they will resign, but they have made an announcement that they will. I can't guarantee Cambodia is going to continue to be a member, but so far they have been a member and they have made one payment and we hope they will continue to be a member.

Mr. ZAGORIN. I would just like to add, Mr. Black, that there are 18 or 20 nationalities on the staff of the Bank. The predominance is from the developing countries. Practically all of the nonprofessional staff comes from the Philippines. The professional staff comes from all over Asia, and there are also very able people from nonregional countries, including three or four officers from the United States. Most of the regional countries have staff members in the Bank. There is widespread participation in the activities of the Bank on the part of the member countries.

Mr. BINGHAM. I would just like to call attention to one item in your statement, Mr. Black. At the top of page 3, you refer to the Netherlands contribution of \$1.1 million. That might seem a little small, but I believe it is true that the Netherlands is making a very substantial effort in regard to West Irian, which is in the area, and doing that on its own. I think that should be noted in terms of their contribution to development efforts in that area; wouldn't you agree?

Mr. BLACK. Well, all I can say is the Netherlands in every case has come up with assistance. They have been extremely forthcoming and helpful.

In the figures that I gave you on the money that had been spent on the Mekong, the Netherlands has put up over \$6 million in the pre-investment studies. There has never been any case when we have gone to the Netherlands that they haven't contributed their share in any international proposal we have made to them.

Mr. BINGHAM. Do you happen to have the figure of what the Netherlands is doing per year in West Irian? I have a feeling it is \$10 million a year.

Mr. BLACK. I don't know. We can get that for you.

Mr. BINGHAM. I think it might be part of the record.

(The information requested follows:)

THE GOVERNMENT OF THE NETHERLANDS AID TO WEST IRIAN

The Netherlands and Indonesian Governments are jointly supporting the Fund of the U.N. for the Development of West Irian (FUNDWI). FUNDWI is a U.N.-administered organization established to plan and carry out development efforts in West Irian. When FUNDWI was reactivated in early 1967, the Netherlands renewed its standing offer to contribute \$30 million to the organization (in \$10 million annual increments) for the proposed development efforts. This Dutch contribution, as well as Indonesia's contribution in kind, will be utilized according to the recommendation of a U.N. team of fifteen consultants who have recently been in West Irian to prepare a master development plan for the area.

Mr. REUSS. Mr. Moorhead.

Mr. MOORHEAD. Thank you, Mr. Chairman.

Gentlemen, I commend you on the way you are going about trying to solve the balance-of-payments problem in the money which we would authorize with this legislation, but I am concerned. Maybe you could help me on this, on the proposal to sell bonds in the United States and use the funds raised thereby for development work in Southeast Asia.

Will that not have an adverse effect on our balance of payments?

Mr. BARR. Mr. Moorhead, we have worked out with the other international financial institutions ways of mitigating any balance-of-payments impact by these borrowings.

For instance, in the case of the World Bank and the Inter-American Bank, they leave on deposit in the United States very substantial sums as they go to the market. I will submit material for the record which will show that over the past 5 years that there has been a net favorable balance-of-payments impact by the operation especially of the World Bank. We would assume we can work out the same operation with them, with Mr. Watanabe and the Asian Bank.

I should also remind you, Mr. Moorhead, that before any international financial institution, including this one, can borrow on the United States, it must get for each borrowing the approval of the Secretary of the Treasury. So we would look at every borrowing, every time any of the international institutions come in to borrow, we take into consideration the question of the impact of the borrowing and use of these funds on our particular balance-of-payments program in an attempt—which has been successful in the past—to offset any drain in this area.

(The following statement and tables were submitted for the record to supplement the reply to the previous question:)

The World Bank in recent bond issues in the U.S. has undertaken measures to offset any large short-term effect the borrowings may have on the U.S. balance of payments. The proceeds of recent borrowings have been invested in long-term U.S. securities to be held by the Bank until needed to meet disbursement requirements. As of December 31, 1967, the Bank has invested about \$200 million in U.S. Government and Agency obligations and over \$500 million in U.S. time deposits. The Inter-American Development Bank has invested the proceeds of its borrowings in the U.S. in a manner similar to the World Bank.

TABLE 1.—ESTIMATED EFFECT OF WORLD BANK OPERATIONS ON U.S. BALANCE OF PAYMENTS

[In millions of U.S. dollars]

	1963	1964	Calendar years		
			1965	1966	1967
U.S. payment of 1-percent subscription.....					
U.S. payment of 9-percent subscription.....					
World Bank bonds sold in United States, net of redemptions.....	-19	-40	141	6	187
Net World Bank loan sales in United States.....	76	22	-35	-50	-55
Investment income earned by World Bank in United States.....	54	51	54	54	56
Total received by World Bank from United States.....	111	33	160	10	188
World Bank-financed goods bought in United States ¹	209	146	136	148	147
Interest paid by World Bank to U.S. bondholders.....	42	43	45	50	58
Interest paid by World Bank borrowers to U.S. loanholders.....	14	17	17	16	13
World Bank administrative expenses in United States.....	15	17	22	27	29
Total paid by World Bank to United States.....	280	223	220	241	247
Net paid by World Bank to United States.....	169	190	60	231	59
World Bank long-term investments in United States ²			240	341	179
Net paid by World Bank to United States and long-term investments.....	169	190	300	572	238

¹ Includes procurement specifically identifiable as originating in the United States and the same proportion of procurement not identifiable by country of origin.² Maturities of 13 months and over.

TABLE 2.—ESTIMATED IMPACT OF IDB ORDINARY CAPITAL ON U.S. BALANCE OF PAYMENTS, 1963-67

[In millions of dollars]

	Calendar years ¹				
	1963	1964	1965	1966	² 1967
Payments to IDB by United States:					
(1) Subscriptions in cash.....				38	38
(2) Encashment of notes and use of letters of credit.....					104
(3) Bond sales and sales of participations (net).....		140	1		
(4) Investments income.....	8	8	11	15	17
Total.....	10	147	12	53	159
Payments to United States by IDB:					
(1) Procurement					
(a) Total commitments.....	(160)	(121)	(119)	(92)	(150)
(b) Total disbursements.....	(48)	(90)	(70)	(82)	(95)
(c) Disbursements to U.S. suppliers.....	21	36	28	32	38
(2) Redemption of bonds.....					
(3) Interest on bonds.....	3	5	10	10	12
(4) Administrative expenditures.....	4	10	8	8	9
Total.....	28	50	46	50	59
Net impact on U.S. balance of payments.....	+18	-98	+34	-3	-100
Adjusted impact on U.S. balance of payments ³	+58	-35	+27	+78	+10

¹ The Bank's fiscal year is the calendar year.² Based on data through November 1967.³ Includes estimated balance-of-payments credit resulting from long-term investments with U.S. banks.

Note: Data may not add to totals due to rounding.

Mr. MOORHEAD. Wouldn't it be possible to encourage the Asian Development Bank to try to sell its bonds, let's say, in the European market?

Mr. BARR. Precisely, sir, and this is what we have encouraged. This is what the World Bank and Inter-American Bank have done, and we will be encouraging the Asian Bank in the same direction.

Mr. MOORHEAD. Do you know, Mr. Black, if the Asian Development Bank is making any efforts, such as you described in the United States, in other markets?

Mr. BLACK. Well, I know that they are thinking very seriously about other markets besides the United States. Whether they have set up specific plans, I don't know. I think they probably want to first sell an issue in the United States. As a matter of fact, they may sell one to the United States and Europe at the same, but I know they are thinking about it.

Mr. ZAGORIN. I would like to add that our charter requires that we not concentrate our borrowing in one country, that we spread it.

Mr. BLACK. It was at the suggestion of the United States this was put in there.

Mr. MOORHEAD. How much money to date has the United States contributed to the Bank for its ordinary capital, and what has the Bank done with that money?

Mr. BLACK. Well, the U.S. capital subscription to the Bank is a total of \$200 million. And of that \$200 million, all we are required to pay in is half, \$100 million. Of this \$100 million we are only required to put up one-fifth each year. So far we have paid into the Bank \$40 million, and the Bank has made one loan—\$20 million of that, Mr. Zagorin said, was in the form of a letter of credit, so we haven't actually put the full \$40 million up. So our total contribution to paid-in capital can never be over \$100 million.

Mr. MOORHEAD. What was the first loan of the Bank?

Mr. BLACK. A loan to a development bank in Thailand. This was a \$5 million loan.

May I quote something to Mr. Bingham about the Netherlands?

Mr. REUSS. Surely.

Mr. BLACK. This is a statement made by the Dutch Ambassador in Bangkok at the dedication of the building that was going to be used in regional cooperation there. I quote:

In offering this building to ECAFE the Netherlands Government was motivated and inspired by President Johnson's historic address in Baltimore in April 1965, when he announced his program for the economic development of the whole Southeast Asia region and pledged American contribution of \$1 billion for this program. He called on other nations to match this contribution and the Netherlands Government responded to this call by initiating a special assistance program Southeast Asia. Under this program we pledged a contribution of \$11 million to the Asian Development Bank, \$4.7 million to the Mekong Committee—

And, as a matter of fact, they have contributed \$6 million—

as well as special assistance in the amount of approximately \$2 million to the Republic of Vietnam, and last, but not least, a special amount of \$250,000 was earmarked as a grant to the Secretariat of ECAFE. Why did the Netherlands Government make this grant available? The reason is my Government's belief in the principle of regional cooperation and in the need for multilateral assistance to developing countries.

This, I think expresses the Netherlands Government philosophy.

Mr. BINGHAM. Thank you very much.

Mr. REUSS. I want to pursue the matter that Mr. Moorhead raised. Perhaps I should address my question to Mr. Zagorin.

How much does the Asian Development Bank now have in hand in convertible currencies? You say \$20 million from the United States?

Mr. ZAGORIN. Yes, sir.

Mr. REUSS. How much from everybody else?

Mr. ZAGORIN. I can give you a statement, but it is about \$100 million, I believe, in convertible currencies, approximately a hundred of which, a little more than half of which, is held in the United States.

Mr. REUSS. In what are these currencies invested?

Mr. ZAGORIN. About a third of that held in the United States is in securities.

Mr. REUSS. Of the U.S. Treasury?

Mr. ZAGORIN. Yes. Government or Government-guaranteed bonds; and there are some Treasury bills. In addition, approximately \$35 million is in the form of time deposits and CD's, primarily 13 months and longer.

Mr. REUSS. All well and good on this half. What about the other half? Why isn't that here, too? We are a wealthy giant who wants to give from our industrial and our agricultural production toward world aid, but we are a tin can pauper on balance of payments.

Mr. ZAGORIN. Mr. Chairman, the dollars are held here because the subscriptions were paid in U.S. dollars.

Mr. REUSS. That doesn't impress me. What of the other surplus countries which have contributed their hard currency? Why not bank them in New York so we can get a little free ride on them.

Mr. ZAGORIN. Practically every developed country paid in U.S. dollars, except Japan which paid in yen, Australia which paid in Australian dollars, and the British who paid in sterling. And our charter requires that currencies not be switched around except if there is a special vote of the Board of Directors.

Mr. REUSS. Will you initiate a special vote of the Board of Directors to the effect that currency from persistent surplus nations be made available for deposit in the United States to tide us over in our hour of agony?

Mr. ZAGORIN. Most of those funds are on deposit in the United States or invested in U.S. securities.

Mr. REUSS. Of what funds, of the total \$110 million?

Mr. ZAGORIN. Most of the——

Mr. REUSS. Fifty-five?

Mr. ZAGORIN. Most of the subscriptions say, like Belgium, Netherlands, Italy, those subscriptions were paid in U. S. dollars. And those funds not yet disbursed are on deposit or invested in U.S. Government securities, on deposit in the United States.

Mr. REUSS. I am delighted to hear this. Will you give us a complete breakdown so we may scrutinize it, and if we find there is a surplus country depositing its partial subscription with the Bank, which is not now on deposit in the United States, we would want to be informed and make a recommendation to you in your capacity as Executive Director.

Mr. ZAGORIN. I will provide the information.

(The information requested follows:)

ASIAN DEVELOPMENT BANK (ORDINARY OPERATIONS)—SUMMARY OF INVESTMENTS HELD, DEC. 31, 1967

[Expressed in U.S. dollars]

Country	Face amount	Amortized cost
Government or Government-guaranteed obligations:		
Japan.....	\$20,362,500	\$20,344,410
United States.....	20,278,000	20,126,634
Australia.....	8,535,520	8,445,183
United Kingdom.....	5,928,000	5,879,238
Austria.....	153,846	153,846
Total.....	55,257,866	54,949,311

Currency	Amount
Time deposits and certificates of deposit:	
U.S. dollar.....	\$35,100,000
Pound sterling.....	6,240,000
Deutsche mark.....	3,393,750
Italian lira.....	1,984,000
Norwegian krone.....	500,000
Austrian schilling.....	344,231
Total.....	47,561,991

ASIAN DEVELOPMENT BANK (ORDINARY OPERATIONS)—CASH IN BANKS AND DEMAND OBLIGATIONS OF MEMBERS, DEC. 31, 1967

[Expressed in U.S. dollars]

Members	Cash in banks	Demand obligations of members ¹	Total
Regional:			
Afghanistan.....		\$717,000	\$717,000
Australia.....	\$711	8,500,000	8,500,711
Cambodia.....	175,000		175,000
Ceylon.....	6,395	673,974	680,369
China, Republic of.....	6,588	1,590,000	1,596,588
India.....	8,072	9,290,000	9,298,072
Indonesia.....	962,863	1,513,158	2,476,021
Japan.....	11,628	20,000,000	20,011,628
Korea, Republic of.....	3,865	2,990,000	2,993,865
Laos.....	42,000		42,000
Malaysia.....	8,721	1,990,200	1,998,921
Nepal.....	3,282	160,462	163,744
New Zealand.....		1,817,208	1,817,208
Pakistan.....	7,824	3,190,130	3,197,954
Philippines.....	71,754	3,200,000	3,271,754
Singapore.....	9,291	490,200	499,491
Thailand.....	6,069	1,990,000	1,996,069
Vietnam, Republic of.....	1,199,820		1,199,820
Western Samoa.....	5,998		5,998
Total, regional.....	2,529,881	58,112,332	60,642,213
Nonregional:			
Austria.....	4,423		4,423
Belgium.....		500,000	500,000
Canada.....		2,500,000	2,500,000
Denmark.....		500,000	500,000
Finland.....		380,952	380,952
Germany, Federal Republic of.....	6,250		6,250
Italy.....	15,968		15,968
Netherlands.....		1,100,000	1,100,000
Sweden.....		500,000	500,000
United Kingdom.....	332,468	3,000,000	3,332,468
United States.....	220,212	20,000,000	20,220,212
Total, nonregional.....	579,321	28,480,952	29,060,273
Grand total.....	3,109,202	86,593,284	89,702,486

¹ Nonnegotiable, non-interest-bearing notes or letters of credit in member currencies.

Mr. REUSS. In fact, if you do distill out of your table, if there are any such situations, you would save us the trouble of doing that.

Mr. ZAGORIN. I think, Mr. Chairman, you will be very pleased to see the figures because, in fact, there is so far a substantial benefit to the U.S. balance of payments in the holding of subscription funds in the United States.

Mr. REUSS. Good. We want to give credit where this has occurred.

Mr. STANTON. I wonder if I could interpose a thought here. Listening to Mr. Bingham ask Mr. Black some pertinent questions on the operation of the Bank, and in your own colloquy, I wonder what is the possibility of this committee meeting from time to time with our representatives on the international banks. I think we have developed a complex that every time we see Mr. Barr he has to ask Congress for money. It puts one immediately on the defensive, and maybe if we passed this legislation it would be another 2 years before we see Mr. Zagorin. We have a vital interest in the operation of the international banks.

Mr. REUSS. I completely agree with the gentleman from Ohio, and, in fact, I intended at the next executive session of this subcommittee to see whether we should not evolve a regular oversight procedure with our Executive Directors in the Asian Development Bank, the Inter-American Development Bank, and the World Bank—all such agencies over which we have jurisdiction—because I think the self-criticism in what the gentleman from Ohio said is well taken. We shouldn't merely confine ourselves to revisiting these institutions before this committee once every several years when they need more money, look at their printed reports, and let it go at that. We should maintain a continuous surveillance, and fortunately we have, in the person of Mr. Zagorin, a very dedicated U.S. Executive Director. In this connection would you, Mr. Zagorin, prepare for the hearing record in the next couple of days, an essay, you decide on its length, two or three pages entitled "My Experiences on the Asian Development Bank, What Is It Like, What Are the Problems, What Are Your Observations," sort of the kind of summer vacation essay which the schoolboy is invited to write. It really would be most helpful and can be quite informal.

Is there any difficulty in your doing this?

Mr. ZAGORIN. No, sir; I would be happy to.

(The information requested follows:)

OBSERVATIONS ON THE ASIAN DEVELOPMENT BANK

(By Bernard Zagorin, U.S. Director, Asian Development Bank)

Pride and honor immediately come to mind as apt terms to describe my feelings in having served, for a little more than a year, as a member of the Board of Directors of the Asian Development Bank. I can think of nothing more interesting or exciting, and indeed honorable, in which I could have been engaged during the period.

It is always exciting to be in on the "ground-floor" of a new undertaking. It is more than doubly so when the exercise has such great historic importance as the establishment of the Asian Development Bank. And it is even more so if the experience contains, as mine does, the pride and gratification of knowing that the task was being well done, giving verification and enhancement to the already considerable promise the Bank has held in the minds of the Asian people for their future well being.

Nineteen Asian and thirteen non-Asian countries have become members of this regional development bank, thus forging with good will and resources a new instrument to promote the economic growth of the developing countries in Asia. It is not only that these thirty-two member governments in their official and formal acceptance of the Charter jointly endorsed the objectives of the Bank;

during the past year I have seen clear and constant evidence of common purpose in the minds of the Bank's Management, staff and Directors—irrespective of nationality, whether from large country or small, from one country of Asia or another, or from within or without the Asian region. Although young, our institution clearly has shown that it has great strength in dealing, almost routinely, with the day-to-day business of common understanding.

I am very proud of this new undertaking, and especially so because I have been able to play a role during this early, critical phase. And this for two main reasons: because it represents a great success in institution building, a triumph in regional and international cooperation; and because of the way the Bank functions, with our common purpose constantly unfolding in our shared concern with the economic growth of the developing countries of Asia. No doubt giving effective support to the economic development efforts of the developing countries is our major task. But assistance with projects is by no means the single value to be measured from our work; the spirit as well as the material substance of cooperation is a very real and valuable part of the whole exercise.

I also feel pride in the Bank's accomplishments to date. Much of it is sub-surface—like the invisible bulk of the iceberg. For those close at hand, there is ample evidence of steady construction and reinforcement and careful preparation for the future. A solid framework is being established. Judgment on the quality of this structure and preparation for the future may best be given only as our future unfolds, but my appraisal—albeit from a very much interested and participating observer—is that the job is being well done and that a great deal has been done in a very short time.

The President of the Bank—at the very outset strongly and unanimously supported by the Directors—insisted on rigorous selection by merit in appointment of staff. And he has been personally involved in the choice of officers. Being an international institution, the Bank has had a need for a widespread nationality makeup in the staff, but this has been achieved without compromising choice by merit. Often the Bank has found it necessary to wait until able people could leave their previous positions, and in a number of cases the President took the patient but wise course of waiting until the best people could join the Bank. The staff is new and in many ways inexperienced in dealing with the tasks at hand, inevitably leading to some laboriousness. But there is no question that there is a generally high level of competence in the Bank staff and that the important work gets done expeditiously and effectively. Flesh and muscle no doubt must be added to certain parts of the staff structure which may have a certain skeletal quality—for example, there is a need for strengthening on the engineering side. There has, however, been a steady buildup in high quality technical staff despite unavoidable disappointments and frustrations in the recruitment process.

The Bank has largely completed the policy and procedural framework for conduct of its operations. It has dealt with many operational policies and problems in a general or anticipatory manner, while necessarily leaving a number of questions for a case-law method of policy formation. The Board of Directors, considering documentation prepared by Management, has dealt with many major issues such as policy guidelines for lending, loan regulations, organizing the Bank's technical assistance activities, procedures to ensure competitive bidding practices and efficient use of resources, the approach for hiring consultants, and many administrative questions such as the structure of the organization and terms and conditions of employment. We have, of course, had the great time advantage of being able to benefit from the experience of the international lending institutions which preceded the ADB—and in fact a number of the Directors and staff members have served with these institutions. We have had the opportunity to observe and evaluate their practices and achievements—and often to emulate them but at times feeling the need to find our own ways to meet our needs.

In my view the Bank correctly has been devoting considerable attention to the great need for technical services in the Asian countries, where so frequently one finds deficiencies in technical ability seriously interfering with the identification and evaluation of economic requirements and the articulate formulation of project proposals. The Bank will devote time and effort and talent to help fill these gaps.

The Board has intensively and carefully considered, without completing its deliberations, the basis on which to administer special funds. The Bank has recognized that the needs and interests of donor government have to be met, and at the same time wishes to preserve the multilateral character of the operation of administering special funds. The Bank has already begun its ordinary operations—both lending and technical assistance—and will be ready to administer any special funds when they may be forthcoming from donor governments.

Finally, two significant regional survey efforts by the Bank are worthy of note—one completed, the Asian Agricultural Survey, and the other just in a preliminary phase, the Southeast Asia Transport Survey. To my mind they reveal a dynamic quality and boldness and imagination as the Bank prepares itself to deal with the difficult problems of development in Asia. The Bank's just-completed Agricultural Survey is a first-class job which, I believe, will prove to be a significant contribution to the development process in Asia. I am pleased that the Bank not only has the excellence of predecessor organizations against which to match its efforts in the future, but that the excellence of the Agriculture Survey will set our own high standard against which to measure our own future performance.

Mr. REUSS. I want to pursue a few other questions. First of all, Mr. Black, this \$200 million special fund proposal. As I understand it, the request arises from the joint initiative of the United States and all of the members of the Bank, and it is also true, is it not, that every one of the Asian, the regional members of the Bank, has been and is today enthusiastic about the notion of the shared special funds?

Mr. BLACK. That is correct.

Mr. REUSS. This isn't a bright idea of the United States we are forcing down anyone's throat?

Mr. ZAGORIN. Not at all.

Mr. REUSS. Now, another question. In the regular operations of the Asian Development Bank we have, of course, through Mr. Zagorin, approximately 17-percent voting power in the Bank. Therefore, in the regular operations, if the Bank, God forbid, embarked upon an ill-advised loan or project, while we would presumably vote against it, if we couldn't get a majority we would simply have to take our lumps and go ahead; is that not so?

Mr. BLACK. That is correct. But while we have only that percentage of votes, the majority of the votes are from the capital exporting nations, which is very important. In other words, the borrowers can't run the Bank. That is quite important.

Mr. REUSS. With respect to these special funds that we are now talking about, it is a fact, is it not, that the United States would have a complete and unilateral veto power on every single special fund project and proposal?

Mr. BLACK. No, I don't think so. I think that they would be in consultation with the United States as to the area that their money would be used, and to what countries or what types of projects. But I don't think that we would have a one-vote veto over any specific project, if it was in the agreed area.

Mr. REUSS. Well, I want to be sure I understand the proposal because I had envisioned that in the making up of these little ad hoc consortia or packages, in the initiation of any of them the United States would be its own master and would not proceed if it didn't want to.

Mr. BLACK. We would certainly be consulted, and there would be no question about that, that we would have to be consulted as to, as I say, the countries that the money was going to or the type of project. But I think it would be a very unworkable thing if, after that consultation took place, and if the project was in the area that we agreed upon, that the United States could then say we are against that specific project.

Mr. REUSS. I didn't mean that, but what I did mean in this special fund, if I understand it rightly, the United States has a much

more important measure of control on what sorts of projects it wants to embark, utilizing our contributions, than it does in the regular operation?

Mr. BLACK. There is no question about that.

Mr. REUSS. Is that not so?

Mr. BLACK. That is exactly right.

Mr. REUSS. For example, let's consider a rather idiotic thing, let's suppose that the Bank comes along with something it labels a Mekong River proposal, but that in the main, the prospect is to provide beautiful wine glasses and hi-fi stereo sets for various bureaucrats who will live on the Mekong. That is the proposal, and it is proposed that we put in 48 percent and the other countries put in 52 percent. It seems that we can say, "No, thank you. You redo that proposal and get rid of the slop or we won't enter," isn't that so?

Mr. BLACK. That is right, no question.

Mr. REUSS. Whereas, theoretically, in the regular operations of the Bank, we only have 17½ percent of the vote, and if the other 82½ percent of the members take leave of their senses, we are stuck?

Mr. BLACK. That is correct.

Mr. REUSS. This is important because it seems to me that we, that is, those of us in the Congress who are interested in some measure of U.S. control, have a great abundance in the special fund proposal.

Mr. BLACK. There is no question about that. We have a whole lot more to say than we do for the ordinary capital funds expended.

Mr. MOORHEAD. Mr. Chairman, I just want to make a comment. I support this legislation as I have the Asian Development Bank in the past.

I am very pessimistic about a bilateral solution for our situation in Vietnam. I think the best hope would be for a multilateral solution worked out by the countries of Southeast Asia. I think that participation in the Asian Development Bank makes the Southeast Asian countries think of themselves as partners in a region and this will help bring about the ground rules for such a settlement. So I think this legislation and the work of the Bank is very important.

Mr. BLACK. Could I make two final statements. Here is a selection of addresses by Mr. Watanabe, the President of the Bank, which discusses a number of the questions brought up here today, and I would like to put this in the record.

Mr. REUSS. Without objection, that will be received.

(The material referred to may be found on p. 141.)

Mr. BLACK. And the second point I would like to make is that I have visited this area three times in the last 2 years, and the things that impressed me more than anything else was the interest that these countries have developed in working together, and this is very important. The idea of regional cooperation has spread.

I have just come back from a trip to Kuwait, Saudi Arabia, Egypt, Jordan, and Israel, and while I was there I met the heads of all governments, prime ministers and foreign ministers and finance ministers, and talked with a number of business people, and one of the subjects that I talked about was the possibility of a Middle East Bank some day. I also talked about the importance of regional cooperation, and I got just the opposite from what I had found in Southeast Asia. The theory in the Middle East was that things are so difficult now we have to wait until things quiet down, and

then we can talk about regional cooperation and we can talk about a Middle East Bank.

Now, our theory in the Southeast Asia is that we think it is important to get these people to do this now, that this might be conducive to peace later on. But I was struck by the great difference in the attitude of the countries of the Middle East and those of Southeast Asia which, I think, is very important, and which is why I think we should do everything to encourage their initiative and their willingness to work together.

Mr. STANTON. Mr. Black, in regard to the timing of this particular legislation, I think you put it well from your particular point of view. From your knowledge of these individuals in the countries of Southeast Asia, if we attempt to take the initiative and bring this bill out, and Congress doesn't pass it, would this be interpreted by these countries in Southeast Asia as a lack of confidence?

Mr. BLACK. Well, I go back to what I said, I think it is important to do these things now and encourage them rather than to wait until everything is quiet.

Now, I think that on the timing of this the Asian Development Bank has its annual meeting, the stockholders meeting, in early April, and all the countries will be represented there. I think it would be an excellent thing if this legislation were passed before that time. If it were not passed before that time, if it were delayed or if it were defeated, it would be very discouraging to these people because they have made efforts to do what we have asked them to try to learn—how to live together and try to set up these regional projects—so I think they would be very discouraged as to what they have done if it was not passed.

Mr. REUSS. Thank you.

We will now stand adjourned until 10 o'clock tomorrow morning, in this chamber, when we will take up the bill relating to the Inter-American Development Bank, and I want to thank you, Mr. Black and Mr. Barr and Mr. Zagorin.

Mr. BLACK. Could I ask for one more thing for the record? I would like to have letters between the Malaysian Foreign Minister and President Watanabe, and letters between Secretary Rusk and the Canadian Foreign Minister on special funds entered in the record.

Mr. REUSS. Without objection, they will be received.

(The letters referred to follow:)

The Minister of Foreign Affairs, Malaysia, presents his compliments to the President of the Asian Development Bank and has the honour to refer to paragraph 41 of the Report of the Conference of Southeast Asian Officials on Transport and Communications, which was held from the 4th–7th September, 1967, wherein it is stated as follows:

"Recognising the importance of Transport and Communications to regional as well as national development, the Conference unanimously agreed that the development of an integrated network of Transport and Communications facilities in the region is of fundamental importance. To this end, the Conference undertook to request the Asian Development Bank to administer on its behalf, the implementation of a comprehensive transport survey covering all modes of transport in the region. While the survey should have, as one of its specific objectives, recommendations on an investment programme for regional transport projects in the medium and long-terms, it should have as its underlying motivation the development of Transport in the region along lines which will maximise the possibilities for progressive economic integration of the countries in the area."

The attention of the President is further invited to section VI of the Report of the Conference's Policy Issues Committee wherein the broad objectives of the proposed regional transport survey were set out as follows:

"(i) A comprehensive analysis of the prospects of development in Southeast Asia;

"(ii) Recommendations on an investment programme, divided into medium and long-term phases, based on economic priorities of individual projects within each mode; and

"(iii) Recommendations on the policies and measures (including fiscal policies and Government regulations), which should be taken to ensure that the development of Transport and Communications in the region best serve the economic and social development plans of Southeast Asia."

On behalf of the Conference of Southeast Asian Officials, the Malaysian Government has the honour to request the Asian Development Bank to undertake the regional transport survey referred to above. If this request is favourably received by the Bank, the Southeast Asian Governments concerned would be further pleased if the Bank would also assume responsibility for the formulation of the detailed terms of reference and scope of work of the survey as well as all arrangements relating to its execution.

In the execution of the survey, the Bank will wish to maintain close liaison and consultation with Southeast Asian Governments participating in the survey. It would appear to be desirable that the first of such consultations should be arranged before the finalization of the detailed terms of reference and scope of work of the regional transport survey. To this end, it is suggested that after the staff of the Bank has had the opportunity to consider the detailed terms of reference and scope of work of the survey, a meeting should be convened between officials of the Bank and the Co-ordinating Committee of Transport and Communications Officials of Southeast Asian countries which was established at the Conference in September 1967. As soon as the wishes of the Bank are known in this regard, the Malaysian Government will undertake to convene the Co-ordinating Committee in Manila for such a meeting.

In regard to the financing of the regional survey, the Malaysian Government is pleased to inform the President that the Government of the United States has offered to assist in the financing of the survey while the Government of Japan has offered to provide experts to assist in conducting the survey in the event that the Asian Development Bank agrees to administer the survey. The Malaysian Government is confident that the scope of work of the survey when completed will itself help in obtaining additional financing from other donors. The procedures to be adopted in eliciting such additional financing could be the subject of discussion between Bank Officials concerned and the Co-ordinating Committee of Southeast Asian Transport and Communications Officials at the meeting proposed earlier.

Together with her offer to assist in the financing of the regional transport survey, the United States Government has also offered to assist in the financing of feasibility studies for high priority regional projects that can be carried out out immediately in the field of Transport and Communications. Southeast Asian Governments which participated in the Conference are interested in utilising this offer expeditiously, and discussions are underway between officials of the Malaysian Government, on behalf of the Conference, and officials of the United States Government on the administrative arrangements which should be set up to bring about the speedy realization of this objective. In addition, a matter of concern is the need to co-ordinate such feasibility studies with the objectives and execution of the overall regional transport survey. The Malaysian Government is hopeful that suitable arrangements for the utilization of offers to finance feasibility studies and for their co-ordination with the survey can be established and suggests that this is another matter that could be profitably discussed between Bank officials and the Co-ordinating Committee of Southeast Asian Transport and Communications officials at their first meeting.

Finally, the President will undoubtedly be interested to learn that an edited and printed version of the Report of the Conference of Southeast Asian Officials on Transport and Communications will be despatched to all potential donors on 4th January, 1968, with the request that they consider assisting positively in the implementation of the Transport and Communications Programme in Southeast Asia.

The Government of Malaysia would like to take this opportunity to refer to paragraph 7 of the joint communique of the Conference of Southeast Asian Officials on Transport and Communications which stated:—

"The Conference considered that it would be desirable if a special fund were established under Article 19 of the Charter of the Asian Development Bank through which external resources could be channelled for regional transport and communications projects in Southeast Asia."

The Minister of Foreign Affairs, Malaysia, avails himself of this opportunity to renew to the President of the Asian Development Bank the assurance of his highest consideration.

KUALA LUMPUR, December 21, 1967.

FEBRUARY 8, 1968.

HIS EXCELLENCY THE MINISTER FOR FOREIGN AFFAIRS,
Kuala Lumpur, Malaysia.

DEAR MR. MINISTER: I acknowledge receipt of your Note EL/39/67 of 31 December 1967 sent to me as a result of the Conference of South East Asian officials on Transport and Communications held in Kuala Lumpur from 4 to 7 September 1967 and also your subsequent Note EL/6/68 of 4 January 1968 forwarding ten copies of the edited and printed version of the Report of the Conference.

Please permit me to offer you, and through you to the South East Asian officials who participated in the Conference, our compliments on the amount of work done both in preparation for, and during, the Conference. A team headed by Raja Azam of your Government, visited us in the Bank in July 1967; my colleagues and I, who had the pleasure of receiving them, were impressed by the sense of objectivity and constructive effort which underlay their approach to the preparation for the Conference. We also note with appreciation that the concept of multi-national effort towards a common objective has emerged as one of the basic perspectives of the Conference.

I have placed your Note of 31 December 1967, as well as the "Summary of Conclusions and Recommendations" and the "Joint Communique of the Conference," before the Board of Directors of this Bank. We have discussed the contents of your Note with appreciation of the initiative taken by the Governments that participated in the Conference and have given due regard to the various aspects discussed in the Conference and reflected in your Note. There has been the fullest realization among us of the importance of transport development on a coordinated basis through the subregion of South East Asia, both as an instrument of economic development and as an instrument of collective action towards the betterment of the region. Your Note, apart from the references it contains to feasibility studies of various projects mentioned at the Conference and to the organization of Special Funds for transport development, contains the specific request that this Bank should undertake a survey of transport development in the subregion of South East Asia.

On the subject of transport development in the subregion, the proposed survey will have to take into account various factors. These are already within your cogizance but it may be useful to briefly indicate them.

(a) Such a study would have to be based on specific terms of reference so as to clarify the work involved and to enable the recruitment of the best talent available both within and without this region; the terms of reference would also have to take into account the pattern of transport development as it is, the studies or surveys that may have been, or may yet be, set on foot in the member countries concerned and the future lines of economic growth in the sub-region as realistically assessed as possible.

(b) The survey, if it is to be of maximum use to the member countries involved, must be so conducted as to form an effective base on which the member countries may mobilize assistance (financial and/or technical, as the case may be) from sources of external economic assistance both international and national; for this purpose, suitable arrangements will have to be devised so as to get other agencies interested in, and appropriately associated with, the purposes and progress of the survey.

(c) There are areas in this subregion which have not responded to your invitation to participate in the Conference; yet some due account has to be taken of their economic and transport development, present and as projected, in working out an overall study; suitable means would have to be devised to obtain, even if not their participation, at least adequate data about them.

(d) We have to recognize that a survey of this type would almost be unprecedented; in regional transport surveys elsewhere, as for instance in Central and South America, there are factors like physical contiguity which would make an economic and transportation study definitely less difficult than in this subregion where not merely land communications but all others (inclusive of inland, coastal and ocean waterways) would have to be closely studied and integrated into an overall pattern.

(e) The question of financing the costs of such a survey, which you have yourself referred to, would have to be closely studied; it is encouraging that the representatives of the United States and Japan at the Conference indicated the measure of help that would be forthcoming from their governments; consultation with, and association of, other potential sources of external finance may bring further such possibilities into focus.

In these circumstances, the Board of Directors has accepted my recommendation that:

(a) The next concrete step in response to your Note should be for the ADB to formulate a framework, both operational and financial, for the proposed survey;

(b) In the evolution of this framework, your Coordinating Committee be closely consulted as also other interested organizations; and

(c) This framework be submitted to the Board of Directors for their final decision as early as possible.

Of course, in evolving this framework, we will, side by side therewith, try to locate the expertise needed to conduct the survey.

I trust, Mr. Minister, that these proposed steps will be regarded by you as indicating the practical interest that the Board of Directors of this Bank and I feel in the possibilities opened up by your Note.

Permit me, Mr. Minister, to avail myself of this opportunity to renew to you the assurance of my highest consideration.

Yours sincerely,

TAKESHI WATANABE, *President.*

DEPARTMENT OF STATE
August 19, 1967.

Hon. PAUL MARTIN,
Foreign Minister,
Government of Canada.

DEAR PAUL: I am writing in connection with the plans of the Asian Development Bank to establish special funds on concessional terms for high priority needs in Asia's development. Our two governments joined with others at the Bank's Inaugural meeting in Tokyo last November in indicating that we agreed with Asian members that such funds were needed and that we favored their establishment. President Watanabe as well as ECAFE issued an appeal for contributions to such special funds. A proposal for a special agricultural fund initiated by Foreign Minister Miki of Japan is the farthest advanced of proposals for these funds.

President Watanabe has visited most of the capitals of member countries of the Asian Development Bank and among other topics has discussed a special agricultural fund. A top flight international team of agricultural experts is presently assisting the Bank in developing firm plans. Current efforts under the leadership of Tun Razak, Deputy Prime Minister of Malaysia, to develop regional proposals in the field of transportation and communication are likely to result in firm proposals for an ADB special fund. Mekong Committee staff have also initiated consultations with ADB concerning management of a special fund on Mekong development to be managed by the Bank. This proposal may be delayed until arrangements are completed for going ahead with the Prek Thnot project in Cambodia.

I was pleased to learn that during the visit of Mr. Peter Towe of your Ministry to Washington during the week of July 10-14, there were extensive discussions and exchanges of views on a full range of new regional programs now evolving in East Asia. These discussions have proved to be very useful and it would appear desirable for our two countries to continue to cooperate closely and on a regular basis with respect to those regional development matters in Southeast Asia which are of concern to both our governments.

Sincerely,

DEAN RUSK.

THE SECRETARY OF STATE FOR EXTERNAL AFFAIRS, CANADA,
September 1, 1967.

Mr. DEAN RUSK,
Secretary of State,
Washington, D.C., United States of America.

DEAN RUSK: I was happy to learn from your letter of August 19, 1967 that your officials found useful the recent informal discussions with our officials on

programs for regional development of Southeast Asia. The reports which I have received of these talks indicate that Canada and the United States share the view that increased amounts of developmental assistance will be necessary for that area, and that special trust fund arrangements, under Article 19 of the Asian Development Bank's Charter, would be an appropriate mechanism for carrying through at least some of these new regional programs.

As you know, we are at present discussing with the Asian Bank a Canadian contribution of trust funds this year in the amount of \$600,000 for technical assistance which we hope would assist the Bank to move ahead quickly with the formulation of high priority projects. I would expect that the conditions with respect to the use of these Canadian funds would be similar to those approved by the Bank's Board of Directors for this year's United States' technical assistance contribution. You will know also that I have earlier indicated Canada's willingness to consider a contribution of up to \$2 million in interest-free 50-year loans to the Brek Thnot project in Cambodia. I would hope that this undertaking might, along with other projects of the Mekong Committee, be carried out through special trust fund arrangements under the aegis of the Bank.

Canada has, from the outset, been a strong supporter of the Asian Development Bank and it is because of this that we have been prepared to make a capital subscription relatively larger than that of other nonregional members. We have also had a particular interest in the provision of special trust funds to the Bank, and this was underlined by the Canadian delegation at the Bank's inaugural meeting in Tokyo last November. You may be interested to know that while no final decisions have been taken on the level of such special funds which Canada might be in a position to contribute, I would expect that, subject to satisfactory arrangements for their use, they would bear an appropriate relationship to our capital subscription.

Yours sincerely,

PAUL MARTIN.

Mr. REUSS. I have a telegram supporting the legislation from David Rockefeller of the Chase Manhattan Bank, and a letter of support from Secretary of State Rusk. Unless there is objection, they, too, will be received in evidence.

We will now stand adjourned until tomorrow morning.

(Whereupon, at 12:10 p.m., the subcommittee adjourned, to reconvene at 10 a.m., Wednesday, February 28, 1968).

(The letters above referred to and other correspondence and material submitted for the record follow:)

NEW YORK, N.Y., February 26, 1968.

HON. HENRY S. REUSS,

Chairman, Subcommittee on International Finance, House Banking and Currency Committee, House of Representatives, Washington, D.C.:

Understand you are conducting hearings on legislation for two hundred million dollars U.S. contribution over 4 years for special funds for Asian Development Bank. Wish to express my wholehearted support this legislation. Believe U.S. Government making available, together with other countries these additional resources to ADB for concessional lending in addition to ordinary capital will greatly strengthen Bank. Feel it most practical for U.S. Government give such support to this young but very important institution which has captured attention and imagination of Asian countries and holds more promise for them for future development in Asia. Therefore urge Congress take speedy action to support President's proposal to provide special funds to ADB.

DAVID ROCKEFELLER,
Chase Manhattan Bank.

THE SECRETARY OF STATE,
Washington, D.C., February 27, 1968.

HON. WRIGHT PATMAN,
*Chairman, Banking and Currency Committee,
House of Representatives.*

DEAR MR. CHAIRMAN: In his message of September 26, 1967 the President set forth his reasons for submitting to Congress HR 13217, a bill authorizing a United States contribution to "special funds" of the Asian Development Bank. Mr. Eugene Black, the President's Adviser on Southeast Asia, has had a critical role in both the creation of the Asian Bank and the development of its special fund concept. I would like to take the occasion of his appearance before your Committee to re-emphasize the importance the Administration attaches to this bill.

Lasting peace in East and Southeast Asia depends upon the belief of the peoples of this region that there is a practical and peaceful path to an early improvement of their social and economic status. Only this belief can eliminate the tempting alternative presented by the false promise of quick and violent solutions to deep-seated problems. At the heart of the present hope for peaceful development in the area is a growing system of regional cooperation.

The countries of East Asia, in the last three years, have begun major efforts in regional cooperation—political, cultural, and economic. There is a new awareness among its leaders of the advantages of multilateral cooperative approaches to common problems and a new commitment to international programs and institutions that will supplement and reinforce national self-help efforts. The Asian Development Bank, the Asian Pacific Council, the Association of Southeast Asian Nations, and the Southeast Asian Ministers of Education Secretariat are conspicuous examples of cooperative institutions that Asian initiative and leadership have created in recent years.

Progress has reached a point where Asia's leaders require the assurance of additional support to undertake new cooperative measures in the fields of agriculture, transport and communications, and development of the Mekong Basin. Special low interest funds—which are not now available from the Asian Development Bank—are required; for most of the projects will involve long term investments which, although critically important, do not generate early financial returns. Because its membership is large and ideologically diversified, its financial resources already substantial, its charter elastic, and its management exceptionally competent, the Asian Development Bank is uniquely qualified to play a central role in these additional forms of cooperation. The legislation before you will enable the United States to join with Japan and other donor nations in assuring Asia's leaders of our continued support for these promising cooperative programs and arrangements.

Mr. Eugene Black will discuss in far greater detail the Asian Development Bank and the specific and urgent needs of the Bank for special funds. He brings to his judgments a lifetime of experience in wise and effective use of money for the improvement of human welfare in developing countries. Since April 1965, he has travelled to Asia four times and talked with government leaders and ordinary people in the arc of countries reaching around China from Korea to Burma. The Administration could have no more experienced or able a spokesman.

I join with him in urging your Committee's support for HR-13217, for I deeply believe that it represents a sound and conservative investment in the future peace of this troubled area of the world. If the Committee wishes the Department to furnish additional testimony in support of this bill, I will be pleased to arrange this at the Committee's convenience.

Sincerely yours,

DEAN RUSK

FRIENDS COMMITTEE ON NATIONAL LEGISLATION,
Washington, D.C., March 6, 1968.

Representative HENRY S. REUSS,
*Chairman, International Finance Subcommittee, House Banking and Currency
Committee, House Office Building, Washington, D.C.*

DEAR REPRESENTATIVE REUSS: From the beginning, the Friends Committee on National Legislation has warmly supported U.S. participation in the Asian Development Bank. Like other groups we have recognized that the conventional hard money wing of the Bank would probably be less important than its authority to make long-term, low interest rate loans out of Special Funds. We are delighted

that the Administration is now recommending that the United States contribute to these Funds so that the Bank can do more to promote basic agricultural development, better roads and clean water supplies throughout the region, H.R. 13217.

However our enthusiasm is severely tempered by the narrow view of the Bank's potential, as reflected in the Administration's testimony. The Bank was set up to foster regional cooperation and to contribute "to the harmonious economic growth of the region as a whole." Yet the Administration's presentation shows a tendency to regard "region" as a political, rather than a geographical entity, and to think of the Bank as a *weapon in the cold war*. Although Mr. Black calls the Mekong development "one of the great and exciting opportunities and challenges of our time," we are all aware that construction of a \$33 million dam in the Cambodian section has been delayed because of U.S. refusal to aid any country that furnishes economic assistance to North Vietnam. Many Asians would be uncomfortable with the linking, by Mr. Black of regional development with U.S. efforts to make "Communist aggression unprofitable in Vietnam."

We of the Friends Committee firmly believe that peace can only come when the Nations of the world decide to try to bridge their differences, instead of emphasizing them. We urge this Committee to go on record as favoring an end to the ideological orientation of U.S. foreign aid programs. We urge you to support membership in the Bank for the three Asian countries that are presently ineligible because they do not belong to any specialized agency of the United Nations. These three countries are the People's Republic of China, North Vietnam and North Korea. The fact that these Communist areas would not accept membership while the War continues, only indicates the urgency of ending the War and starting the reconciliation process.

The FCNL is equally unhappy over Mr. Black's assertion that U.S. contributions to the Special Funds will be tied to U.S. *procurement* because of balance of payments difficulties. The balance of payments is not in such desperate straits that we need to tie \$200 million of procurement, especially since that procurement will be spread over four years. Furthermore it is past time for Americans to reexamine a foreign policy that rationalizes sending billions of dollars overseas to pay military bills, while simultaneously penalizing international development programs by demanding that aid funds be spent at home. Tying U.S. loans sets a bad example for others donors. It complicates the functioning of international agencies. It increases development costs and forestalls development of industrial production in the poor nations. Because of these factors, we urge this Subcommittee to express its disapproval of the "tied loan" concept.

We would also hope that your committee would analyze the adequacy of the U.S. contribution to the Asian Development Bank. According to recent estimates, the Vietnam War may cost Americans more than \$32 billions in fiscal 1969 alone. Americans would undoubtedly prefer to spend their money on reducing national tensions and promoting cooperation in Asia, regardless of whether that effort is matched by contributions from other nations.

We would appreciate your including this letter in the printed record of the hearings.

Sincerely yours,

FRANCES E. NEELY.

THE COOPERATIVE LEAGUE OF THE USA,
Washington, D.C., February 29, 1968.

Hon. HENRY S. REUSS,
Chairman, Subcommittee on International Finance, House Committee on Banking
and Currency, Washington, D.C.

DEAR CHAIRMAN REUSS: The Cooperative League of the USA has been following with interest and appreciation the opportunity your Subcommittee is giving to those who wish to present the case for an authorization of \$200 million in special funds to be administered by the Asian Development Bank. We understand that this relatively modest financial support will become available over a four year period as our share of this special fund to be used by the Bank in its regional program for the particular support in the fields of agriculture, communication and transport, and for development in the Mekong River basin.

Consistently over the years the biennial Congresses of the Cooperative League have supported in formal resolutions, and through their approval of the League's own participation in our foreign aid program, the objectives of this legislation. The multi-lateral approach of the new Bank is especially appealing, and the new legislation being proposed calls for increased multilateral financing as well.

We believe it to be a healthy tendency that a substantial share of the Bank's resources are coming from some of our Asian neighbors.

Involvement is the key to interest and support, and this degree of involvement is assurance of new vitality and concern for what the Asian Development Bank is undertaking to do.

The League has commended the President, the Agency for International Development, and the instrumentalities (such as the Asian Development Bank) through which our country implements its purpose of helping with the economic development of lesser developed countries. Naturally any step to increase the capital available to make the Bank's program more effective has the support of the Cooperative League.

Our interest derives logically from the Cooperative League's international program which began in India in the early 1950's and has also included projects and programs in Thailand, Korea, Vietnam and elsewhere.

Currently we are involved in developing a cooperative fertilizer program for India which parallels in its objectives of increased productivity for India the purposes of the Asian Development Bank.

This first hand experience in the area of the Bank's concern highlights for the 18 million member families of the League's constituent members the need for such special funds as are now proposed on more lenient repayment terms than would obtain in the Bank's ordinary operations. Those of our citizens who have solved some of their own economic problems through use of the cooperative technique are understandably eager to share with the peoples of Southeast Asia and the remainder of the underdeveloped world the benefits implicit in cooperative methods.

We believe our vigorous participation in the Bank's support will directly influence the wider participation by such countries as Japan, The Netherlands, Canada, and Australia in this part of the Bank's activities. Adequate provision of these special funds will enable the Bank to carry on its conventional operations without pressure upon its normal operations of hard money loans while remaining flexible enough to respond to projects with great economic persuasiveness which are nevertheless ineligible for the Bank's loans. It is important that the Bank be empowered to extend technical assistance on a non-reimbursable basis.

We note with pleasure that when President Eugene Black of the World Bank testified before your subcommittee he noted specifically that the proposed agricultural development fund would stress projects promising quick pay out in terms of higher agricultural output, examples being farmers' organization of credit co-operatives and marketing facilities. It would be presumptuous of us to applaud the opinion of so distinguished and qualified a public servant as Mr. Black, but we do most enthusiastically second from our own experience in India his perceptive observation of the credit needs in this part of the world and the key role the Asian Development Bank can play in meeting them.

We hope and believe you and your Subcommittee will give early, sympathetic attention to this request by the Asian Development Bank.

Sincerely yours,

SHELBY EDWARD SOUTHARD.

STATEMENT SUBMITTED BY MRS. ROBERT STUART, PRESIDENT, LEAGUE OF WOMEN
VOTERS OF THE UNITED STATES

The League of Women Voters supports H.R. 13217, the bill to authorize a U.S. contribution to new Special Funds of the Asian Development Bank. We believe the creation of this operation by the Asian Bank is a logical next step in the Bank's development. Long-range, low-interest loans are to be provided through the Special Funds for regional transportation, communication, and agricultural projects as well as the Mekong River basin program. Thus the Special Funds will provide an essential ingredient for the economic development of the region. As a supplement to the "ordinary capital" of the Bank, the Special Funds can finance priority projects that will undergird economic gains made by regular ADB loans. The experience of the World Bank and of regional institutions like the Inter-American Development Bank show that "hard" and "soft" loans must go hand in hand if viable economies are to fostered in the less developed nations.

Within a short period of time the Asian Bank has become a reality. Its management is essentially Asian. Thirty-two nations are now members, 19 of them from the region (including the affluent countries of Australia, Japan, New Zealand); 11 Western European nations (including Switzerland, which joined the Bank in late 1967); and Canada and the United States. It is truly a multilateral effort

of both developed and developing nations in support of a genuinely Asian self-help project. The multinational aspect of the development projects to be undertaken by the Special Fund helps to assure that the Asian nations will plan developments together rather than country by country. If effectively supported and utilized, the Asian Bank can go far in fostering a rational economic structure in the area and help to avoid the divisiveness of competition among nations.

We believe the supportive role of the United States as projected in H.R. 13217 is a proper one. The U.S. contribution of \$200 million (\$50 million a year for four years) would not exceed over 50 percent of the total \$400 million to be provided, nor will U.S. funds be forthcoming until other countries have contributed. Funds would be made available under letters of credit to be cashed at a later date when needed.

All too often we are reminded of the gloomy side of the world's development picture: the developing countries' lagging share of world trade; pressures of population on the food supply; diversion of resources to support unproductive internal and international conflicts; shortage of technological skill in the less developed countries. There is, however, a bright side. After twenty years of experience in bilateral and multilateral aid, there is a great store of accumulated knowledge about growth problems. The successful program planning of the World Bank is one illustration. The economic progress in South Korea and Taiwan is another. New cooperative efforts to improve agricultural development in Southeast Asia, undertaken under ADB auspices, show promise. Relatively small U.S. increases to development funds such as this legislation proposes can serve to build on the progress already made in Asia, especially in agricultural, transportation, and communication projects for which it is anticipated the Special Funds will be used.

In short, the League of Women Voters supports H.R. 13217 to provide a U.S. contribution of up to \$200 million to the Special Funds of the Asian Development Bank. In our judgment, this legislation represents an important statement of intent on the part of the United States that our country wants to promote the peaceful development of Asia.

Washington, D.C., Mar. 7, 1968.

HENRY S. REUSS

Chairman, International Finance Subcommittee, House Banking and Currency Committee, House Office Bldg., Washington, D.C.

The American association of university women urges authorization for appropriation of the \$200 million for a United States contribution to the multilateral special funds of the Asian Development Bank. We believe the activities already supported through this agency provide a particularly constructive approach to region development and that this progress justifies this authorization. We would appreciate inclusion of this wire in the record of the hearings.

MISS VICTORIA SCHUCK,

Chairman, Legislative Program Committee.

MISS GWENDOLEN CARTER,

Area Representative in World Problems.

MERCK & Co., INC.,
Rahway, N.J., February 26, 1968.

HON. HENRY S. REUSS,

Chairman, Subcommittee on International Finance, House Banking and Currency Committee, House of Representatives, Washington, D.C.

DEAR MR. REUSS: The Development Committee of the United States Council of the International Chamber of Commerce supports Bill S. 2479 to authorize the appropriation of \$200 million for a U.S. contribution to special funds of the Asian Development Bank.

We consider it very important that the Asian Development Bank will be efficient and effective in fostering development in Asia. The experiences with similar institutions have been good ones. Economic and industrial development of the nations in that area may be the key to the protection of peace.

Attached is a statement of the Development Committee of the United States Council of the International Chamber of Commerce on business and the problem of development. Our recommendation is made against the background of that statement.

Sincerely yours,

ANTONIE T. KNOPPERS, M.D.,

Chairman, Development Committee, United States Council of the International Chamber of Commerce.

IMPORTANT INTERNATIONAL ISSUES

committee report...

JANUARY 12, 1968

BUSINESS AND THE PROBLEM OF DEVELOPMENT

BY

THE DEVELOPMENT COMMITTEE



United States Council of the International Chamber of Commerce Inc
1212 Avenue of the Americas New York NY 10036 JU 2-4850

January 12, 1968

Business and the Problem of Development

The Second United Nations Conference on Trade and Development will convene in New Delhi on February 1, 1968, and is scheduled to run until March 25. Attendance will include representatives of all trading nations. Discussion will range over most of the economic issues confronting less and more developed countries in their interrelationships. From the "Algiers Charter" which was agreed to by the 77 developing countries in preparation for UNCTAD, and from the related discussions at the Symposium just concluded under the auspices of the United Nations Industrial Development Organization, it is apparent that many of the proposals to be raised in New Delhi will be controversial.

As the Development Committee considered the New Delhi role of the international business community, it became clear at an early stage that there had to be a careful review and fresh assessment of the nature of the development problem and efforts to cope with it. The present report is intended to make clearer the distinction between the fundamental causes of underdevelopment and its symptoms and to assess in this light the recent history and possible future of attempts to accelerate economic development in the poorer two-thirds of the world. This background report has been worked out by the Council's staff under the guidance and supervision of the Development Committee.

UNCTAD: A Framework from which to Approach
the Second Conference

The first United Nations Conference on Trade and Development convened in the spring of 1964, after a long period of controversy. The developed countries were originally unenthusiastic about such a world trade conference under the sponsorship of the United Nations. In the 1950's, the Soviet bloc had advocated such a conference "primarily for the purpose of attacking Western, and particularly American, strategic trade controls as well as the U.S. policy of denying most-favored-nation treatment to the Soviet bloc." 1/

1/ Isaiah Frank, Foreign Affairs, January 1964.

Early History and Background

In 1961, at the General Assembly, the original idea for a world trade conference was transformed. The developing countries saw such a conference as a means of directing attention to their problems of trade with the rest of the world. With this shift in emphasis, with the unanimous sentiment of the LDCs in favor of such a conference, the United States decided to support the Conference, and in August 1962, the Economic and Social Council resolved to convene the Conference.

The developing countries placed great hopes on this Conference: they viewed it as "the single most important event for them since the founding of the U.N." GATT is, in their view, an organization which works primarily to the benefit of the developed countries. UNCTAD, on the other hand, is designed to deal primarily with the problems of the developing countries, including the unsatisfactory distribution of world production and income. The developing countries see the world trading system currently as an obstacle to change, but potentially as an important means of achieving greater parity in production, in markets, and in income.

A basic problem of the less developed economies is that the maintenance of an adequate rate of growth depends on a rapid growth of imports. These in turn depend on foreign exchange availabilities, either from capital imports or from exports. At present, capital imports through aid and private foreign investments from non-Communist sources amounts to about \$11 billion a year, while total export earnings of the LDCs total about \$41.7 billion (OECD, 1967 Review). Thus export proceeds are the principal determinant of the import capacity of the developing countries. The central theme of UNCTAD is development through trade.

The MDCs versus the LDCs

The more developed countries (MDCs) established a pattern of commercial policy after the post-war reconstruction which reflects four main themes:^{2/}

1. Reduction of tariffs on manufactured products on a most-favored-nation basis through bargaining in the framework of GATT.

^{2/} See John Pincus, Trade, Aid, and Development, especially p. 58.

2. Maintenance of controls over trade in agricultural products, to protect domestic farm prices and incomes.
3. Creation of customs unions and free trade areas which serve partly to increase trade among members of these blocs, and also, by increasing their incomes and demand, to increase their extra-bloc trade.
4. Opposition to systems, other than customs unions and free trade areas, designed to increase some countries' trade at the expense of others.

The developing nations, with a majority in UNCTAD, do not accept these precepts of international trade. A large number of the LDCs see the most-favored-nation principle as discriminatory against their interests. The Final Act of the First Conference rejected these "non-interventionist", non-discriminating principles of GATT in favor of an interventionist role for trade policy--the guidance of both the geographical and commodity structure of trade to conform to predetermined objectives. The General Principles of the Conference endorsed policies including:

1. Establishment of targets for MDC-LDC trade.
2. Infant industry protection in the LDCs. (This raises a complex problem, for the entire production structure of the low-income countries could be regarded as an infant industry.)
3. Recommendations aimed at maintaining markets for LDC commodities in the developed countries in face of entrenched MDC policies--agricultural protection, development of synthetic substitutes for LDC products, and international movement of surpluses at cut-rate (in short, de facto dumping.)
4. Establishment of a fund to compensate LDCs for deterioration of their terms of trade--that is, a decline of prices of their exports relative to their imports.
5. Increases in multilateral aid, and easing of terms of bilateral aid, with provision for repayment in local currency or merchandise.
6. Endorsement of measures to improve LDC balance of payments on service account (shipping, insurance, tourism, etc.)

Each of these policies raises complex situations, both in economics and politics. For the underdeveloped countries, the principal accomplishments of this UNCTAD were the formal presentation of an approach carrying a sense of newness in the treatment of chronic problems of world trade and aid and the establishment of a permanent forum of their own where they could thrash out the problems of low-income countries and through which they could more effectively campaign for acceptance of their program. UNCTAD promised a means of establishing solidarity in order to pressure the developed countries (among other things).

The Negative Character of the Developed Countries' Stance at UNCTAD

Unlike the LDCs, the economically advanced countries did not have a unified program and their voting was largely uncoordinated. As the developed countries were in the minority, a positive stance would have done little to alter the Final Act but it could have diminished the negativity of their responses to the proposals of the LDCs.

The United States delegation put itself in the position of leading the opposition to almost all the LDC-sponsored resolutions, and did not come to UNCTAD with a program of action. Not prepared to contribute positive recommendations, the U.S. efforts were largely confined to opposing the proposals of the less-developed countries.

In general terms, the goals of the industrial countries were largely defensive: politically, to appear sympathetic with development aims; economically, to avoid making concessions that would cost money, hurt producer interests, or change the existing most-favored-nation system of multilateral trade concessions. And in the economic sphere, the developed countries were relatively "successful"--as they were bound to be--no significant material concessions were made.

The negative appearance of the voting record was not wholly the fault of the MDCs. The rigid supersensitivity of the LDCs in some cases harmed their own cause. "The developing countries would make uncompromising demands on the...Western industrialized countries, and would not only reject the latter's attempts at modification, but would express dissatisfaction when demands were not accepted precisely as made."^{3/}

^{3/} Sidney Weintraub, Foreign Affairs, October 1964.

New Delhi Conference

The second Conference of UNCTAD will meet in early 1968 at New Delhi. The emphasis there will be on how to negotiate and implement the recommendations of the first Conference. There has been general disappointment that the efforts of UNCTAD have not so far resulted in significant achievement. The second Conference presents an opportunity for the MDCs to assume a more positive point of view, including especially:

1. A genuine attempt to concentrate on positive, practical steps which can be taken by the developed countries. Granted that a more favorable environment for private investment is urgently necessary, and granted that this should be a matter of acknowledged priority for the capital-courting countries, the effort should be concentrated on what the MDCs can do to contribute to development. A massive program of stimulants to private investment in the LDCs is both a precondition for success and also the demonstration of the political will in the MDCs. It is highly desirable in this round that the MDCs, and particularly the United States, present a positive program of action rather than react defensively to proposals and pressures of the LDCs.
2. The encouragement of a more united and planned program among the developed countries. It goes without saying that the molding of various MDC initiatives into a consistent positive program is essential to overcome separate and frequently competitive inconsistent approaches by them individually. At the same time, a coordinated program which appears as a fait accompli which the LDCs have no alternative but to accept or reject or which basically recites merely the general responsibilities of the LDCs would have a decidedly negative effect. What is needed is for the industrial nations to come to the second UNCTAD Conference with a program which is designed to improve the character of genuine discussion and the prospect for agreed measures backed by the commitment of developed and less-developed countries alike.

The Plight of the LDCs-- Insufficient Impulse for Production

The less-developed countries have 70 percent of the world's population, but receive 14 percent of the world's income. The "rich", developed nations, with only 30 percent of the total population, account for 86 percent of the total income.

For income comparisons, the only ready-to-hand figures are in terms of GNP, and concededly these are incompatible in specific aspects and in general may measure relative market development more accurately than income availability. But there can be little question about the enormous gap. The average per capita income in the LDCs is about \$110 a year, one-fifteenth the average of \$1700 in the MDCs.

The table in the Appendix shows the per capita Gross National Product (GNP) and the per capita Gross Domestic Product (GDP) of selected countries.^{4/}

The high rate of population growth in many of the LDCs has tended to offset much of the GNP growth.

GNP GROWTH RATES 1957/1958 to 1963/1964^{5/}

<u>Areas</u>	<u>Rate of GNP Growth</u>	<u>Rate of GNP Growth per Capita</u>	<u>Rate of Popu- lation Growth</u>
All LDCs	4.5%	2.1%	2.4%
Near East	5.5	3.2	2.3
South Asia	4.4	2.1	2.3
Far East	5.6	2.8	2.8
Latin America	4.1	1.3	2.8
Africa	4.4	3.1	1.3
All MDCs	4.4	3.1	1.3
Europe	4.8	3.8	1.0
United States	3.7	2.1	1.6

^{4/} GDP at Factor Cost, which differs from GNP by the "exclusion of net factor incomes received from abroad and by the exclusion of the excess of indirect taxes over subsidies," is the value of a country's output in terms of the cost of producing it. This totting up of income accruing to the factors of production domestically is one of the two standard ways of measuring a country's domestic product.

^{5/} John Pincus, Trade, Aid, and Development, p. 72.

The inadequacy of the capital structure and formation is dramatically encountered in the basics of their economy--in their sketchy infrastructure. The infrastructure encompasses transport facilities, communications, electrical power, as well as basic market institutions, and an unsatisfactory infrastructure directly hampers production. The existence of an adequate infrastructure is taken for granted in the MDCs; deficiencies in infrastructure remain a genuine obstacle to growth in the LDCs, though notable achievements have been made in an encouraging number.

The combination of poverty and inadequate dynamism adversely affects other institutional developments: education, administration, technology and the investment process. Although improvements are being made, the problem of illiteracy and inadequate education continues to thwart modernization of the less developed economies. At present, 85 percent of Africa's population is illiterate. More serious, from an economic standpoint, than the lack of universal primary education, is the deficiency of secondary education--that is, the shortage of persons with the skills most critical for modernization. The middle and upper ranks of business, as well as the public administration, consist almost entirely of those with a secondary school education; they are the backbone of a modernizing nation. In Africa, less than 5 percent of the school-age population is enrolled in secondary schools; in the United States 90 percent of those between fourteen and seventeen years of age are enrolled. As a result of unsatisfactory education, there is a severe shortage of administrative, technical, and entrepreneurial skills in the LDCs--hampering the development process.

The administrative posts in LDCs are accordingly often filled by persons of inadequate training and experience. There is often a lack of knowledge regarding the appropriate strategy for economic development. The character of the political administrations of LDCs sometimes act as a deterrent to private investment in these countries. The absence of a modern technology in the LDCs is glaring. The great majority of the population in the underdeveloped world still live on an agricultural subsistence basis. Industrialization is at an incomplete and primitive level. Industrial productivity per capita in Africa, for example, is about one-twentyfourth the level in MDCs.

The inadequate savings-investment process in the LDCs retards the development process to an acute degree. Investment can be defined as the commitment of resources to production--the creation of new power supplies, the building of factories, plants, and facilities, the development of natural resources, the training of

personnel. In MDCs, money for capital investment is obtained through savings. In the United States, and most other MDCs, investment (and savings) characteristically runs at a rate of some 15 percent or more of national income. The ratio of savings to income is lower in LDCs--less than 10 percent. Increased income is most often spent on increased consumption at the expense of increased savings.

Indigenous savings cannot provide sufficient funds for adequate development in the LDCs at this stage; other sources must be found. Obviously the term "underdeveloped" is not to be defined as merely needing help from outside sources; it describes a reality of sub-par economic achievement. The reality is one of poverty, and inadequate means to escape that poverty.

The real plight of the LDCs is to be seen in terms of the chronic defects that can be simply summarized as the absence of political will, on the part of both LDCs and MDCs. These defects are notable in the lack of effective priority in sorting out and coping with the self-perpetuating poverty of 70 percent of the world's population. To anticipate a conclusion discussed later, UNCTAD's greatest accomplishment could be in providing for such political will in MDCs and LDCs and in harmonizing the conditions of its exercise.

The problem of establishing the necessary political will is currently complicated by specific misgivings in the field of private enterprise. From the standpoint of private investors there is a lack of confidence in LDC political stability and efficiency. Similarly, the LDCs share the growing concern of all capital receiving countries over the possibilities of investors' undue influence in local policy. The forging of compatible political will on both sides promises to be as formidable as it would be rewarding.

The Big Roadblock Hampering Increased Production: Capital Lag

Underdevelopment implies a lack in the many factors associated with increased production and the translation of that increase into a higher standard of living. The most critical scarcity associated with underdevelopment is, in the broadest sense, capital. Moreover, capital growth is the core process on which all other aspects of growth depend. The improvement of infrastructure, education, training of workers, and new production facilities are all forms of capital investment. Without extensive

capital an economy operates at a low level of output; without an effective investment process for capital growth, an economy stagnates at this level.

The importance of agriculture requires a special word here. For many of the LDCs, agricultural development must be singled out as virtually the precondition to further general development. The ancillary gains--roads, refrigeration, marketing institutions, processing plants, improved employment opportunities, etc.--with food industry development may alone provide the environment in which some LDCs will in fact be able to accumulate the capital needed for their broadened economic growth. For these countries, self-sufficiency in foodgrain is essential if economic viability is to be maintained or achieved. In many instances, the foreign exchange cost of foodgrain imports is already the largest single item on the import list, and the drain on foreign exchange could easily reach unmanageable proportions if the growth of agricultural output does not keep pace with demand.

Adequate capital accumulation is extremely difficult; the governments of less-developed countries should therefore attach a high priority to augmenting capital accumulation. Since more than three-fourths of the output in LDCs is produced by the private sector, policies should aim to foster private saving and investment. The task of capital accumulation may be impossible if an LDC is forced to rely wholly on its own resources. Moreover, there is a natural tendency of capital to flow from lesser to more developed areas, both between regions of a particular country and between nations. This "negative flow", often accentuated by political uncertainties, accounts for a sizeable flow of funds away from the LDCs; such funds are known to play a very significant role in the \$13 billion Eurodollar market, and the annual flow to Europe, the United States, and elsewhere is substantial--perhaps \$1 billion. Also, local capital in LDCs is frequently employed in unproductive hedges against inflation. Thus, significant additional amounts of LDC service funds could be attracted to the development effort.

In the more developed countries there is a self-reinforcing interplay between capital formation and income growth. A portion of increased income from expanded production normally feeds back into new investment, resulting in additional production and once again additional income. Since a continuous process of capital generation is missing in the economies of the less-developed countries, the critical problem is how to activate it.

If the LDCs are to mount a better investment program, a portion of their capital and "know-how" will have to come from the resources of the MDCs. It has become increasingly clear that governmental and multilateral aid, while essential, do not provide enough capital to support an adequate development program. If the gap between the requirements of development and the resources needed for this task is to be closed, foreign private investments in the LDCs will have to increase.

If private investment in the production of the less-developed countries is to be increased to the extent that would appear necessary to bring about self-reinforcing economic growth, two aspects of the problem stand clearly forth in need of examination--those negative factors presently inhibiting foreign investment and those positive measures which could be taken to encourage its incidence.

Fear probably plays the largest role in deterring what would otherwise be an increased flow of private foreign investment to the less developed countries--fear of foreign domination on the part of the host country, and on the part of the investor, fear of expropriation and non-transferability of earnings as well as erosion via inflation. With increased stability and confidence these fears appear to be dwindling.

As less developed countries recognize that the foreign private investor is essentially a citizen under their domain, subject to the same regulation as are domestic companies, and as the investor participates more fully as a corporate citizen of the host country, foreign domination seems ever more improbable. As the less-developed countries demonstrate that they are willing to honor contractual agreements, to accord non-discriminatory treatment to foreign investors, and to permit companies to repatriate profits the fears of private foreign investors will subside.

Yet such fears are still a controlling factor in many instances. A greater degree of frankness in the context of an objective dialogue among all interested parties must be developed to come to grips with the root problems underlying these fears.

There are a number of specific advantages that private foreign investment can bring to the economies of the LDCs.

They include:

1. An inflow of capital into the LDCs which may be instrumental both in raising the productivity of labor and in allowing a larger labor force to be employed. If the real wages earned by the workers in new enterprises exceed their former wages (typically agricultural), the host country will gain economically and benefit socially.
2. A contribution to the less-developed countries' foreign exchange resources.
3. A further financial benefit in the establishment of a new tax-paying enterprise. These benefits in the various forms of local taxation often constitute a sizeable proportion of the country's revenues.
4. A transfer of modern technology including managerial and technical skills. The subsidiary company in the LDC has at its command the technological and managerial innovations of the parent company or its affiliates.
5. The training of local labor in new skills and knowledge.
6. The establishment of a higher degree of efficiency in production. The hypothetical alternative--a local public project--would not be subject to exacting standards of performance dictated to the private company by competition.
7. The creation of ancillary service industries.

In sum, capital accumulation at an adequate rate within the LDCs is the key to the increased production necessary to improvement of LDC living standards. Such a process requires stimulation, for the natural tendency is for capital to flow away from less-developed areas.

The Importance of Keeping Questions Open

Development, and especially the problem of capital formation, have been subject to much debate, theorizing, and discussion. One gain has been the recognition that this field of study is enormously complex, and that no ready solutions are available. The phenomenon of newly independent but underdeveloped nations--juxtaposed to other nations with advanced, industrial economies--is itself new to our time and past experiences with development

under different political circumstances have only doubtful relevance. There is an evident urgent need to come to terms with the key problem of capital formation in less-developed countries--time and effort must be invested if this complex process is to be mastered under present circumstances. It is vitally important that governments and business keep the questions concerning development open. Such an openness would encompass a willingness to examine all possibilities for improvement in the developmental effort, all methods (however new) which could lead to an acceleration of capital formation in the LDCs.

The Fundamental Dilemma

The type of environment conducive to investment is to a large extent the result of development rather than a precondition to it. Ultimately the LDCs must assume the responsibility for maintaining such an environment, but it is concededly not in the interests of either the less developed or more developed countries to rely on the lengthy and perhaps unrepeatable processes of Western development. The goal is an accelerated and different process adapted to the economic needs of the less-developed countries, taking advantage of modern technology--something surely not beyond our capabilities.

Whatever may be the responsibilities of the less-developed countries in this crucial investment-development process, the most promising approach open to the more-developed countries is to examine realistically the ways and means of progress under existing conditions. Whether such an approach will be successful depends on the effective cooperation of the governments of the more-developed and less-developed countries as well as their businessmen.

The Attitude of Business

Should not the business community first of all attempt to distinguish and give its support to any proposal which could lead to an improvement in the economic stability of the LDCs? The fact that no proposal can be a panacea and the fact that some steps taken may fail completely, cannot be justifications to abandon the developmental effort. If new steps are to be tried, an open mind to the questions of development is of utmost necessity.

The business community already recognizes the importance of aiding the developmental process by encouraging and welcoming steps tending to reduce the chronic economic instability of many of the LDCs. Such steps include:

1. An abatement of inflation.
2. Integration in order to achieve an adequately sized market.
3. Improvements in physical infrastructure.
4. Improvements in institutional infrastructure, especially
 - an improved money market;
 - better capital access;
 - greater educational facilities.
5. Stabilization of export receipts.
6. Encouragement of indigenous private investment.

Economic stability cannot, of course, be the ultimate goal. Yet some degree of economic stability is a precondition to economic growth, which in turn is the means to higher living standards. Steps taken to improve the economic stability are, by nature, also political steps. Economic development is ultimately a political effort.

The next UNCTAD Conference in New Delhi will deal with some of the aspects of economic development in the hope of ameliorating the poverty of the LDCs. Proposals include commodity agreements, improved access for exports from the LDCs to the developed world, preferences for the manufactures and semi-manufactures originating in the LDCs, and financing provisions to protect LDCs from fortuitous losses in export earnings. A fresh look at these proposals is required. The criticism often directed at the LDC proposals in UNCTAD is that such proposals demand a hidden variety of aid, rather than genuine self-help, and this fact too readily becomes a rationalization for developed countries' opposition to such measures. A more positive view might well embrace such measures of indirect aid as preferences and tax incentives as a complement to the very limited program of direct aid by the MDCs.

The Encouragement of Private Investment in the LDCs

The processes of private investment and capital formation in the developing countries cannot be assumed to be identical to those of the more-developed countries. A different environment and a distinct heritage have created the necessity of new attitudes and new ideas. It is therefore essential for business to remain open to innovations and adaptations in order that private enterprise can be rendered relevant to the LDCs, so as to serve the interests of both parties.

Steps that could serve to encourage private foreign investment in the less-developed countries might include:

1. The establishment of a climate which will attract private savings and investments. This includes reasonable price and exchange stability, an avoidance of arbitrary interference by government in business decisions, and a recognition of contractual and property rights. This is a fundamental requirement and unless an attractive climate is established, many of the other steps mentioned below will not be fully effective in attracting private resources into the development effort.
2. Tax incentives for private investment in the less-developed countries. Such incentives could originate in either the more-developed or less-developed countries. It is important that the tax policies of a less and a more developed country not cancel each other out. Basically, income derived from underdeveloped countries should not be taxed at all by more-developed countries. In any event, tax policies of the more-developed countries should offer encouragement to their nationals for investment made in less-developed countries by way of the allowance of credits, or deductions in determining tax liabilities to the developed country.
3. Investment guarantees. These would work primarily to reduce the greater risks of investment in the less-developed countries. As discussed previously, risks would remain, but not to such a great degree that potential private investors would be deterred. The objective is to find a means of making the excessive risks of the LDC environment more manageable.
4. Management contracts. Since resources and managerial personnel are limited, companies inevitably will employ them in situations where the long-term yields are expected to be in the best interests of the company. Accordingly, management contracts, under which a firm is "hired" by a government to set up an enterprise in a less-developed country, are not attractive to many companies and in many industries. Too much emphasis--and too much hope for results--should therefore not be placed on this form of private participation in LDC undertakings. Nevertheless, where suitable and acceptable, management contracts can be a means for getting know-how and technology into less-developed countries where there are strong reasons mitigating against direct investment.

5. Joint enterprises. Such investments, made jointly with a local entrepreneur, may occasionally overcome the antagonism against foreign private investment in the less-developed countries. Such partnerships are not always economically possible; the success of a particular enterprise may depend on an efficiency which could be achieved only by control of the investing company in the more-developed country. A joint enterprise can at times, however, be an attractive alternative; its potentialities should not be dismissed. It should be recognized that stringent requirements for joint enterprises can deter foreign private investments which would otherwise be made.

These approaches are not to be dismissed as a negation of private enterprise--as long as time and managerial effort are committed to the investment, there is the risk of wasting it in comparison to gains of time and skill used elsewhere.

What a business firm ultimately decides upon must be "good business"--there must be a prospect of satisfactory earning opportunities if an investment is made in the less-developed country. It is, however, the responsibility of the business community to encourage and support all those steps which could lead to an environment in which such opportunities for earnings would be more likely to exist.

An Integrated Approach to Development

It has become increasingly apparent that a more integrated approach is required to development. The lack of such an approach has produced too many instances of projects, in themselves desirable, that have not in fact lived up to expectations, either because progress had not taken place in closely related fields or because in fact projects of far higher priority had been overlooked. Recent application of the "systems approach" to economic development has proven highly successful in ensuring that all inter-related areas are developed simultaneously, in harmony, and in order of priority so that the pitfalls of unused production are avoided.

Essentially the "systems approach" is a planning and evaluation concept in which all the major variables underlying a given sector of economic development are placed in a framework or "model". By changing these variables at will, their interrelationships can be studied, and the optimum course of action or the optimum combination of scarce resources can be selected to arrive at a pre-selected

objective. Again, "optimum" can be defined in a number of ways such as lowest foreign exchange impact, or lowest capital investment, or lowest operating cost, or a combination of these. The "systems approach" by definition, attempts to identify all the elements which may have a bearing on the ultimate success or failure in achieving the desired objectives. As such, it must deal not only with quantifiable aspects of the problem, such as supply and demand, the logistics of site selection, profit potentials, etc., but also with questions of policy relating to prices, taxation, ownership, which sometimes depend more on political and social attitudes than they do on economics. Thus, a systematic cataloging of physical, technical and environmental conditions must precede the all-important questions of institutional or organizational format, or potential sources of financing in which private enterprise can play a decisive role.

Such an integrated and well-planned approach on a country or regional basis serves to provide the framework within which private enterprise is most likely to be attracted and to best perform its productive function. Governments and international organizations should focus increasing and urgent attention on this overall approach to development.

Conclusion

Development is an exceedingly complex process, encompassing cultural, political, psychological, and social, as well as economic factors. Economic and social gains can only take place where there is the political will for them. At present, MDCs and LDCs alike lack the political will; this seems apparent in the general tendency to understate the real difficulties in the way of development and in the desultory character of efforts to ameliorate admittedly intolerable conditions. Eduardo Frei Montalva, the President of Chile, writing about Latin America, asserted that:

The problem is not one of financial resources only, though at certain times these have been scant when compared with the legitimate needs of the region. It is essentially a political problem requiring the expression of the will to change, together with the acceptance of the measures needed to bring about this change.^{6/}

^{6/} Eduardo Frei Montalva, Foreign Affairs, April 1967, pp. 447-48.

The Political Will

Unlike the more-developed countries, adequate capital formation in the less-developed countries is not inherent in the working methods of the economy. So crucial is this fact that it serves to define the difference between less-developed and more-developed countries. Changes are needed. The first question that arises is whether these countries have the political will to pursue sound economic policies and take other required measures despite the political, economic, and social costs of some of these measures. The burden, of course, falls most heavily on the less-developed countries themselves--it is they that may have to choose, for example, to give priority to developmental requirements over those of strengthening a sense of national identity. It is they that will have to adopt policies to attract adequate resources to capital formation, even though all their resources and more could be devoted to the urgencies of a consumption-starved society. But unless these decisions are taken, the prospects for dynamic growth are dim.

Theodore Geiger writes:

More fundamental than the question of resource and skill availabilities, are the difficulties of decision making and administration imposed on these countries by the characteristics of their transitional societies and elite groups. In particular, the inability to agree on the priority to be assigned to economic growth and to adopt the necessary policies, and the inadequacy of the governmental and private efforts to carry out such policies as may be adopted, constitute more inhibiting limitations on rates of economic growth in Asia and Africa than do scarcities of capital and technical skills.^{7/}

The sense of urgency is equally necessary in the more-developed countries. There is a well-recognized need for external financing for many of the prerequisites of economic development, and until the more-developed countries are prepared to accord priority to meeting the minimum requirements the chances of success of any efforts on the part of the less-developed countries are correspondingly lessened.

^{7/} Theodore Geiger, The Conflicted Relationship, p. 149.

The MDCs, giving lip-service to the goal of development, have spent only a token amount of their income for development in the LDCs. The success of the Marshall Plan in Europe led policy-makers in the West, and especially in the United States, to expect that a similar outpouring of aid to the underdeveloped nations would result in equally rapid progress. It was initially assumed that Asian, African, and Latin American recipients possessed comparable decision-making, programming and administrative abilities. When American and other sources of foreign aid did not effect the anticipated results, disillusionment about the whole foreign aid program grew, a phenomenon which can readily be observed in Congress today. The United Nations has recommended that MDCs apportion 1 percent of their GNP to LDCs for development. U.S. commitments of economic assistance to LDCs and multilateral agencies rose from 0.54 percent to 0.68 percent of GNP between 1956-1960 and 1961-1965. But from a 1962 high of 0.76 percent, they fell steadily to 0.60 percent of GNP in 1965. Recent cuts in Congress in the foreign aid bill suggest that official aid may be falling absolutely as an amount, as well as relatively as a percentage of income.

The primary responsibility for development has to rest with the LDCs themselves. This proposition is not really subject to practical debate. But the developed countries, with an important and widely acknowledged interest in the establishment of more viable conditions in the LDCs, have a responsibility to treat UNCTAD as a means to this end. UNCTAD's success will depend upon the ability of the participants to discover potential areas of agreement and on their willingness then to reach agreement--this process, in fact, amounts to an act of political will. UNCTAD provides a unique forum to which both MDCs and LDCs come expressly to discuss development.

The 1964 UNCTAD Conference, while successful in naming most of the important issues and in establishing the permanent machinery so urgently desired by the LDCs, failed as such a forum for genuine discussion. This kind of discussion among LDCs and MDCs alike is exactly what the development problem needs if it is to be moved off dead center. In 1964 the LDCs spoke in terms of rigid demands without giving an opportunity for compromise, and the MDCs, though favoring development in principle, refused in fact to accept its assumed heavy economic price.

With the touchy question of permanent machinery out of the way, this next UNCTAD Conference should lend itself to more fruitful discussion. The MDCs need to recognize and act upon their interest in alleviating the unacceptable poverty of the underdeveloped world. A willingness, on the part of both LDCs and MDCs,

to cooperate in a substantive manner and on a sufficient scale is essential if adequate development is ever to be activated.

It is in the overriding interest of both less and more developed countries to develop the necessary sense of urgency to make those choices and decisions that are most likely to result in accelerated production in the less-developed countries and to give priority to implementing these decisions. Political will is ultimately the general attitude of the peoples of the countries concerned, which is reflected in the positions and decisions of their governments and of their business communities. UNCTAD's greatest accomplishment could be to reach a better understanding of the nature and origin of these attitudes, so that choices can realistically be made that will result in the creation of the needed political will in MDCs and LDCs alike and in the harmonization of the conditions of its exercise.

APPENDIX

A RANK OF SELECTED COUNTRIES ACCORDING TO 1962
GROSS DOMESTIC PRODUCT^{8/}

<u>Country</u>	<u>Rank (In 141 Total Countries)</u>	<u>per capita GDP</u>	<u>per capita GNP</u>
United States	1	\$2,691	\$2,980
United Kingdom	10	1,454	1,668
U.S.S.R.	17	1,052	1,158
Puerto Rico	22	825	908
Venezuela	25	701	694
Japan	30	551	592
Panama	37	429	446
Colombia	53	285	298
Algeria	56	229	269
Saudi Arabia	58	225	---
Ghana	70	187	---
Brazil	73	179	204
Guatemala	76	166	178
Iraq	78	162	---
U.A.R.	82	156	---
Ceylon	85	137	145
Philippines	87	125	134
Thailand	93	106	116
Haiti	96	93	---
Bolivia	97	90	---
Nigeria	98	86	---
Kenya	100	85	---
China (mainland)	104	77	85
India	107	73	---
Indonesia	108	73	---
Cambodia	116	68	---
Burma	126	57	64
Guinea	129	52	---
Ethiopia	130	51	---
Yemen	137	50	---
Upper Volta	140	43	---

^{8/} Source: Karl Deutch, Nationalism and Social Communication, pp. 262-270.

ASIAN DEVELOPMENT BANK

Background Information

and

Materials Relating to Membership
of the United States of America



January 1968

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ASIAN DEVELOPMENT BANK

COMMERCIAL CENTER P. O. BOX 126

MAKATI, RIZAL, PHILIPPINES

TELEPHONE: 88-87-81
CABLE ADDRESS: ASIANBANK

January 1968

In discharging its function of promoting economic growth in Asia, the Asian Development Bank is fortunate to be able to call on substantial resources from both within and outside the region. It is indeed a unique feature for a regional development bank that it counts among its members not only the countries of the area, but also the majority of the world's developed countries. With the membership of the United States, Canada, Australia, New Zealand, Japan and eleven European countries, the overwhelming majority of the world's capital exporting nations are represented in the Bank. This global partnership and the close cooperation between the member countries guarantee that the Bank will have wide support in its efforts to mobilize funds and resources from within and outside the region, in creating conditions conducive for investment and in helping to channel a greater flow of development funds to Asia.

After having established in the first year of its existence the basic structure and operational framework and having built up an experienced staff drawn from Asia, North America, Europe, Australia, and New Zealand, the Bank is now starting its loan operations.

The Bank welcomes the participation of the United States of America, which has played such an important role in setting up the Bank. It looks forward to a variety of important contacts with the United States in coming years and, in time, to the opportunity to raise funds in the United States market.

I trust that the background information contained in this pamphlet about the Asian Development Bank, its organization, functions, financial resources and policies, will be of interest to the financial and business community in the United States.

Takeshi Watanabe
TAKESHI WATANABE
President

THE SECRETARY OF THE TREASURY

WASHINGTON

December 29, 1967

[This letter was individually typed and sent to the governors of various states, most of which have legislative sessions in 1968.]

Dear Governor

The purpose of this letter is to enlist your cooperation in initiating steps to qualify bonds of the Asian Development Bank for investment by institutional and fiduciary investors in the State of . . . Similar steps have previously been taken by many states with respect to securities of the International Bank for Reconstruction and Development (World Bank) and the Inter-American Development Bank.

The Asian Development Bank is an international financial institution established pursuant to an agreement between the United States and thirty* other countries in North America, Europe and Asia. It is patterned on the World Bank and the Inter-American Development Bank and serves the same regional development role in Asia that the Inter-American Development Bank does in the Western Hemisphere. While the Bank has no present plans to issue its securities in the United States, it would be highly desirable to initiate the necessary State action now because of the time usually required to take the statutory or administrative action necessary to qualify the Bank's bonds for investment by institutional and fiduciary investors. Each sale of the Bank's obligations in the United States will be preceded by the specific approval of the United States Government.

The authorized capital stock of the Bank is \$1,100 million. Of the \$965 million subscribed to date,* half is to be paid in and half is callable to meet obligations on borrowings or guarantees made by the Bank chargeable to its ordinary capital resources. The arrangements with respect to the capital stock of the Bank are similar to those of the World Bank and the Inter-American Development Bank. In effect, the callable capital serves as a guarantee backing securities sold by the Bank in private capital markets. The callable capital of the developed member countries, which are the United States, Japan, Canada, Australia, New Zealand, and ten European countries, amounts to over \$325 million.*

The United States and Japan are the two largest subscribers—each having subscribed \$200 million of capital stock. The United States has a full time Director and Alternate Director participating in the direction of the Bank's affairs, and I serve as the U. S. Governor of the Bank.

The Asian Development Bank Act (22 U.S.C. 285 *et seq.*), authorizing United States membership in the Bank, also authorizes national banks to deal in and underwrite securities issued by the Bank and places these securities in the same category as United States Government, Municipal and State securities for purposes of the Securities Exchange Act.

The Asian Development Bank is an important forward step toward economic development and regional cooperation in Asia. Because the activities the Bank was designed to perform coincide with the national interests of the United States in this area, the United States has become a member of the Bank and strongly supports the Bank's performance of this mission. The degree to which other industrialized countries of Europe, North America and Asia are also supporting the Bank and particularly the substantial participation of Japan represent a highly desirable sharing of efforts for peaceful progress in Asia.

I urge you to take appropriate steps so that institutional and fiduciary investors in your State have authority to purchase Asian Development Bank securities when it is decided to issue them.

Sincerely yours,

HENRY H. FOWLER

* On December 31, 1967, after this letter was sent, Switzerland became a member of the Bank, whereby the subscribed capital of members was raised to \$970 million and the callable capital of the developed member countries was raised to \$331.28 million.

THE BANK

The Asian Development Bank (the Bank) is an international institution, the members of which are governments, established and operating under an Agreement Establishing the Asian Development Bank (the Agreement) which became effective on August 22, 1966. The Bank officially began operations on December 19, 1966. Its headquarters are located in Makati, Rizal, Philippines, a suburb of Manila.

As of December 31, 1967, 32 governments had become members of the Bank. Nineteen of these members are regional countries and 13 are non-regional countries. These members and their respective subscriptions (expressed in U. S. dollars) and voting power are as follows:

<u>Member</u>	<u>Total Subscribed Capital</u>	<u>Number of Votes</u>	<u>Percent of Total Votes</u>
Regional:			
Afghanistan	\$ 4,780,000	1,235	1.02%
Australia	85,000,000	9,257	7.64
Cambodia	3,500,000	1,107	0.91
Ceylon	8,520,000	1,609	1.33
China, Republic of.....	16,000,000	2,357	1.94
India	93,000,000	10,057	8.30
Indonesia	25,000,000	3,257	2.69
Japan	200,000,000	20,757	17.12
Korea, Republic of.....	30,000,000	3,757	3.10
Laos	420,000	799	0.66
Malaysia	20,000,000	2,757	2.27
Nepal	2,160,000	973	0.80
New Zealand	22,560,000	3,013	2.48
Pakistan	32,000,000	3,957	3.26
Philippines	35,000,000	4,257	3.51
Singapore	5,000,000	1,257	1.04
Thailand	20,000,000	2,757	2.27
Viet-Nam, Republic of.....	12,000,000	1,957	1.61
Western Samoa	60,000	763	0.63
	<u>\$615,000,000</u>	<u>75,883</u>	<u>62.58%</u>
Non-Regional:			
Austria	\$ 5,000,000	1,257	1.04%
Belgium	5,000,000	1,257	1.04
Canada	25,000,000	3,257	2.69
Denmark	5,000,000	1,257	1.04
Finland	5,000,000	1,257	1.04
Germany, Federal Republic of....	34,000,000	4,157	3.43
Italy	20,000,000	2,757	2.27
Netherlands	11,000,000	1,857	1.53
Norway	5,000,000	1,257	1.04
Sweden	5,000,000	1,257	1.04
Switzerland	5,000,000	1,257	1.04
United Kingdom	30,000,000	3,757	3.10
United States	200,000,000	20,757	17.12
	<u>\$355,000,000</u>	<u>45,341</u>	<u>37.42%</u>
Total	<u>\$970,000,000</u>	<u>121,224</u>	<u>100.00%</u>

By the terms of Article 3 of the Agreement, membership in the Bank is open to "(i) members and associate members of the United Nations Economic Commission for Asia and the Far East; and (ii) other regional countries and non-regional developed countries which are members of the United Nations or any of its specialized agencies." Within the foregoing limitations, new members may be admitted upon the affirmative vote of two-thirds of the total number of Governors representing not less than three-fourths of the total voting power of the members.

The percentage of the voting power in the Bank's affairs held by the respective member countries is related to their capital subscriptions. The two largest subscribers, the United States and Japan, each holds 17.12% of the total voting power. In addition, Australia, New Zealand, Canada, the United Kingdom and the eleven European member countries hold an aggregate of about 30% of the total voting power. This means that the voting power of the developed member countries represents about 64% of the total.

In organization, functions and capital structure, the Bank is similar in many respects to two previously established international development financing institutions, the International Bank for Reconstruction and Development (World Bank) and the Inter-American Development Bank.

The purpose of the Bank is to foster economic growth and cooperation in the region of Asia and the Far East and to contribute to the acceleration of economic development in the developing member countries of the region, collectively and individually.

To fulfill its purpose, the Bank has the following principal functions:

- (a) to promote investment of public and private capital for development purposes;
- (b) to utilize the resources at its disposal for financing development of the developing member countries of the region;
- (c) to meet requests to assist member countries in the coordination of their development policies and plans; and
- (d) to provide technical assistance for the preparation, financing and execution of development projects and programs.

FINANCIAL RESOURCES

The Bank's present authorized capital is \$1.1 billion. It is available for subscription only by member countries, and \$970 million has now been subscribed. The capital subscriptions are designed both to provide funds for loan operations and to afford security for the bond issues and other indebtedness to be incurred by the Bank. One half of the subscribed capital (\$485 million at present) is in the form of "paid-in" capital, and the other half remains "callable". Since the latter portion may be called only when required to meet obligations of the Bank in connection with funds borrowed or loans guaranteed by it, such capital is not available for use by the Bank for making loans and constitutes, in effect, a guarantee for the Bank's outstanding indebtedness.

The "paid-in" portion of the capital is to be paid in five equal, annual instalments; one-half of each instalment must be paid in gold or convertible currency and the other half may be paid in the currency of the respective member country. The Bank may also accept non-interest-bearing demand notes in lieu of the amount payable in a member's currency, so long as such currency is not needed by the Bank for the conduct of its operations. Payment of the "callable" capital may be made at the option of the member in gold, convertible currency, or the currency required to discharge the obligations of the Bank for the purpose of which the call is made.

The first two instalments of capital subscriptions (except for Switzerland which joined the Bank on December 31, 1967 and paid its first instalment) had been received as of the end of December, 1967. The Bank will receive the three remaining instalments of capital subscriptions in the years 1968, 1969 and 1970.

As of December 31, 1967, the total assets of the Bank were \$196.4 million. Of this total, \$103.8 million, derived from cash subscriptions and accrued interest, were invested in time deposits and government or government-guaranteed securities in various capital markets. These funds are immediately available for disbursements under Bank loans. More than half of the Bank's investments are in U.S. dollars (in the form of time deposits or certificates of deposit, U.S. Treasury bills, notes and bonds, and U.S. Government agency securities). In addition, promissory notes can be called upon in the amount of \$86.6 million, of which \$56.6 million are in convertible currencies. In accordance with the Agreement, demands by the Bank upon the promissory notes of member countries payable in convertible currencies shall, over reasonable periods of time, be uniform in percentage on all such notes or obligations. The remainder of the Bank's assets consists of cash in banks and various other assets.

MEMBERSHIP AND SUBSCRIPTION OF THE UNITED STATES OF AMERICA

The United States of America became a member of the Bank pursuant to the Asian Development Bank Act of March 16, 1966 (Public Law 89-369, the text of which appears as Appendix 1). The United States has subscribed to 20,000 shares of the capital stock of the Bank, thereby becoming, together with Japan, one of the two largest stockholders. The Asian Development Bank Act authorizes the appropriation of the entire \$200 million United States subscription and Congress has appropriated, without fiscal year limitations, the \$100 million callable portion of the United States subscription. No further appropriation is necessary to enable the Secretary of the Treasury to pay this \$100 million, if any part of it should ever be needed to meet obligations of the Bank.

The U.S. Governor for the Bank is Henry H. Fowler, Secretary of the Treasury; the Alternate Governor is William S. Gaud, Administrator, Agency for International Development; and the U.S. Executive Director on the Bank's Board of Directors is Bernard Zagorin. The Federal Reserve Bank of New York has been designated as a depository for the Bank's holdings.

Under the Asian Development Bank Act, the Bank's obligations are granted the same exemptions from the Federal securities laws as have been granted to World Bank and Inter-American Development Bank obligations under previous legislation. The Act also authorizes the Bank's bonds for investment by national banks to the same extent as World Bank and Inter-American Development Bank obligations.

BORROWING BY THE BANK

Provisions of the Agreement

In addition to the paid-in ordinary capital which is available for loan operations by the Bank, the Bank is authorized by Article 21(i) of its Agreement to raise funds for its operations through public bond issues and other borrowings in the world's capital markets. Before determining the sale of the Bank's obligations in a particular country, the Bank will consider the amount of previous borrowing, if any, in that country as well as the amount of previous borrowing in other countries and the availability of funds in such other countries. The Bank will attempt to diversify its borrowings to the greatest extent possible as to country of borrowing. It will, in this connection, bear in mind the general situation in the various capital markets, the balance of payments position of the countries concerned, and the terms for borrowing in the various markets.

Prior Approval by Member Country

Under the Agreement, the Bank must obtain the approval of the government of the country in which the Bank's obligations are to be issued, as well as of the country in whose currency such bonds are to be issued. As in the case of the World Bank and the Inter-American Develop-

ment Bank, any raising of funds by the Bank in the United States can only take place after express authorization has been obtained from the Secretary of the Treasury of the United States.

Limitation on Borrowing

The Board of Directors of the Bank, on January 11, 1968, adopted a policy according to which the Bank will not enter into any new borrowing or guarantee chargeable to its ordinary capital resources if such borrowing or such guarantee, when added to the aggregate amount outstanding of borrowings and guarantees, would exceed the amount of the callable capital stock of the member countries whose currencies are convertible. The convertible currency countries will be determined by the Bank after consultation with the International Monetary Fund. At the present time these countries are Austria, Australia, Belgium, Canada, Denmark, Federal Republic of Germany, Italy, Japan, Netherlands, Norway, Sweden, Switzerland, United Kingdom and the United States. The callable portion of the capital subscription of these countries now amounts to \$317.5 million. This policy will be incorporated in an appropriate covenant with bondholders in any borrowing undertaken by the Bank.

Borrowing in the United States

In anticipation of bond issues which may be offered in the United States in the future, the Bank has appointed Kuhn, Loeb & Co. and The First Boston Corporation as joint managing underwriters for U. S. dollar bond issues in the United States. These firms will alternate in taking the lead in the issues to be offered. Both of these underwriters have great experience in placing obligations of international institutions as well as obligations of foreign governments and foreign corporations.

In order to assure its obligations an appropriate market in the United States, the Bank with the cooperation of the United States Treasury Department is seeking to obtain for its obligations a status similar to that enjoyed by those of the World Bank and the Inter-American Development Bank. Following the pattern set by these two institutions, the Bank expects to obtain the necessary legislative and administrative authorizations in the various states so that its obligations can qualify as legal investments for institutional and fiduciary investors.

To make known the support of the United States Government, Secretary of the Treasury Henry H. Fowler has addressed letters to the governors of various states (most of which have legislative sessions in 1968). In his letters, Secretary Fowler points out that the activities of the Bank coincide with the national interest of the United States and urges that appropriate steps be taken so that institutional and fiduciary investors will have the same authority to purchase the Bank's obligations as they now have to acquire obligations of the World Bank and Inter-American Development Bank. A copy of the text of Secretary Fowler's letter appears on page 2.

Status with Respect to U.S. Interest Equalization Tax and Balance of Payments Measures

The obligations of the Bank come within the exemption provisions of the Interest Equalization Tax for obligations of international institutions of which the United States is a member.

The 1968 "Guidelines for Nonbank Financial Institutions", issued by the Board of Governors of the Federal Reserve System under the President's Balance of Payments Program, specifically exclude bonds and notes of international institutions of which the United States is a member. The President's Executive Order governing certain capital transfers abroad, issued January 1, 1968, and the regulations thereunder, have no application to the purchase of the Bank's obligations.

SEC Reports

By Regulation AD of December 18, 1967 (the text of which appears as Appendix 3), the Securities and Exchange Commission has made the Bank subject to reporting and notice requirements with respect to its financial statements, annual reports and prospectuses, similar to those applicable to the World Bank and the Inter-American Development Bank.

OPERATIONS

Lending Activities

The Bank is authorized under the Agreement to make, participate in, or guarantee loans to the governments of its member countries, to any of their agencies or political subdivisions and to public or private enterprises operating within such countries, as well as to international or regional entities concerned with economic development in the region. The Bank may provide financing to such borrowers to cover foreign exchange expenditures incurred in any project and may also provide local currencies in certain cases. The rate of interest, commitment fee and other charges related to a loan or guarantee are determined by the Bank as may be appropriate for the particular financing. Loan repayments are required to be made in the currency of the loan or, at the option of the borrower, in gold or convertible currency. Except in special circumstances, the Bank requires that proceeds of its loans be used by the borrower only for procurement of goods and services produced in member countries. The Bank supervises the disbursement of its loans to assure that the proceeds are applied only against project expenditures as incurred. It generally insists that borrowers seek competitive bids from potential suppliers, that engineering plans and specifications be drawn up independent of the suppliers, and, if appropriate, that independent consulting engineers be retained by borrowers.

In evaluating the projects that it proposes to finance, the Bank considers such factors as their economic, technical, and financial feasibility; their effect on the general activity of the country concerned; their contribution to the removal of economic obstacles; the capacity of the borrowing country to service additional external debt; the effect on domestic savings; the introduction of new technologies to raise productivity; and the expansion of employment opportunities.

In considering an application for a loan or guarantee, the Bank pays due regard to the ability of the borrower to obtain financing elsewhere on terms and conditions that the Bank considers reasonable.

Ordinary Operations and Special Operations

The Bank's lending operations are divided into two major categories, ordinary and special. Ordinary operations are those financed from the Bank's ordinary capital resources and are intended to cover project expenditures under terms and conditions comparable to those that might be required by other similar lenders. The first loan of the Bank, to the Industrial Finance Corporation of Thailand, guaranteed by the Government of Thailand, was signed January 25, 1968. The Bank at present has under active consideration a number of other loan applications.

Special operations, on the other hand, are financed from the Bank's Special Funds and are designed to assist projects of high development priority which require loans of longer maturities, longer deferred commencement of repayment, and lower interest rates than those established for ordinary operations. The Bank may accept special contributions for these purposes or allocate up to 10% of its "paid-in" capital as Special Funds. The allocation of such funds, however, is conditional upon authorization by two-thirds of the total number of Governors. The Board of Governors has not, as yet, taken action on this provision. The Agreement stipulates that Special Funds of the Bank must be held, used, invested, or otherwise disposed of entirely separate from the ordinary capital resources of the Bank.

Technical Assistance

The Bank is authorized to meet requests from member countries for technical assistance in such fields as the preparation, financing and execution of development plans; the evaluation of specific development projects and programs; and the creation of new institutions serving agriculture, industry and public administration, among others. Recipients of technical assistance may be governments or any of the other entities authorized to receive Bank loans.

The technical assistance extended by the Bank may be either on a grant or a loan basis. The Agreement limits the funds available for technical assistance of a non-reimbursable nature to the

Bank's income (or during the Bank's first five years up to 2% of its paid-in capital) and to any Special Funds resources received by the Bank for this purpose.

ADMINISTRATION OF THE BANK

The affairs of the Bank are conducted by the Board of Governors, the Board of Directors, the President, the Vice President, the other officers and the staff.

All the powers of the Bank are vested in the Board of Governors but it may delegate to the Board of Directors any powers except those whose delegation is specially prohibited by the Agreement. The Board of Governors consists of one Governor and one Alternate appointed by each member country. The Governor or Alternate Governor exercises the voting power to which the member is entitled. The Board of Governors holds regular annual meetings.

The responsibility for the general direction of the operations of the Bank rests with its Board of Directors who serve full time at the Bank's headquarters. The Board of Directors has ten members and is elected by the Board of Governors. Seven Directors are elected by the Governors representing regional members, and three by the Governors representing non-regional members. Directors hold office for a term of two years and may be re-elected.

Matters before the Board of Governors or the Board of Directors relating to the ordinary operations of the Bank are decided by a majority of the total voting power of the Bank's members, except in certain cases provided in the Agreement in which a higher percentage is required.

The President is elected by the Board of Governors. His term of office is five years, and he may be re-elected. The President is the Chairman of the Board of Directors, but has no vote except a deciding vote in case of an equal division. Under the direction of the Board of Directors, he conducts the ordinary business of the Bank and is its chief of staff. At its inaugural meeting in Tokyo in November 1966, the Board of Governors unanimously elected Takeshi Watanabe, Japanese financier, former senior government official, and former Executive Director of the World Bank, as President of the Bank for a five-year term.

The Board of Directors

The following is a list of the Directors and Alternate Directors of the Bank and the member countries by which they were appointed or elected:

<u>Director/Alternate</u>	<u>Countries</u>
Helmut Abramowski (Federal Republic of Germany)	Federal Republic of Germany, Austria
Denis Forthomme (Belgium)	Belgium, Italy, Netherlands
Cornelio Balmaceda (Philippines)	Philippines, Pakistan
Zahiruddin Ahmed (Pakistan)	
Byung Kyu Chun (Republic of Korea)	Republic of Korea, Republic of Viet-Nam,
Buu Hoan (Republic of Viet-Nam)	Republic of China
Masaru Fukuda	Japan
Shoshi Nakazawa	
J. M. Garland	Australia
F. R. Dalrymple	
Byanti Kharmawan (Indonesia)	Indonesia, Ceylon, Afghanistan,
V. M. Peries (Ceylon)	Cambodia, Laos, Nepal

<u>Director/Alternate</u>	<u>Countries</u>
Lim Taik Choon (Malaysia) Chanchai Leetavorn (Thailand)	Malaysia, Thailand, New Zealand, Singapore, Western Samoa
P.-V. R. Rao J. R. Hiremath	India
W. K. Wardroper (Canada) R. W. H. du Boulay (United Kingdom)	Canada, United Kingdom, Denmark, Finland, Norway, Sweden
Bernard Zagorin Herman H. Barger	United States of America

Principal Officers

The following is a list of the principal officers of the Bank:

Takeshi Watanabe	President
C. S. Krishna Moorthi	Vice President
Douglas C. Gunesekera	Secretary
Timothy B. Atkeson	General Counsel
Howard Farrelly	Director, Operations Department
Koji Suzuki	Deputy Director
Sam-Chung Hsieh	Director, Economic and Technical Assistance Department
George Rosen	Deputy Director
Masao Fujioka	Director, Administration Department
Raymond B. Lyon	Deputy Director
S. M. A. Kazmi	Treasurer
Edgar Plan	Deputy Treasurer and Financial Advisor
P. S. Hariharan	Chief Information Officer
Carl J. Lemvig-Fog	Internal Auditor

INDEPENDENT AUDITOR

The Board of Directors of the Bank has appointed Haskins & Sells of New York, New York as auditors. The certificate of Haskins & Sells will appear on the annual financial statements of the Bank and any other audited statements that may be required.

THE AGREEMENT ESTABLISHING THE ASIAN DEVELOPMENT BANK

The Agreement Establishing the Asian Development Bank constitutes the Bank's governing charter. It establishes the status, privileges and immunities of the Bank, prescribes the Bank's purposes, capital structure and organization, authorizes the operations in which it may engage and prescribes limitations on the carrying on of those operations. It also contains, among other things, provisions with respect to the admission of additional members, the increase of the authorized capital stock of the Bank, the terms and conditions under which the Bank may make or guarantee loans, the use of currencies held by the Bank, the withdrawal and suspension of members and the suspension of operations of the Bank. The full text of the Agreement is reproduced as Appendix 2.

Appendix 1

ASIAN DEVELOPMENT BANK ACT

Text of Public Law 89-369, 89th Congress, approved March 16, 1966

AN ACT To provide for the participation of the United States in the Asian Development Bank

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Asian Development Bank Act".

ACCEPTANCE OF MEMBERSHIP

SEC. 2. The President is hereby authorized to accept membership for the United States in the Asian Development Bank (hereinafter referred to as the "Bank") provided for by the agreement establishing the Bank (hereinafter referred to as the "agreement") deposited in the archives of the United Nations.

SEC. 3. (a) The President, by and with the advice and consent of the Senate, shall appoint a Governor of the Bank, an alternate for the Governor, and a Director of the Bank.

(b) No person shall be entitled to receive any salary or other compensation from the United States for services as a Governor or Alternate Governor. The Director may, in the discretion of the President, receive such compensation, allowances, and other benefits as, together with those received by him from the Bank, will equal those authorized for a Chief of Mission, class 2, within the meaning of the Foreign Service Act of 1946, as amended.

SEC. 4. (a) The policies and operations of the representatives of the United States on the Bank shall be coordinated with other United States policies in such manner as the President shall direct.

(b) An annual report with respect to United States participation in the Bank shall be submitted to the Congress by such agency or officer as the President shall designate.

SEC. 5. Unless the Congress by law authorizes such action, neither the President nor any person or agency shall, on behalf of the United States, (a) subscribe to additional shares of stock of the Bank; (b) vote for or agree to any amendment of the agreement which increases the obligations of the United States, or which would change the purpose or functions of the Bank; or (c) make a loan or provide other financing to the Bank, except that funds for technical assistance not to exceed \$1,000,000 in any one year may be provided to the Bank by a United States agency created pursuant to an Act of Congress which is authorized by law to provide funds to international organizations.

DEPOSITORIES

SEC. 6. Any Federal Reserve bank which is requested to do so by the Bank shall act as its depository or as its fiscal agent, and the Board of Governors of the Federal Reserve System shall supervise and direct the carrying out of these functions by the Federal Reserve banks.

PAYMENT OF SUBSCRIPTIONS

SEC. 7. (a) There is hereby authorized to be appropriated, without fiscal year limitation, for the purchase of twenty thousand shares of capital stock of the Bank, \$200,000,000.

(b) Any payment made to the United States by the Bank as a distribution of net income shall be covered into the Treasury as a miscellaneous receipt.

JURISDICTION AND VENUE OF ACTIONS

SEC. 8. For the purpose of any civil action which may be brought within the United States, its territories or possessions, or the Commonwealth of Puerto Rico, by or

against the Bank in accordance with the agreement, the Bank shall be deemed to be an inhabitant of the Federal judicial district in which its principal office or agency in the United States is located, and any such action to which the Bank shall be a party shall be deemed to arise under the laws of the United States, and the district courts of the United States, including the courts enumerated in title 28, section 460, United States Code, shall have original jurisdiction of any such action. When the Bank is a defendant in any action in a State court, it may, at any time before the trial thereof, remove such action into the district court of the United States for the proper district by following the procedure for removal of causes otherwise provided by law.

STATUS, IMMUNITIES, AND PRIVILEGES

SEC. 9. The agreement, and particularly articles 49 through 56, shall have full force and effect in the United States, its territories and possessions, and the Commonwealth of Puerto Rico, upon acceptance of membership by the United States, and the establishment of, the Bank. The President, at the time of deposit of the instrument of acceptance of membership by the United States in the Bank, shall also deposit a declaration that the United States retains for itself and its political subdivisions the right to tax salaries and emoluments paid by the Bank to its citizens or nationals.

SECURITIES ISSUED BY BANK AS INVESTMENT SECURITIES FOR NATIONAL BANKS

SEC. 10. The last sentence of paragraph 7 of section 5136 of the Revised Statutes, as amended (12 U.S.C. 24), is amended by striking the word "or" after the words "International Bank for Reconstruction and Development" and inserting a comma in lieu thereof, and by inserting after the words "the Inter-American Development Bank" the words "or the Asian Development Bank".

SECURITIES ISSUED BY BANK AS EXEMPT SECURITIES; REPORT FILED WITH SECURITIES AND EXCHANGE COMMISSION

SEC. 11. (a) Any securities issued by the Bank (including any guarantee by the Bank, whether or not limited in scope) in connection with raising of funds for inclusion in the Bank's ordinary capital resources as defined in article 7 of the agreement and any securities guaranteed by the Bank as to both principal and interest to which the commitment in article 6, section 5, of the agreement is expressly applicable, shall be deemed to be exempted securities within the meaning of paragraph (a) (2) of section 3 of the Act of May 27, 1933, as amended (15 U.S.C. 77c), and paragraph (a) (12) of section 3 of the Act of June 6, 1934, as amended (15 U.S.C. 78c). The Bank shall file with the Securities and Exchange Commission such annual and other reports with regard to such securities as the Commission shall determine to be appropriate in view of the special character of the Bank and its operations and necessary in the public interest or for the protection of investors.

(b) The Securities and Exchange Commission, acting in consultation with such agency or officer as the President shall designate, is authorized to suspend the provisions of subsection (a) at any time as to any or all securities issued or guaranteed by the Bank during the period of such suspension. The Commission shall include in its annual reports to Congress such information as it shall deem advisable with regard to the operations and effect of this section and in connection therewith shall include any views submitted for such purpose by any association of dealers registered with the Commission.

Appendix 2

AGREEMENT ESTABLISHING THE ASIAN DEVELOPMENT BANK

THE CONTRACTING PARTIES

CONSIDERING the importance of closer economic co-operation as a means for achieving the most efficient utilization of resources and for accelerating the economic development of Asia and the Far East;

REALIZING the significance of making additional development financing available for the region by mobilizing such funds and other resources from within and outside the region, and by seeking to create and foster conditions conducive to increased domestic savings and greater flow of development funds into the region;

RECOGNIZING the desirability of promoting the harmonious growth of the economies of the region and the expansion of external trade of member countries;

CONVINCED that the establishment of a financial institution that is Asian in its basic character would serve these ends;

HAVE AGREED to establish hereby the Asian Development Bank (hereinafter called the "Bank") which shall operate in accordance with the following

ARTICLES OF AGREEMENT

CHAPTER I

PURPOSE, FUNCTIONS AND MEMBERSHIP

Article 1
PURPOSE

The purpose of the Bank shall be to foster economic growth and co-operation in the region of Asia and the Far East (hereinafter referred to as the "region") and to contribute to the acceleration of the process of economic development of the developing member countries in the region, collectively and individually. Wherever used in this Agreement, the terms "region of Asia and the Far East" and "region" shall comprise the territories of Asia and the Far East included in the Terms of Reference of the United Nations Economic Commission for Asia and the Far East.

Article 2
FUNCTIONS

To fulfil its purpose, the Bank shall have the following functions:

- (i) to promote investment in the region of public and private capital for development purposes;
- (ii) to utilize the resources at its disposal for financing development of the developing member countries in the region, giving priority to those regional, sub-regional as well as national projects and programmes which will contribute most effectively to the harmonious economic growth of the region as a whole, and having special regard to the needs of the smaller or less developed member countries in the region;
- (iii) to meet requests from members in the region to assist them in the co-ordination of their development policies and plans with a view to achieving better utilization of their resources, making their economies more complementary, and promoting the orderly expansion of their foreign trade, in particular, intra-regional trade;
- (iv) to provide technical assistance for the preparation, financing and execution of development projects and programmes, including the formulation of specific project proposals;
- (v) to co-operate, in such manner as the Bank may deem appropriate, within the terms of this Agreement, with the United Nations, its organs and subsidiary bodies including, in particular, the Economic Commission for Asia and the Far East, and with public international organizations and other international institutions, as well as national entities whether public or private, which are concerned with the investment of development funds in the region, and to interest such institutions and entities in new opportunities for investment and assistance; and
- (vi) to undertake such other activities and provide such other services as may advance its purpose.

Article 3
MEMBERSHIP

1. Membership in the Bank shall be open to: (i) members and associate members of the United Nations Economic Commission for Asia and the Far East; and (ii) other regional countries and non-regional developed countries which are members of the United Nations or of any of its specialized agencies.

2. Countries eligible for membership under paragraph 1 of this Article which do not become members in accordance with Article 64 of this Agreement may be admitted, under such terms and conditions as the Bank may determine, to membership in the Bank upon the affirmative vote of two-thirds of the total number of Governors, representing not less than three-fourths of the total voting power of the members.

3. In the case of associate members of the United Nations Economic Commission for Asia and the Far East which are not responsible for the conduct of their international relations, application for membership in the Bank shall be presented by the member of the Bank responsible for the international relations of the applicant and accompanied by an undertaking by such member that, until the applicant itself assumes such responsibility, the member shall be responsible for all obligations that may be incurred by the applicant by reason of admission to membership in the Bank and enjoyment of the benefits of such membership. "Country" as used in this Agreement shall include a territory which is an associate member of the United Nations Economic Commission for Asia and the Far East.

CHAPTER II
CAPITALArticle 4
AUTHORIZED CAPITAL

1. The authorized capital stock of the Bank shall be one billion dollars (\$1,000,000,000) in terms of United States dollars of the weight and fineness in effect on 31 January 1966. The dollar wherever referred to in this Agreement shall be understood as being a United States dollar of the above value. The authorized capital stock shall be divided into one hundred thousand (100,000) shares having a par value of ten thousand

dollars (\$10,000) each, which shall be available for subscription only by members in accordance with the provisions of Article 5 of this Agreement.

2. The original authorized capital stock shall be divided into paid-in shares and callable shares. Shares having an aggregate par value of five hundred million dollars (\$500,000,000) shall be paid-in shares, and shares having an aggregate par value of five hundred million dollars (\$500,000,000) shall be callable shares.

3. The authorized capital stock of the Bank may be increased by the Board of Governors, at such time and under such terms and conditions as it may deem advisable, by a vote of two-thirds of the total number of Governors, representing not less than three-fourths of the total voting power of the members.

Article 5 SUBSCRIPTION OF SHARES

1. Each member shall subscribe to shares of the capital stock of the Bank. Each subscription to the original authorized capital stock shall be for paid-in shares and callable shares in equal parts. The initial number of shares to be subscribed by countries which become members in accordance with Article 64 of this Agreement shall be that set forth in Annex A hereof. The initial number of shares to be subscribed by countries which are admitted to membership in accordance with paragraph 2 of Article 3 of this Agreement shall be determined by the Board of Governors; provided, however, that no such subscription shall be authorized which would have the effect of reducing the percentage of capital stock held by regional members below sixty (60) per cent of the total subscribed capital stock.

2. The Board of Governors shall at intervals of not less than five (5) years review the capital stock of the Bank. In case of an increase in the authorized capital stock, each member shall have a reasonable opportunity to subscribe, under such terms and conditions as the Board of Governors shall determine, to a proportion of the increase of stock equivalent to the proportion which its stock theretofore subscribed bears to the total subscribed capital stock immediately prior to such increase; provided, however, that the foregoing provision shall not apply in respect of any increase or portion of an increase in the authorized capital stock intended solely to give effect to determinations of the Board of Governors under paragraphs 1 and 3 of this Article. No member shall be obligated to subscribe to any part of an increase of capital stock.

3. The Board of Governors may, at the request of a member, increase the subscription of such member on such terms and conditions as the Board may determine; provided, however, that no such increase in the subscription of any member shall be authorized which would have the effect of reducing the percentage of capital stock held by regional members below sixty (60) per cent of the total subscribed capital stock. The Board of Governors shall pay special regard to the request of any regional member having less than six (6) per cent of the subscribed capital stock to increase its proportionate share thereof.

4. Shares of stock initially subscribed by members shall be issued at par. Other shares shall be issued at par unless the Board of Governors by a vote of a majority of the total number of Governors, representing a majority of the total voting power of the members, decides in special circumstances to issue them on other terms.

5. Shares of stock shall not be pledged or encumbered in any manner whatsoever, and they shall not be transferable except to the Bank in accordance with Chapter VII of this Agreement.

6. The liability of the members on shares shall be limited to the unpaid portion of their issue price.

7. No member shall be liable, by reason of its membership, for obligations of the Bank.

Article 6 PAYMENT OF SUBSCRIPTIONS

1. Payment of the amount initially subscribed by each Signatory to this Agreement which becomes a member in accordance with Article 64 to the paid-in capital stock of the Bank shall be made in five (5) instalments, of twenty (20) per cent each of such amount. The first instalment shall be paid by each member within thirty (30) days after entry into force of this Agreement, or on or before the date of deposit on its behalf of its instrument of ratification or acceptance in accordance with paragraph 1 of Article 64, whichever is later. The second instalment shall become due one (1) year from the entry into force of this Agreement. The remaining three (3) instalments shall each become due successively one (1) year from the date on which the preceding instalment becomes due.

2. Of each instalment for the payment of initial subscriptions to the original paid-in capital stock:

- (a) Fifty (50) per cent shall be paid in gold or convertible currency; and
- (b) Fifty (50) per cent in the currency of the member.

3. The Bank shall accept from any member promissory notes or other obligations issued by the Government of the member, or by the depository designated by such member, in lieu of the amount to be paid in the currency of the member pursuant to paragraph 2 (b) of this Article, provided such currency is not required by the Bank for the conduct of its operations. Such notes or obligations shall be non-negotiable, non-interest-bearing, and payable to the Bank at par value upon demand. Subject to the provisions of paragraph 2 (ii) of Article 24, demands upon such notes or obligations payable in convertible currencies shall, over reasonable periods of time, be uniform in percentage on all such notes or obligations.

4. Each payment of a member in its own currency under paragraph 2 (b) of this Article shall be in such amount as the Bank, after such consultation with the International Monetary Fund as the Bank may consider necessary and utilizing the par value established with the International Monetary Fund, if any, determines to be equivalent to the full value in terms of dollars of the portion of the subscription being paid. The initial payment shall be in such amount as the member considers appropriate hereunder but shall be subject to such adjustment, to be effected within ninety (90) days of the date on which such payment was due, as the Bank shall determine to be necessary to constitute the full dollar equivalent of such payment.

5. Payment of the amount subscribed to the callable capital stock of the Bank shall be subject to call only as and when required by the Bank to meet its obligations incurred under sub-paragraphs (ii) and (iv) of Article 11 on borrowings of funds for inclusion in its ordinary capital resources or on guarantees chargeable to such resources.

6. In the event of the call referred to in paragraph 5 of this Article, payment may be made at the option of the member in gold, convertible currency or in the currency required to discharge the obligations of the Bank for the purpose of which the call is made. Calls on unpaid subscriptions shall be uniform in percentage on all callable shares.

7. The Bank shall determine the place for any payment under this Article, provided that, until the inaugural meeting of its Board of Governors, the payment of the first instalment referred to in paragraph 1 of this Article shall be made to the Secretary-General of the United Nations, as Trustee for the Bank.

Article 7 ORDINARY CAPITAL RESOURCES

As used in this Agreement, the term "ordinary capital resources" of the Bank shall include the following:

- (i) authorized capital stock of the Bank, including both paid-in and callable shares, subscribed pursuant to Article 5 of this Agreement, except such part thereof as may be set aside into one or more Special Funds in accordance with paragraph 1(i) of Article 19 of this Agreement;
- (ii) funds raised by borrowings of the Bank by virtue of powers conferred by sub-paragraph (i) of Article 21 of this Agreement, to which the commitment to calls provided for in paragraph 5 of Article 6 of this Agreement is applicable;
- (iii) funds received in repayment of loans or guarantees made with the resources indicated in (i) and (ii) of this Article;
- (iv) income derived from loans made from the aforementioned funds or from guarantees to which the commitment to calls set forth in paragraph 5 of Article 6 of this Agreement is applicable; and
- (v) any other funds or income received by the Bank which do not form part of its Special Funds resources referred to in Article 20 of this Agreement.

CHAPTER III OPERATIONS

Article 8 USE OF RESOURCES

The resources and facilities of the Bank shall be used exclusively to implement the purpose and functions set forth respectively in Articles 1 and 2 of this Agreement.

Article 9 ORDINARY AND SPECIAL OPERATIONS

1. The operations of the Bank shall consist of ordinary operations and special operations.
2. Ordinary operations shall be those financed from the ordinary capital resources of the Bank.
3. Special operations shall be those financed from the Special Funds resources referred to in Article 20 of this Agreement.

Article 10 SEPARATION OF OPERATIONS

1. The ordinary capital resources and the Special Funds resources of the Bank shall at all times and in all respects be held, used, committed, invested or otherwise disposed of entirely separate from each other. The financial statements of the Bank shall show the ordinary operations and special operations separately.
2. The ordinary capital resources of the Bank shall under no circumstances be charged with, or used to discharge, losses or liabilities arising out of special operations or other activities for which Special Funds resources were originally used or committed.
3. Expenses appertaining directly to ordinary operations shall be charged to the ordinary capital resources of the Bank. Expenses appertaining directly to special operations shall be charged to the Special Funds resources. Any other expenses shall be charged as the Bank shall determine.

Article 11 RECIPIENTS AND METHODS OF OPERATION

Subject to the conditions stipulated in this Agreement, the Bank may provide or facilitate financing to any member, or any agency, instrumentality or political subdivision thereof, or any entity or enterprise operating in the territory of a member, as well as to international or regional agencies or entities concerned with economic development of the region. The Bank may carry out its operations in any of the following ways:

- (i) by making or participating in direct loans with its unimpaired paid-in capital and, except as provided in Article 17 of this Agreement, with its reserves and undistributed surplus; or with the unimpaired Special Funds resources;
- (ii) by making or participating in direct loans with funds raised by the Bank in capital markets or borrowed or otherwise acquired by the Bank for inclusion in its ordinary capital resources;
- (iii) by investment of funds referred to in (i) and (ii) of this Article in the equity capital of an institution or enterprise, provided no such investment shall be made until after the Board of Governors, by a vote of a majority of the total number of Governors, representing a majority of the total voting power of the members, shall have determined that the Bank is in a position to commence such type of operations; or
- (iv) by guaranteeing, whether as primary or secondary obligor, in whole or in part, loans for economic development participated in by the Bank.

Article 12 LIMITATIONS ON ORDINARY OPERATIONS

1. The total amount outstanding of loans, equity investments and guarantees made by the Bank in its ordinary operations shall not at any time exceed the total amount of its unimpaired subscribed capital, reserves and surplus included in its ordinary capital resources, exclusive of the special reserve provided for by Article 17 of this Agreement and other reserves not available for ordinary operations.
2. In the case of loans made with funds borrowed by the Bank to which the commitment to calls provided for by paragraph 5 of Article 6 of this Agreement is applicable, the total amount of principal outstanding and payable to the Bank in a specific currency shall not at any time exceed the total amount of the principal of outstanding borrowings by the Bank that are payable in the same currency.
3. In the case of funds invested in equity capital out of the ordinary capital resources of the Bank, the total amount invested shall not exceed ten (10) per cent of the aggregate amount of the unimpaired paid-in capital stock of the Bank actually paid up at any given time together with the reserves and surplus included in its ordinary capital resources, exclusive of the special reserve provided for in Article 17 of this Agreement.
4. The amount of any equity investment shall not exceed such percentage of the equity capital of the entity or enterprise concerned as the Board of Directors shall in each specific case determine to be appropriate. The Bank shall not seek to obtain by such an investment a controlling interest in the entity or enterprise concerned, except where necessary to safeguard the investment of the Bank.

Article 13 PROVISION OF CURRENCIES FOR DIRECT LOANS

In making direct loans or participating in them, the Bank may provide financing in any of the following ways:

- (i) by furnishing the borrower with currencies other than the currency of the member in whose territory the project concerned is to be carried out (the latter currency hereinafter to be called "local currency"), which are necessary to meet the foreign exchange costs of such project; or
- (ii) by providing financing to meet local expenditures on the project concerned, where it can do so by supplying local currency without selling any of its holdings in gold or convertible currencies. In special cases when, in the opinion of the Bank, the project causes or is likely to cause undue loss or strain on the balance of payments of the member in whose territory the project is to be carried out, the financing granted by the Bank to meet local expenditures may be provided in currencies other than that of such member; in such cases, the amount of the financing granted by the Bank for this purpose shall not exceed a reasonable portion of the total local expenditure incurred by the borrower.

Article 14

OPERATING PRINCIPLES

The operations of the Bank shall be conducted in accordance with the following principles:

- (i) The operations of the Bank shall provide principally for the financing of specific projects, including those forming part of a national, sub-regional or regional development programme. They may, however, include loans to, or guarantees of loans made to, national development banks or other suitable entities, in order that the latter may finance specific development projects whose individual financing requirements are not, in the opinion of the Bank, large enough to warrant the direct supervision of the Bank;
- (ii) In selecting suitable projects, the Bank shall always be guided by the provisions of sub-paragraph (ii) of Article 2 of this Agreement;
- (iii) The Bank shall not finance any undertaking in the territory of a member if that member objects to such financing;
- (iv) Before a loan is granted, the applicant shall have submitted an adequate loan proposal and the President of the Bank shall have presented to the Board of Directors a written report regarding the proposal, together with his recommendations, on the basis of a staff study;
- (v) In considering an application for a loan or guarantee, the Bank shall pay due regard to the ability of the borrower to obtain financing or facilities elsewhere on terms and conditions that the Bank considers reasonable for the recipient, taking into account all pertinent factors;
- (vi) In making or guaranteeing a loan, the Bank shall pay due regard to the prospects that the borrower and its guarantor, if any, will be in a position to meet their obligations under the loan contract;
- (vii) In making or guaranteeing a loan, the rate of interest, other charges and the schedule for repayment of principal shall be such as are, in the opinion of the Bank, appropriate for the loan concerned;
- (viii) In guaranteeing a loan made by other investors, or in underwriting the sale of securities, the Bank shall receive suitable compensation for its risk;
- (ix) The proceeds of any loan, investment or other financing undertaken in the ordinary operations of the Bank or with Special Funds established by the Bank pursuant to paragraph 1 (i) of Article 19, shall be used only for procurement in member

countries of goods and services produced in member countries, except in any case in which the Board of Directors, by a vote of the Directors representing not less than two-thirds of the total voting power of the members, determines to permit procurement in a non-member country or of goods and services produced in a non-member country in special circumstances making such procurement appropriate, as in the case of a non-member country in which a significant amount of financing has been provided to the Bank;

- (x) In the case of a direct loan made by the Bank, the borrower shall be permitted by the Bank to draw its funds only to meet expenditures in connexion with the project as they are actually incurred;
- (xi) The Bank shall take the necessary measures to ensure that the proceeds of any loan made, guaranteed or participated in by the Bank are used only for the purposes for which the loan was granted and with due attention to considerations of economy and efficiency;
- (xii) The Bank shall pay due regard to the desirability of avoiding a disproportionate amount of its resources being used for the benefit of any member;
- (xiii) The Bank shall seek to maintain reasonable diversification in its investments in equity capital; it shall not assume responsibility for managing any entity or enterprise in which it has an investment, except where necessary to safeguard its investments; and
- (xiv) The Bank shall be guided by sound banking principles in its operations.

Article 15

TERMS AND CONDITIONS FOR DIRECT LOANS AND GUARANTEES

1. In the case of direct loans made or participated in or loans guaranteed by the Bank, the contract shall establish, in conformity with the operating principles set forth in Article 14 of this Agreement and subject to the other provisions of this Agreement, the terms and conditions for the loan or the guarantee concerned, including those relating to payment of principal, interest and other charges, maturities, and dates of payment in respect of the loan, or the fees and other charges in respect of the guarantee, respectively. In particular, the contract shall provide that, subject to paragraph 3 of this Article, all payments to the Bank under the contract shall be made in the currency loaned, unless, in the case of a direct loan made or a loan guaranteed as part of special operations with funds provided under paragraph 1 (ii) of Article 19, the rules and regulations of the Bank provide otherwise. Guarantees by the Bank shall also provide that the Bank may terminate its liability with respect to interest if, upon default by the borrower and the guarantor, if any, the Bank offers to purchase, at par and interest accrued to a date designated in the offer, the bonds or other obligations guaranteed.

2. Where the recipient of loans or guarantees of loans is not itself a member, the Bank may, when it deems it advisable, require that the member in whose territory the project concerned is to be carried out, or a public agency or any instrumentality of that member acceptable to the Bank, guarantee the repayment of the principal and the payment of interest and other charges on the loan in accordance with the terms thereof.

3. The loan or guarantee contract shall expressly state the currency in which all payments to the Bank thereunder shall be made. At the option of the borrower, however, such payments may always be made in gold or convertible currency.

Article 16
COMMISSION AND FEES

1. The Bank shall charge in addition to interest, a commission on direct loans made or participated in as part of its ordinary operations. This commission, payable periodically, shall be computed on the amount outstanding on each loan or participation and shall be at the rate of not less than one (1) per cent per annum, unless the Bank, after the first five (5) years of its operations, decides to reduce this minimum rate by a two-thirds majority of its members, representing not less than three-fourths of the total voting power of the members.

2. In guaranteeing a loan as part of its ordinary operations, the Bank shall charge a guarantee fee, at a rate determined by the Board of Directors, payable periodically on the amount of the loan outstanding.

3. Other charges of the Bank in its ordinary operations and any commission, fees or other charges in its special operations shall be determined by the Board of Directors.

Article 17
SPECIAL RESERVE

The amount of commissions and guarantee fees received by the Bank pursuant to Article 16 of this Agreement shall be set aside as a special reserve which shall be kept for meeting liabilities of the Bank in accordance with Article 18 of this Agreement. The special reserve shall be held in such liquid form as the Board of Directors may decide.

Article 18
METHODS OF MEETING LIABILITIES OF
THE BANK

1. In cases of default on loans made, participated in or guaranteed by the Bank in its ordinary operations, the Bank shall take such action as it deems appropriate with respect to modifying the terms of the loan, other than the currency of repayment.

2. The payments in discharge of the Bank's liabilities on borrowings or guarantees under sub-paragraphs (ii) and (iv) of Article 11 chargeable to the ordinary capital resources shall be charged:

- (i) First, against the special reserve provided for in Article 17;
- (ii) Then, to the extent necessary and at the discretion of the Bank, against the other reserves, surplus and capital available to the Bank.

3. Whenever necessary to meet contractual payments of interest, other charges or amortization on borrowings of the Bank in its ordinary operations, or to meet its liabilities with respect to similar payments in respect of loans guaranteed by it, chargeable to its ordinary capital resources, the Bank may call an appropriate amount of the uncalled subscribed callable capital in accordance with paragraphs 6 and 7 of Article 6 of this Agreement.

4. In cases of default in respect of a loan made from borrowed funds or guaranteed by the Bank as part of its ordinary operations, the Bank may, if it believes that the default may be of long duration, call an additional amount of such callable capital not to exceed in any one (1) year one (1) per cent of the total subscriptions of the members to such capital, for the following purposes:

- (i) To redeem before maturity, or otherwise discharge, the Bank's liability on all or part of the outstanding principal of any loan guaranteed by it in respect of which the debtor is in default; and

- (ii) to repurchase, or otherwise discharge, the Bank's liability on all or part of its own outstanding borrowing.

5. If the Bank's subscribed callable capital stock shall be entirely called pursuant to paragraphs 3 and 4 of this Article, the Bank may, if necessary for the purposes specified in paragraph 3 of this Article, use or exchange the currency of any member without restriction, including any restriction imposed pursuant to paragraphs 2 (i) and (ii) of Article 24.

Article 19
SPECIAL FUNDS

1. The Bank may:

- (i) set aside, by a vote of two-thirds of the total number of Governors, representing at least three-fourths of the total voting power of the members, not more than ten (10) per cent each of the portion of the unimpaired paid-in capital of the Bank paid by members pursuant to paragraph 2 (a) of Article 6 and of the portion thereof paid pursuant to paragraph 2 (b) of Article 6, and establish therewith one or more Special Funds;
- (ii) accept the administration of Special Funds which are designed to serve the purpose and come within the functions of the Bank.

2. Special Funds established by the Bank pursuant to paragraph 1 (i) of this Article may be used to guarantee or make loans of high developmental priority, with longer maturities, longer deferred commencement of repayment and lower interest rates than those established by the Bank for its ordinary operations. Such Funds may also be used on such other terms and conditions, not inconsistent with the applicable provisions of this Agreement nor with the character of such Funds as revolving funds, as the Bank in establishing such Funds may direct.

3. Special Funds accepted by the Bank under paragraph 1 (ii) of this Article may be used in any manner and on any terms and conditions not inconsistent with the purpose of the Bank and with the agreement relating to such Funds.

4. The Bank shall adopt such special rules and regulations as may be required for the establishment, administration and use of each Special Fund. Such rules and regulations shall be consistent with the provisions of this Agreement, excepting those provisions expressly applicable only to ordinary operations of the Bank.

Article 20
SPECIAL FUNDS RESOURCES

As used in this Agreement, the term "Special Funds resources" shall refer to the resources of any Special Fund and shall include:

- (a) resources set aside from the paid-in capital to a Special Fund or otherwise initially contributed to any Special Fund;
- (b) funds accepted by the Bank for inclusion in any Special Fund;
- (c) funds repaid in respect of loans or guarantees financed from the resources of any Special Fund which, under the rules and regulations of the Bank governing that Special Fund, are received by such Special Fund;
- (d) income derived from operations of the Bank in which any of the aforementioned resources or funds are used or committed if, under the rules and regulations of the Bank governing the Special Fund concerned, that income accrues to such Special Fund; and
- (e) any other resources placed at the disposal of any Special Fund.

CHAPTER IV
BORROWING AND OTHER
MISCELLANEOUS POWERS

Article 21
GENERAL POWERS

In addition to the powers specified elsewhere in this Agreement, the Bank shall have the power to:

- (i) borrow funds in member countries or elsewhere, and in this connexion to furnish such collateral or other security therefor as the Bank shall determine, provided always that:
 - (a) before making a sale of its obligations in the territory of a country, the Bank shall have obtained its approval;
 - (b) where the obligations of the Bank are to be denominated in the currency of a member, the Bank shall have obtained its approval;
 - (c) the Bank shall obtain the approval of the countries referred to in sub-paragraphs (a) and (b) of this paragraph that the proceeds may be exchanged for the currency of any member without restriction; and
 - (d) before determining to sell its obligations in a particular country, the Bank shall consider the amount of previous borrowing, if any, in that country, the amount of previous borrowing in other countries, and the possible availability of funds in such other countries; and shall give due regard to the general principle that its borrowings should to the greatest extent possible be diversified as to country of borrowing.
- (ii) buy and sell securities the Bank has issued or guaranteed or in which it has invested, provided always that it shall have obtained the approval of any country in whose territory the securities are to be bought or sold;
- (iii) guarantee securities in which it has invested in order to facilitate their sale;
- (iv) underwrite, or participate in the underwriting of, securities issued by an entity or enterprise for purposes consistent with the purpose of the Bank;
- (v) invest funds, not needed in its operations, in the territories of members in such obligations of members or nationals thereof as it may determine, and invest funds held by the Bank for pensions or similar purposes in the territories of members in marketable securities issued by members or nationals thereof;
- (vi) provide technical advice and assistance which serve its purpose and come within its functions, and where expenditures incurred in furnishing such services are not reimbursable, charge the net income of the Bank therewith; in the first five (5) years of its operations, the Bank may use up to two (2) per cent of its paid-in capital for furnishing such services on a non-reimbursable basis; and
- (vii) exercise such other powers and establish such rules and regulations as may be necessary or appropriate in furtherance of its purpose and functions, consistent with the provisions of this Agreement.

Article 22
NOTICE TO BE PLACED ON SECURITIES

Every security issued or guaranteed by the Bank shall bear on its face a conspicuous statement to the effect that it is not an obligation of any Government, unless it is in fact the obligation of a particular Government, in which case it shall so state.

CHAPTER V
CURRENCIES

Article 23
DETERMINATION OF CONVERTIBILITY

Whenever it shall become necessary under this Agreement to determine whether any currency is convertible, such determination shall be made by the Bank after consultation with the International Monetary Fund.

Article 24
USE OF CURRENCIES

1. Members may not maintain or impose any restrictions on the holding or use by the Bank or by any recipient from the Bank, for payments in any country, of the following:

- (i) gold or convertible currencies received by the Bank in payment of subscriptions to its capital stock, other than that paid to the Bank by members pursuant to paragraph 2 (b) of Article 6 and restricted pursuant to paragraphs 2 (i) and (ii) of this Article;
- (ii) currencies of members purchased with the gold or convertible currencies referred to in the preceding sub-paragraph;
- (iii) currencies obtained by the Bank by borrowing, pursuant to sub-paragraph (i) of Article 21 of this Agreement, for inclusion in its ordinary capital resources;
- (iv) gold or currencies received by the Bank in payment on account of principal, interest, dividends or other charges in respect of loans or investments made out of any of the funds referred to in sub-paragraphs (i) to (iii) of this paragraph or in payment of fees in respect of guarantees made by the Bank; and
- (v) currencies, other than the member's own currency, received by the member from the Bank in distribution of the net income of the Bank in accordance with Article 40 of this Agreement.

2. Members may not maintain or impose any restriction on the holding or use by the Bank or by any recipient from the Bank, for payments in any country, of currency of a member received by the Bank which does not come within the provisions of the preceding paragraph, unless:

- (i) a developing member country, after consultation with and subject to periodic review by the Bank, restricts in whole or in part the use of such currency to payments for goods or services produced and intended for use in its territory; or
- (ii) any other member whose subscription has been determined in Part A of Annex A hereof and whose exports of industrial products do not represent a substantial proportion of its total exports, deposits with its instrument of ratification or acceptance a declaration that it desires the use of the portion of its subscription paid pursuant to paragraph 2 (b) of Article 6 to be restricted, in whole or in part, to payments for goods or services produced in its territory; provided that such restrictions be subject to periodic review and with consultation with the Bank and that any purchases of goods or services in the territory of that member, subject to the usual consideration of competitive tendering, shall be first charged against the portion of its subscription paid pursuant to paragraph 2 (b) of Article 6; or
- (iii) such currency forms part of the Special Funds resources of the Bank available under paragraph 1 (ii) of Article 19 and its use is subject to special rules and regulations.

3. Members may not maintain or impose any restrictions on the holding or use by the Bank, for making amortization payments or anticipatory payments or for repurchasing in whole or in part the Bank's own obligations, of currencies received by the Bank in repayment of direct loans made out of its ordinary capital resources, provided, however, that until the Bank's subscribed callable capital stock has been entirely called, such holding or use shall be subject to any limitations imposed pursuant to paragraph 2 (i) of this Article except in respect of obligations payable in the currency of the member concerned.

4. Gold or currencies held by the Bank shall not be used by the Bank to purchase other currencies of members or non-members except:

- (i) in order to meet its obligations in the ordinary course of its business; or
- (ii) pursuant to a decision of the Board of Directors adopted by a vote of the Directors representing not less than two-thirds of the total voting power of the members.

5. Nothing herein contained shall prevent the Bank from using the currency of any member for administrative expenses incurred by the Bank in the territory of such member.

Article 25 MAINTENANCE OF VALUE OF THE CURRENCY HOLDINGS OF THE BANK

1. Whenever (a) the par value in the International Monetary Fund of the currency of a member is reduced in terms of the dollar defined in Article 4 of this Agreement, or (b) in the opinion of the Bank, after consultation with the International Monetary Fund, the foreign exchange value of a member's currency has depreciated to a significant extent, that member shall pay to the Bank within a reasonable time an additional amount of its currency required to maintain the value of all such currency held by the Bank, excepting (a) currency derived by the Bank from its borrowings and (b) unless otherwise provided in the agreement establishing such Funds, Special Funds resources accepted by the Bank under paragraph 1 (ii) of Article 19.

2. Whenever (a) the par value in the International Monetary Fund of the currency of a member is increased in terms of the said dollar, or (b) in the opinion of the Bank, after consultation with the International Monetary Fund, the foreign exchange value of a member's currency has appreciated to a significant extent, the Bank shall pay to that member within a reasonable time an amount of that currency required to adjust the value of all such currency held by the Bank excepting (a) currency derived by the Bank from its borrowings, and (b) unless otherwise provided in the agreement establishing such Funds, Special Funds resources accepted by the Bank under paragraph 1(ii) of Article 19.

3. The Bank may waive the provisions of this Article when a uniform proportionate change in the par value of the currencies of all its members takes place.

CHAPTER VI ORGANIZATION AND MANAGEMENT

Article 26 STRUCTURE

The Bank shall have a Board of Governors, a Board of Directors, a President, one or more Vice-Presidents and such other officers and staff as may be considered necessary.

Article 27 BOARD OF GOVERNORS: COMPOSITION

1. Each member shall be represented on the Board of Governors and shall appoint one Governor and one alternate. Each Governor and alternate shall serve at the pleasure of the appointing member. No alternate may vote except in the absence of his principal. At its annual meeting, the Board shall designate one of the Governors as Chairman who shall hold office until the election of the next Chairman and the next annual meeting of the Board.
2. Governors and alternates shall serve as such without remuneration from the Bank, but the Bank may pay them reasonable expenses incurred in attending meetings.

Article 28 BOARD OF GOVERNORS: POWERS

1. All the powers of the Bank shall be vested in the Board of Governors.
2. The Board of Governors may delegate to the Board of Directors any or all its powers, except the power to:
 - (i) admit new members and determine the conditions of their admission;
 - (ii) increase or decrease the authorized capital stock of the Bank;
 - (iii) suspend a member;
 - (iv) decide appeals from interpretations or applications of this Agreement given by the Board of Directors;
 - (v) authorize the conclusion of general agreements for co-operation with other international organizations;
 - (vi) elect the Directors and the President of the Bank;
 - (vii) determine the remuneration of the Directors and their alternates and the salary and other terms of the contract of service of the President;
 - (viii) approve, after reviewing the auditor's report, the general balance sheet and the statement of profit and loss of the Bank;
 - (ix) determine the reserves and the distribution of the net profits of the Bank;
 - (x) amend this Agreement;
 - (xi) decide to terminate the operations of the Bank and to distribute its assets; and
 - (xii) exercise such other powers as are expressly assigned to the Board of Governors in this Agreement.
3. The Board of Governors shall retain full power to exercise authority over any matter delegated to the Board of Directors under paragraph 2 of this Article.
4. For the purposes of this Agreement, the Board of Governors may, by a vote of two-thirds of the total number of Governors, representing not less than three-fourths of the total voting power of the members, from time to time determine which countries or members of the Bank are to be regarded as developed or developing countries or members, taking into account appropriate economic considerations.

Article 29 BOARD OF GOVERNORS: PROCEDURE

1. The Board of Governors shall hold an annual meeting and such other meetings as may be provided for by the Board or called by the Board of Directors. Meetings of the Board of Governors shall be called, by the Board of Directors, whenever requested by five (5) members of the Bank.
2. A majority of the Governors shall constitute a quorum for any meeting of the Board of Governors,

provided such majority represents not less than two-thirds of the total voting power of the members.

3. The Board of Governors may by regulation establish a procedure whereby the Board of Directors may, when the latter deems such action advisable, obtain a vote of the Governors on a specific question without calling a meeting of the Board of Governors.

4. The Board of Governors, and the Board of Directors to the extent authorized, may establish such subsidiary bodies as may be necessary or appropriate to conduct the business of the Bank.

Article 30

BOARD OF DIRECTORS: COMPOSITION

1. (i) The Board of Directors shall be composed of ten (10) members who shall not be members of the Board of Governors, and of whom:

- (a) seven (7) shall be elected by the Governors representing regional members; and
- (b) three (3) by the Governors representing non-regional members.

Directors shall be persons of high competence in economic and financial matters and shall be elected in accordance with Annex B herEOF.

(ii) At the Second Annual Meeting of the Board of Governors after its inaugural meeting, the Board of Governors shall review the size and composition of the Board of Directors, and shall increase the number of Directors as appropriate, paying special regard to the desirability, in the circumstances at that time, of increasing representation in the Board of Directors of smaller less developed member countries. Decisions under this paragraph should be made by a vote of a majority of the total number of Governors, representing not less than two-thirds of the total voting power of the members.

2. Each Director shall appoint an alternate with full power to act for him when he is not present. Directors and alternates shall be nationals of member countries. No two or more Directors may be of the same nationality nor may any two or more alternates be of the same nationality. An alternate may participate in meetings of the Board but may vote only when he is acting in place of his principal.

3. Directors shall hold office for a term of two (2) years and may be re-elected. They shall continue in office until their successors shall have been chosen and qualified. If the office of a Director becomes vacant more than one hundred and eighty (180) days before the end of his term, a successor shall be chosen in accordance with Annex B herEOF, for the remainder of the term, by the Governors who elected the former Director. A majority of the votes cast by such Governors shall be required for such election. If the office of a Director becomes vacant one hundred and eighty (180) days or less before the end of his term, a successor may similarly be chosen for the remainder of the term, by the Governors who elected the former Director, in which election a majority of the votes cast by such Governors shall be required. While the office remains vacant, the alternate of the former Director shall exercise the powers of the latter, except that of appointing an alternate.

Article 31

BOARD OF DIRECTORS: POWERS

The Board of Directors shall be responsible for the direction of the general operations of the Bank and, for this purpose, shall, in addition to the powers assigned to it expressly by this Agreement, exercise all the powers delegated to it by the Board of Governors, and in particular:

- (i) prepare the work of the Board of Governors;

- (ii) in conformity with the general directions of the Board of Governors, take decisions concerning loans, guarantees, investments in equity capital, borrowing by the Bank, furnishing of technical assistance and other operations of the Bank;
- (iii) submit the accounts for each financial year for approval of the Board of Governors at each annual meeting; and
- (iv) approve the budget of the Bank.

Article 32

BOARD OF DIRECTORS: PROCEDURE

1. The Board of Directors shall normally function at the principal office of the Bank and shall meet as often as the business of the Bank may require.

2. A majority of the Directors shall constitute a quorum for any meeting of the Board of Directors, provided such majority represents not less than two-thirds of the total voting power of the members.

3. The Board of Governors shall adopt regulations under which, if there is no Director of its nationality, a member may send a representative to attend, without right to vote, any meeting of the Board of Directors when a matter particularly affecting that member is under consideration.

Article 33

VOTING

1. The total voting power of each member shall consist of the sum of its basic votes and proportional votes.

- (i) The basic votes of each member shall consist of such number of votes as results from the equal distribution among all the members of twenty (20) per cent of the aggregate sum of the basic votes and proportional votes of all the members.
- (ii) The number of the proportional votes of each member shall be equal to the number of shares of the capital stock of the Bank held by that member.

2. In voting in the Board of Governors, each Governor shall be entitled to cast the votes of the member he represents. Except as otherwise expressly provided in this Agreement, all matters before the Board of Governors shall be decided by a majority of the voting power represented at the meeting.

3. In voting in the Board of Directors, each Director shall be entitled to cast the number of votes that counted towards his election which votes need not be cast as a unit. Except as otherwise expressly provided in this Agreement, all matters before the Board of Directors shall be decided by a majority of the voting power represented at the meeting.

Article 34

THE PRESIDENT

1. The Board of Governors, by a vote of a majority of the total number of Governors, representing not less than a majority of the total voting power of the members, shall elect a President of the Bank. He shall be a national of a regional member country. The President, while holding office, shall not be a Governor or a Director, or an alternate for either.

2. The term of office of the President shall be five (5) years. He may be re-elected. He shall, however, cease to hold office when the Board of Governors so decides by a vote of two-thirds of the total number of Governors, representing not less than two-thirds of the total voting power of the members. If the office of the President for any reason becomes vacant more than one hundred and eighty (180) days before the end of his term, a successor shall be elected for the unexpired portion of such term.

by the Board of Governors in accordance with the provisions of paragraph 1 of this Article. If such office for any reason becomes vacant one hundred and eighty (180) days or less before the end of the term, a successor may similarly be elected for the unexpired portion of such term by the Board of Governors.

3. The President shall be Chairman of the Board of Directors but shall have no vote, except a deciding vote in case of an equal division. He may participate in meetings of the Board of Governors but shall not vote.

4. The President shall be the legal representative of the Bank.

5. The President shall be chief of the staff of the Bank and shall conduct, under the direction of the Board of Directors, the current business of the Bank. He shall be responsible for the organization, appointment and dismissal of the officers and staff in accordance with regulations adopted by the Board of Directors.

6. In appointing the officers and staff, the President shall, subject to the paramount importance of securing the highest standards of efficiency and technical competence, pay due regard to the recruitment of personnel on as wide a regional geographical basis as possible.

Article 35 VICE-PRESIDENT(S)

1. One or more Vice-Presidents shall be appointed by the Board of Directors on the recommendation of the President. Vice-President(s) shall hold office for such term, exercise such authority and perform such functions in the administration of the Bank, as may be determined by the Board of Directors. In the absence or incapacity of the President, the Vice-President or, if there be more than one, the ranking Vice-President, shall exercise the authority and perform the functions of the President.

2. Vice-President(s) may participate in meetings of the Board of Directors but shall have no vote at such meetings, except that the Vice-President or ranking Vice-President, as the case may be, shall cast the deciding vote when acting in place of the President.

Article 36 PROHIBITION OF POLITICAL ACTIVITY: THE INTERNATIONAL CHARACTER OF THE BANK

1. The Bank shall not accept loans or assistance that may in any way prejudice, limit, defect or otherwise alter its purpose or functions.

2. The Bank, its President, Vice-President(s), officers and staff shall not interfere in the political affairs of any member, nor shall they be influenced in their decisions by the political character of the member concerned. Only economic considerations shall be relevant to their decisions. Such considerations shall be weighed impartially in order to achieve and carry out the purpose and functions of the Bank.

3. The President, Vice-President(s), officers and staff of the Bank, in the discharge of their offices, owe their duty entirely to the Bank and to no other authority. Each member of the Bank shall respect the international character of this duty and shall refrain from all attempts to influence any of them in the discharge of their duties.

Article 37 OFFICE OF THE BANK

1. The principal office of the Bank shall be located in Manila, Philippines.

2. The Bank may establish agencies or branch offices elsewhere.

Article 38 CHANNEL OF COMMUNICATIONS, DEPOSITORIES

1. Each member shall designate an appropriate official entity with which the Bank may communicate in connexion with any matter arising under this Agreement.

2. Each member shall designate its central bank, or such other agency as may be agreed upon with the Bank, as a depository with which the Bank may keep its holdings of currency of that member as well as other assets of the Bank.

Article 39 WORKING LANGUAGE, REPORTS

1. The working language of the Bank shall be English.

2. The Bank shall transmit to its members an Annual Report containing an audited statement of its accounts and shall publish such Report. It shall also transmit quarterly to its members a summary statement of its financial position and a profit and loss statement showing the results of its operations.

3. The Bank may also publish such other reports as it deems desirable in the carrying out of its purpose and functions. Such reports shall be transmitted to the members of the Bank.

Article 40 ALLOCATION OF NET INCOME

1. The Board of Governors shall determine annually what part of the net income of the Bank, including the net income accruing to Special Funds, shall be allocated, after making provision for reserves, to surplus and what part, if any, shall be distributed to the members.

2. The distribution referred to in the preceding paragraph shall be made in proportion to the number of shares held by each member.

3. Payments shall be made in such manner and in such currency as the Board of Governors shall determine.

CHAPTER VII WITHDRAWAL AND SUSPENSION OF MEMBERS, TEMPORARY SUSPENSION AND TERMINATION OF OPERATIONS OF THE BANK

Article 41 WITHDRAWAL

1. Any member may withdraw from the Bank at any time by delivering a notice in writing to the Bank at its principal office.

2. Withdrawal by a member shall become effective, and its membership shall cease, on the date specified in its notice but in no event less than six (6) months after the date that notice has been received by the Bank. However, at any time before the withdrawal becomes finally effective, the member may notify the Bank in writing of the cancellation of its notice of intention to withdraw.

3. A withdrawing member shall remain liable for all direct and contingent obligations to the Bank to which it was subject at the date of delivery of the withdrawal notice. If the withdrawal becomes finally effective, the member shall not incur any liability for obligations resulting from operations of the Bank effected after the date on which the withdrawal notice was received by the Bank.

Article 42
SUSPENSION OF MEMBERSHIP

1. If a member fails to fulfil any of its obligations to the Bank, the Board of Governors may suspend such member by a vote of two-thirds of the total number of Governors, representing not less than three-fourths of the total voting power of the members.

2. The member so suspended shall automatically cease to be a member of the Bank one (1) year from the date of its suspension unless the Board of Governors, during the one-year period, decides by the same majority necessary for suspension to restore the member to good standing.

3. While under suspension, a member shall not be entitled to exercise any rights under this Agreement, except the right of withdrawal, but shall remain subject to all its obligations.

Article 43
SETTLEMENT OF ACCOUNTS

1. After the date on which a country ceases to be a member, it shall remain liable for its direct obligations to the Bank and for its contingent liabilities to the Bank so long as any part of the loans or guarantees contracted before it ceased to be a member is outstanding; but it shall not incur liabilities with respect to loans and guarantees entered into thereafter by the Bank nor share either in the income or the expenses of the Bank.

2. At the time a country ceases to be a member, the Bank shall arrange for the repurchase of such country's shares by the Bank as a part of the settlement of accounts with such country in accordance with the provisions of paragraphs 3 and 4 of this Article. For this purpose, the repurchase price of the shares shall be the value shown by the books of the Bank on the date the country ceases to be a member.

3. The payment for shares repurchased by the Bank under this Article shall be governed by the following conditions:

- (i) Any amount due to the country concerned for its shares shall be withheld so long as that country, its central bank or any of its agencies, instrumentalities or political subdivisions remains liable, as borrower or guarantor, to the Bank and such amount may, at the option of the Bank, be applied on any such liability as it matures. No amount shall be withheld on account of the contingent liability of the country for future calls on its subscription for shares in accordance with paragraph 5 of Article 6 of this Agreement. In any event, no amount due to a member for its shares shall be paid until six (6) months after the date on which the country ceases to be a member.
- (ii) Payments for shares may be made from time to time, upon surrender of the corresponding stock certificates by the country concerned, to the extent by which the amount due as the repurchase price in accordance with paragraph 2 of this Article exceeds the aggregate amount of liabilities, on loans and guarantees referred to in sub-paragraph (i) of this paragraph, until the former member has received the full repurchase price.
- (iii) Payments shall be made in such available currencies as the Bank determines, taking into account its financial position.
- (iv) If losses are sustained by the Bank on any guarantees or loans which were outstanding on the date when a country ceased to be a member and the amount of such losses exceeds the amount of the reserve provided against losses on that date, the country concerned shall repay, upon demand, the amount by which the repurchase price of its

shares would have been reduced if the losses had been taken into account when the repurchase price was determined. In addition, the former member shall remain liable on any call for unpaid subscriptions in accordance with paragraph 5 of Article 6 of this Agreement, to the same extent that it would have been required to respond if the impairment of capital had occurred and the call had been made at the time the repurchase price of its shares was determined.

4. If the Bank terminates its operations pursuant to Article 45 of this Agreement within six (6) months of the date upon which any country ceases to be a member, all rights of the country concerned shall be determined in accordance with the provisions of Articles 45 to 47 of this Agreement. Such country shall be considered as still a member for purposes of such Articles but shall have no voting rights.

Article 44
TEMPORARY SUSPENSION OF OPERATIONS

In an emergency, the Board of Directors may temporarily suspend operations in respect of new loans and guarantees, pending an opportunity for further consideration and action by the Board of Governors.

Article 45
TERMINATION OF OPERATIONS

1. The Bank may terminate its operations by a resolution of the Board of Governors approved by a vote of two-thirds of the total number of Governors, representing not less than three-fourths of the total voting power of the members.

2. After such termination, the Bank shall forthwith cease all activities, except those incident to the orderly realization, conservation and preservation of its assets and settlement of its obligations.

Article 46
**LIABILITY OF MEMBERS
AND PAYMENT OF CLAIMS**

1. In the event of termination of the operations of the Bank, the liability of all members for uncalled subscriptions to the capital stock of the Bank and in respect of the depreciation of their currencies shall continue until all claims of creditors, including all contingent claims, shall have been discharged.

2. All creditors holding direct claims shall first be paid out of the assets of the Bank and then out of payments to the Bank or unpaid or callable subscriptions. Before making any payments to creditors holding direct claims, the Board of Directors shall make such arrangements as are necessary, in its judgment, to ensure a *pro rata* distribution among holders of direct and contingent claims.

Article 47
DISTRIBUTION OF ASSETS

1. No distribution of assets shall be made to members on account of their subscriptions to the capital stock of the Bank until all liabilities to creditors shall have been discharged or provided for. Moreover, such distribution must be approved by the Board of Governors by a vote of two-thirds of the total number of Governors, representing not less than three-fourths of the total voting power of the members.

2. Any distribution of the assets of the Bank to the members shall be in proportion to the capital stock held by each member and shall be effected at such times and under such conditions as the Bank shall deem fair and

equitable. The shares of assets distributed need not be uniform as to type of asset. No member shall be entitled to receive its share in such a distribution of assets until it has settled all of its obligations to the Bank.

3. Any member receiving assets distributed pursuant to this Article shall enjoy the same rights with respect to such assets as the Bank enjoyed prior to their distribution.

CHAPTER VIII STATUS, IMMUNITIES, EXEMPTIONS AND PRIVILEGES

Article 48 PURPOSE OF CHAPTER

To enable the Bank effectively to fulfil its purpose and carry out the functions entrusted to it, the status, immunities, exemptions and privileges set forth in this Chapter shall be accorded to the Bank in the territory of each member.

Article 49 LEGAL STATUS

The Bank shall possess full juridical personality and, in particular, full capacity:

- (i) to contract;
- (ii) to acquire, and dispose of, immovable and movable property; and
- (iii) to institute legal proceedings.

Article 50 IMMUNITY FROM JUDICIAL PROCEEDINGS

1. The Bank shall enjoy immunity from every form of legal process, except in cases arising out of or in connexion with the exercise of its powers to borrow money, to guarantee obligations, or to buy and sell or underwrite the sale of securities, in which cases actions may be brought against the Bank in a court of competent jurisdiction in the territory of a country in which the Bank has its principal or a branch office, or has appointed an agent for the purpose of accepting service or notice of process, or has issued or guaranteed securities.

2. Notwithstanding the provisions of paragraph 1 of this Article, no action shall be brought against the Bank by any member, or by any agency or instrumentality of a member, or by any entity or person directly or indirectly acting for or deriving claims from a member or from any agency or instrumentality of a member. Members shall have recourse to such special procedures for the settlement of controversies between the Bank and its members as may be prescribed in this Agreement, in the by-laws and regulations of the Bank, or in contracts entered into with the Bank.

3. Property and assets of the Bank shall, wheresoever located and by whomsoever held, be immune from all forms of seizure, attachment or execution before the delivery of final judgment against the Bank.

Article 51 IMMUNITY OF ASSETS

Property and assets of the Bank, wheresoever located and by whomsoever held, shall be immune from search, requisition, confiscation, expropriation or any other form of taking or foreclosure by executive or legislative action.

Article 52 IMMUNITY OF ARCHIVES

The archives of the Bank and, in general, all documents belonging to it, or held by it, shall be inviolable, wherever located.

Article 53 FREEDOM OF ASSETS FROM RESTRICTIONS

To the extent necessary to carry out the purpose and functions of the Bank effectively, and subject to the provisions of this Agreement, all property and assets of the Bank shall be free from restrictions, regulations, controls and moratoria of any nature.

Article 54 PRIVILEGE FOR COMMUNICATIONS

Official communications of the Bank shall be accorded by each member treatment not less favourable than that it accords to the official communications of any other member.

Article 55 IMMUNITIES AND PRIVILEGES OF BANK PERSONNEL

All Governors, Directors, alternates, officers and employees of the Bank, including experts performing missions for the Bank:

- (i) shall be immune from legal process with respect to acts performed by them in their official capacity, except when the Bank waives the immunity;
- (ii) where they are not local citizens or nationals, shall be accorded the same immunities from immigration restrictions, alien registration requirements and national service obligations, and the same facilities as regards exchange regulations, as are accorded by members to the representatives, officials and employees of comparable rank of other members; and
- (iii) shall be granted the same treatment in respect of travelling facilities as is accorded by members to representatives, officials and employees of comparable rank of other members.

Article 56 EXEMPTION FROM TAXATION

1. The Bank, its assets, property, income and its operations and transactions, shall be exempt from all taxation and from all customs duties. The Bank shall also be exempt from any obligation for the payment, withholding or collection of any tax or duty.

2. No tax shall be levied on or in respect of salaries and emoluments paid by the Bank to Directors, alternates, officers or employees of the Bank, including experts performing missions for the Bank, except where a member deposits with its instrument of ratification or acceptance a declaration that such member retains for itself and its political subdivisions the right to tax salaries and emoluments paid by the Bank to citizens or nationals of such member.

3. No tax of any kind shall be levied on any obligation or security issued by the Bank, including any dividend or interest thereon, by whomsoever held:

- (i) which discriminates against such obligation or security solely because it is issued by the Bank, or
- (ii) if the sole jurisdictional basis for such taxation is the place or currency in which it is issued, made payable or paid, or the location of any office or place of business maintained by the Bank.

4. No tax of any kind shall be levied on any obligation or security guaranteed by the Bank, including any dividend or interest thereon, by whomsoever held:

- (i) which discriminates against such obligation or security solely because it is guaranteed by the Bank; or

- (ii) if the sole jurisdictional basis for such taxation is the location of any office or place of business maintained by the Bank.

Article 57
IMPLEMENTATION

Each member, in accordance with its juridical system, shall promptly take such action as is necessary to make effective in its own territory the provisions set forth in this Chapter and shall inform the Bank of the action which it has taken on the matter.

Article 58
WAIVER OF IMMUNITIES, EXEMPTIONS
AND PRIVILEGES

The Bank at its discretion may waive any of the privileges, immunities and exemptions conferred under this Chapter in any case or instance, in such manner and upon such conditions as it may determine to be appropriate in the best interests of the Bank.

CHAPTER IX
AMENDMENTS, INTERPRETATION,
ARBITRATION

Article 59
AMENDMENTS

1. This Agreement may be amended only by a resolution of the Board of Governors approved by a vote of two-thirds of the total number of Governors, representing not less than three-fourths of the total voting power of the members.

2. Notwithstanding the provisions of paragraph 1 of this Article, the unanimous agreement of the Board of Governors shall be required for the approval of any amendment modifying:

- (i) the right to withdraw from the Bank;
- (ii) the limitations on liability provided in paragraphs 6 and 7 of Article 5; and
- (iii) the rights pertaining to purchase of capital stock provided in paragraph 2 of Article 5.

3. Any proposal to amend this Agreement, whether emanating from a member or the Board of Directors, shall be communicated to the Chairman of the Board of Governors, who shall bring the proposal before the Board of Governors. When an amendment has been adopted, the Bank shall so certify in an official communication addressed to all members. Amendments shall enter into force for all members three (3) months after the date of the official communication unless the Board of Governors specifies therein a different period.

Article 60
INTERPRETATION OR APPLICATION

1. Any question of interpretation or application of the provisions of this Agreement arising between any member and the Bank, or between two or more members of the Bank, shall be submitted to the Board of Directors for decision. If there is no Director of its nationality on that Board, a member particularly affected by the question under consideration shall be entitled to direct representation in the Board of Directors during such consideration; the representative of such member shall, however, have no vote. Such right of representation shall be regulated by the Board of Governors.

2. In any case where the Board of Directors has given a decision under paragraph 1 of this Article, any member may require that the question be referred to the Board of Governors, whose decision shall be final. Pending the decision of the Board of Governors, the Bank may, so far as it deems necessary, act on the basis of the decision of the Board of Directors.

Article 61
ARBITRATION

If a disagreement should arise between the Bank and a country which has ceased to be a member, or between the Bank and any member, after adoption of a resolution to terminate the operations of the Bank, such disagreement shall be submitted to arbitration by a tribunal of three arbitrators. One of the arbitrators shall be appointed by the Bank, another by the country concerned, and the third, unless the parties otherwise agree, by the President of the International Court of Justice or such other authority as may have been prescribed by regulations adopted by the Board of Governors. A majority vote of the arbitrators shall be sufficient to reach a decision which shall be final and binding upon the parties. The third arbitrator shall be empowered to settle all questions of procedure in an case where the parties are in disagreement with respect thereto.

Article 62
APPROVAL DEEMED GIVEN

Whenever the approval of any member is required before any act may be done by the Bank, approval shall be deemed to have been given unless the member presents an objection within such reasonable period as the Bank may fix in notifying the member of the proposed act.

CHAPTER X
FINAL PROVISIONS

Article 63
SIGNATURE AND DEPOSIT

1. The original of this Agreement in a single copy in the English language shall remain open for signature at the United Nations Economic Commission for Asia and the Far East, in Bangkok, until 31 January 1966 by Governments of countries listed in Annex A to this Agreement. This document shall thereafter be deposited with the Secretary-General of the United Nations (hereinafter called the "Depositary").

2. The Depositary shall send certified copies of this Agreement to all the Signatories and other countries which become members of the Bank.

Article 64
RATIFICATION OR ACCEPTANCE

1. This Agreement shall be subject to ratification or acceptance by the Signatories. Instruments of ratification or acceptance shall be deposited with the Depositary not later than 30 September 1966. The Depositary shall duly notify the other Signatories of each deposit and the date thereof.

2. A Signatory whose instrument of ratification or acceptance is deposited before the date on which this Agreement enters into force, shall become a member of the Bank on that date. Any other Signatory which complies with the provisions of the preceding paragraph, shall become a member of the Bank on the date on which its instrument of ratification or acceptance is deposited.

Article 65

ENTRY INTO FORCE

This Agreement shall enter into force when instruments of ratification or acceptance have been deposited by at least fifteen (15) Signatories (including not less than ten (10) regional countries) whose initial subscriptions, as set forth in Annex A to this Agreement, in the aggregate comprise not less than sixty-five (65) per cent of the authorized capital stock of the Bank.

Article 66

COMMENCEMENT OF OPERATIONS

1. As soon as this Agreement enters into force, each member shall appoint a Governor, and the Executive Secretary of the United Nations Economic Commission for Asia and the Far East shall call the inaugural meeting of the Board of Governors.

2. At its inaugural meeting, the Board of Governors:

- (i) shall make arrangements for the election of Directors of the Bank in accordance with paragraph 1 of Article 30 of this Agreement; and
- (ii) shall make arrangements for the determination of the date on which the Bank shall commence its operations.

3. The Bank shall notify its members of the date of the commencement of its operations.

DONE at the City of Manila, Philippines, on 4 December 1965, in a single copy in the English language which shall be brought to the United Nations Economic Commission for Asia and the Far East, Bangkok, and thereafter deposited with the Secretary-General of the United Nations, New York, in accordance with Article 63 of this Agreement.

Appendix 3

For Release Monday, December 18, 1967

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C.

ASIAN DEVELOPMENT BANK ACT
Release No. 1

SECURITIES ACT OF 1933
Release No. 4889

SECURITIES EXCHANGE ACT OF 1934
Release No. 8209

TRUST INDENTURE ACT OF 1939
Release No. 242

ADOPTION OF REGULATION AD

The Securities and Exchange Commission today adopted rules and regulations specifying the periodic and other reports to be filed with it by the Asian Development Bank. This action is taken pursuant to Section 11(a) of the Asian Development Bank Act.

Section 11 of the above-mentioned Act exempts from registration under both the Securities Act of 1933 and the Securities Exchange Act of 1934 securities issued in connection with the raising of funds for inclusion in the Bank's ordinary capital resources and securities guaranteed as to both principal and interest by the Bank. However, the Bank is required to file with the Commission such annual and other reports with respect to such securities as the Commission shall determine to be appropriate in view of the special character of the Bank and its operations and necessary in the public interest or for the protection of investors. It would appear that an exemption is available under the Trust Indenture Act of 1939.

The new rules and regulations adopted today require the Bank to file with the Commission substantially the same information, documents and reports as would be required if the Bank had securities registered under the Securities Exchange Act of 1934. The Bank is also required to file a report with the Commission not less than seven days prior to the date on which any of its primary obligations are sold to the public in the United States, or such shorter period as the Commission may authorize. This report and the periodic reports to be filed will make available at the Commission information quite similar to the information which would be required in a registration statement under the Securities Act of 1933.

The Commission is informed by the Bank that no public offering of securities guaranteed by the Bank is presently contemplated. Accordingly, the new rules, insofar as they require the reporting of the proposed public sale of securities, are limited to the sale of primary obligations of the Bank. Rules with respect to reporting the proposed sale of securities guaranteed by the Bank will be adopted by the Commission when the need therefor arises.

The new regulation, which is designated Regulation AD, was adopted pursuant to Section 11(a) of the Asian Development Bank Act, the Commission finding such action appropriate in view of the special character of the Asian Development Bank and its operations and necessary in the public interest and for the protection of investors. The text of the regulation follows.

REGULATION AD

RULE 1. *Applicability of Regulation.*

Regulation AD prescribes the reports to be filed with the Securities and Exchange Commission by the Asian Development Bank pursuant to Section 11(a) of the Asian Development Bank Act.

RULE 2. *Periodic Reports.*

(a) Within 60 days after the end of each of its fiscal quarters, the Bank shall file with the Commission the following information:

- (1) Information as to any purchases or sales by the Bank of its primary obligations during such quarter.
- (2) Copies of the Bank's regular quarterly financial statement.
- (3) Copies of any material modifications or amendments during such quarter of any exhibits (other than (i) constituent documents defining the rights of holders of securities of other issuers guaranteed by the Bank, and (ii) loans and guaranty agreements to which the Bank is a party) previously filed with the Commission under any statute.

(b) Copies of each annual report of the Bank to its Board of Governors shall be filed with the Commission within 10 days after the submission of such report to the Board of Governors.

RULE 3. *Reports with Respect to Proposed Distribution of Primary Obligations.*

The Bank shall file with the Commission, not less than seven days prior to the date on which it proposes to sell any of its primary obligations in connection with a distribution of such obligations in the United States, or such shorter period as the Commission may authorize, a report containing the information and documents specified in Schedule A below. The term "sell" as used in this rule and in Schedule A means the making of a completed sale or a firm commitment to sell.

RULE 4. *Preparation and Filing of Reports.*

(a) Every report required by this regulation shall be filed under cover of a letter of transmittal which shall state the nature of the report and indicate the particular rule and subdivision thereof pursuant to which the report is filed. At least the original of every such letter shall be signed on behalf of the Bank by a duly authorized officer thereof.

(b) Two copies of every report, including the letter of transmittal, exhibits and other papers and documents comprising a part of the report, shall be filed with the Commission.

(c) The report shall be in the English language. If any exhibit or other paper or document filed with the report is in a foreign language, it shall be accompanied by a translation into the English language.

(d) Reports pursuant to Rule 3 may be filed in the form of a prospectus to the extent that such prospectus contains the information specified in Schedule A.

SCHEDULE A

This schedule specifies the information and documents to be furnished in a report pursuant to Rule 3 with respect to a proposed distribution of primary obligations of the Bank. Information not available at the time of filing the report shall be filed as promptly thereafter as possible.

ITEM 1. Description of Obligations.

As to each issue of primary obligations of the Bank which is to be distributed, furnish the following information:

- (a) The title and date of the issue.
- (b) The interest rate and interest payment dates.
- (c) The maturity date or, if serial, the plan of serial maturities. If the maturity of the obligation may be accelerated, state the circumstances under which it may be so accelerated.
- (d) A brief outline of (1) any redemption provisions and (2) any amortization, sinking fund or retirement provisions, stating the annual amount, if any, which the Bank will be under obligation to apply for the satisfaction of such provisions.
- (e) If secured by any lien, the kind and priority thereof, and the nature of the property subject to the lien; if any other indebtedness is secured by an equal or prior lien on the same property, state the nature of such other liens.
- (f) If any obligations issued or to be issued by the Bank will, as to the payment of interest or principal, rank prior to the obligations to be distributed, describe the nature and extent of such priority.
- (g) Outline briefly any provisions of the governing instruments under which the terms of the obligations to be distributed may be amended or modified by the holders thereof or otherwise.
- (h) Outline briefly any other material provisions of the governing instruments pertaining to the rights of the holders of the obligations to be distributed or pertaining to the duties of the Bank with respect thereto.
- (i) The name and address of the fiscal or paying agent of the Bank, if any.

ITEM 2. Distribution of Obligations.

- (a) Outline briefly the plan of distribution of the obligations and state the amount of the participation of each principal underwriter, if any.
- (b) Describe any arrangements known to the Bank or to any principal underwriter named above designed to stabilize the market for the obligations for the account of the Bank or the principal underwriters as a group and indicate whether any transactions have already been effected to accomplish that purpose.
- (c) Describe any arrangements for withholding commissions, or otherwise, to hold each underwriter or dealer responsible for the distribution of his participation.

ITEM 3. Distribution Spread.

The following information shall be given, in substantially the tabular form indicated, as to all obligations which are to be offered for cash (estimate, if necessary):

	Price to the Public	Selling Discounts and Commissions	Proceeds to the Bank
Per Unit			
Total			

ITEM 4. Discounts and Commissions to Sub-Underwriters and Dealers.

State briefly the discounts and commissions to be allowed or paid to dealers. If any dealers are to act in the capacity of sub-underwriters and are to be allowed or paid any additional discounts or commissions for acting in such capacity, a general statement to that effect will suffice, without giving the additional amounts to be so paid.

ITEM 5. Other Expenses of Distribution.

Furnish a reasonably itemized statement of all expenses of the Bank in connection with the issuance and distribution of the obligations, except underwriters' or dealers' discounts and commissions.

Instruction. Insofar as practicable, the itemization shall include transfer agents' fees, cost of printing and engraving, and legal and accounting fees. The information may be given as subject to future contingencies. If the amounts of any items are not known, estimates, designated as such, shall be given.

ITEM 6. Application of Proceeds.

Make a reasonably itemized statement of the purposes, so far as determinable, for which the net proceeds to the Bank from the obligations are to be used, and state the approximate amount to be used for each such purpose.

ITEM 7. Exhibits to be Furnished.

The following documents shall be attached to or otherwise furnished as a part of the report:

- (a) Copies of the constituent instruments defining the rights evidenced by the obligations.
- (b) Copies of an opinion of counsel, in the English language, as to the legality of the obligations.
- (c) Copies of all material contracts pertaining to the issuance or distributions of the obligations, to which the Bank or any principal underwriter of the obligations is or is to be a party, except selling group agreements.
- (d) Copies of any prospectus or other sales literature to be provided by the Bank or any of the principal underwriters for general use in connection with the initial distribution of the obligations to the public.

* * *

Because of the limited applicability of Regulation AD, on which the views and comments of the Bank have been received and considered, the Commission finds that notice and procedure pursuant to the Administrative Procedure Act are unnecessary.

The foregoing action of the Commission shall become effective upon publication, December 18, 1967.

By the Commission.

ORVAL L. DuBois,
Secretary.

THE DOORS ARE OPEN

**Selected Addresses
By**

TAKESHI WATANABE
President

ASIAN DEVELOPMENT BANK



ISSUED BY THE OFFICE OF INFORMATION
ASIAN DEVELOPMENT BANK
COMMERCIAL CENTER P.O. BOX 126
MAKATI, RIZAL, PHILIPPINES

September, 1967

PREFACE

This compilation chronicles the progress of an institution girding itself to make a valid and meaningful contribution to its developing member countries. It reflects upon factors which have impeded the pace and scope of economic advancement in the past, and outlines the activities already, or intended to be, undertaken by the Asian Development Bank to help relieve or overcome those impediments. Above all, these works trace the evolution of the Bank's role since the Inaugural Meeting of its Board of Governors, November 24-26, 1966, and the formulation of operating policies consistent with that role.

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FANNING THE FLAME

I consider it a great honor, not only for myself, but for my country as well, that I was selected to be the first President of the Asian Development Bank. Although there are obviously many people better qualified for this position, I doubt that any has a greater enthusiasm for, or dedication to, the cause before us, — namely, the economic development of an emerging Asia. I, therefore, humbly accept this honor, and the breathtaking challenge it affords, and pledge to devote the sum total of my energies and abilities to carrying out this weighty responsibility. I will do my best to perform in the role of international servant, under the guidance of the Board of Governors, and in accordance with the general direction of the Board of Directors.

My immediate task is to devise a suitable organizational structure for the Bank, and to begin assembling an official staff. It goes without saying that the success of this Bank depends upon the high caliber of its personnel. Until such time as permanent assignments become feasible, I would like to appoint, temporarily, the limited number of personnel essential to the transaction of immediate business. Additionally, I am prepared, at the earliest possible moment, to visit all member nations, beginning with those situated in our region. In this way, I hope to gain a more comprehensive understanding of the prevailing economic climate in each country, and to provide an ear for each nation's views on the Bank. It is my further expectation that this trip will provide a good opportunity to secure competent personnel for the Bank.

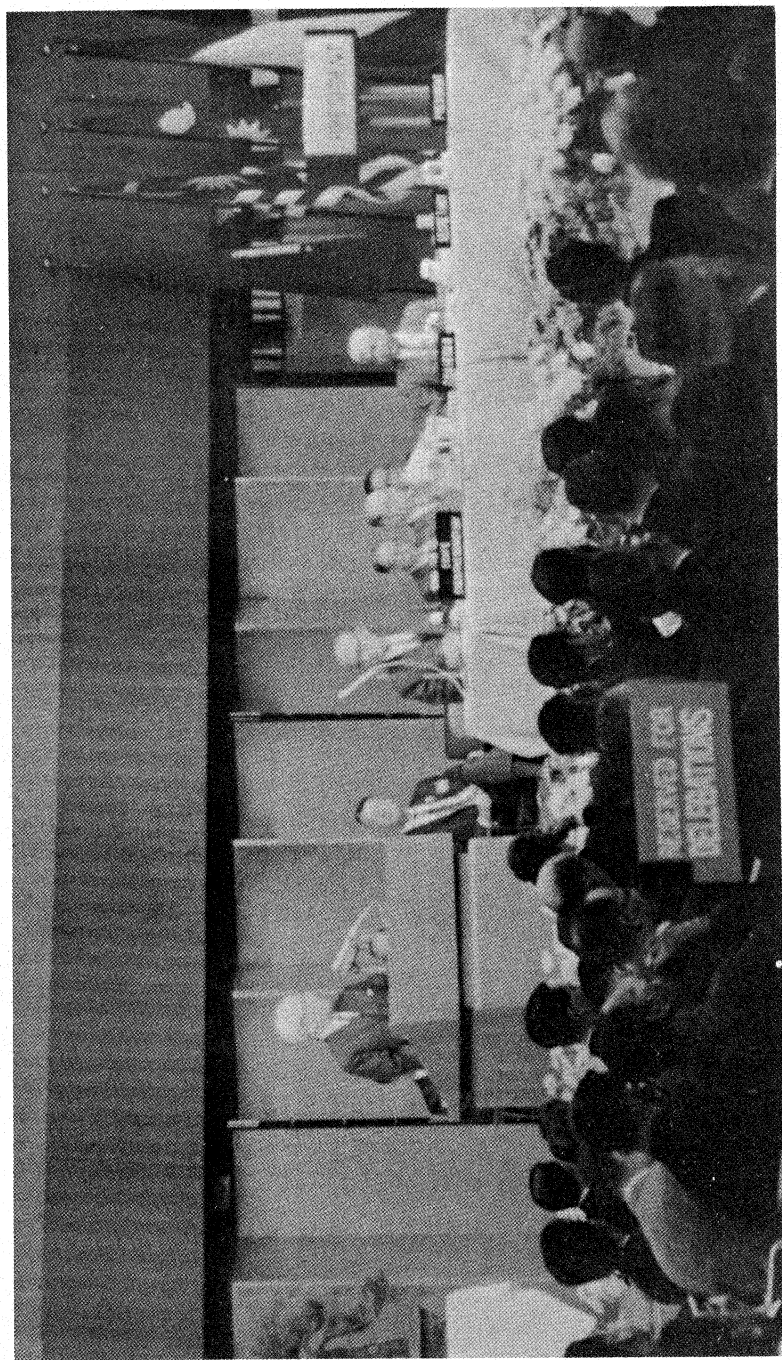
Although I would like to make a more detailed policy statement, at a later date, in Manila, let it suffice for now that, in my opinion, our operation should pursue two overall objectives. The first is to mobilize as much capital as possible for the development of Asia. The present capitalization of the Bank, at close to one billion dollars, is a healthy start indeed; however, if we are to shed more than a glimmer of light on an area which houses one third of the world's population, or roughly one billion people, this is

merely a beginning. I envision the initial resources of the Asian Development Bank as a catalyst, supplying the impetus for the influx of new investment funds from regional and non-regional sources alike. Moreover, it would be a grave tragedy if the flame of our enthusiasm should be snuffed out by a premature dissipation of our capital. It behooves us therefore, in our infancy, to step cautiously, exerting every effort toward establishing a high credit standing, and proving the worthiness of this institution. In this way, and only in this way, will the necessary additional resources, in all the various forms, be made available to the Bank. It is my ardent desire that all developed countries, in every corner of the world, who are concerned with the welfare of Asia, will appreciate our efforts, and continue to contribute generously to our common endeavor.

The second, and equally significant objective to bear in mind, is to render the most proficient use of the capital placed at our disposal. It is my wish to see the funds invested produce the maximum efficiency in promoting the economic standard of each and every recipient nation. This will require a substantial amount of wisdom and foresight, both on the part of the Bank, and on the part of the country involved. It is encouraging to note, in that regard, that a major advantage of any multilateral organization such as ours, is that it provides a deep well of experience from which we can draw. Endowed with such a rich heritage of international insight, the Asian Development Bank will strive to achieve a posture which will enable it to provide assistance in locating projects for development loans, and in helping to foster the kind of atmosphere which will make these loans possible.

Before concluding my remarks, I would like to pay tribute to all those who have worked so diligently to pave the way for the Bank's establishment, and especially to U Nyun, Executive Secretary of ECAFE, for his untiring efforts in bringing this cherished idea to fruition. We have been indeed fortunate to have had so many able and generous individuals, governments, and international organizations, all extending their helping hands to our undertaking. I look forward to their continued cooperation and encouragement in the execution of my duties as President of the Asian Development Bank.

(President's acceptance speech at the Inaugural Meeting of the Board of Governors, Asian Development Bank, in Tokyo, November 24-26, 1966)



President delivering his acceptance speech

DEFINING A ROLE

I should like, first of all, to express my sincere appreciation to all the distinguished Governors for their very kind remarks regarding my selection as President of the Asian Development Bank. I assure you that you are far generous with your praise. It does, however, provide me with a further incentive to prove both myself and the Bank worthy of your confidence, for, without this confidence, the task before us would not be possible.

Secondly, I would like to echo the sentiments voiced by all the distinguished Governors in extending a warm welcome to Indonesia. We are most pleased that she has joined our official family. We are equally gratified that Switzerland is soon to enter the fold. I believe that their examples should indicate to every nation of the world that the doors of the ADB will always be open. It is only fitting that all the nations within the ECAFE region should share in our common endeavor, and we hope that those who are not with us today will soon assume their rightful places at our side. This plea, however, reaches beyond the borders of ECAFE. It extends to all the developed nations outside the region. For, if our goals are ever to be realized, it will be in large measure due to the unselfish contribution of their capital and technological resources.

His Excellency Mr. Eisaku Sato, Prime Minister of Japan, put his finger on the pulse of this historic Inaugural Meeting when he said, "This is an event which marks the opening of a new era in the history of Asia." It is true that we have had a long sleep. Asians have been all too ready to rest upon the laurels of a distinguished past; a past which will always signify beauty and cultural grace to the rest of the world. But the time has come to roll up our sleeves and prepare to cultivate this new era of self-discipline. From the seeds of this sacrifice will surely spring the fruits of economic prosperity.

Our Board of Governors has wisely pointed out two roads which will bring us to this goal; although they are quite different from one another, they are both essential. The first is, by now, a familiar term to all those concerned with the future of Asia. I am speaking of regional cooperation. The Asian Development Bank is fortunate to have felt its presence already. Our very existence

is sufficient testimony to the attendance of this spirit at the Preparatory Committee meetings. Through their labors, we can see that such cooperation, and only that kind of cooperation, can carve unanimity of regional purpose out of the hard rock of national self-interest.

It is this communal spirit that the ADB has been commissioned to foster throughout the ECAFE region. I feel certain that regional cooperation is the key to solving many of the issues which have been raised by the distinguished Governors. For example, comparative economic advantage for any one country can only be understood within the context of the capabilities and resources of the other countries in the group. And price stability is far easier to achieve by collectively discussing the issues than by individually dictating the desired results. Ironically, therefore, it becomes clear that in many instances, national self-interest can best be served through collective efforts.

However, the simple interchange of ideas cannot alone usher in economic prosperity. A nation cannot presume to draw from the storeroom of international experience without contributing something in its place. It is the question of how to replenish this supply which leads us to the second of the two roads that I mentioned. Backed by the considerable judgment and wisdom of our non-regional colleagues, the nations of Asia have the opportunity, and more significantly, the obligation, to play an active role in determining their own destiny. This theme of controlled destiny found the same eloquent expression in the statements of the distinguished Governors as did regional cooperation. I would reiterate that the greatest measure of help will surely accrue to those nations that take the lead in helping themselves. Many of the countries in this region are blessed with an abundance of natural resources. They are also beginning to develop the depth of leadership necessary to effectively employ the complex tools of modern technology. Many more leaders are needed however, and until they are ready, the few must shoulder the burden of the many. But even the so-called "teeming masses of Asia" need not necessarily be a burden. They represent one of the great untapped labor forces in the world today. If each nation can take the steps necessary to harness this wealth of potential productivity, the trend toward an increasingly unfavorable gap between Gross National Product and population can be halted.

These goals must be, and I believe, will be realized. But the challenge is immense and the problems staggering. It was the recognition of these certain difficulties that pointed up the need for

a regional organization for Asia; one which could absorb some of the interim blows which are destined to befall any region which undertakes such an auspicious task. I would now, therefore, like to touch briefly on the role that the ADB will hope to play in the pageant of Asian recovery.

Though the Bank is in its infancy, we do not wish to be spoon-fed, nor would we be carried about on the backs of others. If we are to be more than a casual observer of the economic enlightenment of this vast region, we must acquire the mental agility to fashion our own decisions and chart our own course. However, like any child, we depend upon those much older and wiser than ourselves to encourage us through those first difficult steps toward maturity. During the formative stages of our existence, we must gird ourselves to live and work in concert with the growing community of international organizations throughout the world. No one organization can presume to shoulder the challenge of effecting regional cooperation. The urgency of the task, and the magnitude of the need, demand a sea of common initiative, into which the ADB will wholeheartedly channel its resources.

The path to development for any nation has many obstacles. Monetary aid alone cannot get them over these hurdles. The most valuable commodity that the Asian Development Bank can hope to disburse is the technical knowledge to help others help themselves. A good example of this manner of assistance is the area of pre-investment or feasibility studies. This is no small task. Each developing nation labors under its own peculiar set of problems. Thus, if our prey is to be the Asian beast of poverty, we must stalk it with a wide selection of weapons. This arsenal of insight can only be built with exceptionally qualified personnel; those capable of dealing effectively with the diversity inherent in our region. The competition for such people is keen indeed. Their services are in constant demand by their governments and by private industry within their own country; not to mention the other international organizations vying for their talents. Even though our Asian character may suggest that we effect certain economies regarding the number of people on the staff, we cannot afford even the smallest sacrifice in the quality of our personnel. We must meet the competition for manpower head on, striving to secure people whose backgrounds will lend themselves to the immense variety of regional, sub-regional, and national issues before us.

This diversity will also be a major determinant in the shaping of the Bank's loan policy. Although I have expressed a desire

to reserve specific loan policy discussions for a later date, I do want to emphasize at this time the need for versatility. The nations of Asia are often mistakenly grouped together under the vague heading of "underdeveloped". This term is wholly inadequate to describe the prevailing situations. The countries of our region are presently undergoing numerous stages of economic elevation. Even more diverse than the stages of this development are the kinds of problems with which each country is confronted. These problems are an outgrowth of their own particular cultures and traditions, and spring from widely varying socio-economic environments. It is within this context that the ADB must function. Just as the concept of Asia defies simple definition, it also defies uniformity of loan policy administration. It is for this reason that I hesitate to formulate any hard and fast rules governing the extension of credit. I think it is more fitting that we promise to do our best to appraise each and every loan situation on its own merit.

A number of the distinguished Governors have referred to the Special Funds category of loans provided for in the Charter. There is no doubt that this will be a valuable tool in furthering the Bank's objective of maximum capital mobilization for the economic advancement of the region. As many of you have noted, the present stage of many of the developing countries makes it impossible for them to adhere to the terms of conventional loan agreements. Particularly in the crucial area of agricultural and infrastructure loans, the repayment schedule and interest rate structure of the hard loan category are apt to be self-defeating. If the Bank is to effectively promote all facets of economic development in the ECAFE region, it must be equipped to extend soft loans in those cases where they are the only practical and realistic solution. It is also clear that the Charter's limitation on soft loans to 10 per cent of the Bank's total paid-in capital will not be sufficient to satisfy the need. We, therefore, will actively seek Special Funds contributions from member and non-member countries alike.

However, I would like to stress at this time that conventional or hard loans are the material of which any bank's foundation must be constructed. History has shown us that the World Bank was well-advised to concentrate its early efforts on this category. It was only after it had accumulated a substantial portfolio of hard loans that the creation of IDA could become a reality.

Furthermore, I believe the same policy line should be followed with regard to the Bank's entry into the capital markets. I am

encouraged by the presence of the large and impressive contingent of investment bankers at this inaugural meeting. We look forward to their able and far-sighted guidance in the many decisions that lie ahead. It was pointed out at this conference that the World Bank has raised some five billion dollars through the sale of its bonds. This represents a significant portion of their total capital. It is my fond hope that this institution will be able to cite a similar success, for it is certainly in keeping with the aforementioned objective of mobilizing the maximum amount of capital. But, once again, our credentials at this early stage in our existence are hardly sufficient to compete effectively in the capital markets of the world. It is toward the attainment of such a reputation that we will exert every effort.

(Closing Remarks at the Inaugural Meeting of the Board of Governors of the Asian Development Bank, in Tokyo, November 24-26, 1966.

PATTERN FOR PROSPERITY

The need for regional solidarity is more glaring now than it has ever been. The chasm between the developed and the developing nations is widening every day. Many of the countries of this region are falling desperately short of the five per cent annual economic growth rate projected by the United Nations. Compounding this difficulty is the fact that population growth continues undaunted. Each day brings into Asia many new mouths to feed and bodies to clothe, all from what is already a vastly inadequate store-room. This gap must be plugged quickly, lest our ambition fall victim to the traditional sense of fatalistic resignation.

One means of bridging this gap is for the countries of this region to work in concert. While we have to recognize the heterogeneous nature of the region, this does not preclude mutual cooperation. In fact, this diversity can be an invaluable asset. The effects of economic development in any one country are multiplied when complemented by the wisdom and experience of other nations.

The recognition of this urgent need for cooperation is inherent in the Charter of the Asian Development Bank. It is our expressed purpose to serve Asia as a clearing house of common understanding; not only between Asian and non-Asian countries, but within our own region as well.

I believe we are headed in the right direction. The speed with which the ADB grew from a dream to a reality serves notice to the world that the spark of regional cooperation exists. It now befalls the Bank to kindle that spark with the fuel of international insight, until it becomes a raging fire of collective endeavor.

Conditions are better suited to maximizing the effect of regional cooperation today than they have ever been before. The membership of the Asian Development Bank attests to that fact.

For the first time in history, a large number of developed nations throughout the world have joined together in recognition of the importance of Asia's economic well-being.

There is no question that it is more palatable to the developing countries to accept funds from a multi-lateral institution. This type of organization does not seek public acclaim for its services, nor are there liable to be the onerous strings attached, which may accompany bi-lateral aid. For practical reasons, bi-lateral arrangements cannot be dismissed entirely. However, the advantages of the multi-lateral approach, in terms of its broader and more apolitical viewpoint, cannot be over-emphasized.

Nevertheless, the onus of the task of economic development cannot fall entirely upon the shoulders of outsiders. The most enthusiastic regional or even world-wide efforts can never pretend to be a substitute for enlightened national self-interest. Each country is surely the most dependable guardian of its own future. A development bank such as ours can perhaps provide a fresh approach to an economic problem, or attempt to channel funds to finance a solution. The burden, however, rests with each individual nation to prepare itself to meet the challenge.

Even the willingness to discard the old order is not sufficient. It is not enough that a nation merely realizes the need to generate savings, and further, to invest them in profitable ventures. This is only a beginning. The most difficult task is to actually lay aside those savings. The sacrifices must be made, and the hardships endured, if the people of this region are ever to enjoy a higher standard of living. And this economic revolution must be initiated immediately, before the gap gets any wider.

The Asian Development Bank has a vested interest in this revolution. I would, therefore, like to focus attention on the role that the ADB hopes to play in that revolution, and how we can best equip ourselves to meet the challenge.

At the Inaugural Meeting in Tokyo, last month, I expressed a desire to visit all member nations as soon as possible. Since that time, I have made two very profitable trips; one to the Republic of Korea, and the other to the Republic of China. While in those countries, I had occasion to speak with leaders of Government, central bank authorities, and representatives of the private sector. I would like to take this opportunity to thank both countries for the warm and cordial hospitality they afforded me.

The purpose of these visits is threefold; (1) to gain a firmer grasp of the economic climate in each country, (2) to listen to each nation's views regarding the operation of the ADB, and (3)

to secure competent personnel to staff the Bank. Due to the importance of these objectives, I feel it is essential to complete the first round as soon as possible, hopefully within the space of a few months. This means that, to cover the considerable number of member countries, in this period of time, my sojourn in each one may be relatively brief.

Nonetheless, I plan to resume this schedule in the latter part of January. It is my intention to travel to three or four countries at a time, returning to Manila after each trip. In this way, I hope to remain in constant contact with the day to day operations of the Bank; especially during the critical formative stages of its existence.

However, during my absence, I have the utmost confidence that the management of the Bank will be in able hands. I have stressed before that it is not my intention to be extravagant with respect to the number of staff members. For that matter, I feel that the overall organizational structure of the Bank, particularly in the early period, should be relatively simple. It is far easier to progress from simplicity to complexity than it is to go from complexity to simplicity.

At the same time, it is imperative that we do not compromise the quality of the personnel. Toward that end, I believe that we have been successful in assembling a small, but highly capable official family already. The present staff members have the necessary diversity, in terms of talent. Regarding diversity of national origin, I will continue to strive for a wide geographical representation among the staff. This policy should not, however, take the form of a rigid quota system which would, in any way, jeopardize efficient recruitment.

There is no doubt that confidence in the Bank will be contingent upon the amount of confidence in its staff. We will work diligently toward fostering this trust. It is my ardent desire that the member countries will come to look upon the ADB as a kind of "family doctor", who is ready to lend assistance whenever and wherever the need arises. This posture demands a thorough familiarity with the economic attitudes and environment of each developing country. I believe this familiarity can best be bred by endowing the Bank basically with a regional character, in terms of its personnel. However, when it comes to making loans, I will attempt, in principle, to avoid placing the decision in the hands of a lending officer whose own country is involved.

There are two general areas where, if requested, we could provide such assistance. The first is in acting in an advisory capa-

city. It is my belief that, in many instances, sound advice is a far more welcome and valuable antidote than hard cash. Consequently, I plan to propose the establishment of a department within the Bank which will devote a considerable amount of time and energy to this area of activity.

According to the Charter, the funds available for services which are, by nature, non-reimbursable, is limited to two per cent of the paid-in capital, for the first five years of operation. This will obviously leave us far short of the amount required to satisfy the need. However, we are in a position to organize missions, jointly, with other international organizations, to perform this vital function. For example, the Food and Agricultural Organization (FAO) has already offered to make itself available to the Bank for such joint efforts.

The second phase of our operation pertains to loans. The Bank has considerable leeway with respect to the formulation of its lending policy. The description of the Bank's financing function in the Charter is quite broad in scope, and will enable us to cope effectively with a wide range of situations. In pursuit of this goal, I am reluctant to formulate any rigid loan policy, which would needlessly restrict the Bank's flexibility.

There is only one basic policy to which I firmly adhere; namely, to insure that each loan conforms to the principles of sound-banking. We will endorse only those projects which are conceived within the framework of valid economic precepts. This is the only way to establish the good credit of the Bank, and to thereby assure the continuous flow of funds through our organization.

Regarding the size of each loan, it is important to bear in mind three factors: (1) only one half of the subscribed capital will actually be paid-in, (2) the amount paid-in is to be remitted in five equal annual installments, and (3) of that amount, half may be paid in local currency, which is not always readily convertible into freely lendable funds. The result of these conditions is that, for the first year of operations, the Bank will have at its disposal for lending purposes, somewhere in the neighborhood of U.S.\$65 or \$70 million.

Out of this amount, I would like to meet the demands of as many member countries as possible. This makes it inevitable that the size of each loan be limited to a reasonable amount. If, on the other hand, the amount of the loan is too small, the comparatively high servicing cost would make it uneconomical for the Bank. This fact, however, does not preclude the possibility of channeling some portion of our funds through existing national development banks.

Up to this point, I have focused attention on the Bank's policy with respect to its "ordinary capital resources". During our early years, we must concentrate on establishing a reputation as a sound banking institution. This reputation will only come through the wise and frugal employment of these funds. However, I am fully aware that we cannot deal with every situation within the confines of conventional lending terms.

A considerable number of countries are currently caught in a vicious credit cycle, whereby a significant percentage of all new funds is already committed to the servicing of existing debt. Moreover, some projects do not provide any appreciable benefits to a nation's economy until many years after the initial investment. Thus, many countries are anxious to obtain soft loans, where the repayment schedule is geared to the estimated time table of the project, and the debt burden does not drain unduly on a shrinking reservoir of capital.

While provision has been made for the ADB to cope with this situation, only 10 per cent of our paid-in capital is available for this purpose. In addition, the use of those funds is conditional upon authorization by a two-thirds majority of the Board of Governors, and that body has, as yet, taken no action on this provision. We must, therefore, rely on the creation of Special Funds i.e., capital resources over and above that subscribed. Toward that end, I will actively solicit contributions to this Fund; not only from member countries, but from non-members as well. I ardently hope that those nations who did not join the Bank as subscribers, will also exhibit their concern for the welfare of Asia through their generous participation in such Special Funds.

If we are successful in attracting Special Funds contributions, we will also be in a better position to lend the vital technical assistance of which I spoke earlier. This area of economic aid is especially attractive, because the effects are substantial in proportion to the amount of money expended.

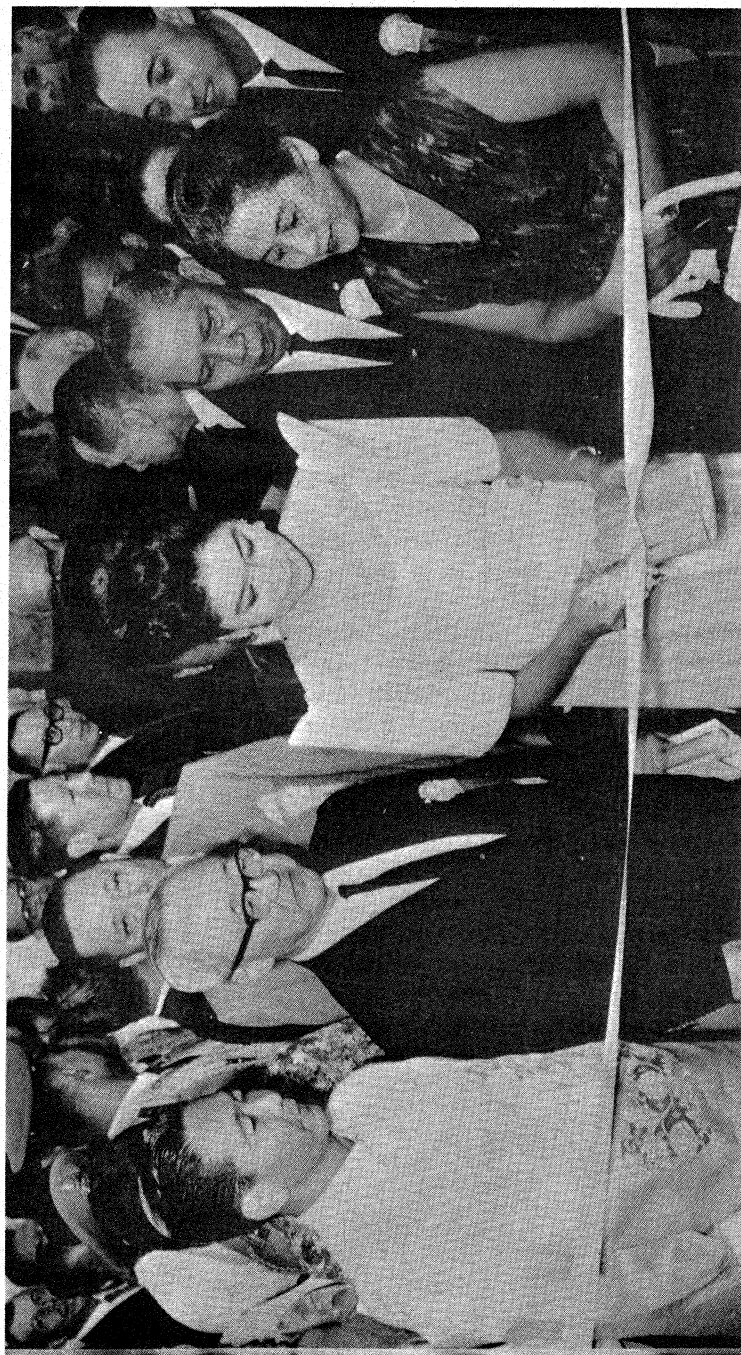
Regarding Special Funds, I would like to highlight the initiative taken by the Conference on Agricultural Development in Southeast Asia, which met two weeks ago in Tokyo. In its joint communiqué, representatives of the nine participating nations proposed to establish a fund "to be loaned with liberal terms for agricultural development in Southeast Asia, as a special fund of the Asian Development Bank." It is a great source of encouragement to see that the nations of this region have already singled out an area where the ADB can render a useful service. I would like to make a thorough study of this proposition.

The other channel of capital flow is through the international money markets. I am encouraged by the interest shown already by the investment banking community toward our endeavor. This is certainly an area in which we would hope to actively participate in the future. However, in light of the exceedingly tight market conditions at present, I do not think it is practical for us to consider this source of capital for the immediate future. Instead, the ADB should exert every effort toward conducting its operations in such a fashion that, when the climate is more favorable, the Bank will be in a position to issue bonds on favorable terms. In the interim, we are well-advised to keep abreast of all developments in the world monetary situation.

Before concluding my remarks, I would like to reiterate my sincere appreciation, on behalf of the Bank, its officers, and staff, to the Government of the Philippines, for providing us with such a comfortable place in which to conduct our business. In addition, we are extremely grateful for the privileges and immunities accorded us. They will greatly facilitate our activities both here and abroad.

This opening ceremony marks the ground-breaking for the construction of a bright new Asian age. With the tools of regional cooperation, the nations of this region are beginning to build a pyramid to prosperity. The Asian Development Bank has been summoned to serve as a cornerstone in that pyramid's base. Words are adequate mortar with which to fashion speeches, but actions are the solid substance of which economic development is made. So, let us now begin — or, in Tagalog, "Simulaan na natin ngayon!"

(Statement at the Opening Ceremony of the Asian Development Bank, in Manila, on December 19, 1966.)



The First Lady, Mrs. Imelda R. Marcos, cuts the ribbon at the opening ceremony of the ADB. Seen with her from left to right are President Ferdinand E. Marcos of the Philippines (Guest of Honor), Mr. Watanabe, ADB Director Cornelio Balmaceda of the Philippines and Mrs. Watanabe.

GREAT EXPECTATIONS

Since assuming the Presidency of the ADB, I have been overwhelmed by the high expectations which have been vested in this institution. While there is no doubt that this interest is pleasant music to my ears, I sometimes get the impression that people expect me to pull development rabbits out of my hat. I must confess that I am neither conjuror nor magician. There is no shortcut to economic development. The only road to prosperity is long and arduous, and demands the sweat and sacrifice of the developing nations themselves if their aspirations are ever to become actuality. The Asian Development Bank is only here to help.

How the Bank can best be of help is the issue. It is clearly evident that money alone is not sufficient salve to heal the economic ills of Asia; a truly lasting cure demands a multitude of medications. However, as a bank, there is no doubt that our main contribution will be in facilitating the flow of money. The best laid plans of any entrepreneur become purely academic and quite anemic without the proper flow of funds with which to implement them. We are well aware of the vast needs of this region, requirements which even a billion dollar capitalization can only begin to sate.

It is within this framework that I would like to address my remarks today; namely, how can the ADB make the most meaningful contribution to economic development with its limited resources, and what steps can be taken to expand and augment that capital base?

There is a fear amongst the members of this region that the Asian Development Bank will do little more than serve as a substitute for the existing stream of capital inflow. If, for example, ADB loans merely replace World Bank loans, the total of available financial resources will remain static. This is, however, not at all the intention of our founders. It was their design to create an entirely new institution which could attract additional capital to Asia; not simply to rechannel existing funds.

The Asian Development Bank has in its till, at this moment, somewhere in the neighborhood of 70 million dollars available for making loans. In August of the current year, this figure will double, as the second of five annual installments comes due from the member countries. How quickly we can anticipate tapping this reservoir depends upon the progress of the organization and staff of the Bank, as well as upon the availability of well-conceived loan applications.

It goes without saying that, when making a decision on any loan, we should ensure that the new funds will inject health and vitality into the economic bloodstream of the recipient country. In other words, it is not enough that the new funds, in and of themselves, add resources to the economy. They should also serve to stimulate the flow of national savings into useful investments. Money which might otherwise have been dissipated in non-productive consumption, can thus be channeled into productive enterprises. It is my hope that the far-sighted businessmen in this region will peer through the deceiving mist of today's relatively simple satisfactions, and perceive the long-lasting benefits that true economic well-being can bring to a society.

The stimulus of ADB loans should not be limited solely to encouraging the flow of domestic capital. They should, as well, instigate a greater influx of international funds, from both the public and the private sectors.

In the public sector, the Asian Development Bank is prepared to operate in concert with other international organizations and with governments. It is anticipated that our Bank, as a regional institution, will be able first to pinpoint appropriate projects, and then to take the initiative in enlisting other organizations or governments to participate in that particular financial venture.

Private investment, at the international level, is also a useful tool for increasing the capital resources of the region. However, as you well know, this particular endeavor has its drawbacks, both for the investor and for the recipient.

From the investor's point of view, the risks are frequently more substantial than those incurred in domestic investment. In that regard, it may provide the necessary assurance for foreign investors if the ADB were to assume the role of a joint investor. Technically, the Bank can tender a joint equity investment or even offer to guarantee a loan to the private sector. However, although these operations are within the scope of our versatile functions, I hesitate to embark on such a course at this stage of our existence.

I would prefer to reserve those alternatives until we have gathered the necessary experience to make proper and efficient use of them.

Private investment from international sources also causes some concern from the standpoint of the recipient, particularly when the country sees it as a challenge to budding nationalism. But, here again, either the sanction or the outright participation of the ADB can serve to pour oil on any troubled waters, in the sense that an organization such as ours is designed to be aloof from national interests.

Thus far, I have highlighted the role of the Asian Development Bank as a catalyst for the mobilization of a larger supply of capital for investment in the welfare of this region. In order to achieve the higher standard of living envisioned by us all, gross national product must be made to increase at a faster rate than population growth. In the face of Asia's mushrooming masses, a monumental effort is required merely to maintain the all-too-meager status quo. To remedy this situation, the GNP of the region must increase by at least four to five per cent per annum. In order to realize this goal, new investment must occur at a rate three times that of national income growth. It is no easy task for many developing countries to attract new investment at the rate of 12 to 15 per cent of its national income. Therefore, it becomes more apparent than ever that the success of the ADB depends, not so much upon the amount of money that it can inject directly into an economy, but rather, upon the funds which it can induce to flow into the region by virtue of its function as a catalyst.

It is, nonetheless, important for the ADB to consider increasing its own resources as well, and I will strive diligently and without pause to do this. Fundamental to the constant search for new funds is the posture of the Bank as a sound financial institution, for, if we exhaust our reputation through careless management, we can rest-assured that the financial well will soon run dry. In order to ensure the perpetual flow of funds, we must step cautiously and advisedly, even at the risk of appearing overly conservative, lest our life be snuffed out as quickly as it began.

There are three basic ways that the Bank can replenish or supplement its resources; the first is through bond issues, the second, Special Funds, and the third, the direct increase of capital subscriptions. While only one half of the subscribed capital is actually to be paid-in, the other half, which is designated as callable shares, is not without utility. It represents a pledge by the member countries to come to the aid of the ADB, if it should fail to meet its own obligations. In that manner, any borrowing by the Bank is guaranteed

by each member country to the extent of that member's share of callable capital.

It is against this security, that, at the proper time, the ADB expects to issue its bonds. I cannot, at this moment, forecast when the placement of these bonds in the market will occur. Although some improvement is recognizable of late, the world money market conditions are still exceedingly tight. Under these circumstances, I believe the wisest course is for the Bank to concern itself with forging a high credit standing, to pave the way for future offerings on favorable terms.

A more immediate source of additional capital for the Bank is Special Funds. As I have said, we must test our mettle in the arena of conventional lending, before we shoulder additional responsibility. However, we will eventually be called upon to enter the so-called "soft loan" field, because it is an integral segment of the total development picture. In this connection, it is extremely encouraging to note two recent developments which could affect the ADB: The first is the joint communiqué of the Conference on Agricultural Development in Southeast Asia, which met in Tokyo on December 6, which suggests that the Asian Development Bank assume the leadership in administering an Agricultural Development Fund. The second is the reference to the ADB made by President Johnson, of the United States, in his State of the Union Message, delivered on January 10. He said, and I quote:

"The doors of the billion dollar Asian Development Bank that I recommended to the Congress, and which you endorsed almost unanimously, I am proud to tell you, are open. Asians are engaged tonight in regional efforts in a dozen new directions. Their hopes are high. Their faith is strong. Their confidence is deep."

He went on to state,

"If other nations will join us, I will seek a special authorization from the Congress of 200 million dollars for East Asian regional programs."

If, after tapping all other sources, the Bank still requires additional funds, it will be possible to seek an increase in the capital subscription. However, I feel a discussion of this alternative would be premature at this time, especially in light of the options I have mentioned previously. I would like instead to re-emphasize the considerable import of the prudent and discreet behavior of the Bank, for this is the surest path to a fruitful and long-lasting life.

(Speech at the Makati Rotary Club on January 24, 1967.)

GROUNDWORK FOR GROWTH

I am indeed grateful and honored to have the opportunity to address this Twenty-third Session of the United Nations Economic Commission for Asia and the Far East. It is a personal testimony to the accomplishments of your distinguished Secretary-General, U Nyun, that Asia, today, is a bustling bee-hive of concerted activity, in the awareness that regional cooperation is the seed from which Asian economic prosperity will blossom and flourish.

We, at the Asian Development Bank, are humbled by the knowledge that, as we are about to turn the corner on our first half-year of existence, ECAFE, is, this week, commemorating its twentieth year of enlightened endeavor. As we ponder the history of organizations like yours and the IBRD, who have logged at least two decades of faithful and meaningful service to the international community, we are inspired to build an institution worthy of comparison with her elder sisters.

The purpose of my remarks today is to report on the progress of the Bank, to date, in pursuit of that goal. This is first such report that has yet been rendered, and I think it only fitting that it be delivered in Tokyo, the very same city and the same room in which we were inaugurated less than six months ago. The same combination of careful coordination and warm hospitality is in evidence at this Session, which was so important to the newly-crowned Asian Development Bank, as it entered the world of international finance.

At the conclusion of the Inaugural Meeting, on November 26, I appointed some eight temporary staff with which to commence operations. Shortly after that, we moved operations to Manila, the permanent headquarters-seat of the Bank. There, we had our first taste of Filipino hospitality; a taste equal in every respect to its considerable reputation. With the President of the Philippines and

the First Lady cutting the ribbon, the doors of the Asian Development Bank were officially opened for business on December 19, 1966.

On that date, we took up temporary residence in the Metropolitan Bank Building, in Makati, a showcase of modern urban development, located a few kilometers from the center of Manila. Far from temporary in appearance, the building provides the ADB with ample facilities in which to conduct its interim affairs, pending completion of the permanent headquarters, to be erected by the host government. At this moment, a contest is being held under the auspices of the Philippine Government, to select an architectural design for the building. It is currently projected that the permanent structure will be ready for occupancy by December, 1969.

With the physical details being so adequately attended to by our hosts, it then befell the Bank to devise a suitable organizational structure. I am both pleased and proud to report that we are well along with that task. I mentioned in Tokyo that it was my intention to begin operations with a rather unencumbered organizational structure, in the belief that it was better-suited to an infant institution. In keeping with that policy, the ADB is currently composed of only six departments. In addition to the Offices of President and Vice President, we are functioning with the Office of the Secretary, the General Counsel, the Operations Department, the Economic and Technical Assistance Department, the Administration Department, and the Treasury. Consistent with the pattern of other international organizations, we believe that form will follow function, in dictating further additions to or expansions in that structure.

Up to this point, the efforts of the Bank have centered on the so-called "housekeeping" details; that is, the formulation of suitable internal policies. Toward that end, we have been successful, with the aid of other sister institutions, in establishing appropriate staff benefits, an internal accounting procedure, and other administrative arrangements befitting the size of our organization.

Having laid the essential groundwork, we are now in a position to concentrate on the critical task of operational policy and recruitment. The Operations Department and the Economic and Technical Assistance Department are beginning to take shape, and we hope to look more like a banking institution by this summer. In other words, if we continue to progress in line with current estimates, we would be able to contemplate, sometime in the fall, dispatching a mission to investigate the economic environment in a particular country. The aim of such a mission would be to

identify a suitable development project, which the Bank could then proceed to process.

We are highly encouraged by the cooperative overtures received to date from other international organizations. The Food and Agriculture Organization (FAO), for instance, has repeatedly expressed keen interest in combining resources in projects of mutual interest, and representatives of other international bodies, such as the World Bank, have earnestly stressed the need for cooperation among members of the international development community. However, while there is no doubt that cooperation is a desirable and useful tool for economic development, I am confident that other international organizations will appreciate that the Asian Development Bank has its own unique responsibilities and, therefore, must have its own clear-cut and independent institutional identity.

Within the framework of the organization I have outlined above, we have been successful in enlisting the aid of the high caliber of staff I envisioned at the time of my election. We have, so far, recruited approximately eighty staff members. Including the ten Directors and their ten Alternates, the Bank's total personnel now reaches one hundred. Of the eighty, who have been recruited, roughly twenty fall into the professional category and have been selected from about a dozen different countries. In addition we have engaged some sixty Filipino, non-professional staff. I might add that we continue to be impressed with the uniform high quality of the local clerical staff.

Current projections call for close to sixty professional and one hundred non-professional staff to conduct operations in 1967. It is anticipated that the bulk of the professional positions will be filled within the next few months. However, there are still several opportunities available, primarily in the technical categories. It has been a source of considerable pleasure and encouragement to witness the growing interest in the Asian Development Bank, as evidenced in the large number of applications from member countries.

Turning to the capital structure of the Bank, at the Inaugural Meeting in Tokyo, the authorized capital was increased from U.S.\$1,000 million to \$1,100 million, to allow for the admission of additional members. We are constantly seeking new members with which to broaden the capital base of the Bank for the purposes of development. Of the \$1.1 billion of authorized capital, the original members subscribed \$965 million, one half of which will take the form of paid-in capital, and the other half of which will remain

as callable shares, to act as security for the obligations of the Bank. The paid-in portion is to be remitted in five equal, annual installments, and 50 per cent of each annual installment must be made in convertible currency. Thus, at the time of the Inaugural Meeting, the Bank had slightly in excess of \$50 million which could be termed freely investible funds. The balance was in the form of non-interest-bearing promissory notes.

Since the Bank has not been in a position to process applications for credit, it has consequently not been called upon to disburse loan funds. The capital has instead been invested, since November, in the money markets of member countries, and has been earning at an average rate of nearly six per cent per annum. The bulk of the funds has been invested in short-term government securities, and the remainder in time deposits.

On August 22 of the current year, the second installment of the capital subscription falls due, bringing the total of the Bank's investible currency to just under \$100 million. Our rate of earning for the balance of the year may be diminished to some extent by the fact that rates in the major money markets are easing, and the trend is expected to continue in the near future. In general, the Bank is prohibited by the Articles of Agreement from shifting its investible funds solely for the purposes of seeking more attractive interest rate structures.

The other major order of business was my proposed visit to the regional member countries. This trip commenced immediately after the Inaugural Meeting, and was completed in the latter part of March. As outlined in my acceptance statement in Tokyo, the trip had a threefold purpose: 1) to gain a more comprehensive understanding of the economic climate in each country, 2) to solicit the views of the member countries on the ADB, and 3) to aid in recruitment. This trip was, in my opinion, extremely worthwhile, enabling me to confer with leaders of government and private industry, as well as providing ample opportunity to familiarize myself with the various economic and social situations in the member countries.

During the course of these visits, I was made profoundly cognizant of the urgent need for agricultural development, including the development of fisheries. Most of the countries of this region function within the context of agro-based economies, not only from the standpoint of national income, but in the historical and cultural sense as well. And yet, though agricultural skills are relatively abundant in comparison with the ability to adapt to the techniques of industrialization, population growth continues to out-

strip the increase in productivity by almost two to one in this region.

I was further impressed by the fact that those economies which are experiencing the so-called "take-off", have been launched from a firm agricultural foundation. Those countries recognized that their indigenous agricultural structures possessed the potential for immediate increases in income, and were careful to endorse what may be termed the "essentials of agricultural development". By this, I mean that they performed accurate analyses of their particular stage of development, ensuring that at least a minimum level of infrastructure, such as irrigation, flood control, feeder roads, etc., had been established. Having met those basic requirements, it then became expedient to focus attention on the more direct methods of increasing crop production; namely, fertilizers, increased crop varieties, insecticides, and so on. Moreover, it became apparent to those countries that the strategy of development was perhaps the most important phase of planning, since intensification of agricultural input is often nullified without at least a minimum of infrastructural groundwork.

This is not to say that agricultural development should be encouraged to the exclusion of industrialization. In fact, it would appear that complete integration of development planning is essential, if the nations of this region are ever to enjoy the well-balanced economies for which we all strive. For, increasing crop production depends integrally on the agricultural input industry for its fertilizers, chemicals, and machinery, and upon the agricultural output-processing industry for rendering the product more readily exportable. This includes facilities for milling rice, canning fruits and vegetables and a host of others.

Another application of integrated development, whereby countries endeavor to co-ordinate their development planning, is in the area of the multi-national project. One of the evils that plague this region is either the absence altogether or at least severe fragmentation of the market for a country's export produce. Just as agricultural planning demands considerable attention to the problems of marketing as an incentive to increase crop production, the manufacturing industries of Asia are facing a stagnating, if not shrinking market. Part of the problem stems from duplication of capital expenditures in several countries to establish industries whose products are already battling to enter a glutted marketplace.

The multi-national project provides a partial solution to this dilemma. This type of project has particular significance for the transportation industry. For example, a group of neighboring na-

tions might form a consortium, aided possibly by ADB financing, to initiate and manage a common civilian air or sea transport system, or to promote an international deep-sea fishing fleet. As Asia continues to mature and consolidate as a homogeneous regional unit, removing many of the existing national barriers to concerted economic energies, the multi-national industrial project should play an increasingly vital and meaningful role in the scheme of development. It boasts the advantages of eliminating needless duplication of limited capital investment, realizing measurable economies of scale, and employing the already scarce commodity of technical assistance most profitably.

I have outlined above several approaches to the economic development of the region. This is not to say that, from the viewpoint of Asian Development Bank policy, they are the only projects on which we are disposed to concentrate our efforts. However, I have highlighted them for two reasons:

- 1) They represent realistic solutions to economic problems; in the past, nations of this region have been wont to undertake prestige projects, such as the development of heavy industry, which demand vast capital outlays and produce no appreciable benefits to a developing country for many years. It seems to me that the countries which have endorsed the more realistic approaches are better able to cope with their immediate income needs and can more easily finance the transition to a well-balanced economy, which eventually includes the prestigious heavy industry,
- 2) Those type of projects, since they do not require substantial capital resources, are particularly well-suited to the "ordinary capital resources" of the Asian Development Bank; since we are limited to loans of a reasonable amount for the time being, we must consider the project which, although regional or sub-regional in scope, is not insatiable in its thirst for funds. Either the development of a new kind of seed, investment in basic or applied research, or the multi-national industrial project could provide suitable subjects for ADB investment.

However, the point has been emphasized, and is well-taken, that a major segment of development, particularly agriculture and infrastructure expenditures, cannot sustain conventional debt financing. Such projects cannot shoulder the burden of debt servicing imposed by conventional interest rates, and neither can they expect to pay down a loan in line with conventional maturities. It is further apparent that the 10 per cent of the ADB's "ordinary

capital resources", earmarked for soft loan financing, can, even when authorized by the Board of Directors, satisfy no more than a token amount of the need.

Thus, we are determined to actively solicit contributions to the Special Funds portion of the Bank's resources. We are heartily encouraged by the response already voiced by a number of the developed countries. In his State of the Union Message, delivered to the U.S. Congress on January 10 of this year, President Johnson indicated his intention to seek a \$200 million appropriation from Congress for the development of East Asia, to be a Special Fund of the Asian Development Bank. This fund, as proposed, is not restricted exclusively to the development of agriculture, and could thus have broad application to the advancement of our efforts in the region. Another indication of support in the soft loan field is Japan's expressed willingness to sponsor the financing of an Agricultural Development Fund. This Fund was first formally depicted in the joint communiqué of the Conference on Agricultural Development in Southeast Asia, convened in Tokyo in the latter part of 1966. There has been widespread interest exhibited by the developed countries in these and other suggested Special Funds, and their support inspires us to relentlessly strive to tap all available sources of capital for the region.

However, it will be some time before these Special Fund proposals become a tangible reality. Aside from any formalities which may cause delay for the contributing countries, each overture must be investigated thoroughly from the point of ADB policy, in the interest of maintaining continuity with the underlying philosophy of the Bank, as embodied in its Charter.

In the meantime, there are two pressing needs to which we can devote considerable attention. First of all, in preparation for our eventual entry into the international bond market, an equally valuable source of additional capital, we are well-advised not to neglect the principles of sound banking. We will, therefore, pay all due regard to the formulation and efficient implementation of an intelligent conventional loan policy, in order to foster confidence amongst members of the international financial community.

Secondly, an urgent plea for technical assistance can be heard in many developing countries. We are anxious to mobilize funds from outside sources to enable the Bank to conduct pre-investment activities for project preparation and development. Throughout the course of my visits to the member nations, I discerned that, in some instances, countries could attract the necessary development financing readily-enough on their own, but either are hard

put to pinpoint the exact need, or are unable to articulate the need for present projects in a form which satisfies the requirements of international financing institutions. It is, moreover, of critical importance that international organizations endeavor to co-ordinate their assistance with the recipient country's own development priority structure, lest the pace of progress be impeded by any conflict of competing views. Thus the ADB will endeavor diligently to bring an increasing amount of its own weight to bear on the problem of providing ample technical assistance.

I do not wish to consume any more of your valuable time, except to reiterate my gratitude to this distinguished body for allowing me to outline the efforts of the Asian Development Bank as it has begun to scratch the organizational surface. At the Inaugural Meeting of the Bank, I spoke of the pride with which we accepted the mantle of responsibility bestowed upon us, and the humility with which we would endeavor to wear it. At this time, I would like to make a special note of the invigorating stream of enthusiasm and encouragement, flooding into the Bank from all quarters, and to renew my pledge to channel that flow into the mainstream of our own zeal and determination, to produce a torrent of fertile contributions to the development of this region.

(Speech at the Twenty-third Session of the United Nations Economic Commission for Asia and the Far East, in Tokyo, April 3-17 1967.)

SPECIAL FUNDS:**THE
CRITICAL
PLUS**

On behalf of the Asian Development Bank I wish to extend our greetings and good wishes to this conference. The countries represented here are important constituents of the Bank and have played a vital role in its formation. The concern of this session, the economic advancement of the Asian community that you represent, is indeed a major part of our concern and your deliberations will, therefore, be of the utmost interest to us in our role as an effective instrument to promote the economic progress of your countries and of Asia. I wish you will be able to find the time during your stay to meet our Directors and staff. I do hope we can repay even a little of the warm hospitality that your countries so generously extended to me during my recent visits.

Ten days ago I returned from the Annual Meeting of ECAFE in Tokyo. No one who attended that meeting can fail to sense the accelerating support in Asia for effective programs of economic development and regional cooperation. I know that this is an important theme in your meeting here in Manila.

I can assure you that the Asian Development Bank is fitting itself out to respond to these demands for action on development programs. We have appointed almost all our principal staff officers and have begun to consider operating policy questions. We are assembling an inventory of the presently available studies on development activities and programs in our developing member countries. Before many months, we expect to have missions visiting a number of our member countries to consult with governments on the role that the Bank can play in furthering economic develop-

ment, not only generally, but also specifically with regard to identifiable schemes of economic aid and of technical assistance.

During the Inaugural Session in Tokyo and in the course of my visit to the regional developing countries, one specific field of economic activity to which, almost without exception, all governments attached the highest priority was that of agriculture. The importance that this sector has for economic growth as a whole has now come to be widely appreciated. To this appreciation, a new dimension of urgency has been added by the critical situation that is emerging in respect of food supplies. Unless greater impetus can be given to rapid expansion of food supplies to cater to swiftly increasing populations, not only economic growth but the very stability of society will be imperilled. The Asian Development Bank, as a servant of the Asian community, can and does enter fully into the sense of urgency and anxiety that the Asian nations feel about agricultural growth. In particular, we wish to be responsive to the Conference that your Governments had last December in Tokyo on the problems of agricultural development where, as you recall, your representatives discussed the possibility of special funds for agriculture to be administered by the Asian Development Bank.

Shortly after that Conference, the Japanese Ambassador to the Philippines formally requested the Asian Development Bank "to start immediately deliberation on various problems concerning the establishment of the (special) fund, giving due consideration to the views of the participating countries of the Conference as well as of other interested parties such as developed countries or international organizations."

The Ambassador went on to say that "Japan as the host country of the Conference, has already requested other developed member countries of the Asian Development Bank to give favorable consideration to the establishment of the fund."

Previously, at the Inaugural Meeting of the Asian Development Bank in Tokyo last November, a number of our Governors spoke about the desirability of the Bank's having Special Funds resources. I myself commented at that Meeting:

"A number of the distinguished Governors have referred to the Special Funds category of loans provided for in the Charter. There is no doubt that this will be a valuable tool in furthering the Bank's objective of maximum capital mobilisation for the economic advancement of the region. As many of you have noted, the present

stage of many of the developing countries makes it impossible for them to adhere to the terms of conventional loan agreements. Particularly in the crucial area of agricultural and infrastructure loans, the repayment schedule and interest rate structure of the hard loan category are apt to be self-defeating. If the Bank is to effectively promote all facets of economic development in the ECAFE region, it must be equipped to extend soft loans in those cases where they are the only practical and realistic solution. It is also clear that the Charter's limitation on soft loans to 10 per cent of the Bank's total paid-in capital will not be sufficient to satisfy the need. We therefore, will actively seek Special Funds contributions from member and non-member countries alike."

My original view has been confirmed on my recent visits to Asian regional members where interest in Special Funds for agricultural development in particular has been widespread. It would appear that in some of our member countries it may not be suitable for the Bank to extend much beyond technical assistance until it has Special Fund resources.

I also stated at that same Inaugural Meeting, in accepting office as President of the Bank, that my prime aim in these early years will be to build a credit-worthy lending institution capable on its own of raising funds for Asian development in the capital markets of the world. I do not believe, however, that the availability to the Bank in the near future of supplementary resources for financing projects on more liberal terms would in any way conflict with this aim. The Inter-American Development Bank's credit worthiness has not been adversely affected by its acceptance of Special Funds at an early point in its development. The Special Funds of course, would be entirely separate from our Ordinary Funds. I would regard it as essential to require the same degree of carefulness in testing the soundness of projects financed from Special Funds as applies to projects financed from the Bank's ordinary capital resources. Furthermore, each specific use of any Special Fund that the Bank may have should be supported by the same type of staff studies and recommendations as would be required for the ordinary operations of the Bank.

I am happy to announce to you that at the most recent meeting of our Board of Directors, the Board accepted in principle the idea of Special Agricultural Funds to be administered by the Asian Development Bank. We at the Bank hope that following our meet-

ing in Manila, and the Bank's own positive reaction to such a Fund, potential donor countries can now respond to your initiative on a matter of such vital importance to the well-being of Asia. We recognize that the response will be voluntary and will require time for appropriate executive and legislative action in donor countries.

In the discussion on this subject, the Board of Directors of the Bank felt that it would be undesirable to restrict the Bank's use of such Special Funds to certain members. The Bank recognizes the urgency of the problems of agricultural development in your countries. It will also necessarily take into account views of any donor country with respect to special emphasis.

We would certainly hope that both you and the donor countries will assist the Bank in the arduous task of making the best use of the Special Funds. Our own staff has been kept deliberately small. We will need to make use of your experts in completing the studies required before disbursing these funds. We are now proceeding to establish a small panel of experts from both the recipient and potential donor countries to meet with us periodically to advise on Special Fund programs for agriculture.

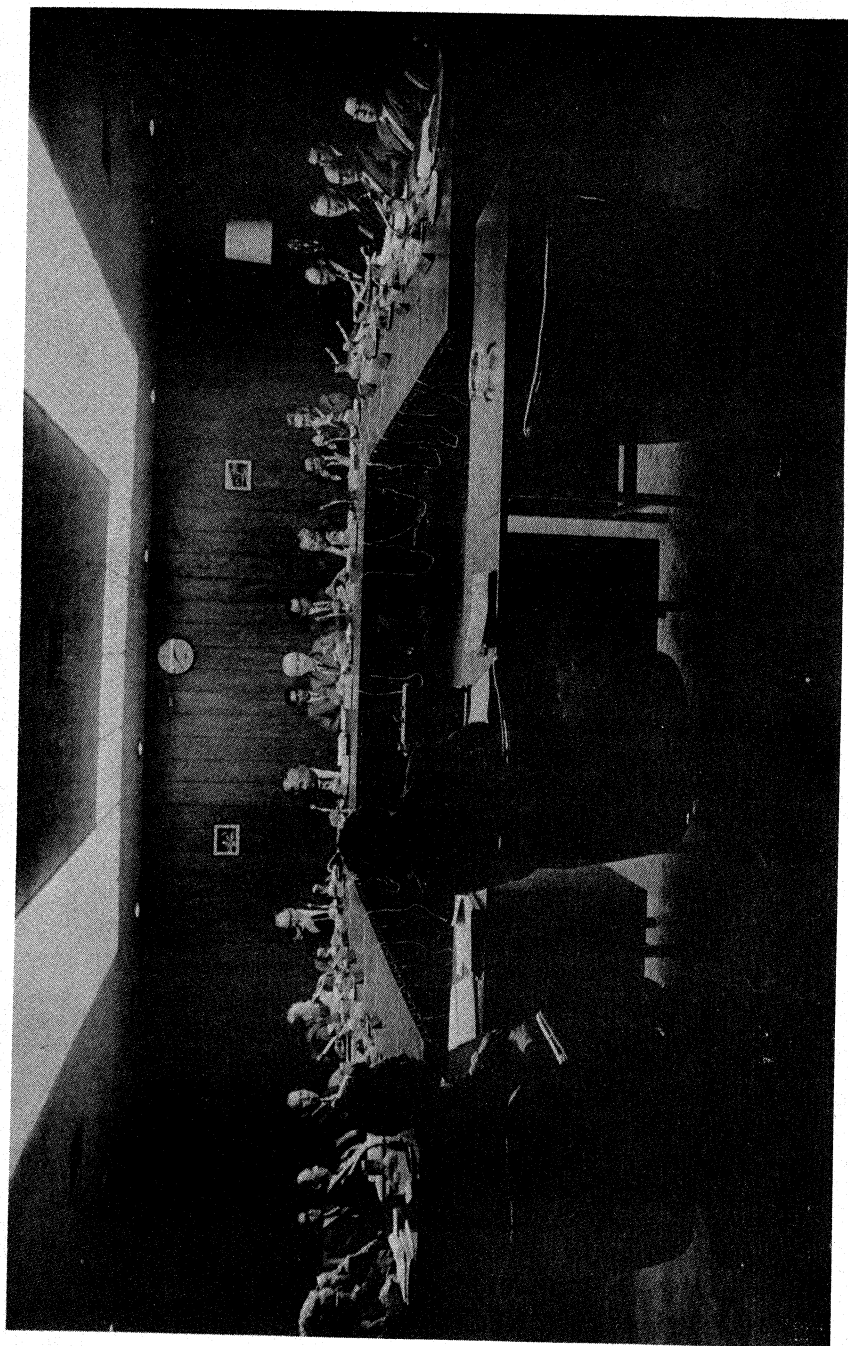
At this time it would be premature to go into detail about any funds, or the Bank's program for using the funds. The Board has already begun to examine the framework for Bank policy with respect to the complex questions associated with the shape and conditions of any funds that may be offered, as well as the possible uses of funds. On the basis of this work already underway and studies that will be shortly begun, I hope to be able to provide all our members with a better idea of possible programs and to ask prospective donors for contributions.

At this time, I conceive that Special Funds will provide loans on concessional terms, as well as some grants, particularly to meet the great demands for technical assistance to agriculture. This technical assistance might be in such areas as promoting research, in training extension workers and educating farmers to use improvements, in carrying out project feasibility studies, and in many other fields. I would only want to re-emphasize here what I have already said and what I am sure you will support: namely that the "softness" of this Special Fund be in the financial terms of assistance, and not in the rigour of the evaluation of the project or the conditions necessary to use the assistance effectively. It is also clear that the assistance cannot be in substitution of what can, and must, be done in your own countries by way of self help.

I am happy to have been able to announce to you the important decision of our Board with respect to the Special Agricultural

Funds, which is to me a clear sign of the progress that has been made. This is an auspicious start; but there is much work to be done and, in this work, as I stated, I hope we will have the benefit of both your advice and your experts. With that help, I believe we can continue to make progress toward the actual establishment of Special Funds for agriculture. We must base our appeals to donors and our future decisions on a clear, coherent, and well-documented program of action. We in the Bank shall bend our efforts to the preparation of such a program; in so doing, we shall be in constant touch with your Governments. My colleagues and I in the Bank count heavily on your understanding and goodwill, on your receptiveness to our thoughts, your critical analysis and valuable comments on our proposals, and, not least of all, upon your sustained support of our endeavors to be of service to you.

(Statement at the Second Ministerial Conference for Economic Development of Southeast Asia, in Manila, April 26-28, 1967.)



Board of Directors of the ADB in a routine session

STRATEGY FOR SUCCESS

As you are aware, last week, this country hosted the Second Ministerial Conference for Economic Development in Southeast Asia. A major item on the agenda was the previously-proposed Agricultural Development Fund, to be a special fund administered by the ADB. In my statement to that conference, I was pleased to report that our Board of Directors "accepted in principle the idea of special agricultural funds to be administered by the Asian Development Bank". In so doing, the Board officially acknowledged the obvious and pressing need for agricultural development in this region, and pledged the Bank to lend the full weight of its support to this area of endeavor.

However, I would like to take this opportunity to pause in the discussion of special funds, to reiterate the function of the Asian Development Bank as a source of standard conventional loans.

I am afraid that, amidst the current attention being directed to possible special funds contributions from some of the developed countries, there is a tendency to overlook the fact that the bulk of the ADB's existing capital constitutes its "ordinary capital resources".

At the Inaugural Meeting in Tokyo, the authorized capital of the Bank was increased from \$1.0 billion to \$1.1 billion, in anticipation of the admission of new members. Of that amount, \$965 million was actually subscribed, half of which will take the form of paid-in capital, payable in five equal annual installments. Fifty percent of the paid-in portion must be remitted in gold or convertible currency, and the remaining 50 per cent may be paid in local currency or promissory notes.

By the time the ADB commenced operations, the first installment had been paid-in, realizing roughly \$50 million in freely investible funds. On August 22 of the current year, the second installment falls due, which is expected to bring the total of investible funds to just under \$100 million.

Out of those "ordinary capital resources", the Charter permits the segregation of 10 per cent of the paid-in capital for special funds; i.e., loans provided under more liberal credit terms. And even that relatively small amount is dependent upon authorization by the Board of Governors, an authorization as yet not given to the Bank.

We are, therefore, especially grateful for the indications of special funds contributions currently pending, and will continue to actively seek such contributions in the future.

However, this concern with special funds does not forecast any departure from the role of the Bank as envisioned by its founders. Neither does it herald an amendment of my own determination to adhere to that role.

In my first speech as President of the Bank, I stated that "conventional or hard loans are the material of which any bank's foundation must be constructed". That statement has no less significance now than it did then. In fact, in order to attract the vital incremental sources of capital, it remains essential that we concentrate on acquiring, and managing successfully, a portfolio of conventional loans, consistent with the precedent set by other international financial institutions.

Furthermore, even though our present paid-in capital position limits the amount of each loan to several million dollars, I continue to be of the firm belief that the Bank can and will make a valid and significant contribution to the economic development of the region through its "ordinary capital resources".

This conviction was sustained by my recent series of trips to the regional member countries. In addition to aiding measurably in our efforts to recruit competent staff, those visits shed valuable light on the economic climate in the region, and afforded leaders of those nations an excellent opportunity to voice their own development objectives and priorities.

Through those discussions, as well as visits to a selected number of development schemes, the spotlight was focused on the very real need for agricultural and basic infrastructural financing. While it is unquestionably true that the bulk of this phase of development demands the extended terms and low interest rates characteristic of soft loans, there is still ample scope for the application of the Bank's conventional loan resources.

It is, moreover, vitally important that all available resources be brought to bear on the problem of increasing the food production of this region at a rate at least matching, if not exceeding, the

current rate of population expansion. Equally as significant, however, is the fact that a healthy agricultural sector provides the foundation from which industrialization can be launched.

Many developing countries have recently expressed concern over the fact that they appear to be interminably destined to supply only raw materials to the developed countries, and are being deprived of their share in the export of manufactured goods.

Equally as disheartening is the experience of countries who, in their haste to industrialize, often sought the establishment of heavy industry as an economic remedy. They quickly discovered that, while heavy industry may enhance the prestige of the nation, it accomplishes little else unless predicated on a stable and prosperous agricultural community.

Particularly in the early phases of industrialization, manufacturers must enjoy the benefit of a domestic market, with sufficient purchasing power to absorb their goods. A strong domestic market is especially important in the formative stage of industrialization, when producers have not yet mastered labor costs and quality control to the point where their products become competitive in the international marketplace. There is no doubt that a prosperous agricultural community will constitute the broad base of this market.

I should like, therefore, to underscore the mutual interdependence of agriculture and industry, the former seeking low cost, domestically-produced goods to serve as import substitutes, and the latter relying on domestic consumption as the cornerstone of its market structure. To concentrate on one sector to the exclusion of the other, can only retard the progress of the nation's overall economic development, and, thus, stifle the essential increase in the standard of living.

Based upon the income derived from domestic consumption, the infant industry can afford to finance the necessary research and development expenses required to render its product more eligible to compete in the markets of the world.

At this point, the responsibility accrues to the developed nations to adopt an enlightened attitude toward their developing neighbors. It is critical to the cause of development that, when the developing country's manufactured products achieve a truly competitive stature, they have unimpeded access to the international marketplace. The onus is on the developed nations of the world to accept these products willingly, and to be prepared to shift their own production facilities, if necessary, into the manufacture of

higher quality products, rather than endeavor to erect trade barriers, designed solely to discourage any new competition.

Industrialization, therefore, depends upon two factors: at the outset, the developing country must exercise care to develop its industry, not at the expense of, but closely in conjunction with its agriculture. Secondly, the developed countries must exhibit a broad-minded "laissez-faire" posture in their acceptance of the developing nation's products, even though they may present a challenge to that country's own export commodities. Moreover, the developed nations may find that, although a specific product might be forced off the market by the competition from developing countries, its overall national income may be increased by the resulting market to supply the means of production to the developing country.

Industrialization, on this basis, has already demonstrated its feasibility and merit in some countries in this region. I am anxious to lend the full support of the ADB to the furtherance of this type of integrated development.

One practicable application of the Bank's conventional resources, which emphasizes the close connection between the two sectors, is the development of the agricultural output—processing industry. An already-tested and successful example of this phase of industrial development is the canning industry, and there are certainly innumerable others.

I have dwelt, thus far, on what I believe is a logical and realistic approach to the economic development of this region, and have tried to outline the specific areas on which the ADB is not only well-advised, but disposed to concentrate, especially during its formative years. I would like to occupy the time remaining in discussing another activity which we are rapidly equipping ourselves to undertake; namely, technical assistance.

During the course of my regional visits, I was made aware of the fact that wisdom is sometimes worth more than money to a developing country. If nations of this region are ever to achieve a fully integrated economy, it is essential that sufficient emphasis be placed on the so-called strategy of economic development. This strategy includes an accurate appraisal of the country's present stage of development, to determine the degree of existing infrastructural groundwork, from which agricultural and industrial projects can be conceived.

Having arrived at an overall plan, based upon a realistic evaluation of the needs, it then befalls the developing country to identify specific projects, which can qualify for development finan-

cing. This demands a systematic analysis of a myriad complex factors, including each project's probable immediate contribution to national income, its ability to generate funds to service the loan, and its relevance to the total concept of economic development.

Finally, having completed the two phases outlined above, and having categorized the resulting projects on the basis of relative priority, it is imperative to provide for the efficient implementation of the funds. Supervision and implementation, though the last phase, is by no means the least significant. For example, with regard to the servicing of the debt generated by the project, it is vital that pre-arranged timetables be adhered to, lest the scheme's earning power fall behind the repayment schedule. I would venture to say that improper implementation has, in many cases, contributed considerably to a condition existing today in many developing countries, whereby a major portion of all new development loans is committed to the servicing of existing debt. This condition has reached alarming proportions in some nations already, and threatens to stifle the progress of economic growth altogether in the near future.

The inadequate depth of human resources in developing countries, and the corresponding need to mobilize additional manpower for development, is not unrecognized by the countries of this region. I discovered on my trips that, in some cases, a country may be capable of securing financing readily enough through its own channels, but is unable to identify appropriate projects or to present them in a form acceptable to international financial institutions.

Another obstacle often encountered by developing countries is a reluctance to solicit technical assistance on a bi-lateral basis. There is, I believe, a tendency to suspect that any request for assistance is apt to imply a commitment of some sort to the developed country. While this need not necessarily entail a disadvantageous posture, the fear of it is often enough to inhibit the developing country.

We would hope that, through the ADB's multi-lateral character, we could eliminate that reluctance. And, in fact, we do not intend to take a passive stance, simply awaiting requests for technical assistance.

Within the next few months, we expect to have completed the initial staffing of the Operations Department and the Economic and Technical Assistance Department. We have, as well, already begun to approach a number of outside sources of technical assistance, with whom we could work jointly, in performing feasibility

studies or pre-investment analyses. In addition, a number of international agencies and eminent experts from member countries have indicated their availability for such studies.

Equipped with such a wealth of talent, I feel it would be a mistake for the Bank to merely make itself available to receive applications for technical assistance. Admitting the widespread desire for economic advice, we will attempt to take the initiative in determining the specific areas where the Bank can lend its technical resources most effectively. In fact, in the not too distant future, we hope to commence dispatching technical missions to the developing members, to identify suitable candidates for ADB loans.

However, the Bank is somewhat restricted in providing this service. Our Charter limits the funds available for technical assistance of a "non-reimbursable nature" to two per cent of the Bank's paid-in capital. Nonetheless, this is a base from which to start, and supplemented with the proceeds of prospective special funds, designed for such studies, we should be able to respond to the already urgent pleas of the developing member countries.

Yet, regardless of the impact engendered by developed countries or by the ADB, the real impetus for economic development must spring from the soil of the developing countries themselves. They must inspire the domestic initiative, and be prepared to supply the manpower resources and endure the sacrifices that are the dictates of progress. This demands the cultivation of a generation of home-grown experts; economists, engineers, agronomists, statisticians, and, perhaps most critical of all, competent and conscientious managers.

(Statement at the meeting of the Manila Junior Chamber of Commerce, in Manila, May 2, 1967)

A PLAN OF ACTION

Today's opening session of the Consultative Committee signals the first operational step of the ADB in pursuit of its stated goal—"to promote economic growth in the region of Asia and the Far East." It is fitting that the first step should be directed toward the most crucial sector of economic development today, namely agriculture. It is also appropriate that the first operational step should be the natural one of asking specialists and experts for their advice and counsel, particularly as it pertains to possible areas of ADB activity.

As you are aware, the founders of this Bank endowed it with a capitalization of \$1.1 billion: to this, the original thirty-one members countries subscribed \$965 million. Half of this amount is to be paid-in in five equal annual installments, 50 per cent in local currency and 50 per cent in convertible currency. In accordance with these remittance provisions, as specified in the Charter, the Bank, by the time this Survey is concluded, will have had two installments of its capital subscription paid in amounting to about \$200 million of Ordinary Capital Resources, with which to conduct its ordinary operations. Somewhat more than half of this amount will consist of convertible currencies.

The first task of the ADB was to translate the concept of a regional development institution, as embodied in the Agreement Establishing the Bank, into a functioning reality. In the six months that have elapsed since our formal opening in Manila, at which time the Bank had a skeleton staff of less than ten, we have engaged a personnel force of more than one hundred and fifty, of

whom fifty are professional staff, recruited from over fifteen countries. As well, the Bank has made progress in establishing a comprehensive administrative framework with which to expedite its internal operations.

Apart from this, one of my first endeavors, upon assuming the Presidency of the ADB, was to visit each of the regional member countries, to acquire a better understanding of the general economic climate in the region, and to elicit the views of leaders of government and the private sector on the Bank's role as they saw it.

This series of visits, which was concluded in April, strongly supported the statements of the majority of the Bank's Governors delivered at the Inaugural Meeting. They placed primary emphasis on the critical need to stimulate the development of agriculture in this region, particularly the immediate imperative of increasing food production in the face of mushrooming population growth.

For the longer run, the development of agriculture can be seen as the first phase in a well-ordered program of diversified economic development; a program designed to effect the transition from Asia's traditionally agro-based economies to ones which are truly well-balanced, including a healthy industrial sector. Moreover, a prosperous agricultural community, with sufficient purchasing power, will constitute the basis for the domestic market upon which industries in this region, particularly during the formative stages, must rely as an outlet for their manufactured products. It also will form a major source of internal capital for further development.

Both the urgency, and the companion challenge, of transforming traditional peasant agriculture into modern, commercial agriculture are, I am certain, fully recognized by this well-informed gathering.

We are all aware of the many complications that attend any attempt to transform traditional agriculture. It is my expectation that in the course of this Survey you will direct attention to the major and typical problems that Asian agriculture faces, as well as the corresponding activities that you would recommend for this Bank. So far as development financing for agriculture is concerned we can see certain limitations that are faced by potential borrowers. There is not always adequate capability to optimally determine the allocation of national resources to agriculture, to which outside assistance can only be a supplement. Further, there are difficulties in matching project identification with the determination and implementation of policies and institutional changes ne-



President planting a sapling at Jalalabad power-irrigation project in Afghanistan.

cessary for the success of either the particular project or of the agricultural sector as a whole. Developing countries are also often additionally handicapped in the articulation of projects to meet the requirements of lending agencies.

These difficulties can be surmounted by a sufficiently dynamic program of technical assistance. However, in making a useful contribution to the resolution of these and comparable difficulties, the ADB, at this early stage of development, itself needs technical assistance in evolving its perspective on the criteria of agricultural lending, the channels and forms of lending, the conditions of lending, etc. It is to you and to the Survey Team, under your guidance, that I look for suggestions.

I have already reviewed with you the capital resources of the Bank. With these resources, with such additional capital as we may be able in due course to borrow in capital markets of the world, and with such other development funds as we may be able to mobilize in our role as a catalyst, we envision a wide range of activities. It is natural to assume that agricultural development will warrant a sizeable share of these resources. Yet there is still another problem.

At the very core of the issue of agricultural development is the need of many of the developing nations in this region for "soft loan" funds, with extended maturities and reduced interest rates. In the first place, some types of agricultural projects have long gestation periods and, despite their importance may improve the foreign exchange position of the borrower only indirectly. Secondly, in quite a few borrowing countries, loans of the conventional type would cast a debt burden beyond their current servicing capacity. There have been indications that capital for this sort of concessional financing will be forthcoming, in the form of Special Funds contributions, to supplement the Bank's Ordinary Capital Resources.

In the Joint Communiqué of the Conference on Agricultural Development in Southeast Asia, which convened in Tokyo, in December 1966, the nine participating nations formally underlined the significant role that agriculture must play in the development of this region. It further agreed to call upon developed countries and the Asian Development Bank to cooperate in setting up a special agricultural fund, and requested the "Asian Development Bank to start immediately deliberation on various problems concerning the establishment of the fund."

At the subsequent Second Ministerial Conference for Economic Development of Southeast Asia, which met in Manila this past

April, I was pleased to report that our Board of Directors "accepted in principle the idea of special agricultural funds to be administered by the ADB." At that same conference, I reiterated the feeling of the Board when I stated, "our own staff has been kept deliberately small" hence, "we will need to make use of experts in completing the studies required before disbursing these funds." And further, "we must base our appeals to donors and our future decisions on a clear, coherent and well documented program of action."

The management and the Board are cognizant of the limitations that both the Bank's requirements and time impose on this Survey. We are not seeking yet another addition to the sizable output of studies, reference works, and documentation that already exist or are currently in the course of preparation on the subject of agricultural development in general or with specific reference to Asia. Neither do we expect that you will have the time to do an in-depth analysis of each country's individual economic and agricultural characteristics with a view to evolve comprehensive recommendations on the policies, procedures and programs appropriate for each country's agricultural growth.

Instead, the objective of the ADB in commissioning this Survey is primarily to solicit your advice on those specific operating areas in the field of agricultural development to which the Bank can lend its resources, be they technical or financial, hard loans or soft, and your suggestions regarding general policy guidelines which would make the Bank's participation useful to the developing member countries and worthwhile to the Bank.

This Survey is, therefore, designed to be "action-oriented," to assist the ADB in evolving a valid and up-to-date framework within which (by promoting agriculture) it can make tangible contributions to the economic advancement of the developing member countries. In this regard, the views that would emerge from the work done under your guidance would command the most careful consideration of the Management and the Board of this Bank in the formulation of policies.

The purpose of this initial meeting of the Consultative Committee is to enable you to consider the appropriate procedures and methods necessary to ensure the smooth and efficient operation of the Survey and, through discussion and refinement of the terms of reference, to pave the way for the work of the Technical and Economic Survey Team, some of whom are in attendance at this session. This Team, whose leader is Dr. Chung, is composed of specialists in the field of agricultural development, and will con-

cern itself, through visits and consultations, with investigations of the typical problems of agriculture in the region and of the ways by which this Bank can help in promoting agricultural growth. The members of the Team will return to the Bank at periodic intervals to coordinate their findings with the existing data on the subject, which have been catalogued by the Technical Secretariat, and to formalize their observations into reports.

It will be the role of the Consultative Committee to evaluate the work of the Survey Team. Based upon the reports submitted by the Team members, it will be your responsibility to consider their conclusions in the light of your own experience to determine to what extent they satisfy the objectives which I have outlined. In this fashion, we hope you will produce reports containing not only an indication and an appraisal of the specific problems in the region, but, also an integrated body of expert views taking into account the various observations. It is these reports, which will serve as the Survey's definitive documents, that will be forwarded to the Management and the Board of Directors of the Bank; reports which we hope will provide us with a well-spring of insight of value to the formulation of the Bank's future operating policy in agriculture.

I am heartened by the talents assembled here. Speaking for the entire Asian Development Bank, I am confident that this Survey will be the forerunner of a continuous stream of meaningful cooperative efforts between the ADB and international experts and institutions, aimed at raising the standard of living of the developing nations in this region.

(Address to the Consultative Committee on The Asian Agricultural Survey at the Bank's Headquarters in Greater Manila, July 11, 1967.)

PREREQUISITE FOR PROGRESS

The Asian Development Bank initiated its operational activities this past week, with the launching of an Asian Agricultural Survey. One of the key stimuli for this Survey was my recently concluded series of visits to the Bank's regional member countries. It is all well and good to peruse statistics, like those which record the past year's shortfalls in food production, to a level below pre-war output, and, more generally, the decline in overall agricultural production of similar magnitude. However, it was only through personal contact with leaders of government and the private sector in the developing nations of this region, that I was brought face to face with the very real consequences of these shortfalls, and the resultant imperative of reversing this downward trend.

The figures tell us that the developing countries must sustain an annual growth rate of at least five per cent in agricultural production, merely to regain pre-war levels. However, the figures don't spell out the difficulties impeding such a goal. It is only when you speak with economic planners and policy makers that you are made fully aware of the obstacles imposed by a host of deficiencies in the existing developmental framework, including a lack of elementary infrastructure, inadequate capital formation, and immobile or unskilled labor resources.

These and similar problems have not only proved serious deterrents to the effective stimulation of regional agricultural production, but, they have also had repercussions on industrial growth

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.

Nonetheless, an organization like the ADB forms an important multilateral link, connecting developed and developing countries. Therefore, it has the added effect of a catalyst, inducing a stream of technical and capital resources considerably greater than its own to flow into this region. I am confident that the financial resources will be forthcoming, evidenced by the response of the developed countries to the suggestion of last December's Conference on Agricultural Development in Southeast Asia for the creation of an agricultural special fund, to be administered by the Asian Development Bank. Looking a bit further down the road, the ADB will endeavor to raise investment funds for this region through the sale of its bonds in the international capital markets.

In the interim, the Asian Agricultural Survey represents the Bank's initial attempt to mobilize outside technical resources for the tangible benefit of the region. The success of this maiden effort, in terms of the expertise represented on the Survey's Consultative Committee and its Technical and Economic Survey Team, should be a source of considerable encouragement to the developing member countries.

The Consultative Committee held its first session last week, purporting to "consider the appropriate procedures and methods necessary to ensure the smooth and efficient operation of the Survey and, through discussion and refinement of the terms of reference, to pave the way for the work of the Technical and Economic Survey Team . . ." I was greatly impressed with the Committee's grasp of the problems inherent in such a Survey, namely the limitations imposed by the Bank's specific requirements and time, as well as their desire to circumscribe the objectives of the Survey to focus primarily on a program of action for the ADB. In other words, the Survey will not endeavor to produce another in the stream of general reference works on the subject of agricultural development. Neither will it presume to conduct an in-depth investigation of each developing nation's particular economic problems in the relatively brief span of six months.

The Survey is, instead, designed to serve as a framework for the future operations of the Bank as they relate to the field of agricultural development. It will attempt to pinpoint the needs of the region, the problems which have traditionally created or perpetuated those needs, and, finally, general investment opportunities which the Bank could promote to satisfy those needs. The optimum opportunities would be those which increase productive capacity, especially those which introduce technological advances.

A process of selection and limitation in the conduct of the Sur-

vey is, of course, inescapable. However, within those confines, I am confident the Bank can reasonably expect to acquire an appraisal of the climate for investment in the region which, while it may be restricted to a few sample situations, will, nonetheless, be indicative of the whole picture. This appraisal must evaluate such factors as the sophistication of national economic planning and administration, disposition of land, ability to adopt technological innovation, distribution and marketing facilities, and the nature of capital and credit structures. Even more critical perhaps, is the identification of existing policy constraints which may be inhibiting economic growth. Special emphasis will be devoted to each country's current stage and pace of development, and the scope and requirements for further gains, aimed at reaching that point where economies can be recognized as "taking off."

At the conclusion of the Asian Agricultural Survey, scheduled for early 1968, the ADB will inherit a body of information and recommendations, formalized into reports, which will directly influence the course of the Bank's lending policy as it pertains to agriculture. However, the legacy of the Survey will indirectly have far broader implications for the entire region, because a prosperous agricultural community is a certain prerequisite for the advent of industrialization.

(Address to the Mandaluyong Chamber of Commerce, July 21, 1967)

DIPLOMACY:

A NEW DIMENSION

Prior to World War II, many of the countries of this region were merely fragments of vast and impersonal colonial spheres of influence, with little more than a secondary hand in charting their own course. The Asian diplomat, is, today, the emissary of his own independent nation, striving to establish its own national identity, endeavoring to satisfy its own needs and ambitions, and beset by its own indigenous set of problems.

During the pre-war era, there were clear lines of demarcation between the "haves" and the "have nots", the rich and the poor, the powerful and the weak. Diplomacy then consisted of the countries in the former group vying for the control of those in the latter, in the interminable struggle for the balance of power. It is disconcerting to note that the configuration of "haves" and "have nots" has altered only slightly. And, I must admit, that it is sometimes difficult for developing nations, even in the modern world, to envision a much more meaningful role for themselves, as long as this struggle persists.

However, there is a significant new dimension to diplomacy today — the dimension which Mr. Eugene Black so aptly named "the diplomacy of economic development". This dimension is predicated upon what the former World Bank President terms the "balance of hope" for the developing countries. If my understanding of this thesis is correct, it implies that the successful economic

development of Asia is contingent upon the wholehearted acceptance — in fact, the stimulation and encouragement — of change; the evolution of thinking to include the introduction of new technologies into traditional societies; the transformation of methods of production from what might be termed “prayer-inspired” production to scientifically-induced production.

The willingness of the more fortunate to share their wealth with the less fortunate has historically been, at best, an occasional quality. This applies not only to the reluctance of developed nations to open their doors to the competitive products of their developing neighbors, or to make their economic surpluses readily available to countries in the throes of economic crisis. It also relates to the lamentable attitude of some minority interest groups within the developing nations, who are inclined to oppose essential land reforms, or who engage in conspicuous consumption, while viable development projects must be shelved due to insufficient capital.

To carve out a meaningful position for your countries in the international community of nations — one of which they can be justifiably proud — is the immediate challenge to diplomacy today, and I am heartened to observe it as one of the primary subjects of study by this Course. To impart to the minds of your people the thirst for technological innovation, and to their hands, the skills to effectively implement the fruits of modern science, is the first dictate of “development diplomacy”. The second, and equally urgent, is to arouse and enlighten the developed community to your needs, and to the logic of their contributing an ever-increasing amount of their technical and capital resources to the construction of a prosperous Asia. I have no doubt that an economically independent and prosperous Asia will contribute considerably more to the affluence of the developed countries, than it ever did as a region of economic satellites. It now befalls men like yourselves to disseminate this rationale in a convincing and rapid manner.

Your assignment is made exceedingly difficult by the current statistical ill-wind, which threatens to extinguish the already-faint glimmer of hope for this region. It is no easy task to sow the seeds of hope in the minds of the people, when Asian agricultural production declines to 5.5 per cent below pre-war levels, as it did this past year, or when regional rice output is one million tons less than the previous year, which itself was considerably lower than 1964's record yield. The horizon appears even dimmer when viewed through the eyes of a population which is increasing at the rate