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CHAPTER I

INTRODUCTION

Asia, a continent filled with a fourth of the world's population, seems to be the epitome of troubles and disorders. It is an area featuring economic backwardness, agricultural inefficiency, industrial underdevelopment and commercial slackness. For centuries, the Asian peoples have struggled, under the pressure of poverty, for survival.

Since the Second World War, the peoples, grouped together by race, language and culture, have acquired their individual independence as sovereign states on the international scene. However, political stability is dependent upon some measure of economic progress. For this goal, they have been organizing a drive toward economic development. Therefore, this region is also characterized by a process of transformation.

For hundreds of years, this region was under Western colonial rule. The main purpose of the individual colonial governments, in this vast area, was to support the motherland, economically and militarily. There was no common desire among the colonial governments to systematically plan for individual or collective economic and political development in the region. After their independence, language barriers, religious differences, cultural varieties, and political influences have continued to keep the peoples of the area disunited.

In addition, from the aspect of economics, it seems to most of the developing countries of the region that their common problems are the shortage of capital and technical assistance. However, this is looking at the surface of the problem. There is a growing realization that economic development is not merely capital and technical assistance. The importance of proper regional policy formulation as an essential concomitant of national development is becoming recognized.

A system must be developed to direct economic development and cooperation. A plan is needed to help the nations of the region absorb more capital and technical know-how for development needs. Also, the plan must fit the needs of both the region and individual countries. Operating principles should be established to such an extent that any programs and/or projects conducive to economic growth in the region can be fostered rapidly. Program management must be flexible so as to meet various national demands.

In the initial stages of discussions for achieving the above goals, three types of approaches were examined by scholars.[1]

Type 1: Development aid from advanced nations on a bilateral basis. Hopefully, some of this aid would be channeled through multinational groupings such as an Asian-type economic community.[2]

Type 2: Development assistance via an Asian Common Market. It is held that formation of an Asian common market or payments union could encourage free trade within the region and help to coordinate industrial development within member countries.[3]

Type 3: Development via a regional bank. A regional development bank would serve to integrate economic development and facilitate useful investment.[4]

However, in view of the fact that Asian countries are greatly dissimilar in race, language, culture and stage of economic development, the first two types have, at the present stage, proved impossible to attain. The first type, aid from advanced nations, such as the United States, the Soviet Union, and Japan, has been entangled in political considerations for influence in the Far East which is deemed not to serve a common goal of Asian economic integration. With regard to the second type, vulnerable economic systems and underdevelopment have forced some nations to adopt highly protective trade policies. Only the third type--to establish a development bank on the regional basis--appeared to be feasible. This is because a business-type bank has less political implications; at the same time, it is a kind of investment from the advanced nations. On the other hand, developing countries can obtain developmental funds relatively free from political considerations.

Politically, favorable conditions in the region made formation of such a bank possible. Fundamentally, almost all of the countries in the region have maintained some form of capitalist economic system. In other words, the economic ideology of a bank is acceptable to these countries.

In general, most of the regional countries have adopted pro-Western policies since their independence. This pro-Western strategy has been especially reflected in their individual political security and economic development arrangements.

From the aspect of political security, the U.S.-based alliances, both bilateral and multilateral, have formed certain groupings of states. Under the basis of bilateral arrangements, the treaty-relations between the U.S.-the Republic of Korea, -Japan, -the Republic of China, -the Republic of Viet-Nam, -Thailand, and -the Philippines assume particular significance. On the other hand, the Southeast Asia Treaty Organization (SEATO), which includes the United States, Great Britain, Australia, New Zealand, the Philippines, Thailand, and Pakistan, constitutes another important multilateral link.

Also several nations of the area are members of the British Commonwealth.

Along with political security, economic development has also been linked to the developed West and Japan. Also, major sources of aid have been the United Nations system, such as the Food and Agriculture Organization (FAO), International Bank for Reconstruction and Development (IBRD), United Nations Development Programme (UNDP), United Nations Commission for Asia and the Far East (ECAFE), and the United Nations Educational, Scientific and Cultural Organization (UNESCO). These economic ties have also played a leading role in bringing the countries in the region together.

Footnotes

[1]For a more detailed analysis of these three types, see Yoshizane Iwasa, "For Asia's Billions, A Financial 'Family Doctor,'" Columbia Journal of World Business, II (March, 1967), 67.

[2]*Ibid.*, p. 68.

[3]The basic idea stems from the European Economic Community. According to my interviews with the leading officers of the ADB, this idea, because of differences of basic conditions from Europe, geographically, economically, culturally, and politically, seems impossible to achieve. President Watanabe of the ADB also mentioned this possibility in his address to the Second Annual Meeting of the Board of Governors, 1969.

[4]This idea stems from the successful precedents of the World Bank and the Inter-American Development Bank.

CHAPTER II

THEORETICAL BASE

Theoretical Analysis

This dissertation has based its theoretical foundation on the "Structural-Functional Approach" as presented by Gabriel Almond and G. Bingham Powell in their analysis of the comparative study of the political institutions of nation-states.[1] Although Professors Almond and Powell place their emphasis on the discussion of the political institutions of nation-states, it is also applicable to the process of political interaction which can be identified and studied with regard to regional organizations.[2] It is on this basis that the role of the Asian Development Bank (hereinafter called the ADB or the Bank) as a political system can be studied and identified. The main purpose of this chapter is to indicate: (1) what basic approach and theoretical themes as stated in Professors Almond and Powell's original study are adopted in this dissertation, and (2) how these theoretical premises are incorporated into the study of the structures and functions of the bank system.

According to Almond and Powell, the functioning of any system may be viewed at different levels. One level of functioning is the systems' capabilities, which refers to the way it performs as a unit in its relations to other social systems and to the environment.[3] As applied to the bank system, it may indicate how well and in what ways its structures respond to the demands from the region as a whole for economic development. The second level of functioning is called "conversion processes" or "functions" which are characterized by the ways that system transforms inputs from the members of the system into policy outputs. In the political system, this involves the ways in which demands and supports are transformed into authoritative decisions and are implemented. It is apparent that the capabilities and the conversion processes of a system are related. Based on the Almond and Powell analysis, the major conversion processes are sixfold in nature.

(1) Demands are formulated by a process which we refer to as "interest articulation." In the bank system, demands are usually put forward by individual member countries or groups of countries organized by the sectors of agriculture, transportation, industry and other activities. For those developmental sectors, interests are particularly focused on capital resources and technical assistance.

(2) Demands are combined in the form of plans or proposals for action which we refer to as "interest aggregation." Under the bank system, groups of member countries, or the

regional member countries as whole for a specific interest, have taken the initiative to urge the Bank to adopt certain policies. A common technique has been to urge the Bank to conduct a survey of member needs.

(3) Authoritative rules are formulated by the political authorities of the system. This is known as "rule-making." In the bank system, this is involved in the interaction between the Board of Governors, the Directors and the President.

(4) These rules are applied and enforced by that process which we refer to as "rule application." This particularly concerns the Bank's President and its bureaucracy.

(5) These applications of rules are adjudicated in individual cases by that process which we refer to as "rule adjudication." In the bank system, this is done by the process of "arbitration."

(6) These various activities are communicated both within the political system, and between the political system and its environment. This is known as "communication." In the bank system, these activities are reflected from the complex web of relations between the Boards of Governors and Directors, the President, Vice-President, and the executive departments, and between the Bank and the member countries, both as interest groups and as individual countries.

Finally, the third level is the "system maintenance and adaptation function." This is particularly concerned with the recruitment of persons to fill the various roles in a political system, and with the "political socialization" of its members. At the present time, for both recruitment and socialization, the Bank is involved primarily with member government elites.[4]

This dissertation will focus upon two functions--interest articulation and aggregation (combined as one) and rule-making. The history of the Bank is too short to provide the data for a study of such functions as rule adjudication, socialization, recruitment, system maintenance, etc.

Interest Articulation and Aggregation

The study of the Asian Development Bank as a political system is important because the Bank does allocate some values, e.g., capital, technical assistance, etc., for the Asian community, although it is not viewed as "the authoritative source of the allocation of values" as indicated by Professor David Easton.[5] In other words, to be regarded as a political system, the Asian Bank must be seen as a focal point for the distribution of wealth for member countries of the regional community. Since individual member countries are not all alike, different groups of countries wishing different patterns of distribution can be found in the community.

The term "interest articulation and aggregation" refers to the general process by which demands of different groups or organizations who share common interests are formulated and then "combined in the form of alternative courses of action."[6] Basically, it has to be "transmitted to the political system for action."[7] In the analysis of the Asian Development Bank, the study of interest articulation and aggregation in regional intergovernmental organization need not be limited to unions, business or professional societies. There are groups of states--often referred to as "blocs" or "factions" or "groups"--representing political positions, geographical relevancy, and economic interests.[8] Although all the regional member countries of the Bank have a common interest in overall economic development, their interests are also based on their specific necessities and situations. Thus they have formed specific interest groups in agriculture, transportation, industry, coconuts, and vegetables, to name a few.

As related to the interest articulation and aggregation process, the study of the interest groups of the bank system assumes considerable significance. By "interest group" we mean a group of nation-states "who are linked by particular bonds of concern or advantage, and who have some awareness of these bonds."[9] In each member country of the Bank, there are a number of interest associations representing a wide range of moderately specialized agriculture, transportation, industrial, and other professional interests. Nevertheless, it is hard to refer to them as "well-organized." These private associations have not yet established transnational associations with their exact counterparts in the other states of the organization. For example, in agriculture most of the member countries have domestic agricultural associations, yet the participating members of the Asian Agricultural Seminar, sponsored by the Bank in 1969, were represented by individual governments of member countries, not by various agricultural associations.[10] The one exception is the national development associations and banks of individual member countries who, through their regular conferences, have formed a sort of transnational interest organization.[11] But we cannot ignore the fact that these development associations and banks have a close connection with and are under the general control of the national governments.

Although the interests represented by the nation-state groups are at times so similar as to be competitive, it is hoped that this situation might be overcome if appropriate arrangements can be contrived. As Professor Paul Tharp put it, "ideally, similar national groups within a regional setting should be able to exchange goods, services, and political supports among themselves; they should complement each other's needs."[12] Fortunately, one example of this kind has been established under the Bank's framework. Both the Republic of China and the Republic of Korea agreed that joint efforts would be made to develop a mutually complementary productive capacity in the form of petro-chemical-based products for synthetic fibers and to develop joint markets for such products between the two countries. The Republic of China intends to produce DMT, the Republic of Korea will produce caprolactam. Both countries represent interests of the same kind, but complement each other's needs.

Rule Making

This refers to the general process by which authoritative rules are formulated.[13] In the case of the Bank system, the supreme rule-making organ is the Board of Governors, with each national governmental representative participating in the organization. In addition, the Board of Directors, as delegated by the Board of Governors, has very important rule-making power for the Bank's operations. Thus, according to Professors Almond and Powell, "the problem of identifying the rule-making structures in a political system is one of specifying the whole set of agencies and institutions involved in the process, determining the kinds of things they do, the way they do them, and how they interact to produce general rules."[14] Therefore, in the bank system, the whole process of the substantive rule-making has been based on the actions and interactions of the Board of Governors, the Board of Directors, and the President in order to produce the general rules for operations.

Theoretically, although the Bank is confederal in character (it has not been given direct law-making power over its member countries), its style of decision-making is somewhat progressive in the sense that the Bank uses majority rule. Article 33 of the Bank's Charter provides that, 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. However, there are instances when extraordinary voting majorities are used. An example of this is the provision in the Board of Governors which calls for some votes to be "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." Before one jumps to the conclusion, though, that the Bank is unusually democratic, we must point out that the number of votes a country has is based largely on the number of shares in the Bank that the country owns.

Identification of Interest Groups

Interest groups in the region that have established special links with the Bank will be examined next in this chapter. As discussed earlier, individual groups have been formed by nation-states in terms of specific interests. They are classified into two types: (1) the economic groups and (2) the voting groups. With regard to the former, groups of member countries have organized in order to gain specific interests. Under the current bank system, twelve such groups can be identified. As for the latter (groups that are formed for voting purposes), there are twelve: eight are from regional member countries; four are from non-regional countries. From these twelve groups, twelve Directors are elected to represent them in the Board of Directors. Basically, there is no written requirement specified in the Agreement

Establishing the Asian Development Bank (hereinafter called the Charter) which stipulates the ways or procedures by which these groups are organized. Simply, they are formed behind the scene among interested countries. Theoretically, the purpose of countries being distributed into twelve groups is to elect twelve Directors with roughly equal voting power. However, the reason as to why specific groups are formed is based on the individual nation's special considerations. Notwithstanding the classification, the true significance of grouping lies in the necessity and the convenience of achieving specific interests.

Economic Groups

Asian Agricultural Group

Countries Involved: Afghanistan, China,[15] India, Indonesia, Japan, Korea,[16] Laos, Malaysia, Nepal, Pakistan, Philippines, Singapore, Sri Lanka, Thailand, Viet-Nam,[17] and Western Samoa.

In view of the fact that these countries belong to an agriculturally-based economy, their major concern has been agricultural modernization. Therefore, the Bank was requested to undertake the Asian Agricultural Survey which was completed in 1968. The main purpose of this Survey was to facilitate the future operational role of the Bank in the sphere of agriculture through a study of the key problems of agriculture in the region. This was to be accomplished by recommending courses of action appropriate to the Bank in promoting agricultural development for the interested member countries.

The details of this Survey will be discussed in Chapter VI: Policy-Making in Agriculture.

Asian Industrial Group

Countries Involved: Burma, China, Indonesia, Khmer Republic, Korea, Laos, Malaysia, Philippines, Singapore, Sri Lanka, Thailand and Viet-Nam.

The Bank, in the interests of twelve members, seeking more industrial development, agreed to contribute up to $200,000 to the Asian Industrial Survey for regional cooperation sponsored by the United Nations Economic Commission for Asia and the Far East (ECAFE). The potential for industrialization of these twelve countries was assessed with the purpose of estimating the size of markets, availability of raw materials, production costs, economies of scale and other factors. Concrete proposals for the formulation of industrial programs and projects based on coordination of investment, production and trade policies were made. The Survey, begun in September, 1971, was completed in 1973 at an estimated cost of $617,000.

Asian Institute Group

Countries Involved: Afghanistan, Australia, Bangladesh, Burma, China, Fiji, Hong Kong, India, Indonesia, Japan, Khmer Republic, Korea, Laos, Malaysia, Nepal, New Zealand, Pakistan, Papua and New Guinea, Philippines, Singapore, Sri Lanka, Thailand, Tonga, Viet-Nam, and Western Samoa.

The Asian Institute in Bangkok which has been supported financially be the ECAFE member countries (almost all of them are also members of the ADB) is engaged primarily in the training of officials of regional countries in the techniques of development planning and in project analysis and management. The Institute also has a research function and provides advisory services as requested by regional countries. In response to a request by the Institute, the Bank approved a study aimed at evaluating its training and research programs, and the possibilities for cooperation between the Bank and the Institute.

Asian National Development Banks Group

Countries Involved: Australia, China, India, Indonesia, Japan, Korea, Laos, Malaysia, Nepal, New Zealand, Pakistan, Philippines, Singapore, Sri Lanka, Thailand, and Viet-Nam.

The individual national development banks of these countries requested that the Bank play a constructive role in convening and sponsoring their original conference called the "Regional Conference of Development Banks in Asia." Because of the Bank's involvement in their development business, this group can gain more help, financially and technically, therefrom. (See Chapter VIII: Policy-Making in Industry and Its Infrastructural Development.)

Asian Vegetable Group

Countries Involved: China, Japan, Korea, Philippines, Thailand, United States, and Viet-Nam.

In order to produce a sub-regional cooperative program to improve the production and marketing of fresh vegetables in the developing countries of Southeast and East Asia, these eight countries, represented by the Republic of China, requested that the Bank give financial assistance for the establishment and operation of the Asian Vegetable Research and Development Center (AVRDC). The Bank's Board of Directors agreed to do so in March, 1969. The Center, which is set up in the Republic of China, "will undertake research, training and extension programs designed to develop improved plant materials, adaptable technology and the skilled manpower necessary to build up an efficient and profitable vegetable industry to meet the increasing demand for a balanced diet and to provide a broader base of agricultural production and rural development."[18]

The total budget estimate for the first five years of operation of AVRDC is $7.5 million.

Coconut Industry Group

Countries Involved: Fiji, India, Indonesia, Laos, Malaysia, Pakistan, Papua and New Guines, Philippines, Singapore, Sri Lanka, Thailand, Viet-Nam, and Western Samoa.

For the economy of these thirteen countries, the problem of identifying present bottlenecks to the maximum commercial and industrial exploitation of the various products of coconut trees is considerably important. The Bank was requested by this group to undertake a study of the coconut industry in the region. The main objective of the study is to identify "bankable" projects in the coconut industry, i.e., to identify loan or technical assistance activities which would be generally acceptable for financing by national or international banks and other organizations.

The Study started in January, 1972, and was completed at the end of the same year.

<u>Group for LAWASIA Credit and Security Research</u>

Countries Involved: Australia, China, Indonesia, Japan, Korea, Philippines, Singapore, Sri Lanka, and Thailand.

During the course of economic development in the developing countries, lawyers have encountered many difficulties concerning, *inter alia*, the inadequacy of the law itself and of their own training and experience in playing their proper role in promoting the flow of and the securing of credit and finance for development purposes. Therefore, the Bank, in collaboration with the Ford Foundation, assisted the Law Association for Asia in carrying out a study of security arrangements available to national development banks and other financial institutions in developing countries.

The Project began in 1969, with a contribution of $25,000 from the Ford Foundation and with technical advice and administrative assistance from the Bank. In August, 1970, the Bank provided $27,000 to continue the Project.

<u>Lower Mekong Basin Group</u>

Countries Involved: Khmer Republic, Laos, Thailand, and Viet-Nam.

The fact that the development of the Lower Mekong Basin has great economic potential has been widely recognized by many international organizations. In 1957, this group established a "Committee for Coordination of Investigations of the Lower Mekong Basin." The project is designed to transform the social and economic life of the Lower Mekong Basin by utilizing the potential of the Mekong River for power, irrigation, navigation and various related purposes. These four nations are linked by centuries of shared history and now are bound together by the river, which they inadvertently share. If its vast potential for power, irrigation, and other purposes is now to be developed for any one of the four, it must be developed for all; and, unless all four countries cooperate, it can be developed for none.

The Bank has maintained close working relations with this committee, and has taken positive action to help with development projects. One of the apparent examples was the Bank's loan extended to Laos for the Vientiane Power Distribution project totalling $3.370 million in 1971.

Mekong Bridge Group

Countries Involved: Laos and Thailand.

This involves the transport interest of two countries. Upon their request, the Bank undertook a study of the Nong Khai-Vientiane Bridge project with a technical assistance grant of $95,000. The proposed bridge was conceived primarily to facilitate the flow of goods and passengers across the river, the flow being presently constrained by the limitations of the existing ferry service.

Regional Transport Group (Group of Seven)

Countries Involved: Indonesia, Laos, Malaysia, Philippines, Singapore, Thailand, and Viet-Nam.

In order to view the transportation network in the seven countries as a complete system, this group requested that the Bank undertake a Regional Transport Survey which would study the needs of transport development in the Southeast Asian-sub-region. Also, the Survey studied the directions in which future transport development should go, and made recommendations on an investment program, based on economic priorities on projects. Four important tasks were covered in the Survey:

(a) to study the existing transportation network in the region;

(b) to project future transportation requirements of the region based on a study of its potential economic growth;

(c) to recommend measures for development of transportation networks in order to meet the future transportation requirements and also measures for greater inter-country cooperation in regional transport; and

(d) to inquire how transport, along with other inputs, could help in the utilization of the region's resources and its overall economic development.[19]

The Survey was completed in 1971.

Southeast Asian Economy Study Group

Countries Involved: Indonesia, Khmer Republic, Laos, Malaysia, Philippines, Singapore, Thailand, and Viet-Nam.

This group, with the hope of providing the eight countries of the region a common body of information on which to base future national and regional economic policies in the 1970's, requested that the Bank undertake a research project called "Southeast Asia Economy Study in the 1970's." It was decided to embark upon six sectoral surveys: (a) the Green Revolution; (b) industrialization; (c) foreign trade; (d) foreign private investment; (e) aspects of population growth; and (f) impacts of the end of Viet-Nam hostilities and the reduction of British military presence in Malaysia and Singapore.

The Study was completed in 1971.

Trans Strait of Malacca Group

Countries Involved: Indonesia and Malaysia.

This is a two-country group involving a transportation interest. The Bank, in 1972, accepted the request from this group to extend technical assistance to its two member countries for a feasibility study of a ferry service across the Malacca Strait. The Study will determine the number, optimum size, and type of ferry vessels required. It will also examine potential sites for ferry terminals, and produce preliminary designs of these facilities.

Voting Groups

Regional Groupings

Group A

Countries Involved: Republic of China, Republic of Korea, and Republic of Viet-Nam.

The apparent reason that these three countries are joined is due to the similarity of their political attitudes. Under the bank system, no other countries share this characteristic as these three countries do. By a gentleman's agreement, a national of the Republic of Korea is elected to the Board of Directors.

Group B

Countries Involved: India and Bangladesh.

Originally, India, because of its big subscription of capital of the Bank, elected a director on its own. The reason for Bangladesh joining India is due to political links. The role of India in the war of independence of Bangladesh has established Bangladesh as a satellite of India. Bangladesh was admitted to the Bank in 1973.

Group C

Countries Involved: Australia, Hong Kong, Papua and New Guinea.

In the beginning, Australia elected a single director. When Hong Kong, Papua and New Guinea joined the Bank in 1969 and 1970, respectively, the group, because of joint membership in the Commonwealth of Nations, was formed. (Papua formerly was administered by Australia.) The Director for this group is from Australia.

Group D

Countries Involved: Fiji, Indonesia, New Zealand, Tonga, and Western Samoa.

Originally, this group, except Indonesia, was organized because its members are within the family of the Commonwealth of Nations. Geographically, Fiji, Tonga, and Western Samoa are in the South Pacific, and share similar economic development characteristics. New Zealand administered Western Samoa, and has close ties with Fiji and Tonga. Indonesia was formerly in a group, consisting of Ceylon, Afghanistan, Cambodia, Nepal, and Laos. After 1972, when the number of voting groups was increased from ten to twelve, some rearrangements were made by which Indonesia switched to this group, for reasons which are not very clear. Now the Director for this group is from Indonesia.

Group E

Countries Involved: Malaysia, Nepal, Singapore, and Thailand.

The major reason for forming this group is based in part on geographical proximity and a similar development pattern. Nepal, under the old arrangement, belonged to Group F which features an inland development pattern, but now has switched to this group. It is hard to tell why Nepal joined this group, but a possible reason seems to be that Nepal, an extremely less-developed country and a small subscriber of the Bank's capital (0.1 percent), feels itself flexible enough to join any group as long as the same effect can be achieved. Now the Director for this group is a Malaysian.

Group F

Countries Involved: Afghanistan, Khmer Republic, Laos, and Sri Lanka.

With the exception of Sri Lanka, this group is under an inland development pattern. The whole territories of Afghanistan and Laos, and almost all the land of Khmer Republic are land-locked; thus, development structure may cause their interests to coincide. Sri Lanka may have joined this group due to its similar agricultural output with the Khmer Republic and Laos. Now it has a Cambodian Director.

Group G

Countries Involved: Pakistan and Philippines

While no strong reason can be found as to why these two countries joined together, the diplomatic intercourse between the Bank's formation may be regarded as a major factor. When the struggle for the Bank's site was underway, Pakistan voted for Iran. As far as the Philippine strategy was concerned, Manila could be chosen only when the Iranian group was persuaded to vote for it. It was reported that, for this purpose, different kinds of diplomatic activities behind the scene were initiated. Pakistan finally decided to switch to support Manila as the Bank's site. Iran subsequently failed to join the Bank. Now the Director is from Pakistan.

Group H

Country Involved: Japan.

Among the regional member countries, Japan, because of its large subscription of the Bank's capital, can elect a director on its own.

Non-Regional Groupings

These groups, because they consist of non-regional developed countries, may be viewed as a single unit. These countries provide capital and technical assistance to the regional member countries. In view of the regulation that they have four Directors, voting powers are distributed into four groups based on ad hoc groupings of countries.

Group A. Includes Austria, Federal Republic of Germany, and the United Kingdom.

Group B. Includes Canada, Denmark, Finland, Netherlands, Norway, and Sweden.

Group C. Includes Belgium, France, Italy, and Switzerland.

Group D. Includes the United States who elects a single director.

This completes the summary of the characteristics of the various interest groups which can be identified at the present time. Further analysis of the activities of these groups will be examined in subsequent chapters.

Footnotes

[1]Gabriel Almond and G. Bingham Powell, Comparative Politics: A Developmental Approach (Boston: Little, Brown and Company, 1966).

[2]Paul A. Tharp, ed., Regional International Organization/Structures and Functions (New York: St. Martin's Press, 1971), p. 1.

[3]Almond and Powell, p. 28.

[4]Ibid., Chapter III.

[5]This definition is formulated by David Easton in his book The Political System (New York: Alfred A. Knopf, 1953).

[6]Almond and Powell, p. 29.

[7]Tharp, p. 2.

[8]Ibid., p. 2.

[9]Almond and Powell, p. 75.

[10]For more details, see Chapter VI: Policy-Making in Agriculture.

[11]For more details, see Chapter VIII: Policy-Making in Industry and Its Infrastructures.

[12]Tharp, p. 3.

[13]Almond and Powell, p. 29.

[14]Ibid., p. 140.

[15]China refers to "the Republic of China" in this dissertation.

[16]Korea refers to "the Republic of Korea" in this dissertation.

[17]Viet-Nam refers to "the Republic of Viet-Nam" in this dissertation.

[18]Annual Report for 1969, the Asian Development Bank, p. 39.

[19]Annual Report for 1971, the Asian Development Bank, p. 43.

CHAPTER III

FORMATION OF THE BANK

Interests Which Supported Formation

The Charter of the Bank has taken into account three circumstances, generally accepted as common interests in the region. However, there do exist national interests and sub-regional considerations as mentioned in the previous chapter.

In the first circumstance, the participating members are "considering the importance of closer economic cooperation as a means for achieving the most efficient utilization of resources of Asia and the Far East."[1] It is an undisputed fact that this region has an abundance of natural resources which have not been exploited. Therefore, how to exploit and utilize specific natural resources of each country or certain areas effectively is their major concern. Basically, each country has its own situation and conditions and seeks its specific interests. For the same reason, a group of countries may be under similar situations and conditions and have the same claims of interests. Taking the coconut industry as an example, it is an important agricultural product in the region. The producing countries for coconut, namely, India, Indonesia the Philippines, Fiji, Malaysia, Pakistan, Papua and New Guinea, Sri Lanka, Thailand, and Western Samoa,[2] form a natural interest group under the bank system.

In the second circumstance, the participating members are "realizing the significance of making additional development financing available for the region, and [seek] to create and foster conditions conducive to increased domestic savings and greater flow of development funds into the region."[3] The creation of the Bank is designed to achieve this comprehensive aim. The funds which flow into the region may be based on general subscriptions of the member countries, or through the contributions of the developed countries through various types of "Special Funds" or technical assistance. The developing countries of the region may also obtain development funds from the sale of bonds, notes, and securities on the capital markets of the world. The world capital markets are generally viewed as being a major source of money. However, unless strong credit has been established, money will not flow into the region. The formation of a bank, with a strong credit rating, will achieve this purpose. This is the common interest of all in the region. Figures available as of the end of 1973,[4] indicate that the Bank has successfully borrowed $253.6 million.[5]

Finally, in the third circumstance, the participating countries are "recognizing the desirability of promoting the harmonious growth of the economies of the region and the expansion of external trade of member countries."[6] A policy-making organ such as the bank system may at least achieve, to some extent, the purpose of this type of regional economic integration.

An example of the need for cooperation is the Lower Mekong Basin Project. Based on the survey of this region, development in any one area affects all four countries, namely, Viet-Nam, the Khmer Republic, Thailand, and Laos. Thus, it is not easy to conceive of harnessing the Lower Mekong for economic development unless the four countries embark on a concerted and coordinated venture of economic development.[7] The case of the Lower Mekong Basin will enable the Asian people to realize that regional cooperation for development is of "pressing necessity."

In addition, the realization of the significance of regional cooperation has also been reflected in the idea of constructing the Asian Highway which is planned to encompass a 34,000 mile network of highways spanning Asia from Turkey and Iraq to South Viet-Nam, Singapore and Indonesia. This mammoth project involves formidable engineering problems, i.e., great rivers, vast plains and deserts, and the traversing of some of the highest mountain ranges in the world. The whole project is estimated to cost about three billion dollars.[8] This work is not likely to be completed unless a regional institution is able to support it.

Chronology of Establishment

The idea of creating a regional development bank was not original with Asians. As a matter of fact, it is derived from other experiences, namely, the World Bank Group, the Inter-American Development Bank and the African Development Bank.[9] In a broad sense, therefore, the concept underlying the ADB goes back at least to the early postwar years when the World Bank was first initiated. On the other hand, the Asian Development Bank has, with considerable modification, laid its foundation following the same general principles and organization as the Inter-American Development Bank.

In addition, the fact that several encouraging aspects of regional cooperation were taking root at the same time among the Asian countries has helped the establishment of the Bank. The major one was the holding of a forum sponsored by the United Nations Economic Commission for Asia and the Far East (hereafter called ECAFE) for the purpose of discussion and analysis of the economic problems and outlook for the broad area stretching from Iran to the Pacific Islands. In addition, the Colombo Plan, since 1950, has contributed substantially to the spirit of regional cooperation. Under the Colombo Plan, technical assistance for key growth projects is made available, not only from sources outside the region, but also from one regional country to another.

Given the developmental atmosphere in the region, it led to the idea of a regional financial institution. Formal discussion of the possibility of establishing an Asian development bank was under the auspices of the U.N. ECAFE.

ECAFE is a regional economic institution under the United Nations system. Therefore, the birth of the Asian Development Bank, theoretically, is different from that of its two sister banks. The Inter-American Development Bank became possible principally due to the political initiative of the United States. However, the appearance of the Asian Development Bank was economically oriented. The African Development Bank was built by a series of political conferences, while the Asian Development Bank originated in an institutional framework, rather than through direct discussion between sovereign states. In spite of this, the establishment of the Asian Development Bank was still a political maneuver toward an economic goal.[10]

Clearly the Asian Development Bank has taken advantage of the shortcomings of both the Inter-American Development Bank and the African Development Bank. Particularly, the ADB has sought broad support from the developed nations, which the other two do not do to the same degree. The part played by the United States in the formation of this bank system has been considered of great importance in deciding the success or failure of this institution and, at the same time, in influencing the attitude of Japan, another important partner, toward its establishment.

Japan was initially reluctant to become committed. Without the participation and assurance of the United States, Japan would find itself bearing a disproportionate financial burden.

In addition, initially, both the American and Japanese governments also had political considerations. The United States seemed unwilling to adopt a multilateral approach that would limit American influence in the new institution, while Japan did not wish to lend its resources to an institution that it deemed destined, like the World Bank, to become primarily an instrument of American foreign policy.[11] These problems finally were resolved as both realized the benefits for their countries.[12]

The idea of a bank was first advanced in a report prepared by an Expert Group appointed by the U.N. ECAFE on regional economic cooperation, which convened in September of 1963.[13] In October, this proposal was submitted to the Preparatory Meeting for the Ministerial Conference on Asian Economic Cooperation for purposes of examination and endorsement. In December of the same year, at the First Ministerial Conference at Manila, this proposal was incorporated in the action program for Asian economic cooperation, which was embodied in a resolution unanimously adopted at this Conference. When the 20th session of ECAFE was held at Teheran in March, 1964, this resolution also was endorsed.

Following the Manila Conference, an Expert Group of nine members was established to give more detailed consideration and submit recommendations on the various aspects of the proposal. This group--the Ad Hoc Working Group of Experts on the Asian Development Bank--met in Bangkok in October of 1964.[14] Among the members of the group was Mr. Taheshi Watanabe, a prominent Japanese financer, who subsequently became the Bank's first President.

The first formal endorsement for the establishment of the Bank was made at the twenty-first session of ECAFE held at Wellington, New Zealand, in March, 1965. For this purpose, a high-level Consultative Committee of nine member governments[15] was set up to consult further with governments inside and outside the ECAFE region to ascertain the extent of their interests. It was evident that the unanimous and enthusiastic support of Asian governments for this proposal reflected their strong desire to implement the project. However, a number of questions and issues, of a complicated and delicate nature, still remained unsolved and in need of further study and examination. These included:

1. Areas or fields of the Bank's operations;
2. Allocation of capital subscriptions among member countries of the ECAFE region;
3. Allocation of voting powers among member countries;
4. Election or appointment of members of the board of directors;
5. Procedures for the election of the president of the bank;

6. Forms of collaboration between the bank and other institutions.[16]

Although, the establishment of the Bank had many problems at this stage, the major one, influencing the position of others, was the position of the United States. The United States, as did other developed countries, remained sceptical of this proposal. Furthermore, other developed countries, particularly Japan, had always decided their own policy based on the American view.[17]

In April, 1965, the United States seemed to change its position and began seriously considering the promotion of an Asian Development Bank. A major reason for this change of position was due to the United States' involvement in the Vietnam War. President Johnson's speech at Johns Hopkins University in Baltimore, Maryland, on April 7, 1965, gave new impetus to the establishment of the Asian Development Bank. President Johnson said that the United States was prepared to join in "a greatly expanded cooperative effort for development" in Southeast Asia, and that its own contribution, if Congress gave its approval, would include "a billion dollars of American investment in this effort when it is underway."[18] The President also requested that the U.N. Secretary-General take appropriate measures for the implementation of this plan. Domestically, the President appointed Mr. Eugene Black, former president of the World Bank, as his special adviser on Southeast Asia in dealing with this affair. Mr. Black was receptive to the idea of a bank. In addition, he had visited some of the potential member countries in an effort to hear their opinions. Due to this impetus, American support for this proposal became active and rapidly evolved into sponsorship.

By July, 1965, the Consultative Committee, through two missions, had visited thirty-four countries, including fourteen outside the Asian region,[19] including the Soviet Union.[20] At the same time, Mr. Black had made a special fund raising trip to European countries.

Both missions returned to Bangkok at the beginning of August to draft the charter after having been given new ideas. Their report called the Aide Memoire was used throughout the discussion as a reference guide. At this stage, a Preparatory Committee was created and met at Bangkok from October 21 through November 1, 1965, for further concrete discussion. The meeting was attended by representatives of twenty-one member countries of ECAFE, namely, Australia, Cambodia, Ceylon, the Republic of China, India, Iran, Japan, the Republic of Korea, Laos, Malaysia, Nepal, the Netherlands, New Zealand, Pakistan, the Philippines, the Republic of Viet-Nam, Singapore, Thailand, the Union of Soviet Socialist Republics, the United Kingdom and the United States of America. Ten other countries were also represented: Austria, Belgium, Canada, Denmark, Finland, the Federal Republic of Germany, Italy, Norway, Sweden and Switzerland.[21]

At the Preparatory Meeting, both the regional and non-regional member countries had expressed their opinions, and the draft charter prepared by the Preparatory Committee was approved with certain modifications. In order to approve the draft charter prepared by the Preparatory Committee, the ECAFE Second Ministerial Conference on Asian Economic Co-operation was held in Manila from November 19 to December 1, 1965, with ministers of finance and/or economy from the regional countries in attendance. However, final action was taken at the Conference of Plenipotentiaries which was held from 2 to 4 December, 1965, immediately after the Second Ministerial Conference. Twenty-seven delegations, representing both regional and non-regional member countries, attended the Conference.

The Agreement Establishing the Asian Development Bank was adopted by a resolution which was followed by signature of the original charter in English, the official language of the Bank.[22] The countries to sign the charter were the representatives of:

Afghanistan	Laos
Australia	Malaysia
Cambodia	Nepal
Canada	Netherlands
Ceylon	New Zealand
China (Rep. of)	Pakistan
Germany (Federal Rep. of)	Philippines
India	Thailand
Iran	United Kingdom
Japan	United States
Korea (Rep. of)	Western Samoa

The only regional countries who did not sign the Charter were: the Republic of Viet-Nam, Burma, Singapore, and Mongolia.[23] The Agreements remained open for signature until January 31, 1966. By that date, nineteen regional countries, with subscriptions aggregating $642.08 million, had signed.[24] The Agreement became effective August 22, 1966, when instruments of participation or acceptance of thirty-one countries who were signatories of the agreement had been deposited with the Secretary-General of the United Nations.[25] In accordance with Article 66, the Inaugural Meeting was held at Tokyo from 24 to 26 November, 1966, and, pursuant to Resolution No. 9 of the Board of Governors, the Bank commenced operations on 19 December, 1966.

Membership

Membership was an important subject discussed in the Consultative Committee. While deciding the principle of membership, the Committee considered several aspects. For instance, the Bank should contain as many participating members as possible so that it might absorb enough resources from the world. This consideration was based on the fact that the World Bank and the International Monetary Fund have the support of the United Nations, the Inter-American Development Bank has the backing of the Organization of American States; and the European Investment Bank is upheld by the European Economic Community. The Asian Development Bank has no such support from other political organizations. Thus, more participation of countries in the Bank will assure strong support. This is the reason that the Charter stipulates that membership should be as universal as possible. Its membership should not be limited to the countries in the region, but should extend to non-regional countries.[26]

It was held, on the other hand, that the Bank should maintain an Asian character based on its peculiar needs. That is, Asian countries should have more power under the structural arrangements than the non-regional member countries.

Based on this principle, the Committee recommended that the membership of the Bank be open to: (1) members and associate members of ECAFE;[27] and (2) other regional countries and non-regional developed countries which are members of the United Nations or of any of its specialized agencies.[28]

Meanwhile, the Bank decided that membership should not be open to the developing countries outside the region because the latter are also in urgent need of development funds, and it would not be appropriate for the Bank to borrow resources from those countries. Furthermore, in view of the fact that the Bank was established exclusively for the regional economic development of the developing countries, membership was divided into two categories: (1) developing member countries, and (2) developed member countries.

The Consultative Committee also confirmed the possibility that countries who are not members of the United Nations, but belong to one of its Specialized Agencies, may be admitted to the Bank. Western Germany is a good example in point.

According to the Charter, countries that are eligible for membership under Paragraph 1 of Article 3 and in accordance with Article 64, will be original member countries; otherwise, they will become member countries based on Paragraph 2 of Article 3. By this regulation, countries "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." Based on this requirement, it means that no single member has a power of veto, but it is unlikely that any new member would be admitted against opposition from both Japan and the United States, two of the larger subscribing countries of the Bank.[29]

It is interesting to note the attitudes of the Communist countries toward the Bank's membership. The major one was the Soviet Union, which presented a complicated situation. The Soviet Union is a non-regional member of ECAFE, and had sent its delegation to the Bangkok Conference for the preparatory meetings in August and October of 1965. However, it finally declined to participate.

The Soviet Union was invited to join the Bank by some countries.[30] Japan, it was said, was particularly anxious to bring her in so as to dispel suspicions that the Bank was simply a tool of American policy, and because Japan wanted closer Russo-Japanese relations. Therefore, the refusal to join this regional financial institution aroused considerable curiosity. According to Mr. S. M. Borisou, the representative of the Soviet Union to the Bangkok Conference, "the Soviet Union would not join the Asian Bank because participation of developed countries, especially those outside the region, would jeopardize the position of Asian countries, in particular the small ones." Furthermore, he said: "The Soviet Union was also opposed to the discrimination against non-members of the United Nations and was not satisfied with the distribution of votes in the management of the Bank, as countries with big contributions had too big a voice."[31]

As a matter of fact, the Soviet Union neither offered to match the American contribution, as some observers had expected, nor denounced the whole thing as a neo-colonialist plot, as Communist China claimed. The Soviet Union, on the one hand, did not wish to lose this chance to associate with the Bank to increase its influence in Asia, but, on the other hand, it must have been inhibited by fears of being attacked by the Chinese for cooperating with "imperialists" and exploiting the Asian countries. In response to President Johnson's Johns Hopkins University speech, which specifically welcomed participation by the Soviet Union in an expanded program of Southeast Asia development, the Soviet Union indicated that it may be interested in exploring other ways of cooperating with the Bank.[32]

Another case was that of Communist China. From the beginning of the establishment of the Bank, Peking maintained a hostile attitude. The Bank was described as "a neo-colonialist instrument for expansion," and a means "by which the U.S. wants to utilize Japan's economic potentials to shore up the various reactionary regimes in Southeast Asia and put down the national liberation movement."[33] As a matter of fact, Communist China was not qualified to join this Bank since it was not a member of any part of the U.N. system. In 1971, when Communist China became a member of the United Nations and ECAFE, further interest in Communist Chinese membership in the ADB was aroused. However, thus far the Communist Chinese regime has not yet indicated any intention of becoming a member.[34] As for Outer Mongolia, another Communist country, it has shared the same views with the Soviet Union, and has remained outside the Bank.[35]

There have been other cases which have aroused considerable interest in regard to the membership problem. The first one was that of Iran. At the beginning Iran was an original member with a subscription to the Bank's capital of $60 million. In August of 1966, the Government of Iran informed the Committee of its wish to reduce its initial subscription from $60 million to $23.7 million. However, U.N. Secretary-General felt that he was not able to accept a ratification instrument that provided for a subscription less than that specified in Annex A of the Agreement. Iran had wanted the Bank's headquarters to be in Teheran. However, it failed to achieve its purpose and subsequently refused to join the Bank.[36] Iran has not yet joined the Bank.

Burma had the chance to be a signatory to the Charter. However, Burma felt that the Bank was dominated by the Western powers. Burma preferred to wait to see how the Bank would operate.[37] In the words of Mr. Black, President Johnson's Special Adviser on Southeast Asian Economic Development, "Burma has a peculiar policy of what you might call being aloof. They are aloof from everybody. They accept no aid from the U.S.; 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."[38] However, Burma finally established its confidence in the Bank, and joined the Bank at the 6th Annual Meeting of the Board of Governors on April 26, 1973, as the thirty-ninth member of the Bank.[39]

A word should be mentioned about the membership of Indonesia and Cambodia. Indonesia is a member of ECAFE but did not apply for membership until after the fall of President Sukarno in 1966. On August 25, 1966, Indonesia filled its application for membership. It was approved in 1966.

On the contrary, Cambodia presented a different case. Cambodia was an original member, but with some qualms, which were clearly expressed at the Inaugural Meeting. Later, it sent a notice to withdraw from the Bank.[40] A year later, on December 27, 1968, Cambodia changed its mind.

Switzerland, a neutral state in Europe, has no intention of being involved in any type of international organization for political purposes. It seems to this country that the Asian Development Bank, an international organization of an economic type, has won trust in the long run. It acquired its membership in 1967. France also joined the Bank in 1968.

The role of India in the Bank needs to be mentioned. India is a developing country in the region; however, because of its declaration not to seek financial aid from the Bank and its support of the Bank's financial resources, India has assumed the role of a major power in the Bank. Its position seems to be to play a dual role.

From the point of the arrangements of the three development banks on membership, it has been generally held that the Asian Development Bank has laid a very strong foundation. The Charter permitting the participation of the non-regional developed member countries has brought initial success to its operations. The advantages of this arrangement are manifold. In the first place, these developed countries augment the flow of development capital into this region. Secondly, they have had numerous years of experience in developing countries and possess substantial technology, and, therefore, can make a valuable contribution in technical assistance to the needs of this region through transfer of their economic expertise. Thirdly, these developed countries are now the most important capital markets in the world from which the Asian Development

Bank is able to borrow developmental funds through issuing notes, bonds, and securities. If no such membership arrangement had been established in the Bank, it would have been very hard to win credit to put the bonds, notes, and securities on sale in the major capital markets.

However, it is worth noting that the arrangement for wide participation of non-regional developed countries in the bank system does not hurt the Bank's "Asian character." For example, at least 60 percent of its capital must be subscribed by regional member countries; in addition, eight of the twelve members of the Board of Directors must be Asian; and, of course, the President must be an Asian.[41]

As of the end of 1973, the Bank has forty member countries of which twenty-six are regional, and fourteen non-regional. Among them, seventeen member countries are from developed countries, while twenty-three are from developing countries. The forty member countries follow:

Regional

Developing			Developed
Afghanistan	Indonesia	Philippines	Australia
Bangladesh	Khmer Republic	Singapore	New Zealand
British Soloman Island	Korea, Rep. of	Sri Lanka	Japan
Burma	Laos	Thailand	
China, Rep. of	Malaysia	Tonga	
Fiji	Nepal	Viet-Nam	
Hong Kong	Pakistan	Western Samoa	
India*	Papua-New Guinea		

*India is a developing country. However, in the ADB India has assumed the role of a developed donor and does not seek loans.

Non-Regional

Developed	
Austria	Italy
Belgium	Netherlands
Canada	Norway
Denmark	Sweden
Finland	Switzerland
France	United Kingdom
Germany, Fed. Rep.	United States

Footnotes

[1]Preface of the Charter.

[2]Ceylon, India, Indonesia and the Philippines belong to the Asian Coconut Community (ACC); however, India has so far not approached the Bank for any assistance. See "Revised Terms of Reference, Study of the Coconut Industry in the ADB Region," Asian Coconut Community, ACC/N-71/7, (15 November, 1971), p. 1.

[3]Preface of the Charter.

[4]See Annual Report for 1973, Asian Development Bank, pp. 58-9.

[5]The Bank has issued bonds in Austria, Belgium, Federal Republic of Germany, Italy, Japan, Luxembourg, Switzerland and the United States. In addition, the Bank has borrowed funds by issuing two-year bonds to central banks and governments of regional member countries. For more detailed analysis, see Chapter V on "Developmental Funds."

[6]Preface of the Charter.

[7]The Lower Mekong is one major international stream in which the riparian countries have joined together under United Nations assistance to prepare and carry out a development program. The idea of initiating economic development in several countries through the harnessing of this river was first noted by the Economic Commission for Asia and the Far East in 1951. More detailed analysis will follow in later chapters.

[8]The idea to construct an Asian Highway was initiated by the United Nations Economic Commission for Asia and the Far East. This organ has played an important role in Asian economic integration and cooperation.

[9]The idea of a public international institution supported cooperatively by its member nations and designed to speed growth in developing areas found its embodiment in the International Bank for Reconstruction and Development (World Bank) in 1944. In the ensuing dozen years, the idea of institutionalized multilateral cooperation in development financing was broadened with the establishment of two specialized affiliates of the World Bank, the International Finance Cooperation and the International Development Association. In 1959, multilateral cooperation in the field of development finance was adapted and applied at the regional level through the establishment of the Inter-American Development Bank, the first such institution to have as its particular field of action a major geographic area. By 1964, a

second regional bank, the African Development Bank, had come into being in order to help the development problem of that major region.

[10]Although President Watanabe of the ADB openly claimed that the Bank is a purely economic institution, yet my interviews with the Bank's officers extensively found that this organization is substantially a political arrangement as well, and the Bank's officers agreed with this view.

[11]P.H.M. Jones, "Everybody's Bank," Far Eastern Economic Review, LII (April 14, 1966), 59.

[12]According to Mr. Jones, "Japan now seemed to appreciate the advantages of entering Asia on a largely Asian wagon while Washington shortly came to see the usefulness, on the principle that 'equal allies are strong allies,' of letting Asians do their own steering." Ibid., p. 59.

[13]In September, a seven-man working group was organized to study more specific measures concerning regional cooperation, including the suggestion for the creation of a development bank in the region. See more details, Saburo Okita, "Japan and the Asian Development Bank," New York Times Supplement, International Edition (November 14, 1966). Also see Arturo Morales F., "The Establishment of the Asian Development Bank," published by the Inter-American Development Bank (December, 1968), pp. 31-32.

[14]The chairmanship was taken by Mr. N. M. Uquaili, managing director of the Pakistan Industrial Credit and Investment Corporation.

[15]The countries represented on the Committee were Ceylon, India, Iran, Japan, Malaysia, Pakistan, the Philippines, the Republic of Viet-Nam and Thailand.

[16]See Arturo Morales F., pp. 38-39.

[17]The Japanese government had stated his government's "conviction" that "the cooperation and participation of developed countries outside the region was essential." This word, as Dr. John White put it, meant (roughly translated) that Japan was waiting for the Americans. See John White, Regional Development Banks: A Study of Institutional Style (London, England: Overseas Development Institute, Ltd., 1970), p. 44.

[18]New York Times, April 9, 1965.

[19]The two missions of the Consultative Groups visited various countries in July, 1965; the first mission went to

some of the regional countries and the United States, Canada, and Great Britain; the second mission visited the rest of the regional countries and West Germany, Holland, Belgium, France, Italy, Czechoslovakia, and the Soviet Union.

[20]In his speech at Johns Hopkins University, President Johnson particularly appealed to the Soviet Union to join the Bank. This was the reason for Mr. Black to visit the Soviet Union.

[21]The delegations included high ranking officials. The United States team included fourteen members led by Assistant Treasury Secretary Merlyn N. Trued. The Soviet Union sent a high-ranking five man delegation. See Time Magazine (October 29, 1965).

[22]Article 63 of the Charter.

[23]With the exception of Mongolia, all of these countries signed the Charter at a later date.

[24]The following were the nineteen countries and amount of subscriptions:

(U.S. $ Million)

Afghanistan	3.36	Malaysia	20.00
Australia	85.00	Nepal	2.16
Cambodia	3.00	New Zealand	22.56
Ceylon	8.52	Pakistan	32.00
China	16.00	Philippines	35.00
India	93.00	Viet-Nam	7.00
Iran	60.00	Singapore	4.00
Japan	200.00	Thailand	20.00
Korea	30.00	Western Samoa	0.06
Laos	0.42		

[25]According to the Report of the Secretary-General of the United Nations, "As at the close of that date (30 September, 1966), the Governments of all Signatory States, with the exception of Iran, have deposited with the Secretary-General their instruments of ratification or acceptance." The thirty countries are: Pakistan, Nepal, Western Samoa, Philippines, Norway, India, Belgium, Denmark, Japan, Malaysia, Korea, Thailand, United States, Afghanistan, Canada, Finland, Netherlands, Germany, Laos, Australia, Singapore, China, Viet-Nam, Great Britain, Austria, Ceylon, New Zealand, Cambodia, Italy, and Sweden.

[26]During the trip of the Consultative Committee to visit the Asian countries, it was suggested by some of them

that the charter should adopt the principle of universal participation. See Arturo Morales F., p. 57.

[27]As applied to this condition, the membership for members and associate members of the ECAFE may read as follows:

Regional Member Countries		Associate Regional Member Countries	Non-Regional Member Countries
Afghanistan	Malaysia	Brunei	France
Australia	Mongolia	Hong Kong	Netherland
Burma	Nepal		Soviet Union
Cambodia	New Zealand		United Kingdom
Ceylon	Pakistan		United States
China	Philippines		
India	Viet-Nam		
Indonesia	Thailand		
Iran	Western Samoa		
Japan			
Korea			
Laos			

See United Nations Documents, E/CN/1/707. p. 36.

[28]Paragraph 1 of Article 3 of the Charter.

[29]As of the end of 1973, Japan had voting power of 18.211 percent, while the United States had only 7.584 percent. This is because the United States has not subscribed to the additional shares of the increase in capital stock authorized by Resolution No. 46 of the Board of Governors. In 1969, both Japan and the United States had 16.97 percent each.

[30]At the 22nd Session of ECAFE at New Dehli in early April, 1966, Mr. Manubhal Shah, the chairman of the Session, called on the Soviet Union to join the Bank and contribute to its capital. See P. H. M. Jones, "ADB Is Launched," _Far Eastern Economic Review_, LVI (April, 1967), 175.

[31]_The Mirror_ (The Philippine Newspaper), May 10, 1966.

[32]It was thought that the Soviet Union might avail itself later of a clause in the Bank's Charter which permits any country, Asian or non-Asian, to lend money through the Bank for a specific project. By this means, Moscow might be able to show its benevolent interest in the Bank without being accused by Peking of dabbling in capitalism. See U.S., Congress, House, Committee on Banking and Currency, Subcommittee on International Finance, _Agreement Establishing the Asian Development Bank_, 89th Cong., 2nd Sess. (1965), No. 361, p. 55.

[33]See P. H. M. Jones, "ADB Is Launched," p. 175. Also The Chronicle (The Philippine Newspaper), December 6, 1965.

[34]During the session of the 6th Annual Meeting of the Board of Governors, the question concerning the membership of the People's Republic of China had aroused general interest in the press. According to my interview with Mr. Haraharan, Chief Information Officer of the Bank, the Bank is open to any countries which are in accordance with Article 3. This means that Communist China is welcome to the Bank. However, the Charter has no provision for ousting the Republic of China.

[35]The Mirror (The Philippine Newspaper), May 10, 1966.

[36]Manmohan Singh, "Regional Development Banks," International Conciliation (January, 1970), 49.

[37]P. H. M. Jones, "ADB Is Launched," p. 175.

[38]U.S., Congress, House, Committee on Banking and Currency, A Bill to Authorize the Appropriation of $200,000,000 for a United States Contribution to Multilateral Special Funds of the Asian Development Bank, H.R. 13217, 90th Cong., 2nd Sess. (1967), p. 71.

[39]ADB Press Release 18/73 (April 26, 1973).

[40]The Bank had received a letter from the Royal Government of Cambodia, on September 18, 1967, indicating its wish to withdraw from the Bank in accordance with Paragraph 1 of Article 41 of the Agreement; however, the Bank, in its reply, drew attention to the provision under Article 41 (2) of the Agreement which provides for a notice period of at least six months for withdrawal to become effective. See Annual Report for 1967, Asian Development Bank, p. 6. Also see John White, p. 57.

[41]Article 34 of the Charter provides: "He shall be a national of a regional member country."

CHAPTER IV

POLICY-MAKING STRUCTURE

Introduction

A development bank stands in a special position. On the one hand, it needs a general organizational scheme of a commercial bank which features resource-collecting and profit-earning functions, but, on the other hand, it also serves as an organ for economic planning, policy-making and decision-implementing for the development of member countries. Based on this principle, the organizational arrangement of a development bank is commercially-, economically-, and politically-oriented.

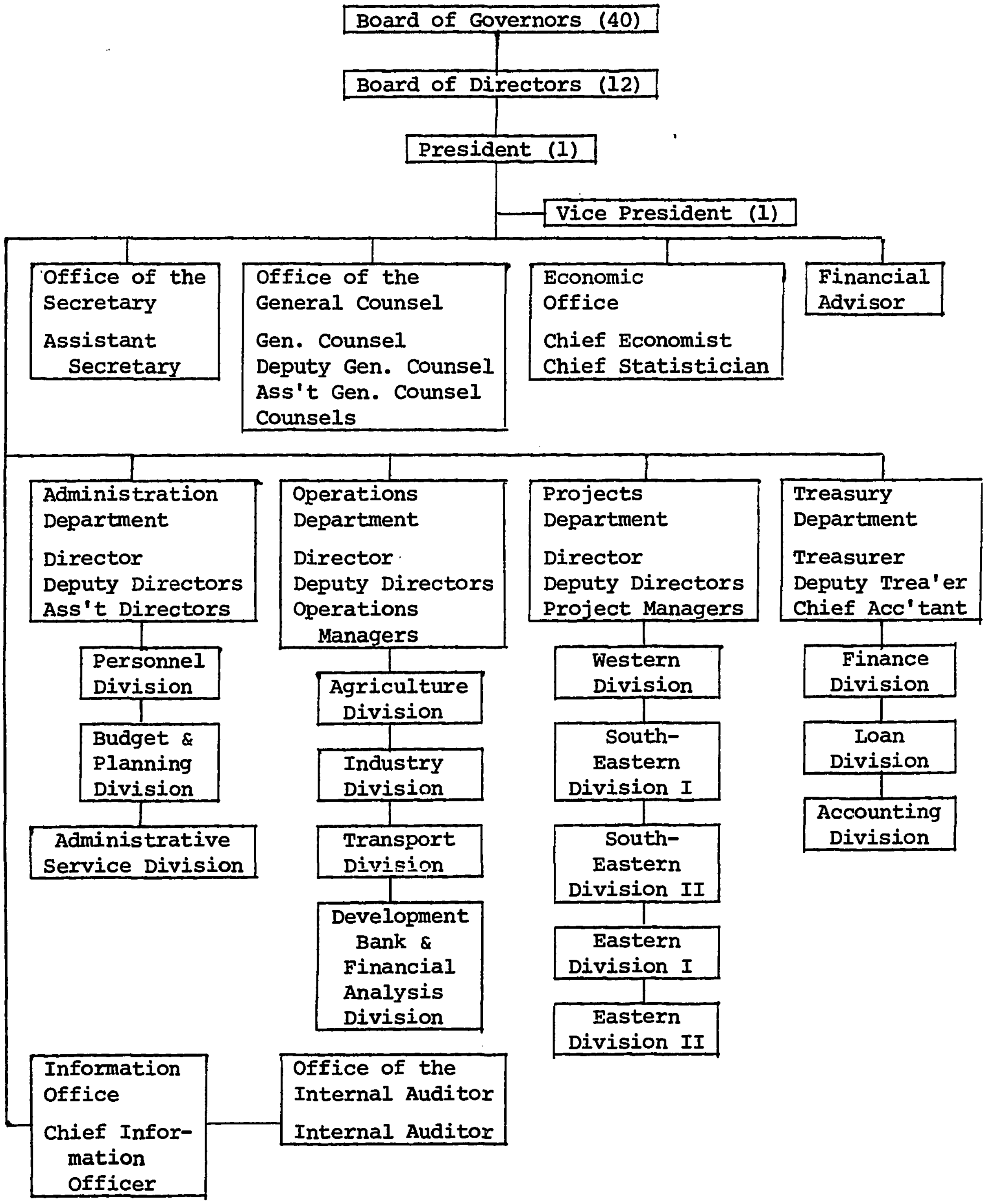
From an organizational aspect, the Asian Development Bank, in the function of rule-making, is organized into three parts: a Board of Governors (highest policy-making organ); a Board of Directors (executive policy-making and implementation); and a President (chief administrator).[1]

Board of Governors: Highest Policy-Making Organ

Standing at the top position of the Bank's organizational framework, the Board of Governors serves as the highest decision-making body. Article 28, Paragraph 1 of the Charter

TABLE 1

ORGANIZATIONAL CHART OF ADB



provides that "all the powers of the Bank shall be vested in the Board of Governors." The Board of Governors is a type of general assembly of the member countries which meets, generally, once a year in a specific time and place decided in a prior meeting.[2] However, when major actions need attention while the Board is not in session, the Board of Directors may call the meeting directly or whenever requested by five (5) members of the Bank.[3] (Article 29.)

The Board of Governors is composed of all forty member countries on which each one shall appoint one Governor and one alternate Governor.[4] Since the Board of Governors is not a standing organ, no permanent representatives have been sent to reside at the Bank's headquarters. Therefore, when the Board is not in session, the Board of Directors may, by an established procedure, obtain a vote of the Governors on a specific question without calling a meeting of Governors. Usually, the major decision, such as admission of a new member, is taken by mail correspondence.

The Charter has divided the powers of the Board of Governors into two categories: one, exclusive powers; the other, delegated powers. The so-called "exclusive powers" mean that there are some powers that are possessed and exercised only by the Board of Governors. The so-called "delegated powers" are those delegated by it to the Board of Directors, but the Governors retain full power to exercise authority over the Directors' use of delegated powers.

(Article 28, Paragraph 3.) The Charter has listed its major powers which are exclusively possessed and exercised by the Board of Governors. Based on the last six years' experiences, we shall analyze and examine the character of each power and its application to a specific case.

1. The power to admit new members and determine the conditions of their admission.

As of the end of 1973, the Board of Governors, based on this power, had admitted ten member countries, including two non-regional countries: Indonesia, Switzerland, Hong Kong, Fiji, France, Territory of Papua and New Guinea, Tonga, Bangladesh, Burma, and the British Solomon Islands.[5]

The Governors determine the conditions of their admission. The so-called "conditions" refer to the subscription of shares and payment of subscriptions based on Articles 4 to 6. Because of different stages of economic development of each member country, the conditions also vary.[6] Usually, the Board of Directors representing the Board of Governors sets up the conditions in advance and negotiates with the applicant for the latter's acceptance of conditions.

2. The power to increase or decrease the authorized capital stock of the Bank.

The Board, in November of 1971, increased the capital resources to an aggregate of at least 100,000 shares in accordance with Resolution No. 46.[7]

3. The power to suspend or terminate a member.

The Board of Governors may suspend a member country who fails to fulfill any of its obligations. This power is based on Article 42 of the Charter. The term "fails to fulfill any of its obligations" is not specified in the Charter but awaits interpretation by the Board of Governors. Although no definite case has occurred in the history of the Bank, it is felt that the following acts or omissions may be viewed as violations: (1) failure to carry out the payment of subscription; (2) failure to cooperate with the Bank for ordinary and special operations; and (3) failure to fulfill loan agreements.

However, the member country so suspended shall be given a grace period of one year from the date of its suspensions so that it can be restored to good standing during this period when it fulfills its obligation. The member country while under suspension, shall not be entitled to exercise any rights under the Charter, except the right of withdrawal, but still shall remain subject to all its obligations. Basically, the suspension of membership is different from termination. In the former case, the member country still enjoys the right of withdrawal from the Bank or may restore its membership to good standing upon the decision of the Board of Governors; in the latter case, termination of membership means that a country ceases to be a member. Rights and obligations between the Bank and the member country will be terminated according to the provision of "Settlement of Accounts" specified in Article 43 of the Charter.

It is worth noting that the above mentioned powers of the Board of Governors shall be exercised 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.

> 4. The power to decide appeals from interpretations or application of this Agreement given by the Board of Directors.

In view of the fact that there is no court in the Bank's organization, the Charter appoints the Governors to serve as a forum for the solution of problems arising between any member countries and the Bank, or between two or more members of the Bank. At the initial stage, any question of interpretation or application of the Charter must be submitted to the Board of Directors for decision. Figuratively, the Board of Directors has the status of a district court in the sense of the United States domestic judicial procedure. If no Director of its nationality is on the Board, the disputing party may be entitled to direct representation on the Board during such consideration. But this representative will not have voting power.[8]

If the disputing party is not satisfied with the decision of the Board of Directors, the Governors then serve as a court of appeals.

The above provisions are applicable to the case only when the parties are member countries. In the case when a country has ceased to be a member, or if the Bank is terminating its operations, any question arising between the Bank and a member country shall be solved by an arbitral procedure in which a tribunal of three arbitrators shall be formed. Among them, one shall be appointed by the Bank, another by the disputing party and third, by the President of the International Court of Justice or some other authority designated by the Board of Governors. A final decision will be reached by majority votes.[9]

5. The power to authorize the conclusion of general agreements for cooperation with other international organizations.

Since the Bank commenced its operation in 1966, it has maintained very close relations with other international organizations for cooperation. Although the Bank has concluded one general agreement with FAO only,[10] the relationship between the Bank and others looks very close and constructive. The Bank has established relations for mutual cooperation with the following organizations:

(1) Colombo Plan;

(2) Food and Agricultural Organization (FAO);

(3) German Foundation for Developing Countries;

(4) International Civil Aviation Organization (ICAO);

(5) International Labour Organization (ILO);

(6) International Monetary Fund (IMF);

(7) Organization for Economic Cooperation and Development (OECD);

(8) United Nations Development Program (UNDP);

(9) Regional Development Banks;

(10) United Nations Educational, Scientific and Cultural Organization (UNESCO);

(11) United Nations Industrial Development Organization (UNIDO).

6. The power to determine the remuneration of the Directors and their alternates and the salary and other terms of the contract of service of the President.

The Governors and alternates serve without remuneration from the Bank.[11] Both the Board of Directors and the President participate in the daily executive work of the Bank. Accordingly, they shall serve with remuneration. The salary of the officers and staff shall be determined by the office of the President due to the fact that he appoints them.[12]

7. The power to approve, after reviewing the auditor's report, the general balance sheet and the statement of profit and loss of the Bank.

8. The power to determine the reserves and the distribution of the net profits of the Bank.

Since 1968 the Bank's financial position has been examined by the Haskins & Sells Company, a U.S. firm of certified public accountants. The net income since 1968 has been transferred to the Bank's reserves for a total of $48,146,285 (as of December 31, 1972).

9. The power to amend this agreement.

Generally, the Board of Governors may amend any matters prescribed in the Charter 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. However, the Charter requires unanimous agreement on certain basic matters which affect the rights and obligations of the member countries greatly: first, the right to withdraw from the Bank cannot be modified except by unanimous agreement. Second, the limitations on liability provided in Paragraphs 6 and 7 of Article 5 shall not be modified except by unanimous agreement of the Board of Governors. The member country has no obligation more than that to which it subscribes in shares of the capital stock of the Bank. Third, the rights pertaining to purchase of capital stock provided in Paragraph 2 of Article 5 shall not be modified except by unanimous agreement. This provision gives the member country the right to subscribe to capital stock in case of an increase in the authorized capital stock of the Bank. An example of this occurred in November, 1972.[13] However, Burma, the thirty-ninth member country, has refused to subscribe to any portion of the increase.

Past records show that only the composition of the Board of Directors has been amended. The number of Directors has been increased from ten to twelve.[14]

> 10. The power to exercise such other powers as are expressly assigned to the Board of Governors in this Agreement.

In many places in the Charter, the Board of Governors is requested to exercise certain powers.

The present writer personally attended the sixth Annual Meeting of the Board of Governors held in the Bank's headquarters from April 26-28, 1973, with the purpose to study the actual proceedings of the session of this policy-making body. I have been impressed with the following observations.

First, although the Board of Governors has the final say in matters involving the Bank's major policies, the Board of Governors knows nothing about the Bank's practical business. Suggestions and recommendations made by the Board of Directors form the basis for most decision-making of the Board of Governors.

Second, the Annual Meeting of the Board of Governors is basically a formal forum reflecting the opinions and suggestions of the member countries to the Board of Directors. As operating policies are made, these individual opinions and suggestions will be given careful consideration in order that the decisions to be made are in accordance with both sound banking principles and the interests of member countries. Therefore, the Board of Governors really serves as a communication link between member states and the Directors and the President.

The subject of allocation of voting rights was regarded as an important question in earlier negotiations of the Bank's Charter. In the Ad Hoc Group of Experts, in which the principle of proportionality was adopted, attention was particularly paid to the sharp differences in voting power between small and large member countries. The principle of proportionality calls for all votes to be allocated in proportion to the amount subscribed to the capital of the Bank. However, if this principle were strictly applied to the voting system, then the interests of small, less developed member countries would be sacrificed. The whole situation would be that the rich, large developed ones would dominate both the Bank's operating procedures and policy-making. This is not the original purpose of establishing the Bank.

On the contrary, if the entire voting system were established on a formula of "one member, one vote," this would be unfair for the developed member countries who have subscribed a larger portion of the capital of the Bank. Definitely, this idea would be turned down by them. Therefore, the focal point was put on a compromise by recognizing some basic votes equally shared by each member country while maintaining the proportionate votes based on capital subscribed by each member. During the discussion in the Consultative Committee, representatives from both regional and non-regional countries had no objection to this idea, but held different opinions concerning the content of the percentage of basic votes. It was apparent that the regional developing countries wanted a larger percentage while the developed countries had based their assertion on the precedents of other financial institutions by which the portion of basic votes to total votes are: the World Bank, 10.1 percent; the International Finance Corporation, 10.3 percent; and the Inter-American Development Bank, 3.2 percent. The proportion of the basic votes of the African Development Bank is 50 percent. This is due to the fact that only developing African countries are members of the bank.[15] Nevertheless, various suggestions were made by the developing countries to the Committee during the consultations, but not accepted by the developed ones because of their extreme bias.[16] The United States and Japan wanted a figure close to that of the Inter-American Development Bank which would have given them a voting strength more proportionate to their subscriptions. This problem caused a deadlock in the Consultative Committee.

After elaborate arrangements, a final solution was submitted by the developing countries which suggested a basic vote share of 20 percent. This was approved by all the member countries (regional and non-regional) unanimously.

According to the Charter, the total voting power of each member shall consist of the sum of its basic votes and proportional votes. Each member's basic votes "shall consist of such number of votes as results from the equal distribution among all the members of twenty (20) percent of the aggregate sum of the total votes of all the members."[17] In other words, the basic votes of all the member countries shall be 20 percent of the total of all voting power in the organization which includes basic and proportionate votes. When the Bank began operations there were thirty-one member countries, the number of the basic votes of each member country was 778. Now there are forty member countries and the share of basic votes is 1411 per member.

As for the number of the proportional votes of each member, it equals "the number of shares of capital stock of the

Bank held by that member."[18] In the cases of Japan and the United States, the original subscriptions of each were 20,000 shares. Therefore, each possessed 20,000 votes. Some small countries such as Laos and Western Samoa had 42 and 6 shares thereby having 42 and 6 votes, respectively.[19]

The current situation is seen from Table 3 which is based on the information available from the Board of Directors as of the end of 1973.[20] Member countries within the region possess 166,126 shares while those from non-regional area only 59,750. In terms of percentages, the regional states have 73.54 percent against 26.46 percent for non-regional states. After adding the basic votes, of which each has 1411, the percentage of total voting power is 71.839 percent against 28.161 percent in favor of the regional group. Thus under this situation policy decision-making, which may affect regional interests, would be apparently controlled by the regional members with its strong voting powers.

Although regional interest has been the most important concern of its member countries, it is not the only source of division of interests in the Bank. Another major division of interests is between the groups of developing and developed member countries. Three countries in the region are developed, namely, Australia, Japan and New Zealand, whose interests often coincide with other non-regional developed nations.

As of the end of 1973 the developed countries have subscribed to 136,640 shares, whereas the developing ones only

89,236, with the percentage of the proportional votes being 52.24 percent and 47.76 percent, respectively. By adding the basic votes, the percentage of the total voting power becomes 56.897 percent against 43.104 percent in favor of the developed nations.

This strong voting strength given to the developed countries enables some of the Bank's operating policies to be maintained firmly despite the complaints of the developing countries made in each of the Annual Meetings of the Board of Governors. Their complaints have centered upon certain loan policies such as interest rates, procurement policies, grace period, and commitment charges, to name a few. Each of these will be discussed later.

Furthermore, observers have noted that the developed countries cannot be seen as a single, dominant and homogeneous group. They are actually dominated by two superpowers, namely, the United States and Japan. Many feel that the Europeans joined the Bank due to the political pressures of the United States. For most of them, the Bank was only of marginal interest. On the other hand, for the United States the participation of other powers fits well into its new policies of relative disengagement in Southeast Asia. Japan would like to be a major force in the area, but must overcome the stigma of World War II. A partnership with the United States and other major powers helps to accomplish this goal. As a matter of fact, the U.S.-Japan partnership is a major force, not only in the group of the developed countries, but in the region as a whole.

According to the capital increase authorized by Resolution No. 46, the additional shares are equal to 150 percent of each member's existing subscribed shares. Therefore, the United States and Japan should have 50,000 shares each, about 40 percent out of all 225,876 shares as a whole. Japan has subscribed to its extra shares; the United States has not. However, based on current figures, the U.S.-Japan axis still has 30,94 percent as compared to 69.06 percent of the rest of the members. With the addition of basic votes, the percentage of the total voting power is decreased proportionately in which the U.S.-Japan axis has 25.795 percent while the others have 74.205 percent. (See Table 2.)

We should note that the significance of the U.S.-Japan axis in the Bank is not just the large percentage held by them, but is seen in their overall influence within the Bank. Both have to avoid confrontations through the use of voting power in order that they do not appear to be overbearing. Therefore, their orientation for policy-making usually has been to encourage compromise among the member countries.

The following two tables indicate (1) comparison by groups and (2) general description of the shares and percentages of the total voting powers of the member countries.

Board of Directors: Executive Policy-Making and Implementation

As indicated in the discussion of the Board of Governors,

TABLE 2

COMPARISON OF GROUPS' VOTING POWERS

		Groups	Shares and Votes	Percentage of Total Voting Powers[a]
I		Regional	166,126	71.839
		Non-Regional	59,750	26.161
II	A	Developing	89,236	43.103
		Developed	136,640	56.897
	B	Developing (without India)	65,986	34.368
		Developed (with India)	159,890	65.632
		[b]See Note		
III		Japan and U.S.	70,000	25.795
		Rest of Members	155,876	74.205

[a]It is based on shares + basic votes.

[b]It is difficult to say whether India's interests coincide with developed or less developed nations. Therefore this table shows the percentages of votes with Indian in both categories.

Source: Annual Report for 1973, Asian Development Bank, pp. 62-65.

TABLE 3

SHARES AND VOTING POWERS OF MEMBER COUNTRIES

Members	Shares	Basic Votes	Total Votes	% Distribution of Voting Power
Regional				
Afghanistan	1,195	1411	2,606	0.923
Australia	21,250	1411	22,661	8.027
Bangladesh	3,750	1411	5,161	1.828
Bri. Solomon	25	1411	1,436	0.509
Burma	2,000	1411	3,411	1.208
China, Rep. of	4,000	1411	5,411	1.917
Fiji	250	1411	1.611	0.588
Hong Kong	2,000	1411	3,411	1.208
India	23,250	1411	24,661	8.735
Indonesia	6,250	1411	7,661	2.713
Japan	50,000	1411	51,411	18.211
Khmer Rep.	875	1411	2,286	0.810
Korea, Rep.	11,500	1411	12,911	4.573
Laos	105	1411	1,516	0.537
Malaysia	5,000	1411	6,411	2.271
Nepal	540	1411	1,951	0.691
New Zealand	5,640	1411	7,051	2.498
Pakistan	8,000	1411	9,411	3.334
Papua Guinea	345	1411	1,756	0.622
Philippines	8,750	1411	10,161	3.599
Singapore	1,250	1411	2,611	0.943
Sri Lanka	2,130	1411	3,541	1.254
Thailand	5,000	1411	6,411	2.271
Tonga	15	1411	1,426	0.505
Viet-Nam, Rep.	3,000	1411	4,411	1.562
W. Samoa	6	1411	1,417	0.502
Non-Regional				
Austria	1,250	1411	2,661	0.943
Belgium	1,250	1411	2,661	0.943
Canada	6,250	1411	7,661	2.713
Denmark	1,250	1411	2,661	0.943
Finland	500	1411	1,911	0.677
France	6,250	1411	7.661	2.713
Germany, Fed.	8,500	1411	9.911	3.510
Italy	2,000	1411	3,411	1.208
Netherland	2,750	1411	4,161	1.474

TABLE 3--Continued

Members	Shares	Basic Votes	Total Votes	% Distribution of Voting Power
Norway	500	1411	1,911	0.677
Sweden	500	1411	1,911	0.677
Switzerland	1,250	1411	2,611	0.943
United Kingdom	7,500	1411	8,911	3.156
United States	20,000	1411	21,411	7.584

Source: Annual Report for 1973, Asian Development Bank, pp. 62-65.

the Board of Directors is substantially in charge of the Bank's policy-making in spite of the fact that the Board of Governors has the right of final decision. The Board of Directors, therefore, has considerable importance as far as the actual operation of the Bank is concerned.

The Board of Directors was initially composed of ten members, in which seven were elected by the Governors representing regional members.[21] In other words, the interests of the region are represented by seven Directors while that out of non-regional members by three Directors. However, this was not a point of unanimous agreement during the earlier discussions. The point argued was how many Directors should be elected representing the interests of the developing member countries. It was maintained that the interests of the developing member countries would not be identical with that of the region because of the existence of three developed member countries: Australia, Japan and New Zealand. The developing member countries were not satisfied with the 7:3 formula.[22] They suggested that the number of regional Directors be increased in order to have more representation of the developing member countries on the Board. Some LDC's even insisted on nine or ten regional Directors so that they may have more power in the policy-making of the Bank. Finally, a compromise was reached by adding an article which requested that the Board of Governors "paying special regard to the desirability of increasing representation in the Board of

Directors of smaller less developed member countries" review this question after two years.[23] However, the Board of Directors, in its Second Annual meeting held in 1969, still ignored the real intention of the compromise and failed to meet the requirement of the Article. Its Resolution No. 27 provides:

> That the Board of Directors of the Bank shall hereby be increased to a composition of twelve (12) members, who shall not be members of the Board of Governors and of whom: eight (8) shall be elected by the Governors representing regional members and four (4) by the Governors representing non-regional members and that such increase become effective at the Fourth Annual Meeting of the Board of Governors.[24]

It is evident that the Board of Governors has paid attention not only to the developing member countries but also to the developed member countries.

First, Directors representing regional members are elected by the following procedures:

(1) The Directors may be elected by a single Governor or a group of Governors depending on the voting powers. In the case of election by a single Governor, the said Governor may nominate one Director in his favor and cast all his votes. The Director shall be deemed as elected so long as he receives not less than 8 percent of the total voting power of regional members. Meanwhile, if such a Governor holds more than 10 percent of the total voting power of regional members, the additional votes may be cast for the election of other Directors. For instance, in the Sixth Annual Meeting,

Mr. Kiichi Aichi, Governor for Japan, nominated and elected Mr. Kenzo Wada with its voting power of 25.492 percent.[25] It is apparent that Mr. Kenzo Wada will represent the interest of Japan in the Board of Directors. Meanwhile, the additional votes may be used for the election of others.

The above case is usually applied to the Governor with strong voting power (more than 8 percent of the total voting power of regional members). However, except for Japan, Australia, and India who each have more than 8 percent,[26] it is impossible for one Governor to have his nominee elected without the support of others. Therefore, a group of Governors with similar interests is formed so that the minimum requirement of 8 percent of the total voting powers of the regional members can be reached. Most of the Directors so elected have been through this pattern since 1966.

There are two procedures ruling the election of Directors: (1) when the number of nominees does not exceed the number of Directors to be elected; and (2) when the number of nominees exceeds the number of Directors to be elected. In the first case, it is held that if there are only eight nominees, each of them shall be deemed to be elected so long as any seven have reached the minimum requirement of 8 percent of the total voting powers of the regional members even though there is one who receives less than 8 percent of the total voting powers. However, any Governor may overthrow this rule.

In the second case, when the number of nominees exceeds the number of Directors to be elected, the eight persons receiving the highest number of votes shall be Directors, except that no person who receives less than 8 percent of the total voting power of regional members shall be considered as elected.[27] This is to say that the eight Directors so elected must have at least 8 percent of the total voting power.

> If eight (8) persons are not elected at the first ballot, a second ballot shall be held in which the person who receives the least number of votes in the preceding ballot shall be ineligible, and in which votes shall be cast only by:
> (a) Governors who voted in the preceding ballot for a person who is not elected; and
> (b) Governors whose votes for a person who is elected are deemed, in accordance with paragraph (4) of Section A of Annex B, to have raised the votes cast for that person above ten (10) percent of the total voting power of the regional members.[28]

In other words, in the case of (b), if a Director who is elected receives additional votes from the Governors who cast votes for him to bring his total to more than 10 percent, the excess votes must be cast again in a further ballot.[29]

Similarly, the procedures for the election of Directors representing non-regional members have been based on the principles applicable to the election of Directors representing the regional members. The minimum and maximum percentages for Directors representing the regional member countries are 8 percent and 10 percent, respectively,[30] whereas the non-regional member countries, 17 and 19 percent, respectively.[31]

Before the Bank started its formal operation, members grouped together for voting purposes. At the same time, the groups were responsible for electing Directors and each group itself decided by an understanding reached beforehand, whose national will be nominated as a Director.[32] (For more detailed analysis, see "Identification of Interest Group" in Chapter II.) Usually, a country with strong voting power has its own national representing itself, especially Japan and the United States. Table 4 shows the current situation.

During my stay at the Bank's headquarters, I was interested in the relationship established between the Directors and the member countries. My interviews with some Directors and the officers of the Bank showed that a Director, in principle, should speak for the interests of the member countries he represents. However, it does not mean that the Director shall ignore the possibility that the demands of members he represents will conflict with sound banking principles. In other words, the concept of a voting group in the Board of Directors is not exactly the same as an interest group or pressure group in terms of political science. Directors represent both national interests and also the interests of the Bank. This connection should diminish the partisan character of a Director as a representative of the interests of any member countries. Of course, this explanation would not deny the possibility that a Director may particularly care for his own member country in the Board of

Directors. Therefore, under the principle of parity of treatment of member countries, the Charter provides for those who do not have Directors of their nationalities to send a representative to speak before the Board. Article 32, Paragraph 3 of the Charter regulates this situation.

> 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.

The situation of less representation for the developing member countries has been a serious matter before the Board of Directors. The Directors with the greatest voting power represent seventeen developed member countries who possess 56.897 percent of the total voting power while the Directors representing twenty-three developing member countries hold 43.103 percent.[33] This situation may become more unfavorable if India, a developing member country who has decided to be a major shareholder, votes with the developed member countries. If this occurs, the developed countries' control will be increased to 65.632 percent. This disparity may also be seen when we compare the voting power of the Japanese Director who possesses about six times the voting power of the weakest group Director (representing Afghanistan, Khmer Republic, Laos, and Sri Lanka). The former has 18.211 percent while the latter 3.524 percent. This was the reason that the Soviet Union, at least on the surface, refused to participate in the Bank as stated in an earlier discussion. It is evident that the Directors representing the developing member countries have a poor position in the Bank. The following table will show the actual situation of the voting power of each group.

In view of the fact that the Board of Directors is substantially the executive policy-making organ "responsible for the direction of the general operations of the Bank,"[34] its powers have been broadly defined. Except the powers assigned to it expressly by the Charter, it exercises all the powers delegated to it by the Board of Governors. In principle, all the powers possessed by the Board of Governors, except twelve specified in Article 28, may be delegated to it. Article 31 lists four major powers of the Directors which we will examine more closely.

First, it has to prepare the agenda of the Board of Governors. Moreover, when the Board of Governors is not in session, the Board of Directors has to take charge of any matters that need to be submitted to the Board of Governors for final decisions, such as admission of the new members.

Second, the Board of Directors, in conformity with the general directions of the Board of Governors, may take decisions concerning loans, guarantees, investments in equity capital, borrowing by the Bank, furnishing of technical assistance, and other operations of the Bank. It is evident from this aspect that the Board of Directors is the policy-making organ dealing with the business of the Bank.

TABLE 4

DIRECTORS REPRESENTING REGIONAL AND NON-REGIONAL MEMBERS

Name	Represented For	Total Percent
K. S. Islam	Pakistan, Philippines	6.933
R. A. Kartadjoemena	Fiji, Indonesia, New Zealand, Tonga, Western Samoa	6.806
B. H. Kay	Republics of China, Korea, and Viet-Nam	8.052
J. W. Keany	Australia, British Solomon Islands, Hong Kong, Papua New Guinea	10.366
Hing Kunthel	Afghanistan, Khmer Republic, Laos, Sri Lanka	3.524
Mohd. Y. Rahim	Burma, Malaysia, Nepal, Singapore, Thailand	7.384
N. C. Shrivastava	Bangladesh, India	10.563
Kenzo Wada	Japan	18.211
	Regional Sub-Total:	71.839
C. W. Van D. Feltz	Canada, Denmark, Finland, Netherlands, Norway, Sweden	7.161
A. Pelosio	Belgium, France, Italy, Switzerland	5.807
Wolf Preuss	Austria, Federal Republic of Germany, United Kingdom	7.609
A. E. Weatherbee	United States	7.584
	Non-Regional Sub-Total:	28.161
	GRAND TOTAL:	100.000

Source: Annual Report for 1973, Asian Development Bank, pp. 60-63.

Third, the Board of Directors has to submit the accounts for each financial year for approval of the Board of Governors at each annual meeting. Fourth, the Board of Directors has to approve the Budget of the Bank. The Board of Directors normally functions at its Manila headquarters. Decisions are made through the meetings of Directors chaired by the President of the Bank. The Charter does not specify the frequency of meetings but provides that it shall meet as often as the business of the Bank may require.[35] According to the records of the past six years, the Board of Directors has held meetings as follows.

TABLE 5

FREQUENCY OF MEETINGS

Year	Frequency of Meetings	Average/ Month	Note
1966	X	4	Started operations in December
1967	36	3	Including 5 informal sessions
1968	58	4.83	Including regular and executive sessions
1969	50	4.16	Including regular and executive sessions
1970	48	4	Including regular and executive sessions
1971	53	4.41	Including regular and executive sessions
1972	49	4.08	Including regular and executive sessions
1973	56	4.67	Including 3 Executive Sessions

Sources: Annual Reports from 1966 to 1973, Asian Development Bank.

A quorum for any meeting will be considered as a majority of Directors representing not less than two-thirds of the total voting powers of the members. (Article 32, Paragraph 2.) However, "all matters before the Board of Directors shall be decided by a majority of the voting power represented at the meeting." (Article 33, Paragraph 3.) Obviously, this rule-making by "a majority of the voting power" works to the advantage of the developed member countries. Therefore, for the better protection of the developing member countries, the Charter established a "2/3 + 3/4" rule for the Board of Governors, i.e., for some important matters, the decision must be made 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." For instance, the suspension of membership must be made by this "2/3 + 3/4" rule. (Article 42, Paragraph 1.) However, this "2/3 + 3/4" rule is not employed by the Board of Directors.

The President: Chief Administrator

Although the office of the Presidency is not viewed as a policy-making organ, the position as an executive of the Bank has given it considerably wide powers affecting the decision-making process. The essence of the powers possessed by either the Board of Governors or the Board of Directors have no substance without the President's guidance and recommendations. His position in planning and implementation has made him clearly the center of actual operations in the Bank.

The Board of Directors, as of December 31, 1972, has approved 117 loans for the amount of $954.5 million which were all based on the President's recommendations. The importance of the Presidency cannot be seen from the formal provisions of the Charter,[36] but is derived from its actual operations.

The election of the President is a political arrangement. The Charter requires that "he shall be a national of a regional member country" and "shall be elected by 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."[37] As a matter of fact, the office of the Presidency has been given to a Japanese through a political compromise in the initial discussion of the Bank's establishment in which Japan was among the contenders struggling for the site of the Bank. The United States preferred the headquarters to be in a developing member country while favoring a Japanese holding the office of the Presidency. When Japan failed to win the site, the position of the President fell to a Japanese national as a matter of course. It has since been an unwritten law in the Bank that a Japanese national will assume the office of the Presidency.[38] Now the President is Mr. Shiro Inoue.

Strictly speaking, the effort to place the Bank's headquarters in a developing member country is only a symbol expressing the Bank's spirit toward development. The office of the Presidency has much more influence on the operations of the Bank.

The importance of the President's potential influence may be seen as follows. First, the President serves as Chairman of the Board of Directors, but has no vote, except a deciding vote in case of an equal division.[39] Usually, the major actions which need to be taken by the Board of Directors are recommendations submitted by the President. The purpose of the President's presence on the Board of Directors is to explain the reasons behind the recommendations before the Board of Directors. On the other hand, through his influential powers, the President is trying to persuade the Directors in his favor.

The principal difference of the powers between the Board of Directors and the office of the Presidency lies in the fact that the former is only responsible for the direction of the general operations of the Bank while the latter conducts and implements the general operations and business. This distinction gives the President initiative power on the practical matters. The President may, based upon knowledge and information provided by his staff, make recommendations on whether an appropriate action should be taken to finance a specific economic development project in a certain country. Apparently, this is the power the developing member countries are particularly concerned about.

Second, the President is the legal representative of the Bank.[40] This capacity makes the President the key representative of the Bank with the rest of the world. In view of the fact that the Bank is a developmental agency, the President, therefore, needs to maintain contact with other international organizations. Since the Bank is a financial institution, the President needs to locate developmental resources from the world's capital markets. For this purpose, the President has entered into contracts or agreements with foreign countries for issuing Bank bonds, securities, and notes in the world's major capital markets. In addition, because the president is the one actually dealing with the Bank's business, he has to keep in touch with foreign governments as often as the situation may require to obtain economic information for development.

Third, the President is Chief of Staff of the Bank. Article 34, Paragraph 4 of the Charter provides that the President "shall be responsible for the organization, appointment and dismissal of the officers and staff in accordance with regulations adopted by the Board of Directors." This provision enables the President to become the supervisor of the offices and staff of the Bank. The power for recruitment of personnel vested in the President is considerably wide except that due regard has to be paid to "the highest standards of efficiency and technical competence" and "on as wide a regional geographical basis as possible."[41] It is worth noting that the appointing power does not need to be approved by the Board of Directors. Apparently, it is based on the implied power that he is the general manager of the Bank.

The only exception is the case of the appointment of the Vice President. In principle, the office of the Vice President is independent of the President. However, in view of the close relation with the President in dealing with the Bank's business, the appointment of a Vice President by the Board of Directors is limited to "the recommendations of the President."[42] One or more Vice Presidents may be appointed. On this matter, the appointment of the Vice Presidents has been established by an unwritten practice that it be given to an Indian national. India is the biggest subscriber among the developing member countries of the region and it has also declared that it will not seek any loan and technical assistance from the Bank.[43] Since the Bank started its formal operations in 1966, the position has been given to Mr. C. S. Krishna Moorthi[44] for two consecutive terms.

Summary

We conclude that in the Boards of Governors and Directors, the voting schemes favor the developed member countries. Although the Charter stipulates 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) percent of the total subscribed capital stock" (Article 5, Paragraph 1), this provision is misleading. The main reason lies in the fact that all the regional member countries do not stand on the same basis. The interests of the groups of developing member countries and the developed states become important. In our conclusion, we find that the economic development of the developing member countries are at the disposal of the developed ones.

Notwithstanding the fact that the Charter has established the "2/3 + 3/4" rule (i.e., 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) to protect the interests of the smaller developing member countries on the Board of Governors, this provision does not apply to decision-making on loans and technical assistance in the Board of Directors in which issues are decided by a majority of the voting power represented at the meeting. (Article 32, Paragraph 3.) On the other hand, Japan and the United States together have enough voting power (25.793 percent) to take advantage of this special "2/3 + 3/4" rule. It is apparent that the non-regional developed members can also take advantage of this rule.

In the course of analyzing voting powers, the position of India in the Bank is very difficult to understand. In view of the fact that India supports the Bank's financial resources and has decided not to ask for loans from the Bank, its position is similar to a developed country although it is a developing country in terms of economics. Therefore, if India identifies with the developed countries, then the developed countries can clearly dominate the whole bank system.

On the other hand, if it identifies with its regional poor neighbors, then their power is increased to some degree and India could be in a position to exercise leadership in the Bank.

Footnotes

[1]With regard to structure, Article 26 of the Charter provides: "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."

[2]The Annual Meetings of the Board of Governors have been held in the following places:

Inaugural Meeting,	24-26 November, 1966, Tokyo
1st Annual Meeting,	4-6 April, 1968, Manila
2nd Annual Meeting,	10-12 April, 1969, Sydney
3rd Annual Meeting,	9-11 April, 1970, Seoul
4th Annual Meeting,	15-17 April, 1971, Singapore
5th Annual Meeting,	20-22 April, 1972, Vienna
6th Annual Meeting,	26-28 April, 1973, Manila
7th Annual Meeting,	25-27 April, 1974, Kuala Lumpur.

[3]Article 29 provides: "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."

[4]Most of the Governors and the alternate governors are ministers of finance, treasury, or economics or the president of a central bank. According to Article 27, each member shall be represented on the Board of Governors and shall appoint one Governor and one Alternate.

[5]Indonesia was admitted into the Bank on November 24, 1966, as the 31st member; Switzerland, on December 31, 1967, as #32; Hong Kong, on March 27, 1969, as #33; Fiji, on April 2, 1970, as #34; France, on July 27, 1970, as #35; Territory of Papua and New Guinea, on April 8, 1970, as #36; Tonga, on March 29, 1970, as #37; Bangaldesh, on March 14, 1973, as #38; Burma, on April 26, 1973, as #39; and British Solomon Islands, on April 30, 1973, as #40.

[6]Taking Burma's application for membership as an example, Burma will subscribe #20 million U.S. dollars to the capital stock of the Bank in the form of 2,000 shares at $10,000 per share, of the 2,000 shares, 640 will be paid-in, and 1,360 will be callable, and of the paid-in portion of the subscription, 46.25 percent will be payable in gold or convertible currency and 53.75 percent in the currency of Burma. See <u>ADB Press Release</u> 18/73, April 26, 1973.

[7]In November, 1971, the Board of Governors adopted Resolution No. 46 authorizing an increase of 165,000 shares in the capital stock of the Bank. The resolution specified that the capital increase would become effective when subscriptions in accordance with the Resolution aggregated at least 100,000 shares. During the course of 1972, 22 member countries completed their subscriptions aggregating 102,492 shares valued at $1,112,770,287. The Resolution became effective on November 23, 1972. See Annual Report for 1972, Asian Development Bank, p. 51.

[8]Article 60, Paragraph 1, of the Charter provides: "Any question of interpretation of 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 representation of such member shall, however, have no vote. Such right of representation shall be regulated by the Board of Governors."

[9]As a matter of fact, the third arbitrator shall be empowered to settle all questions of procedure in any case where the parties are in disagreement with respect thereto. See Article 61 of the Charter.

[10]In Resolution No. 21 adopted at the First Annual Meeting, the Board of Governors resolved that the President be authorized on behalf of the Bank to enter into interim arrangements for cooperative action with the Food and Agriculture Organization of the United Nations. See Document BG 1-7, Asian Development Bank.

[11]According to Article 27, Paragraph 2, the Bank may pay them reasonable expenses incurred in attending meetings.

[12]Article 34, Paragraph 6, of the Charter.

[13]Bangladesh's allocation in the capital increase is $22.5 million, of which $4.5 million is to be paid-in and $18 million callable. See ADB Press Release No. 8/73, March 14, 1973.

[14]In the 1969 Annual Meeting of the Board of Governors, it was resolved by Resolution No. 27 that the composition of the Board of Directors be changed by increasing its number from 10 to 12 (one additional each from the regional and non-regional members).

[15]According to Article 3, Paragraph 1, of the Charter of the African Development Bank, "any African country which has the status of an independent State may become a member of the Bank." Meanwhile its Article 35, Paragraph 1, also provides: "Each member shall have 625 votes and, in addition, one vote for each share of the capital stock of the Bank held by that member."

[16]There were widely varying suggestions. Some countries favored 50 percent such as Laos, Nepal, etc., and others even proposed 100 percent or one vote for each member regardless of the amount subscribed. The more moderate one is 10-15 percent, or 20.

[17]Article 33, Paragraph 1, of the Charter.

[18]Article 33, Paragraph 1 (ii), of the Charter.

[19]As of April 26, 1973, most of the member countries have subscribed to the additional shares of the increase in capital stock authorized by Resolution No. 46 of the Board of Governors. Such additional shares are equal to 150 percent of each member's existing subscribed shares. So in the cases of these two small countries, Laos' shares have been increased to 105, while Western Samoa 15.

[20]The figures used here are based on the statistics for the election of Directors. See Document No. BG 6-13, Asian Development Bank, April 27, 1973.

[21]The 7:3 formula was recommended by the Consultative Committee but aroused considerable debates. See Morales, p. 57. Also see Article 30 of the Charter.

[22]Also see Morales, p. 57.

[23]Article 30, Paragraph 1 (ii) of the Charter provides: "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 of 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."

[24]Resolution No. 27 was adopted on April 10, 1969, in the 2nd Annual Meeting. See <u>Summary of Proceedings</u>, Asian

Development Bank, Second Annual Meeting of the Board of Governors, Sydney, April 10-12, 1969, p. 104.

[25]Asian Development Bank Document No. BG 6-13, April 27, 1973.

[26]See Annual Report for 1972, Asian Development Bank, p. 79.

[27]See Rules for the Election of Directors at the 6th Annual Meeting which was adopted on April 27, 1973, by the Board of Governors, Attachment to Document No. BG-7.

[28]Ibid. This extremely complex provision has never been used.

[29]According to Paragraph 4 (a), Section A, Annex B of the Charter, the said 10 percent shall be deemed to include, first, the votes of the governor casting the highest number of votes for that person, and then, in diminishing order, the votes of each Governor casting the next highest number until 10 percent is attained. Ibid.

[30]Resolution No. 27 of the Board of Governors; see note No. 24 of this chapter.

[31]See Resolution No. 37, "Amendment of Minimum Percentage for Election of Non-Regional Directors Stated in Paragraph 2 of Resolution No. 27 of the Board of Governors," Summary of Proceedings, Asian Development Bank, 1971, p. 113.

[32]For instance, the Republic of China, the Republic of Korea and the Republic of Viet-Nam have formed a voting group since the beginning of the Bank's operation. The writer has been told by Mr. B. H. Kay, Director, representing these three countries, that an understanding has been reached by these countries that the national of Korea will be elected as a Director in the Board. The factors causing this decision are due to the consideration of the size, population, and economic situation of a country.

[33]The figures are based on the Annual Report for 1972, Asian Development Bank, pp. 78-81.

[34]Article 31 of the Charter.

[35]Article 32, Paragraph 1, of the Charter.

[36]With regard to the powers of the President, according to Article 34, Paragraph 5, of the Charter, he shall conduct, under the direction of the Board of Directors, the current

business of the Bank, and he shall be responsible for the organization.

[37]Article 34, Paragraph 1, of the Charter.

[38]When Mr. Shiro Inoue, a well-known personality in Japanese and international banking circles, succeeded Mr. Takeshi Watanabe who submitted his resignation in late 1972 for medical reasons, there was no contest. Mr. Shiro Inoue was unanimously elected President of the Bank by the Board of Governors.

[39]Article 34, Paragraph 3, of the Charter.

[40]Article 34, Paragraph 4, of the Charter.

[41]Article 34, Paragraph 5, of the Charter.

[42]Article 35, Paragraph 1, of the Charter.

[43]The reason that India will not seek any loans and technical assistance from the ADB is based on the following reasons: (1) India needs large financial resources; therefore, the limited resources available in the ADB are not sufficient for its economic development; (2) India has other financial resources available in the world; and (3) the reason for Indian participation of the Bank, as India declares, is for the purpose of Asian unity and regional integration. My interviews with the Bank's officers confirmed this point.

[44]Mr. C. S. Krishna Moorthi was originally recommended by the former President Takeshi Watanabe and approved by the Board of Directors in 1971 for another five year term. However, under the new Presidency, Mr. Moorthi still maintains the same position. Mr. Moorthi is a qualified financier. He served on the Board of Executive Directors of the World Bank, as well as the International Finance Corporation and (later, when it was formed) the International Development Association, as representative of India from December, 1958, to July, 1963. He was also Minister of the Embassy of India in charge of economic affairs in Washington during this period. Prior to joining the ADB in December, 1966, he was Joint Secretary in the Ministry of Finance of the Indian Government and a member of the Preparatory Committee that established the ADB. See Quarterly Newsletter, ADB, July, 1971, pp. 1, 3.

CHAPTER V

POLICY-MAKING FUNCTIONS

Criteria for Policy-Making: Development Strategies vs. Sound Banking Principles

The Bank has established policies and principles to be applied to the projects which are submitted to the Board of Directors for approval.[1] In general, a project, before being approved, is examined from both the aspect of development strategies and from the basis of "sound banking principles."[2] In other words, two stages based on separate principles dominate a loan-project.

The Bank's operating policies and principles do not necessarily always go in accordance with economic development strategies. A project based on a development strategy might be viewed unfavorably when it is judged by "sound banking principles." Therefore, many developing member countries have found themselves rather hesitant to apply for a loan irrespective of the fact that they have good projects for economic development. For this reason, the Bank's operating policies and principles have become one of the major concerns of the LDC's. In the past six years, although development projects have increased as swiftly as the Bank originally planned, they have also brought in some complaints, from both the developing and developed member countries. The purpose of this section is to analyze the basic operating policies and principles which might influence policy-making on development strategy and the problems raised by the member countries in the practical application of these principles.

The Bank maintains two operational fund categories.[3] These are ordinary and special operations. Ordinary operations are based on the "ordinary capital resources" stipulated in Article 7 of the Charter, while special operations refer to Special Funds Resources in Article 20 of this Charter.[4] Thus, the separation of operations provides the following principles:[5]

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 to 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.

Based on this separation principle, the Bank has operated in such a way that the developing member countries should be financed from the ordinary capital resources, but for those who are particularly less developed the special operations shall also be applied. This is the basic spirit of separation of these two operations.

The following are five focal points used by the Bank in the process of approving projects: (1) project selection; (2) interest rates; (3) commitment charge; (4) loan administration; and (5) procurement.

Project Selection

Article 14 (ii) of the Charter provides: "In selecting suitable projects, the Bank shall always be guided by the provisions of sub-paragraph (ii) of Article 2 of this Agreement." The provision of sub-paragraph (ii) of Article 2 reads as follows: "[The Bank shall] . . . utilize the resources at its disposal for financing the development of the developing member countries in the region, giving priority to those regional, subregional 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 of less developed member countries in the region." It is apparent that the limited capital resources available to the Bank in comparison with the necessities of its developing member countries require a careful and judicious selection of projects. The focal point here is whether "the needs of the smaller or less developed member countries in the region" have been noted. Although the Charter requests the Bank to pay special attention to their needs, yet some of the smaller and less developed member countries feel that their interests have been ignored.[6] In 1971, this situation was stated strongly again by the Governor from Pakistan in the Fourth Annual Meeting of the Board of Governors.[7] He said:

> Although as mentioned before, four regional developing countries got loans from the Bank for the first time in 1970, which made for better geographical distribution of the Bank's loans, there is still some concentration of lending in certain areas and that concentration is not in countries which are the least developed. Article 2 of its Charter enjoins the Bank to have special regard to the needs of the smaller or less-developed member countries of the region. The best index, speaking generally, of the stage of a country's development is its per capita income. Therefore, I would suggest that the Bank pay special regard in the granting of loans and technical assistance to countries with the lowest per capita income. If we do not do that, the disparity in the stages of development of the various countries in the region will increase instead of decreasing and the aim of harmonious economic growth of the region as a whole envisaged in the Charter will recede further.

As far as the smaller and less developed member countries are concerned, their depressed economic situation makes it difficult for them to meet basic terms and conditions of an ordinary loan. Therefore, the LDC's look with favor upon financing through Special Fund operations which feature longer maturities, longer deferred commencement of repayment and lower interest rates. However, the limited Special Funds resources are not sufficient to satisfy all the demands from the developing member countries. This has been an embarrassing problem felt by both the Bank and the member countries. For this reason, in July, 1972, the Board of Directors adopted a series of criteria serving as the Bank's policy guidelines in extending loans based on the Special Funds resources. These criteria, together with my analysis, read as follows.[8]

First, the economic situation of the developing member countries should be regarded as the major factor for a decision on whether or not to extend such Special Fund operations.

Second, while several developing member countries seek special operations, highest priority should be given to the smaller and less developed countries. This is a comparative notion since we have no definite criteria to apply to the real situation. According to the Bank's practice, economic indicators of each country have been used as a major reference in order to determine the order of relative priority. Such indicators have to be adjusted regularly to reflect the changing economic conditions in member countries. For this purpose the Bank's Economic Office in January, 1972, issued an internal reference source entitled "Key Indicators of Developing Member Countries of ADB"[9] for the use of the staff, management and the Board of Directors. The Bank has repudiated the idea to categorize in advance the developing member countries into high, low, and intermediate priority countries, although some countries in practice have been treated by the Bank as high priority for receiving Special Funds resources, some intermediate priority and others low priority.[10]

Third, the problem of priority may be also determined by the nature of the projects. This is to say that "projects with direct and sustained foreign exchange earning or saving capacity in general will be given low priority; projects with high economic and social values or those with long gestation periods should be eminently qualified for such loans even though having indirect financial returns and/or low foreign exchange earning/saving capacity." Nevertheless, the procedure to evaluate the projects from Special Funds resources should be the same as applied to those from ordinary capital resources.

Fourth, priority should be applied to an entire framework of related projects, not for a single project, within a country. This is based on the notion that economic development is derived from systemic planning. To finance an independent project would be of little use for the whole economy.

Fifth, while considering the terms and conditions of Special Funds loans, the Bank should arrange for assistance from other sources. For example, the Bank particularly should integrate lending from both Special Funds resources and ordinary capital resources.[11] Following the same spirit, the Bank would like to have joint or parallel financing with other financial institutions.[12]

Interest Rates

The problem of interest rates has been a hot-debating subject between the Bank and developing member countries since the commencement of the Bank's operations. The Charter states that "in making, or guaranteeing a loan, the rate of interest shall be such as is, in the opinion of the Bank, appropriate for the loan concerned."[13] However, it seems to the developing member countries that the current rate of interest is too high. As the Governor for Thailand put it,

> An unduly high interest rate will certainly aggravate the almost untenable situation which the developing countries are in at present. A difference of a mere fraction of a percentage in interest rate charges can mean a great deal to a poor developing nation. It is hoped that the Bank will keep its interest rate policy under constant review.[14]

On the other hand, the Bank has been in an embarrassing position. As a financial agency to promote economic development, it should keep its interest rate as low as its member countries are able to pay, but at the same time, it must establish its credit in the financial world in order to borrow additional funds from the world's capital markets. Thus it must take into account the money market situation in determining its own interest charges. The reason that the Bank has to charge high interest from its borrowers is that the Bank itself is a borrower and has to pay high interest to its lenders.

The Board of Directors, on February 8, 1968, determined that the rate of interest on loans made from ordinary capital resources of the Bank should be 6-7/8 percent per annum. This interest rate was applied to all loans made by the Bank in 1968, except in the case of loans made to development banks of individual countries, in which case the prevailing rate on the date on which sums are credited to the loan account is to apply.[15] Loans from Special Funds resources were made at interest rates ranging from 1-1/2 to 3 percent.[16]

However, the most significant policy development in the Bank's operations in 1970 was the increase in its ordinary rate from 6-7/8 percent to 7-1/2 percent, which became effective May 28. The rate includes a commission of 1 percent. The major reason for this increase was due to the changes in market conditions in almost all important capital markets. In 1969 the Bank floated its first bond issue in the Federal Republic of Germany. The issue consisted of DM 60 million with the interest rate of 7 percent.[17] The Bank's second bond issue took place in April, 1970, in Austria in the amount of 130 million schillings ($5 million) bearing a coupon rate of 7 percent per annum.[18] It was apparent that these two bond issues were higher than the old lending rate 6-7/8 percent. Furthermore, other international financing institutions, including the World Bank group, the Inter-American Development Bank and the European Investment Bank, had also raised their lending rates.[19] Therefore, based on these facts, the Bank, while bearing in mind its dual role "to meet the needs of the borrowing countries by providing funds at the lowest possible rate" and not to "impair its ability to raise substantial funds in the World's capital markets,"[20] decided to increase its interest rate to 7-1/2 percent per annum. This figure was applied to all loans approved after May 28, 1970.[21] Both in 1971 and 1972, the Bank's lending rate of 7-1/2 percent was maintained, while the interest rate for Special Funds resources still ranged from 1-1/2 percent to 3 percent.

Since the lending rate has been so high, some member countries suggested that blending or parallel financing be adopted to reduce the substantial rate of interest.[22] The present writer found that this suggestion is a considerably constructive way to solve this problem, particularly for those countries who are not in the Bank's favor in regard to Special Funds resources but find themselves unable to pay the high interest rate from the ordinary capital resources. Past financial statements have showed that interest from loans constitutes a substantial portion of the income of the Bank.[23]

Commitment Charge

The reason that the Bank decided to levy a commitment charge on undisbursed portions of loans from ordinary capital resources is primarily based, according to the Bank, on the consideration of "opportunity cost."[24] The so-called "opportunity cost" refers to "the difference between the actual return on money invested and the potentially higher return from alternative uses in cases where there is less need to consider liquidity requirements."[25]

Originally, by a decision of the Board of Directors on January 23, 1968, the commitment charge was fixed at 3/4 of 1 percent per annum temporarily.[26] In early 1970, the Bank, while reviewing the lending rate, examined the commitment charge. In view of the fact that the Bank had increased its interest rate from 6-7/8 percent to 7-1/2 percent, the Bank found that this situation made the difference between the return on short-term and long-term investments less pronounced than two years before.[27] Thus the Board decided to reduce its commitment charge to 1/2 of 1 percent per annum effective from May 28, 1970.

In 1971, the whole situation changed again. As the Bank's loan operations increased rapidly, the Bank needed to seek additional capital resources from the world financial markets. These borrowings by the Bank cost more than the average return to the Bank on its investments of borrowed funds awaiting loan disbursements.[28] The gap between high borrowing costs and lower investment return forced the Bank to consider a change of the commitment charge. The original level of 3/4 of 1 percent per annum was restored. The problem of the commitment charge indicates once again that a fair balance between the Bank as a financial agency and as a developmental institution is difficult to maintain.

Loan Administration

Loan administration is an arrangement made by the Bank's executive with the purpose to ensure that the implementation of projects are conducted effectively. Usually, when problems appear in the execution of various projects, the Bank sends out technical experts.[29] The staff consults with the borrowers "in overcoming problems connected with the conditions to be met for loans to become effective, recruitment of consultants, preparation of tender documents, issuance of invitations to bid, evaluation of bids, project organization and management and fulfillment of covenants incorporated in the loan documents."[30] The Bank has conducted "regular monthly and quarterly assessments of project progress on an inter-departmental basis in order to identify problem area and operational bottlenecks that intend to interrupt orderly project implementation."[31]

Procurement

Member countries have argued bitterly over the Charter provision on procurement which provides that the proceeds of any loan investment, or other financing undertaken in the ordinary operations of the Bank, or with the special funds established by the Bank, shall be used only for procurement in member countries of goods and services produced in those countries, except in cases in which the Board of Directors decides to permit procurement in a non-member country. If this limitation is applied broadly, borrowers are prevented from buying whatever they need in the most competitive markets of the world, particularly when they feel the necessity to buy from some industrial countries who are not members of the

Bank. The LDC's argued that this policy is inefficient. As a Governor for Pakistan put it,

> A significant advantage to the developing countries in receiving assistance through a multilateral source is that the loans are not tied to procurement from any particular country, and are, therefore, more economic. Unfortunately the initial contributions to the Special Funds did not follow this practice.[32]

On the other hand, this limitation is contrary to the spirit of Article 14 (xi) which requests the Bank to "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 purpose for which the loan was granted and with due attention to considerations of economics and efficiency." At the same time, this limitation has brought considerable inconvenience to those countries who have already conducted business with non-member countries.[33]

However, in contrast, there are some opinions in support of the limitation on procurement. Such a stipulation should provide an incentive to the industrialized countries to join the Bank. The vast Asian land would become an ideal market for foreign trade and investments if they are member countries. It seems that this fact is so recognized by the Bank's officers.[34] In the "Guidelines for Procurement under Asian Development Bank Loans" which were approved by the Board of Directors on February 1, 1968, this limitation has become a written requirement for the member countries.[35]

Developmental Funds

Introduction

The origin of the developmental funds usually determines the nature of the Bank's operations. Ordinary operations have been financially supported by the ordinary capital resources while special operations by the Special Funds resources. Thus both the ordinary capital resources and the Special Funds resources form the whole developmental funds of the Bank. The Charter stipulates the sources of both types of resources. In the case of the ordinary capital resources, the following five items are its major sources which are set forth in Article 7: (1) authorized capital;[36] (2) funds received by borrowings of the Bank;[37] (3) funds received in repayment of loans or guarantees made with the resources of authorized capital and borrowings; (4) income derived from loans or from guarantees;[38] and (5) any other funds or income received by the Bank which is not the part of its Special Funds.[39]

The Special Funds resources are established, independently, for the less-developed of the developing member countries so that they can borrow on more liberal terms. Similarly, the sources of the Special Funds resources are obtained from five items: (1) resources set aside from the paid-in capital; (2) funds accepted by the Bank from contributions; (3) funds repaid in respect of loans or guarantees financed from Special Funds resources;[40] (4) income derived from operations of the Bank; and (5) any other resources placed at the disposal of any Special Funds.

Ordinary Capital Resources

Authorized Capital

The initial authorized capital stock of one billion dollars constitutes a substantial portion of the ordinary capital resources. In an *Aide Memoire* additional stock subscriptions were regarded as a device for augmenting financial resources in the future.[41] The Charter stipulates that the amount may be increased in the future as deemed necessary.[42]

According to the Charter, the authorized capital stock of one billion dollars is divided into 100,000 shares "having a par value of ten thousand dollars ($10,000) each, which shall be subscribed only by the member countries."[43] It includes two parts: paid-in shares and callable shares. Each member shall have shares in equal parts. Paid-in shares constitute the substantial portion of subscription while the callable shares are for meeting the liabilities of the Bank.[44] Thus the discussion of the authorized stock here is limited to the paid-in shares.

The initial number of shares to be subscribed by each original member country was based on individual economic development. The adopted method of allocation "took into account, on an integrated basis, the various indicators for a country's economic capacity as reflected in gross domestic product adjusted for population, total exports and total tax revenues weighted on the basis of 70 percent, 15 percent and 15 percent, respectively."[45] Thus the Bank set forth the initial number of shares as indicated in Table 6, Column A. As for the member countries participating the Bank on a later date, the initial number of shares shall be determined by the Board of Governors.[46] This situation is indicated in Table 6, Column B.

The Asian character of the Bank is strongly expressed through the capital subscription. The member countries of the region should at all times hold a minimum of 60 percent, subject to marginal adjustments, of the Bank's subscribed capital shares. Therefore, new membership cannot produce the effect of reducing "the percentage of capital stock held by regional members below sixty (60) percent of the total subscribed capital stock,"[47] nor can it be reduced by the increase of the authorized capital stock decided by the Board of Governors. In addition, any member country may request the Board of Governors to increase its subscription held by the regional member countries.[48] The purpose of such arrangements is to protect the regional member countries so that their interests might not be dominated by the non-regional member countries.

The Board of Governors, in order to make shares available for the admission of new members, resolved in the Inaugural Meeting of the Board of Governors on November 25, 1966, that the authorized capital stock of the Bank be

TABLE 6

COMPARISON OF SUBSCRIPTIONS
(U.S. DOLLARS IN MILLIONS)

Members	A Initial[a]	B Current Capital Subscriptions[b]	C Capital Not Yet Subscribed[c]
Afghanistan	3.360	14.410	
Australia	85.000	256.350	
Bangladesh	--	45.240	
British Soloman	--	0.300	
Burma	--	24.120	
China, Rep. of	16.000	48.250	
Fiji	--	3.010	
Hong Kong	--	24.120	
India	93.000	280.470	
Indonesia	--	75.390	
Japan	200.000	603.170	
Khmer Rep.	3.000	10.550	
Korea, Rep. of	30.000	138.730	
Laos	0.240	1.260	
Malaysia	20.000	60.310	
Nepal	2.160	6.510	
New Zealand	22.560	60.040	
Pakistan	32.000	96.500	
Papua New Guinea	--	4.160	
Philippines	35.000	105.550	
Singapore	4.000	15.080	
Sri Lanka	8.520	25.690	
Thailand	20.000	60.310	
Tonga	--	0.180	
Viet-Nam	7.000	36.190	
Western Samoa	0.060	0.070	0.105
Austria	5.000	15.080	
Belgium	5.000	15.080	
Canada	25.000	75.390	
Denmark	5.000	15.080	
Finland	5.000	6.030	7.500
France	--	75.390	
Germany, Fed. Rep.	30.000	102.540	
Italy	10.000	24.130	15.000

TABLE 6--Continued

Members	A Initial[a]	B Current Capital Subscriptions[b]	C Capital Not Yet Subscribed[c]
Netherlands	11.000	33.180	
Norway	5.000	6.030	7.500
Sweden	5.000	6.030	7.500
Switzerland	--	15.080	
United Kingdom	10.000	90.480	
United States	200.000	241.270	300.000
Total	897.900	2,724.850	337.605

[a]Column A represents the initial subscriptions to the Authorized Capital Stock when the Bank was established in 1966.

[b]Column B represents the actual subscriptions as of 1973.

[c]Column C indicates those countries which have not yet subscribed to the capital increase of 150 percent authorized by Resolution No. 46.

Source: Annual Reports of 1966 and 1973, Asian Development Bank.

increased by $100 million. Therefore, this raised the Bank's authorized capital stock to $1,100,000,000.

During the period from 1968 to 1971, the Bank approved fifty-seven loans from ordinary capital resources for the amount of $531,255,000. Apparently, the replenishment of ordinary capital resources became an urgent need.

At its Fourth Annual Meeting on April 17, 1971, the Board of Governors adopted Resolution No. 43 directing that:

> the Board of Directors promptly undertake a study of the resources position of the Bank and in particular of the need to enlarge them through an increase in the authorized capital stock of the Bank and report as early as possible its findings, with such recommendations in respect of the said capital increase as are deemed appropriate, to the Board of Governors for the latter's consideration and action.[49]

The Board of Directors accordingly studied the resources position of the Bank and recommended an increase in the Bank's authorized capital stock. In October, 1971, the Board of Directors submitted a report to the Board of Governors concerning its findings. The following are the main points. First, the increase in the Bank's capital stock should be 150 percent of the present authorized capital and a portion of the increase corresponding to 150 percent of the present authorized capital should be available for subscription by members in proportion to their existing capital subscriptions. Second, of the increase in the capital stock, 20 percent should be paid-in and 80 percent callable. This is different from the original subscription to the authorized capital stock which is based on equal parts.

Furthermore, the Board of Directors made a comprehensive review of the whole situation of the resource position of the Bank for the period ending 1975. The Board of Governors, after considering the report and recommendations in details, in November, 1971, approved Resolution No. 46 authorizing the increase in the capital stock of the Bank as recommended by the Board of Directors. As stated in the Resolution, the increase in authorized capital stock "shall become effective only if and when, on or before September 30, 1972, or such other date not later than February 29, 1973, as the Board of Directors may determine, subscriptions shall have been made in accordance with the Resolution to an aggregate of at least 100,000 shares."[50]

During the course of 1972, several member countries took steps to complete their subscriptions to the increase and, with the subscriptions by twenty-two member countries aggregating 102,492 shares valued at $1,112,770,287, the Resolution became effective on November 23, 1972.[51] As of the end of 1973, most of the member countries have subscribed to the increase in capital stock, as indicated in Table 6, Column C. However, this United States has not yet subscribed to these additional shares of the increase in capital stock due to Congressional reluctance.

Borrowings From the Capital Markets

It has been widely agreed that one of the main sources to augment the ordinary capital resources for ordinary lending, and for other purposes, is to explore the possibility of borrowing in the international capital markets.[52] Sole reliance on the increase of the authorized capital stock is not regarded as consistent with "sound banking principles." It seems to most of the developing member countries that to subscribe to more authorized capital stock is burdensome, particularly when faced with their poor domestic financial situation. In addition, some countries are of the opinion that the entire capital requirements for ordinary loans should be derived from borrowing. Some have stated that the generosity of the contributing countries is not boundless. If they are called upon to make additional subscriptions to ordinary capital they may have to proportionately reduce the amount of their Special Funds contributions.[53]

However, others think that the borrowing approach is rather unrealistic. It will leave the ordinary loan operations, which are the mainstay of the Bank's activities, to the mercy of the capital markets. Therefore, they still emphasize that the capital increase should inevitably contain a certain portion of paid-in capital.

As of the end of 1973, the Bank has successfully issued twelve bonds, one note, and one loan in eight countries, namely: Austria, Belgium, Germany, Italy, Japan, Luxembourg, Switzerland and the United States, with the amount totalling \$260.00 million.[54] In addition, the Bank issued a two-year bond in 1971 totalling \$20 million and sold at par with interest at 5.5 percent per annum. The purchasers of the Bonds were central banks and governmental agencies of the following regional member countries of the Bank: Australia, Republic of China, India, Japan, Khmer Republic, Republic of Korea, Malaysia, Nepal, New Zealand, Singapore, Thailand and Republic of Viet-Nam.[55]

Member countries have showed an interest in the Bank's short-term bond issues in the region which are designed to further mutual cooperation among the member countries. As indicated by the Governor for Viet-Nam, the Bank's issues in the region may increase the degree of marketability and transferability of these bonds. He said:

> Thus, any regional member of the Bank, when required by the fluctuations of its reserves, would not be afraid to be burdened with short-term ADB bonds and could easily sell or transfer these securities to other members of the region which might be in a better reserve position at that time.[56]

In order to sell its bonds in the United States, the Bank has had to meet many local state requirements. As of the end of 1972, the necessary legislation has been enacted in the states of New York, California, New Jersey, Pennsylvania, Massachusetts (the above completed in 1968); Colorado, Connecticut, Hawaii, Illinois, Maine, Ohio, Washington (in 1969); Iowa, Kentucky, Louisiana, Virginia, Wisconsin (in 1970).[58] This result will be an important factor in the successful raising of funds in the capital markets of the United States.

Europe is also a major target of the Bank. Thus in 1971 the Bank opened an office in Zurich, Switzerland. Through this office, the Bank will be able to maintain close contact with the major financial and capital markets in Europe.[59]

Special Funds Resources

As discussed earlier, the Special Funds resources are mainly composed of the "set-aside" portion of the unimpaired paid-in capital and the contributions from the member countries. Since the special operations are separated from ordinary operations, the Bank is required to establish special rules and regulations for the administration and use of each Special Fund.[60] During 1968 the Bank devoted considerable attention to the preparation of rules and regulations for achieving this purpose. On September 17, 1968, the Board of Directors formally approved "Special Funds Rules and Regulations" for the administration of Special Funds.

According to the "Special Funds Rules and Regulations," the Special Funds resources refer to three types. First, "set-aside resources" refers to the portion set aside from the paid-in capital of the Bank by vote of the Bank's Board of Governors. Second, "contributed resources" includes the following portions: (a) funds accepted by the Bank pursuant to a contribution agreement for inclusion in any Special Fund; (b) repayment thereof; (c) income derived by the Bank from contributed resources after meeting necessary expenses.

Third, "accrued resources" are derived from the service fee charged by the Bank.[62]

However, all the Special Funds resources work under the general framework of "Consolidated Special Funds" which include these programs: (1) an Agricultural Special Fund;[63] (2) a Technical Assistance Special Fund;[64] (3) a Multi-Purpose Special Fund;[65] and (4) such other Special Fund or Funds as may be established or accepted by the Bank from time to time. The Bank may use any of the resources of any Special Fund, singly or in combination with any other resources, for any operation consistent with the purpose of that Fund. In addition, the allocation of Special Funds resources among the respective Special Funds may be varied by the Bank, but the Bank cannot reallocate the contributed resources, except as otherwise provided between the Bank and the relevant contributor.[66]

"Set-Aside" Portion

The Board of Governors shall decide how much to set aside from the unimpaired paid-in capital of the Bank for developmental Special Funds.[67] As indicated earlier, the operations that are based on the ordinary capital resources are constrained by the requirements of "sound banking." However, the "set-aside" portion under Special Funds can be used to achieve the same purpose for which the ordinary capital resources are established, but without being restricted by the terms and conditions set forth for ordinary operations.

This has been very important for those countries who are unable to gain benefits from the ordinary operations because of a poor economic situation. The uses of such funds shall be for high developmental priority and thereby enjoy such favorable conditions as "long maturities, long deferred commencement of repayment and lower interest rates than those established by the Bank for its ordinary operations."[68] So this portion constitutes the key financial resources for the less-developed of the developing member countries.

As Article 19, Paragraph 1 (i) of the Charter provides, the Bank may set aside "not more than ten (10) percent each of the portion of the unimpaired paid-in capital of the Bank paid by the member countries pursuant to Paragraph 2 (b) of Article 6, and establish therewith one or more Special Funds." In other words, the "set-aside" portion may include up to 10 percent each of the portion of 50 percent of paid-in capital stock in gold or convertible currency and of the portion of 50 percent in the currency of the member.[69] The Bank, since its commencement of operations, has acted three times to set aside special fund money. The total amount set aside by these resolutions equals $24,516,900.

Contributions from Member Countries

The Bank's major source for Special Funds resources has been the contributions from the member countries. The Charter provides: "The Bank may accept the administration of Special Funds which are designed to serve the purpose and come within the functions of the Bank."[70] 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."[71] The Bank has received contributions from eighteen countries totalling $343,170,870 as of the end of 1973. (See Table 7.) Nevertheless, the complaints launched by the recipient countries still indicate their dissatisfaction with the pattern of operations established by the contributions. The arguments have concentrated on the terms and conditions attached to the contributions which not only restrict the Bank in its practical uses but bring much inconvenience and ineffectiveness to its recipients. As a Governor for Laos put it,

> If the basic objectives of that aid are to be attained, the conditions governing its use must be made more flexible and less binding, and the Byzantinism associated with its administration must be swept; much of the bureaucracy of aid administration at present existing derives from the enormous variety of conditions imposed by donor countries when making their contributions.[72]

In general, the terms and conditions put up by the donor countries were considerably restrictive. The following is a typical example. In December, 1968, the Japanese Government expressed its wishes to contribute ¥7,200,000,000 ($20,000,000) to the Consolidated Special Funds with the following term and conditions:[73]

(1) "The Contributor agrees to contribute ¥7,200,000,000 . . . to the Consolidated Special Funds to be allocated to the Agricultural Special Fund."

TABLE 7

SPECIAL FUNDS RESOURCES FROM CONTRIBUTIONS
AS OF DECEMBER 31, 1973
(U.S. DOLLARS)

Country	Technical Assistance	Agriculture[a]	Multi-Purpose
Developed			
Australia	779,341		12,949,159
Austria	111,970		--
Canada	200,117		27,056,762
Denmark	755,585	(16,827)	2,384,738
Finland	116,426		1,599,480
Germany, Fed.	366,867		25,094,857
Italy	200,000		1,698,586
Japan	8,117,564	(23,376,623)	226,428,571
Netherlands	199,290	(1,232,780)	8,964,418
New Zealand	395,959		1,175,824
Norway	--		2,095,155
Switzerland	200,000		6,172,840
United Kingdom	482,022		13,859,406
United States	1,250,000		--
Developing			
China, Rep. of	200,000		
India	241,499		
Korea, Rep. of	30,000		
Pakistan	24,167		
Sri Lanka	20,267		
	13,691,074	(27,147,293)	329,479,796
Grand Total		$343,170,870	

[a]These agricultural contributions have been transferred to the Multi-Purpose Special Funds by the related countries.

Source: Statement of Contributed Resources, Annual Report for 1973, Asian Development Bank, pp. 80-81.

(2) "The contribution shall be used for financing special operations of the Bank relating to agricultural development including forestry, fisheries and agriculturally related industries."

(3) "The contribution shall be used mainly in Southeast Asia."

(4) " . . . the maturity period shall be no longer than 25 years (including a grace period of 7 years of less) and the interest rate, including a service fee, shall be no less than 3 percent per annum."

(5) " . . . the contribution shall be used only for procurement in Japan of goods produced in or services supplied from Japan. . . ."

(6) "The contribution shall not be used for financing of local expenditures."

(7) "The contribution shall not be used for technical assistance on a non-reimbursable basis."

Year after year, opinions, complaints, or suggestions have been repeatedly brought to the rostrum of the Annual Meetings of the Board of Governors for discussion. However, the fact remains that the donor countries have the right to set the terms. Suggestions for liberalization of contributions have been made. For example, the Governor for Pakistan stated:

(1) Liberal contributions should be made in the light of the already high debt servicing liabilities of the developing countries;

(2) Special funds should be provided to the recipient countries on as soft terms as possible;

(3) They should be used over projects which cannot bear normal lending terms;

(4) They should be made available to the Bank without any geographical or sectoral limitations; and

(5) In order to make the best use of these funds the multilateral character of the Bank's operation should be protected.[74]

Recently, the donor countries, under heavy pressures, have liberalized their restrictions to some extent. In October and December, 1971, for instance, the Federal Republic of Germany and Japan each contributed $3,825,137 and $30 million, respectively, to the Multi-Purpose Special Fund. Both lessened the restrictions on procurement by saying that the contributions may be used for procurements of goods and services in the developed member countries contributing to the Consolidated Special Funds (other than the Technical Assistance Special Funds) or in developing member countries.[75]

The Asian Development Fund

At its 6th Annual Meeting of 1973, the Board of Governors, upon the recommendation of the Board of Directors, adopted a new pattern to deal with the administration of Special Funds; it was the establishment of the Asian Development Fund.[76] The purpose of this Fund aims at the establishment of a new system for the administration of special operations.

As discussed earlier, the major difficulties troubling both the Bank and the recipient countries stem from the restrictions on the uses of the contributions. This new approach places an emphasis on the establishment of standard terms and conditions for general contributions. As pointed out by the report of the Board of Directors,

> The contributions received to date have been made as a result of the individual initiative of each donor. Accordingly, there has been no specific pattern in the amounts and timing of the various contributions in relation to each other, or in relation to the specific needs of the Bank for funds. There are also variations in the terms and conditions applicable to the various contributions. Although the existing Special Funds Regulations contain provisions concerning the use and administration of Special Funds resources, it is open to each contributor in its contribution agreement to modify or exclude the application of the Regulations, or to invoke the express provisions in those Regulations which permit exceptions to the general principles incorporated therein. The variations in terms among contributions are especially significant where they relate to the permitted use of the contributed resources in the Bank's lending operations, in particular for financing procurement under concessional loans.[77]

Therefore, the newly established "Asian Development Fund," although its resources are still principally the contributions from the member countries, is placed on "an organized multilateral basis and periodically replenished under the authority of resolutions of the Board of Governors."[78] For general operations supported by this Fund, uniform terms and conditions shall be established to apply to all contributors, so that the resources can be used "for financing procurement in all contributor countries and developing member countries of the Bank."[79] The advantage of this new arrangement is its efficient uses of the resources "without separate identification of individual contributions once these have been drawn down for use in operations."[80]

With regard to the developmental funds, the Bank had fallen into a financial crisis in 1973. The total Special Funds resources against which the Bank could make concessional loan commitments as of December 31, 1972, stood at approximately $222,500,000,[81] while there were forty-four loans made by the Bank for a total amount of $201,548,000. Therefore, there were only about twenty million dollars left for meeting future needs. This was the most pressing issue to be solved in the 6th Annual Meeting of the Board of Governors. This was also the reason behind the establishment of the Asian Development Fund.

In order to achieve the goals established by the Asian Development Fund, discussions with representatives of most of the Bank's developed member countries were held in London, Manila, and Bonn in 1973.[82] Fourteen of the Bank's developed member countries promised to join in "a declaration accepting, as the basis for recommending such legislative action as may be necessary, a detailed resource mobilization scheme."[83] The scheme as negotiated was duly adopted by the Governors in two Resolutions on November 20, 1973. The Resolutions authorize the Bank to accept initial contributions from developed member countries to the Asian Development Fund, in a total amount of $525 million. For this target, contributions of $350 million shall be committed to a First Stage by June 30, 1974 (at least $260 million should be received to make this stage effective); for the Second Stage, $175 million shall be committed to the Bank by June 30, 1975 (at least $130 million should be received to become effective). The Asian Development Fund will come into existence only when contribution commitments under the First Stage become effective. It is interesting to note that the United States and the Bank signed an agreement for a U.S. contribution of $50 million to the Multi-Purpose Special Fund at the Bank's Headquarters on April 19, 1974. Under the agreement, the contribution may be transferred to the Asian Development Fund. The United States had promised to contribute $100 million in Special Fund resources, but it was not passed in the Congress in 1968. As Mr. George Shultz put it, he was confident that Congressional approval would be given to make a second contribution of "soft funds" of $50 million later this year. The Secretary of the Treasury made this assurance in the signing ceremony.[84]

Footnotes

[1]Basically, these steps are technical in nature. Usually, a project is a continuous and self-sustaining cycle of activities, which runs through these four states:

a. Identification: The first step for the Bank to start with a project is its preliminary identification in terms of economic, technical, and executive considerations. Generally, when the identification of a project is decided, three basic tests and requirements should be met. First, the proposed project and its related sector of the economy should be of high priority for development and are so recognized in the government's development plans. Second, from a technical aspect, the project so proposed must be feasible. Third, whether the government itself is willing to support the project by financial or other means.

b. Preparation: It covers all the steps necessary to bring a project to the point where its technical, economic, and financial feasibilities have been established and it is ready for appraisal.

c. Appraisal: Characteristically, the project appraisal is an important stage where a comprehensive and systematic review of all aspects of the project is conducted almost exclusively by the Bank staff. The Bank's team is composed of experts and specialists with a variety of talents working together--engineers, economists, financial analysts, agronomists, educators, etc. The purpose of project appraisal is due to a policy consideration. Its premise states that this is a capital-hungry world and capital is scarce in the developing countries; thus the necessity for the most effective use of these limited resources becomes the major concern of both the Bank and the member countries.

d. Negotiation: Before beginning a legal obligation, the two parties--the Bank and the borrower--should have discussed and evaluated the entire findings provided by the appraisal missions. If necessary improvements need to be made, both have to reach a basic agreement through negotiation in order to ensure the success of the project. These agreements are then converted into obligations and set out in the loan document.

[2]According to Article 14 (xiv) of the Charter, the Bank shall be guided by sound banking principles in its operation. This principle has been widely adopted in other development banks in directing their operations. In the case of the African Development Bank, for instance, its Article 17, Paragraph 1 (j), provides that the Bank shall apply sound banking principles to its operations and, in particular, to its investments in equity capital.

As for this point, President Watanabe of the Bank, who addressed a team of economic writers in a training course organized by the Press Foundation of Asia and the Philippines Press Institute in 1968, said that "I fail to see how the Bank can discharge its basic responsibility to its member countries and to its Charter except by pursuing sound policies of lending. In this capital-hungry region, there is obviously no justification for bad or indifferent loans; and in the long run the creditworthiness, the efficacy and success of the ADB will depend on the extent to which it pursues sound development banking principles." See Quarterly Newsletter, Asian Development Bank, October, 1968, p. 4.

[3]The principle of separation of operation is a common feature of development banks in the world. In the case of the Asian Development Bank, the principle has been written into Articles 8, 9, and 10. While in the African Development Bank the principle is in Article 11 which provides: "The ordinary capital resources of the Bank shall at all times and in all respects be held, used, committed, invested or otherwise disposed of, entirely separate from special resources. Each Special Fund, its resources, and accounts shall be kept entirely separate from other Special Funds, their resources and accounts."

[4]Article 3 of the Charter.

[5]Article 10 of the Charter.

[6]As Mr. N. Wimalasena, Governor for Ceylon, put it, the Asian Development Bank should adopt the practices taken by the Inter-American Development Bank. He urged:

> "May I, in this connection, Mr. Chairman, draw your attention to the action recently taken by the Inter-American Development Bank, where, by deliberate resolution of the Board of Governors the principle of paying special regard to smaller and less developed countries in that region was enunciated positively. And the matter has not rested there. It has been translated into operating practice, and the records show, that the smaller and less developed countries have paid a lower rate of overall interest, and have received a higher rate of per capita investment. Mr. Chairman, this is the sort of practical action I would like to see in the Asian Development Bank."

See Summary of Proceedings, Second Annual Meeting of the Board of Governors, Sydney, April 10-12, 1969, p. 28.

[7]*Summary of Proceedings*, Fourth Annual Meeting of the Board of Governors, April 15-17, 1971, Asian Development Bank, p. 67.

[8]During the year of 1972, the Board of Directors studied a number of policy issues. One was "Criteria for Special Funds Loans," and another was "Financing of Technical Assistance." The Board has also considered a number of vital policy issues such as Strategy for Bank Operations in Less Developed Regional Developing Member Countries; Review of Guidelines on the Uses of Consultants; Special Funds Restructuring; Lending Policies and Procedures with Reference to Two-Step Lending (Loans on which the Proceeds of Bank loans are relent by the borrower to other institutions or to firms); Examination of the Economic and the Financial Evaluation of Projects during Appraisal; Joint/Parallel Financing; Review of Guidelines on Procurement; Review of Liquidity Policy; and Review of Investment Guidelines. All of the policy matters are important for decision-making. See *Annual Report for 1972*, Asian Development Bank, p. 6.

[9]According to Mr. Perry Chang, Chief Economist, the "Key Indicators" include two parts, namely, the regional tables and the country tables. The country tables present data on population, labor force; national accounts; index numbers of production; electricity production; external trade; terms of trade index; balance of payments; public finance; external public debt; international reserves, exchange rates; price indices; money and banking and data on annual growth rates, per capita information and other derived ratios and percentages. The series cover the period 1961-1970 and January to December, 1971.

[10]Statistics as of December 31, 1973, showed the number of loans for each country and its percentage of the Special Funds loans:

Country	No.	Amount ($Million)	Percentage
Afghanistan	2	20.05	6.27
Bangladesh	4	21.65	6.77
Burma	2	12.50	3.91
Indonesia	19	99.08	30.99
Khmer Republic	1	1.67	0.52
Korea	1	3.70	1.16
Laos	3	5.69	1.78
Malaysia	1	3.30	1.03
Nepal	7	35.71	11.17
Pakistan	5	32.05	10.03
Papua New Guinea	2	14.30	4.47
Philippines	3	9.95	2.97

Singapore	1	3.00	0.94
Sri Lanka	5	25.21	7.88
Thailand	1	3.10	0.97
Tonga	1	1.30	0.41
Viet-Nam	6	20.27	6.34
Western Samoa	4	7.63	2.39
Total		319.71	100.00

Source: Annual Report for 1973, Asian Development Bank, p. 32.

From the above figures, we seem to categorize such countries as Indonesia, Nepal, and Pakistan as having high priority.

[11]The Bank, in October, 1969, financed the Walawe Department Project of Ceylon with this type of loan. $7,705,000 was from the Special Funds resources and $885,000 from the Ordinary Capital Resources. The Special Funds loan will be used for the procurement of construction equipment, machinery and spares, and workshop materials. The loan of $885,000 will finance the procurement of tractors and equipment for two model rice mills. See Annual Report for 1969, Asian Development Bank, p. 15.

On January 23, 1968, the Bank approved a loan equivalent to $5 million to the Industrial Finance Corporation of Thailand. As in early 1964, the EFCT had secured loans from Kreditanstalt fuer Wiederaufbau of Germany amounting to DM 11 million and from the World Bank in an amount of $2.5 million. See Annual Report for 1968, Asian Development Bank, p. 23.

[12]The Bank, for the first time, participated with other lenders in 1970 in financing a project--the expansion of the PUSRI fertilizer plant in Indonesia. The Bank assisted in the appraisal of the Project and shared in the financing--on concessional terms--jointly with the International Development Association, the United States and Japan. The foreign exchange cost of the Project is estimated at $68 million, which will be met in part by the $10 million loan sanctioned by the Bank, a $30 million credit approved by the International Development Association, a $20 million from the United States Agency for International Development and an $8 million loan from the Overseas Economy Cooperation Fund of Japan. See Annual Report for 1970, Asian Development Bank, pp. 17, 28-29.

[13]Article 14 (vii) of the Charter provides: "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." The African Development Bank also maintains the

same policy. "In making or guaranteeing a loan, the Bank shall be satisfied that the rate of interest and other charges are reasonable and such rate, charges and the schedule for the repayment of principal are appropriate for the project concerned."

[14] Summary of Proceedings, First Annual Meeting of the Board of Governors, Manila, April 4-6, 1968, Asian Development Bank, p. 60.

[15] Annual Report for 1968, Asian Development Bank, p. 7.

[16] Annual Report for 1969, Asian Development Bank, p. 11.

[17] Ibid., p. 46.

[18] The Bank has made a third issue in Japan in November of the same year at 7.4 percent interest. See Annual Report for 1970, ADB, p. 54.

[19] Recently the World Bank's interest rate has been 7-1/4 percent; the Inter-American Development Bank has been 8 percent and the interest rates of the African Development Bank in 1971 ranged from 5 percent to 8-1/2 percent. However, since the last quarter of 1970, interest rate levels in major financial centers have drastically fallen. Thus, as suggested by the Governor for the Republic of China, "the Bank will find a way to reduce its lending rate to an appropriate level in the not too distant future." See the Report by the Board of Directors of the African Development Bank covering the period from January 1 to December 31, 1971, pp. 42-44; also see Summary of Proceedings, Fourth Annual Meeting of the Board of Governors, Singapore, April 15-17, 1971, Asian Development Bank, p. 36.

[20] Annual Report for 1970, Asian Development Bank, p. 22.

[21] As for loans to development banks prior to May 28, 1970, it has been agreed that "they would be charged the rate prevailing at the time the amount of a sub-loan was credited to their accounts. However, with the decision to increase the Bank's rate of interest, an offer was made to them of a fixed lending rate of 6-7/8 percent on the uncommitted portions of their loans." All the development banks accepted this suggestion. See Ibid., p. 22.

[22] Such idea was put forth by New Zealand. "In such cases, the effective rate of lending could be reduced by blending of ordinary and Special Funds resources has already been done in a number of Bank loans, or through parallel financing is certainly preferable to attempting to maintain a lending rate which is insufficient to cover the average

cost of borrowing." See _Summary of Proceedings_, Fourth Annual Meeting of the Board of Governors, Singapore, April 15-17, 1971, Asian Development Bank, p. 63. The Governor from Australia said, "What all these lead to, I believe, is the conclusion that more emphasis may need to be placed in the future on the special operations of the Bank. For, by a skillful blending of the special operations and ordinary operations, both within countries and even perhaps within projects, the Bank may be able to reduce the net cost of its lending to developing countries in the region to manageable levels." See _Summary of Proceedings_, Third Annual Meeting of the Board of Governors, Seoul, April 9-11, 1970, Asian Development Bank, p. 27.

[23]The following was the income of interest received from both the ordinary capital resources and the Special Funds resources as of December 31, 1972:

	Number of Loans		Interests	
	Ordinary	Special	Ordinary	Special
1968	7	-	12,477	--
1969	14	6	237,550	121
1970	22	10	818,514	8,186
1971	16	12	2,207,816	77,556
1972	16	16	5,408,744	203,228
Total	75	44	$8,685,101	$289,091

Sources: Balance Sheets of Annual Reports from 1968 to 1972, ADB.

[24]_Annual Report for 1970_, Asian Development Bank, p. 22.

[25]_Ibid_.

[26]_Annual Report for 1968_, Asian Development Bank, p. 7.

[27]_Annual Report for 1970_, Asian Development Bank, p. 22.

[28]The interest rates for loans from the ordinary capital resources were fixed at 7-1/2 percent per annum, while the interest rates for borrowings in the World's major capital markets were 7 percent from the Federal Republic of Germany in 1969; 7 percent from Austria, 7.4 percent from Japan (both in 1970); 7-3/4 percent and 6-1/2 percent from the United States, 7 percent from Switzerland, 7.4 percent from Japan, 7-1/2 percent from Belgiu, 7 percent from Austria (all in 1971). In addition, the Bank raised $20 million by the sale of 5-1/2 percent Two-Year Dollar Bonds at par to central banks and governmental agencies of regional members in 1971.

[29]In 1971, forty-nine review missions to fourteen countries covering fifty-one projects were mounted. In 1972, fifty-six review missions were mounted in connection with forty-three projects.

[30]Annual Report for 1971, Asian Development Bank, p. 9.

[31]Annual Report for 1972, Asian Development Bank, p. 8. According to the Report, "special attention was given to procedures designed to anticipate problems which could disrupt the effective execution of projects and to facilitate preventive measures."

[32]Summary of Proceedings, Third Annual Meeting of the Board of Governors, Seoul, April 9-11, 1970, p. 61.

[33]This situation is particularly true if some regional countries use machinery from other industrialized countries that are not members of the Bank. They run the risk of being stranded when they need to buy or replace spare parts or when in need of technical services. See Morales, p. 60.

[34]During the present writer's visit to the headquarters of the Bank, this point was confirmed from the interviews with the Bank's officers. To most of the developed countries out of the region, motivation to join the Bank is their intention to enlarge their foreign trade market in this region.

[35]This limitation has also been put into the Section 1. 1(c) of the Guidelines for Procurement under Asian Development Bank Loans which was approved by the Board of Directors of the Bank on February 1, 1968.

[36]Article 7 (i) of the Charter provides: "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."

[37]Article 7 (ii) of the Charter provides: "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."

[38]See Article 7 (iv) of the Charter.

[39]See Article 7 (v) of the Charter.

[40]Article 20 (a) of the Charter provides: "Funds repaid in respect of loans or guarantees financed from the resources

of any Special Funds which, under the rules and regulations of the Bank governing that Special Fund, are received by such Special Fund."

[41]The _Aide Memoire_ was prepared by the ECAFE secretariat based on the commentaries of the Consultative Committee that met in Bangkok before the split-up of the two missions which visited the regional and non-regional countries in July, 1965.

[42]Article 5, Paragraph 2, of the Charter provides that the Board of Governors shall at intervals of not less than five years review the capital stock of the Bank.

[43]Article 4, Paragraph 1, of the Charter.

[44]Article 6, Paragraph 5, of the Charter provides that 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.

[45]The Bank determined subscriptions by using the formula adopted by the African Development Bank. The applied standard is integrated by three formulae or scales into one single integrated formula, namely: the formula for gross domestic product adjusted for population; tax revenues adjusted for gross domestic product; and export as related to the total exports of all countries.

Whether the formula stands as a scientific standard is still a problem. In most cases, the decision on the allocation of subscriptions of member countries is achieved through negotiations in the conference room, not exactly from the mathematical formula. "In the end quotas were established more or less arbitrarily in a series of deals. Certain quotas simply corresponded to the current military and political situation. In any event, while it must be admitted that the scale of quotas does not correspond in any precise way to the resources and needs of the different countries, it nevertheless reflects in a general way the hierarchy of economic importance of the nations concerned." (See "Quotas in the International Monetary Fund" by Oscar L. Altman, staff paper, IMF, p. 141; also see Morales, p. 48.)

[46]Article 5, Paragraph 1, of the Charter.

[47]_Ibid_.

[48]_Ibid_., Paragraph 3.

[49]See _Summary of Proceedings_, Fourth Annual Meeting of the Board of Governors, Singapore, April 15-17, 1971, p. 117.

[50]See the Resolution No. 26 of the Board of Governors, Summary of Proceedings, 1969, p. 103.

[51]The twenty-two member countries are: Afghanistan, Australia, China, Fiji, Hong Kong, India, Indonesia, Japan, Korea, Laos, Malaysia, New Zealand, Pakistan, Philippines, Singapore, Sri Lanka, Thailand, Viet-Nam, Austria, Canada, Denmark, United Kingdom.

[52]This idea was presented by the delegate from Finland. It was pointed out: "While the Bank is studying the question of resource replenishment, my delegation is of the opinion that the increase in the paid-in capital should not be regarded as the solution. We would like to encourage the Bank to look for other means for financing borrowing in the international capital markets." See Summary of Proceedings, 1971, p. 40.

[53]This opinion was represented by the delegate from Thailand, Ibid., p. 71.

[54]The statement of borrowings as of 1973 was indicated by the Annual Report for 1973 as follows:

Payable In, Issue and Maturity	Interest Rates	Principal Outstanding
Austrian Schillings:		
7% Twelve Year Bonds of 1970, due 1982	7.21%	$ 5,207,801
7% 12 year Bonds of 1971, due 1983	7.20	7,529,460
Belgian Francs:		
7.5% 12 Year Bonds of 1971, due 1983	7.50	9,680,542
Deutsche Mark:		
7% 15 Year Bonds of 1968, due 1984	7.24	20,559,751
Italian Lire:		
7% 15 Year Bonds of 1972, due 1987	7.19	16,507,779
Japanese Yen:		
7.4% 7 Year Bonds of 1970, due 1977	7.56	20,142,857
7.4% 7 Year Bonds of 1971, due 1978	7.44	35,714,286
7.3% 10 Year Bonds of 1972, due 1982	7.30	35,714,286

Luxembourg Francs:		
6.75% 15 Year Bonds of 1972, due 1987	6.75%	9,680,542
Swiss Francs:		
7% 15 Year Bonds of 1971, due 1986	7.12	12,345,679
United States Dollars:		
6.5% 5 Year Notes of 1971, due 1976	6.50	25,000,000
7.75% 25 Year Bonds of 1971, due 1996	7.84	25,000,000
6.75 2 Year Bonds of 1973, due 1975	6.75	20,000,000
4% 15 Year Loan of 1973, due 1989	4.00	10,525,734
Total		253,608,717
Less Amount Receivable Under Contract		4,970,179
Exact Total		$248,638,538

Source: Annual Report for 1973, Asian Development Bank, pp. 58-59.

55 Quarterly Newsletter, Asian Development Bank, April, 1971, p. 16.

56 Summary of Proceedings, 1967, p. 65.

57 With the support of the U.S. Treasury Department, the Bank sought to obtain for its obligations a status similar to that enjoyed by those of the World Bank and the Inter-American Development Bank. Both Henry H. Fowler in 1967 and Mr. David M. Kennedy in 1969 sent letters to the Governors of various states urging consideration for Asian Development Bank qualification legislation. In his letter, Mr. David M. Kennedy pointed out:

> "This qualification program has received the support of the Council's program of suggested state legislation for 1969. . . . The National Governors' Conference has also endorsed Bank qualification legislation. At its Annual Meeting in Cincinnati last July, the Conference approved a resolution which called upon its members to urge appropriate state legislative and administrative action to permit investment of securities of

the Asian Development Bank by banks, insurance companies, fiduciaries, state fiscal officers and other persons who are restricted by law as to investment in securities. . . . The Congress authorized United States participation in the Bank in the belief that United States interests in achieving peaceful development in Asia could best be advanced by a financially sound multilateral effort. . . ."

See Background Information and Materials Relating to Membership of the United States of America, ADB, February, 1969, p. 3.

[58]In order to float bonds in various states of the United States, it was necessary for the Bank to have early appointment of managing underwriters for future U.S. bond issues to be made in the United States; accordingly, in September, 1967, the Bank announced the appointment of Kuhn Loeb & Co. and the First Boston Corporation as its managing underwriters for U.S. dollar bond issues in the United States. See The Commercial and Financial Chronicle, October 12, 1967, p. 13.

[59]The purpose of this office is to provide the Bank with up-to-date and accurate financial information and advice for the successful floating of bonds and for the investment of short-term capital funds. See Quarterly Newsletter, ADB, July, 1971, p. 4.

[60]Article 19, Paragraph 4, of the Charter. But such rules and regulations shall be consistent with the provisions of this agreement, excepting those provisions expressly applicable only for the ordinary operations of the Bank.

[61]Article 1, Section 1.02 of the Special Funds Rules and Regulations.

[62]The "accrued resources" refer to those derived from the service fee charged by the Bank in its special operations for the purposes of Section 7.01 hereof and to other income of the Bank derived from Special Funds resources credited, held and administered by the Bank in the Multi-Purpose Special Fund pursuant to Section 5.03 hereof.

[63]The resources of the Agricultural Special Fund shall be available for use by the Bank in financing special operations relating to agricultural development including forestry, fisheries, and agriculturally related industries. Article 2, Section 2.01 (b) of the Special Funds Rules and Regulations.

[64]This resource shall be available for use by the Bank in financing technical assistance which serves its purpose and comes within its functions. Section 2.01 (c).

[65]This resource shall be available for use by the Bank in financing any of its special operations. Section 2.01 (c) of the aforementioned article.

[66]Article 2, Section 2.02, of the Special Funds Rules and Regulations.

[67]The decision concerning this matter must be taken by a vote of two-thirds of the total number of Governors, representing at least three-fourths of the total voting powers of the members. Article 19, Paragraph 1 (i).

[68]Article 19, Paragraph 2, of the Charter and Article 1, Section 1.01 of the Special Funds Rules and Regulations.

[69]Thus far the Board of Governors has not yet set aside the portion of 50 percent paid by member countries in local currency.

[70]Article 19, Paragraph 1 (ii) of the Charter.

[71]Article 19, Paragraph 3 of the Charter.

[72]See the documents of the Sixth Annual Meeting of the Board of Governors, ADB, p. 4. (GS-1).

[73]This contribution was made through a series of letters exchanged between the Bank and Japan, dated December 10, 1968, and November 18, 1969, which constituted the contribution agreement. See Rules and Regulations and Agreements, Special Funds, ADB, February 28, 1970, pp. 19-29.

[74]Summary of Proceedings, 1967, p. 30.

[75]Annual Report for 1971, ADB, p. 57.

[76]The same proposal was put up by the African Development Bank in 1971 by which its Board of Governors unanimously adopted the establishment of the African Development Fund. The Governors approved the principle of establishing the Fund in cooperation with the donors and directed an appeal to the donor countries with a view to enabling the Fund to reach the minimum target figure of U.S. $130 million set for the first three-year period in the shortest possible time. See Report by the Board of Directors of the African Development Bank, 1971, p. 29.

[77]See Document No. BG 6-9, the Board of Directors, ADB, p. 3.

[78]Ibid., p. 6.

[79]Ibid.

[80]Ibid.

[81]This figure is based on the report of the Board of Directors, Ibid., p. 2.

[82]Annual Report for 1973, Asian Development Bank, p. 27. A series of discussions were under the chairmanship of the Special Advisor to the President, Sir John Chadwick.

[83]Ibid., p. 27.

[84]See Quarterly Newsletter, Asian Development Bank, May, 1974, p. 15.

CHAPTER VI

POLICY-MAKING IN AGRICULTURE

Interest Aggregation

Historically, most Asian countries have been "agriculturally-oriented" in their national economies and this tendency has not basically changed thus far. However, modern agriculture is more complex than traditional agricultural practices, which has led to considerable adjustments and changes for policy-making.

Supplies of food have been a major subject of concern for individual governments of the region. Production through traditional agricultural cultivation has proven insufficient to feed their growing populations. Individual governments now seek a breakthrough in traditional agriculture towards modernization. In the process of developing modern agriculture, attention must focus on innovation, adjustments or changes of institutions and introduction of modern technologies. Interest groups that are involved with agricultural development under the current bank system are the Asian Agricultural Group, Asian Vegetable Group, Coconut Industry Group, Lower Mekong Basin Group, and Southeast Asian Economy

Study Group. The Asian Agricultural Group has played a leading role in relation to the agricultural policy-making of the Bank.

The Asian Vegetable Group and the Coconut Industry Group are the only examples, thus far, of transnational interest groups organized on a product basis. The other three are broad range groups interested in total development. Of these groups, the most significant has been the Asian Agricultural Group. This group includes most of the regional LDC's (fifteen in number at the present time). It was this group which requested that the Bank engage in a broad ranging survey of Asian agricultural problems and potential. The purpose of the Survey was to examine the unique nature of agricultural activities in each nation and to help these states select appropriate development strategies.

Policy-Making Process

Introduction

Interests in agriculture involve many fields which have been independent of each other, thus contributing more complexities to definitive policy formation. In order to establish a coherent, general approach to agricultural development, the Bank undertook a basic survey of Asian agricultural production, needs and potential. Basically, the Survey has become the major policy framework of the Bank. As indicated by President Watanabe, "our first official act was to commission a study of the Asian agricultural scene. The result . . . was a guideline for action by the Bank."[1]

Formation of AAS Team and Its Working Process

As early as April, 1967, the Bank decided to initiate an Asian Agricultural Survey (AAS) with the purpose to deal with the economic and technical study of the region's agricultural development of the LDC's. After the Bank decided to undertake the AAS, a tentative scheme concerning the procedure of the AAS was prepared by the Bank's executive departments and won final approval from the Board of Directors on May 24, 1967.

Structurally, the AAS consisted of two major parts; namely, (1) a Consultative Committee (C.C.) that prepared the guidelines and general terms of reference and reviewed the reports on the Survey, and (2) a Technical and Economic Survey Team (TEST) that implemented the Survey and prepared the reports. In addition, a Documentation and Operations Center was organized to house the related studies and reports on the problems of agricultural development in the Asian region which have been sent from other organizations, national and international.[2]

Consultative Committee (C.C.)

The Asian Agricultural Survey Consultative Committee was composed of twelve of the world's best-known agricultural experts and economists[3] invited by the Bank from both inside and outside the Asian region. Its major function was to help the Bank to set up the procedures and methods of the Survey, to review the progress of the Survey and to finalize the Survey report at the end.

Technical and Economic Survey Team (TEST)

The Technical and Economic Survey Team included eighteen experts in various fields of agriculture. The membership of the Team was composed of a team leader, irrigation engineers, crop specialists, livestock experts, fisheries experts, agricultural economists, agricultural planning specialists, forestry experts, agricultural credit specialist and agricultural institutional and organization experts.[4] With the purpose of having the Survey's knowledge and experience remain within the Bank, some of the Team members were recruited from the Bank's staff, including both the Operation Department and the old Economic and Technical Assistance Department. Others from outside the Bank staff were selected on a short-term consultant basis.[5]

Basically, the functions of the Survey Team were to carry out the required field studies and submit the report(s) for consideration and finalization by the Consultative Committee.

Recommendations of the Survey

The following are the recommendations of the Survey towards seven major policy areas.

Improvement of Administration

Although the member countries realize that one major constraint on agricultural development is the inefficiency of government operation and administration, they do not know how to analyze or change the present pattern. On the other hand, it is felt by many that efforts to improve administrative procedures without producing major changes in the whole structure of governmental operations will not have much impact. Therefore, "unless administrative reforms are made, there is little evidence that future national programs for agricultural development in most countries will be conceived, implemented and operated with any greater success than past programs." The Survey finds that this is an appropriate area for ADB support through technical services and assistance.

In view of the fact that the Survey Team did not presume to make any suggestions for administrative reforms, it is probably clear that the best way to achieve the purpose, according to the Survey Team, is to provide "a greater interchange among regional countries of their experience in implementing rural programs."

In addition, another problem area is the inability of governments to prepare projects for external assistance and financing. The Bank has expressed its willingness to do this, but the final goal is to train qualified personnel of member countries to take over the same job without the Bank's help. Generally, "assistance with project preparation should include a careful scrutiny of how the project is to be implemented and, where relevant, should outline in some detail the operational and maintenance procedures to assure that the project will contribute to agricultural output." Therefore, the suggestion is made strongly that the "project preparation mission should include host government personnel under a technical assistance provision which seeks to leave behind trained people able to prepare improved project statements in the future, and who can, if the project is financed, become a part of the executive administration for its implementation, and ultimately be concerned with project maintenance and operation."[6]

<u>Resource Inventories</u>

The lack of basic information about natural resources was regarded by the Survey Team as a major obstacle for development programs. As far as the agricultural sector is concerned, basic information includes "maps and inventories for land use, soils, mineral deposits and geologic formations, surface and ground water hydrology, ocean resources and inshore fishing areas, forest resources, topographic maps and basic meteorological data beyond temperature and rainfall."[7] Therefore, according to the Survey Team, "technical services and, if necessary, technical assistance for resource inventorying and mapping is recommended as a major investment opportunity for regional nations."[8]

Infrastructure

Since infrastructure in agricultural development involves large scale investments, it is impossible for the Bank to spend its entire capital funds and all its income on regional infrastructural development. Therefore, the Survey Team recommended that the Bank should "demonstrate greater prudence by seeking financially smaller, but often more productive, outlets for its lending activities to infrastructure development."[9] For this purpose, several basic assumptions have been made by the Survey Team to conduct infrastructure development. The Bank, basically, should consider: (a) projects that provide an early return on investment; (b) infrastructure projects that are relatively small in scale; and (c) infrastructure projects that only need further support, rather than to initiate new projects. The purpose should be to complement and increase the productivity of an already existing project of a nation.

Thus the following three items were chosen as the most significant infrastructure investment opportunities: irrigation and drainage, transportation, and rural electrification. Of these opportunities irrigation and drainage occupy a disproportionate significance because of the geographical characteristics of this region.

Irrigation and Drainage. Basically, full water control is regarded as a high priority extending to both old and new irrigation systems which include examination of surface drainage problems, and ground water exploitation. In addition, the recommendation was made to use large amounts of water from wells so that it will permit an expansion of the land irrigated.

Research should be undertaken by member countries on "water use and management, on water requirements of crops, on soil-water relationships, on surface and sub-surface hydrology, on climate, indeed research on just about every facet of irrigation except engineering."[10]

Transportation. The Survey Team pointed out that transportation is a major factor to initiate and sustain the early stages of the growth process in agriculture. Therefore, building farm-to-market roads, inter-island and coastal area roads should be given special attention.

Rural Electrification. Although electrification has been regarded as a minor factor in the national development plans for agriculture, it is the trend that electricity will serve as a source of energy for agriculture. In this sector, according to the Survey, the Bank should remain alert to development that will result in demands for electricity in the rural countryside.

Markets, Processing, Sales and Service

The Survey Team made several suggestions for attention.[11] First, market inefficiencies usually resulted from inadequate storage and processing facilities and poor market organization and operation. The Survey Team pointed out that as agriculture gets more sophisticated and marketing and processing assume a greater role in generating opportunities for further growth in agricultural output, governments of member countries should make markets and market facilities more efficient. Second, a regulated market system must be established. Rigid rules should empower the governments to exercise supervision over all levels of market activities in order to avoid monopolistic manipulation. The Survey Team recommends that "the ADB can be an important instrument for channeling technical assistance to meet this need." Third, according to the Survey Team, the building of processing facilities and the establishment of sales and service outlets in rural areas are mainly the responsibility of private sector firms or agricultural organizations. Appropriate government policies should be used to stimulate private capital for this aspect of agricultural development. Fourth, the Survey Team recognized the fact that this region also holds the world's most efficient and modern facilities for processing raw natural rubber, tea, rice, and sugar. Therefore, it was recommended that "the ADB will be called upon to provide considerable support to permit regional members to build more facilities of modern design."[12]

Industries for Production Requisites

This refers to certain goods which support agriculture. When agriculture becomes developed, these goods will be required in large quantity, thus opening opportunities for domestic manufacture. The Survey Team particularly mentioned the importance of the seed industry.

Agricultural Credit

Credit support for agricultural development is most important. The responsibilities for the Bank to implement a credit policy are twofold. First, the Bank should make a broad examination of the whole structure of financing for agriculture and agriculturally related industries. The Bank should not only examine the operations of the existing financial institutions but the laws governing them. The sole purpose of doing that is to "effectively encourage, mobilize and channel government investments and private savings to agriculture." Second, the Bank should help other recognized and nationally important financial institutions in their farm credit programs. The Survey Team found that if lending for agriculture is undertaken properly, it is most likely that the cost of agricultural loans will drop; that high interest rates for rural development will be greatly reduced; and that subsidized rates will no longer be necessary.

So far a major problem has been the shortage of experienced people to organize and administer commercial banking organs to extend loans to farmers. Therefore, the Survey Team recommends that "if the ADB would choose to assist in funding programs for rural credit with the foreign exchange needed to pay for items eventually to be purchased by farmers or rural businessmen, it should be careful to accompany its own loan with a strong program of technical assistance in rural credit administration."[13]

Education, Research and Extension

Basically, this type of investment opportunity refers to the availability of trained and skilled manpower. These three items--education, research and extension--constitute basic grounds for agricultural development. In view of the fact that the dearth of skill and experience permeates every aspect of regional agricultural development, the Survey Team recommended that support of agricultural education should be through national projects, regional associations[14] or technical assistance to national educational institutions. The Survey Team made the following specific comments on agricultural education. First, while most of the agricultural schools in the region are granting both non-professional diplomas and undergraduate degrees, they lack the facilities to provide a comprehensive educational program in the agricultural sciences. Efforts should be made to develop curricula, train staff, improve administration, and expand extension and research activities. Second, sub-professional training, with good teaching programs, should be improved in order to provide practical training to staff the lower levels of an extension service. Third, highly qualified scholarship in agriculture is needed. Thus postgraduate education for advanced training for competent researchers, college faculty and senior technical staff for government services should be maintained in the region.

Although most regional countries have programs for agricultural research, it is deemed inadequate. Most of the regional member countries want the Bank to assume leadership in bringing together agricultural scientists and experts and government administrators for discussion on how national research efforts might be more effectively pooled and coordinated in cooperative endeavors. However, the Survey Team strongly believed that "the bulk of Bank support for research should be channeled to research institutes, whether new or old,[15] that have a regional focus and serve all regional countries through cooperative programs with national institutions or research departments of governments."

The success of extension programs lies in the quality and effectiveness of a farm advisory service. At the early development stage, its role is minor. As agriculture becomes more elaborate, the importance of rural advisory services, whether from public or private sources, increases rapidly. It is the recommendation of the Survey Team that the Bank should "look now to supporting education, research and where necessary, the improvement of rural infrastructure."[16]

<u>Other Investment Opportunities</u>

The Survey Team finally mentioned the importance of land development, production diversification, forestry and fisheries, and small farms as other elements for investment opportunities. It is urged that appropriate measures should be taken to improve each of them.

Impact: With an Analysis of Existing Programs and Follow-Up Actions

Basically, the Bank's existing policies in agriculture seem to rest on the Asian Agricultural Survey. Its effects have been continuing as can be seen by the loans and technical assistance to agriculture during the formative years.[17] Therefore, it would seem logical that the present policies of the Bank in agriculture would be correlated with the Asian Agricultural Survey. As another leading officer of the Bank pointed out, "the Survey was planned as an economic and technical study of the agricultural sector of the regional LDC's of the Bank, oriented, inter alia, towards the operational purpose of the ADB."[18] Even though the Agricultural Survey serves as a major framework, the Bank, based on practical situations from country to country, has had to adopt working practices among alternatives to meet various necessities.

All LDC's of the Asian Agricultural Group hope that the Bank can put agricultural development on a high priority so that a reasonable balance of lending among the various sectors can be maintained. As a matter of fact, however, the past experience shows that the Bank has been faced with certain problems which limit its lending activities in agriculture. According to statistics of the Bank through 1973, it has approved thirty-five loans totalling $172,053 million out of the total lending of $1,376.03 million (which is only 12.5 percent) for agricultural development for fourteen members of this group and Bangladesh. This figure constitutes a disproportionately low amount of its resources being used for agriculture. The reasons for this situation are manifold. As a leading Bank's officer analyzes it, the major constraints may be attributed, inter alia, to the following factors.[19]

First, few appropriate agricultural projects have been provided by governments for the Bank's financing, which limits the Bank's lending activities. Second, when there have been projects with feasibility studies to be undertaken, they have been regarded as inadequate from the assessment of agronomic, economic, and administrative aspects, even though the engineering aspects have been found satisfactory. Third, although irrigation projects have been viewed as major government policy, emphasis has often been put on "the means of achieving the purpose of the project instead of on the purpose itself." Most governments seem to ignore the fact that "an irrigation project aims at the irrigation and productive use of land, rather than at constructing a dam and a distribution and drainage system." Fourth, when certain agricultural projects have been financed from the Bank resources, their recurrent expenditures such as fertilizers and pesticides "will not normally be financed from the Bank credit." Fifth, governments usually take into account the adequacy of the plan for financing the capital cost of the works, even for revenue earning projects, but "neglect the arrangements for payment for the subsequent continuing costs of the project by beneficiaries."

In addition, on the other hand, the high interest rate, now 7-1/2 percent per annum, has made the LDC's feel considerably reluctant to bear the heavy financial burden for agricultural development. Their interest has been focused on the Special Funds with their lower rates. As of December 31, 1973, lending in agriculture from Special Funds resources reached $110.000 million--approximately 64 percent of the total agricultural lending. As far as all loans from Special Funds resources are concerned, agriculture accounts for 34.4 percent--the largest sectoral share. Nevertheless, the Special Funds resources available for the Bank are limited.

In view of the fact that governments are unable to provide "good" projects for the Bank's financing, it has become apparent for the Bank that the major channel to help establish competent agricultural projects will be through technical assistance. In this respect, agriculture has thus far occupied 45.7 percent out of all technical assistance expenditures amounting to $6,335,000 for the Asian Agricultural Group. (See Table 8.)

The Bank's activities in both lending and technical assistance have their different emphasis. In the field of loan granting, the Bank has been more involved in water resources development, including the construction of dams, than

TABLE 8

STATISTICS ON ASIAN AGRICULTURAL GROUP

Country[a]	Loans			Technical Assistance		
	Project No.	Amount (M)	%	Project No.	Amount (Thousand)	%
Afghanistan	1	5.152	3.0	7	1,550.00	25.0
China	1	10.000	6.0	0		
Indonesia	10	59.960	35.4	9	1,177.00	18.0
Korea	1	13.300	8.0	3	446.00	7.0
Laos	1	0.973	0.5	2	496.00	8.0
Malaysia	2	7.000	4.0	1	80.00	1.0
Nepal	4	18.900	11.0	2	457.00	7.0
Pakistan	2	9.850	6.0			
Philippines	3	16.300	10.0	6	678.00	11.0
Singapore						
Sri Lanka	5	19.990	12.0	3	614.00	10.0
Thailand				3	385.00	6.0
Viet-Nam	3	7.100	4.0	4	452.00	7.0
W. Samoa	1	0.330	0.1			
Total	34	168.853	100.0	40	6,335.00	100.0

Source: Annual Reports from 1967-1973, Asian Development Bank.

[a]Of the group members, Japan is a developed country and India does not seek any loans and technical assistance from the Bank.

in other types of projects. Over the period 1967-1973, loans under this category accounted for fourteen projects totalling $69.043 million (40 percent), while loans for general agricultural development stood at $47.980 million (28 percent), loans for farm credit totaled $5.800 million (3 percent) and loans for fisheries equalled $49.230 million (29 percent). However, the Bank has undertaken more technical assistance activities in general agricultural development. This category has had grants for $4,068,000 for a total of 63 percent. In others, for example, fisheries had $595,000 (9 percent) and irrigation had $1,683,000 (26 percent). See Tables 9 and 10.

The present writer would like to indicate here that while the Bank emphasizes the important role of credit systems in the region, it has not compiled much of a record yet. President Watanabe, in his speech on "The ADB's Role in Asian Agricultural Development," noted that

> Because agricultural credit plays such an important role in the development of agriculture, and because the development of agriculture is of such importance to the economic development of almost every Asian nation, it was not by chance that the Asian Development Bank began, soon after its establishment, to try to discover what role it could play in upgrading the agricultural credit policies of its developing member countries.
>
> We quickly learned that any programs that we might devise must be tailored to the individual needs of each country in question, and that no common strategy could supply the answers for the region as a whole. In spite of that caveat, however, we do believe that the ADB can play a very effective role in strengthening the credit institutions of developing member countries.[20]

TABLE 9

AGRICULTURE--LOAN APPROVALS (1967-1973)
(DOLLARS IN MILLIONS)

Project	Country	Amount	%	Date Approved
Agricultural Development				
Modernization of Tea Factory	Sri Lanka	2.000		07-02-68
Palm Oil Mills	Malaysia	2.800		02-11-69
Oil Palm Estate	Indonesia	2.400		10-21-69
Rice Milling	Pakistan	3.120		08-25-70
Modernization of Tea Factory	Sri Lanka	3.500	28	10-29-70
Jute Development	Nepal	4.000		12-10-70
Rubber and Oil Palm	Indonesia	7.410		03-25-71
Beef Cattle Pilot	W. Samoa	0.330		05-27-71
East Java Sugar	Indonesia	17.520		11-20-73
Sugar Industry	Sri Lanka	2.800		02-15-73
Agricultural Project	Viet-Nam	2.100		12-17-73
Fisheries Development				
Deep-Sea Fish Development	China	10.000		03-28-69
Fish. Development	Viet-Nam	2.500		12-15-70
Fish. Development	Pakistan	6.730		12-22-70
Riau Fish. Development	Indonesia	2.500	29	04-06-72
Fisheries Development	Korea	13.300		09-21-72
Fisheries	Sri Lanka	3.100		12-14-72
Fisheries Development	Bangladesh	3.200		06-14-73
Irian Java Fish. Development	Indonesia	7.900		12-04-73
Irrigation				
Tadjum Irrigation	Indonesia	0.990		06-17-69
Walawe Development	Sri Lanka	8.590		10-23-69
Cotabato Irrigation	Philippines	2.500		11-18-69
Tha Ngon Agri. Development	Laos	0.973		03-10-70
Besut Agri. Development	Malaysia	4.200		09-22-70
Agricultural Development	Afghanistan	5.150		12-15-70

TABLE 9--Continued

Project	Country	Amount	%	Date Approved
Irrigation Rehabilitation	Indonesia	2.700	40	12-23-70
Sempor Dam and Irrigation	Indonesia	9.200		12-02-71
Kankai Irrigation	Nepal	4.500		12-14-71
Binh Dinh Irrigation	Viet-Nam	2.500		12-16-71
River Flood Control	Indonesia	5.940		04-04-72
Chitwan Valley Development	Nepal	8.000		12-14-72
Integrated Agri. Development	Philippines	9.600		06-28-73
Davao del Norte Irrigation	Philippines	4.200		11-22-73
Credit				
Agricultural Credit	Nepal	2.400	3	12-23-70
Bank Rakjat Indonesia	Indonesia	3.400		05-11-71
	Total	$172.053	100	

Source: Annual Reports from 1967-1973, Asian Development Bank.

TABLE 10

AGRICULTURE--TECHNICAL ASSISTANCE (1967-1973)

Project	Country	Amount	%	Date Approved
Agricultural Development				
Advisors to Agri. Ministry	Indonesia	170,000		07-30-67
Integrated Agri. Development	Laos	221,000		10-15-67
Walawe Development Project	Sri Lanka	400,000		10-23-68
Sawit Oil Palm Estate	Indonesia	42,000		12-27-68
Oil Palm Marketing Study	Malaysia	80,000		09-23-68
Accelerated Rural Development	Thailand	105,000		09-23-68
Nong Wai Irrigated Project	Thailand	180,000		10-09-68
Floodgate & Flood Control	Afghanistan	160,000		07-07-70
Java Teak	Indonesia	216,000		12-15-70
Wampu River Flood Control	Indonesia	181,000		10-13-70
Planning Study on Agri.	Afghanistan	264,000		07-07-70
Agricultural Development	Afghanistan	370,000	63	12-15-70
Tha Ngon Agri. Development	Laos	275,000		03-10-70
National Food & Agri. Council	Philippines	36,000		07-07-70
Accelerated Rural Development	Thailand	100,000		08-25-70
Market Survey of W. Irian	Indonesia	45,000		11-19-71
Chitwan Valley Development	Nepal	242,000		10-19-71
Rubber Oil Palm	Indonesia	90,000		03-25-71
Flood Control & Development	Afghanistan	263,000		09-07-72
Sugar Industry Rehabilitation	Sri Lanka	49,000		05-17-72
Go Cong Agri. Project	Viet-Nam	220,000		09-05-72
E. Java Sugar	Indonesia	45,000		11-20-73

TABLE 10--Continued

Project	Country	Amount	%	Date Approved
Area Development	Korea	230,000		10-17-73
Rubber Rehabilitation	Viet-Nam	84,000		12-04-73
Fisheries Development				
Fish Port Construction	Philippines	225,000		07-25-68
Agri. & Fishery Development	Korea	66,000		02-06-68
Ceylon Fisheries Corp.	Sri Lanka	165,000	9	10-02-69
Fisheries Development	Viet-Nam	68,000		12-15-70
Fisheries Development Corp.	Bangladesh	71,000		06-14-73
Irrigation				
Water Management	Philippines	105,000		06-20-68
Small Irrigation Projects	Afghanistan	164,000		07-29-69
Feasibility Study on Dam	Indonesia	328,000		03-27-69
Water Management	Philippines	102,000		06-26-69
Andong Dam	Korea	150,000		10-06-69
Kankai Irrigation	Nepal	215,000	26	12-17-69
Balkh River Irrigation	Afghanistan	202,000		11-04-71
Kama Irrigation	Afghanistan	127,000		11-04-71
Angat Irrigation	Philippines	183,000		06-29-72
Davao del Norte Irrigation	Philippines	27,000		01-09-73
Tan An Irrigation	Viet-Nam	80,000		12-04-73
Credit				
Rural Credit Survey	Indonesia	60,000	2	07-25-68
Krishi Bank	Bangladesh	71,000		06-14-73
	Total	6,477,000		

Source: Annual Reports from 1967-1973, ADB.

However, the Bank has only extended two loans for a period of six years to Nepal and Indonesia totalling $5.800 million--only 3 percent out of its lending in agricultural sector. With regard to technical assistance, the Bank only granted $60,000 in Indonesia for a rural credit survey and $71,000 for the Bangladesh Krishi Bank. It seems that the pressing work for the Bank's policy-makers is how to re-orient its credit programs in the region for the future.

Activities of Other Agricultural Interests

In response to the request of the Asian Vegetable Group (Republic of China, Japan, Republic of Korea, Philippines, Thailand, United States and Viet-Nam), the Bank agreed in March, 1969, to give financial assistance for the establishment and operation of the proposed Asian Vegetable Research and Development Center. The project was a sub-regional cooperation effort of several member countries of Southeast and East Asia. The Charter of the Center was signed on May 22, 1971, by the Bank and the other seven countries. The location is in Tainan, Taiwan, and was completed on October 17, 1973, after two years of construction. The purpose is to "undertake research, training and extension programs designed to develop improved plant materials, adaptable technology and the skilled manpower necessary to build up an efficient and profitable vegetable industry to meet the increasing demand for a balanced diet and to provide a broader base of agricultural production and rural development."[21] The total budget estimate for the first five years of operation is $7.5 million toward which $3 million and $2.25 million have been pledged by the Governments of the United States and the Republic of China, respectively. The Bank's initial contribution was $300,000 to support the Center's establishment.

Another interest aggregation action was the request for the Bank's to embark upon a study of the coconut industry for thirteen member countries who formed the Coconut Industry Group--Fiji, India, Indonesia, Laos, Malaysia, Pakistan, Philippines, Singapore, Sri Lanka, Papua and New Guinea, Thailand, Viet-Nam and Western Samoa. The main purpose of this study is to identify "bankable" projects in the coconut industry, i.e., "to identify loan or technical assistance activities which would be generally acceptable for financing by national or international banks and other international organizations." In addition, "possible areas or projects for multi-national cooperation in the coconut industry by members of the Asian Coconut Community and/or other countries covered in the Study will also be explored."[22] The Bank's contribution for the Coconut Study was $50,000.

The above-mentioned interest groups are typical examples. It is expected that this type of activity will be increased and enlarged as more product oriented interest groups are gradually formed.

Nevertheless, the Bank's works on agriculture have a long way to go to meet the recommendations of the Survey.

Evidently, in the past seven years, the Bank's lending policy has been to stress those projects which seem to rely on pre-existing facilities (such as irrigation) or established activities (such as fishing). Technical assistance has been used to help prepare other sectors for development. Some projects, such as farm credit loans, seem to have been temporarily set aside.

Footnotes

[1]See Taheshi Watanabe, "The ADB's Role in Asian Agricultural Development," address at the First Asian Conference of Agricultural Credit and Cooperation in Manila, De December 9, 1970.

[2]In order to have this data bank be as comprehensive as possible, the Bank's staff members were sent to Washington, D.C., Bangkok, Los Banos in the Philippines and Japan. In addition, related bibliographies of materials available at various centers and libraries were prepared for use of the TEST during its country visits. See "A Note on the Conduct of the Survey, AAS, p. 775.

[3]Members of the C.C. were: Dr. Gamani Corea, Sri Lanka; Mr. E. K. Fisk, Australia; Mr. Arthur Gaitskell, C.M.G., England; Mr. M. L. Xujati Kambhu, Thailand; Professor Kazushi Ohkawa, Japan; Mr. Takekazu Ogura, Japan; Mr. Soesilo Prakoso, Thailand; Professor T. W. Schultz, U.S.A.; Dr. T. H. Shen, Republic of China; Dr. D. L. Umali, Philippines; Professor Hans Wilbrandt, Germany; Mr. S. Takahashi, U.S.A.--the World Bank. See The AAS, Appendix 3, p. 782.

[4]Members of the TEST included as follows: Dr. Nam Kyu Chun, Team Leader; Dr. W. D. Hopper, Deputy Leader; Mr. Chih Chen, Farm Crops; Dr. Jose A. Eusebio, Livestocks; Mr. Toshihiro Kano, Irrigation Engineering; Mr. T. Matsushita, Fisheries; Mr. Homma, Fisheries; Dr. P. K. Mukherjee, Institutional Economics; Mr. B. Natapermadi, Plantation Crops; Dr. Shao-er Ong, Agricultural Economist; Mr. K. Takase, Irrigation Engineer; Mr. J. Turbang, Forestry; Mr. D. Von Hegal, Forestry; Dr. Noboru Yamada, Rice Crops; Mr. S. Yamamoto, General Industry; Dr. Burton Onate, Statistics; Mr. Pho Ba Quan, General Economics. See The AAS, Appendix 4, p. 785.

[5]The FAO Regional Office in Bangkok was requested to assign an agricultural economics and farm management expert to join the Team; see The AAS, p. 772.

[6]See The AAS, p. 66.

[7]Ibid., p. 67.

[8]Ibid.

[9]Ibid., p. 68.

[10]Ibid., p. 69.

[11]According to the Survey, "of the regional countries, China is at the stage where the advancement of agriculture is closely tied to the elaboration of the market structure; Korea is entering a similar stage of development; most of the other regional countries are further behind in crop agriculture, although nearly all countries with plantation crops grown for export face a need, in some cases an imperative need, to improve and extend the marketing and processing facilities for these crops." See The AAS, p. 71.

[12]*Ibid.*, p. 72.

[13]*Ibid.*, p. 75.

[14]Such as the Regional Associations of the South and Southeast Asian Ministers of Education.

[15]In the case of old institutions, support for an expansion of present programs of research at already existing research institutes having a record of excellence is particularly recommended. Such institutes are the International Rice Institute in the Philippines, The Rubber Research Institute in Malaysia, The Tea Research Institute in Ceylon, etc.

[16]See The AAS, p. 80.

[17]Watanabe, "The ADB's Role."

[18]S. C. Hsieh, "The Asian Development Bank and Its Operations in the Field of Agriculture," Regional Seminar on Agriculture, papers of the Board of Governors of the Asian Development Bank, Sydney, Australia, April 10-12, 1969, p. 71.

[19]*Ibid.*, p. 75.

[20]Watanabe, p. 5.

[21]See Annual Report for 1968, ADB, p. 39.

[22]See Annual Report for 1971, ADB, p. 44.

CHAPTER VII

POLICY-MAKING IN TRANSPORT AND COMMUNICATIONS

Interest Aggregation

Introduction

The sector of transport and communications constitutes another major interest for the developing member countries in the region. The reason for the emphasis upon transport and communications lies in the fact that the region possesses substantial economic potential and that an efficient transportation sector could greatly enhance the possibilities of achieving this latent potential. Each nation also emphasizes this sector in their national development plans. Also, the development of this sector may substantially contribute to the achievement of regional integration.

These considerations led to the formation of a seven-nation interest group (Regional Transport Group). These seven countries--Indonesia, Laos, Malaysia, Philippines, Singapore, Thailand, and Republic of Viet-Nam--believed that there exist opportunities which they could capitalize upon as a group more profitably than as seven countries acting independently.

The improvement of transport and communications should have some immediate impact upon economic development in the region. First of all, the establishment of transport and communications system would speed up the effective development of the region's export potential. It is obvious that the abundant raw materials of the region can provide much of the world's needs in many products. This has become particularly true in those commodities where future world demand is expected to outstrip world supply. Therefore, many developed countries will be looking to this region for supplies.[1]

As indicated above, the region's domestic agricultural potential has been estimated optimistically, but its achievement is heavily dependent upon transport improvement. It has long been the fact that costly, irregular or unreliable access to local markets prevents transformation of the rural section and its integration into the national economy. Moreover, the existing inadequate or costly international and intra-regional transportation system effects the economic life lines of the region to its vital foreign markets. In addition, the region as a whole, historically, has featured a political fragmentation due in part to inadequate domestic and regional transportation and communications systems.[2]

Geographically, great distances separate the region's key resources, production and consumption areas, thus impeding the common desire of exploiting the natural resources collectively. This tendency, of course, influences from time to time the growth of economic cooperation and interdependence among regional countries. This has been a great barrier for achieving economic integration for less developed countries.

Traditionally, the regional economies have been maritime in character by which raw materials and capital goods were transported within countries by rivers and canals and beyond the region by the sea lanes of the Indian and Pacific Oceans. The planning and construction of roads, railroads, inland waterway systems were originally based on "port orientation" and were laid out by the world's powers for the purposes of delivering raw materials for processing in the industrial world. Even by 1970, approximately 80 percent by weight of the region's outbound cargoes were of this character.[3] It is apparent that this type of economy will impede the integration of the region as a whole.

Interest Stimulating Formation of Seven-Nation Group

The common interests which underlay the formation of the Seven Nation Transport Group are as follows. First, the seven member countries do share similar geographical and morphological characteristics. Peoples living in this region culturally and geographically belong to Southeast Asia. Second, they were all, except Thailand, under colonial rule until the Second World War. Third, they have been all engaged in a massive effort to exploit their natural resources in order to establish their economy in terms of a dynamic pattern of foreign trade. Fourth, they are all populous and trying to capitalize on their abundant human resources.

However, these points of commonality are confronted with opposing ideas. These countries are not historically or organizationally linked coherently in an economic or political sense. On the contrary, the small volume of trade with each other and types of products indicate that they are competitive in character, rather than complementary which impedes efforts to unite. Also, each country has a political, cultural and linguistic tradition different from its neighbor. Historically, there is no strong case for alignment with one's neighbors in preference to countries beyond the region. Therefore, there is no reason to conclude that interests in transport and communications would naturally lead to group action.

However, there is reason to hope that these seven nations can learn to cooperate. The final goal sought by the seven countries are their plans to increase exports and exploit markets beyond the region. This "export- and market-oriented" plan attempts to transcend regional competitiveness. Thus, the desire to build up an efficient transport and communications system can become their major interest.

Specific Interests Shared by the Group's Members

Agriculture

Except Singapore, the potential in agriculture in this area has been regarded as the major economic strength of this group. At least in the next ten years, national earnings will rely heavily upon agricultural exports which constitute 57 percent of the total at the present time.[4] In terms of tonnage, the share of exports stemming from the agricultural sector is expected to increase over this period.

Experts in this sector believe that the region as a whole will experience a significant rise in per capita production of major food crops, including feed grains. In their estimate, the agricultural production will grow faster than population increase during the period between 1970 and 1990. This will make increased exports possible.

Fisheries

In the belief that fish is the most important source of protein in the Southeast Asian diet, and access to the adjacent fishing areas is convenient,[5] this sector has become an important natural resource of this region (especially Indonesia, Malaysia, Philippines, Singapore, Thailand, and Viet-Nam). Also, given world demand for protein, there is increased interest in fishing for export in order to earn foreign exchange. Thus this group is particularly concerned with the introduction of fish carriers for rapid transport from catch areas to international major fish markets.

Forestry

The importance of forestry to the economy of this region is twofold; it constitutes a major source of the region's own wood supply and of foreign exchange. It is estimated that nearly 15 percent of the world's hardwood resources are produced in this region.[6] Thus interest has centered upon how to move large volumes of timber efficiently from the forests to ports for processing and sale on the world's markets.

In the region, Singapore, Malaysia, Indonesia and the Philippines are classified as four major forest product-exporting countries. Their markets have been extended as far as North America and Europe. In addition, Laos and South Viet-Nam are developing a timber products industry.

It is predicted that demand within the region will account for an increasing percentage of the market for converted wood products. By 1990 timber exports will still occupy a substantial percentage of foreign trade in the area. However, it is predicted to drop from 70 percent in 1970 to 58 percent in 1990.

<u>Rubber</u>

The rubber-producing industry in the region is another important interest. The region has produced about 80 percent to 90 percent of the world's total natural rubber supplies and will continue this rate in the next twenty years. Thus the interested countries, namely, Malaysia, Indonesia, Thailand, and South Viet-Nam, have a particular desire to export these materials. It is expected that rubber exports may reach four million tons by 1990.

In order to cope with the vigorous threat from the synthetic rubber industry, the natural rubber producing countries must find efficient ways to gain a competitive position against the synthetics.[7] One of the many considerations has been to emphasize low cost shipping and availability to markets abroad.

Vegetable Oils

Malaysia, Indonesia, and the Philippines, together with Nigeria and the Congo, almost monopolize the entire world supply of palm oil.

Metallic Minerals

It is estimated that copper, nickel and tin will be the most important metallic exports in the region over the next two decades. Indonesia and the Philippines are the region's major producers of copper and nickel while Malaysia is a major tin producer. It will be possible that Indonesia and the Philippines will join Malaysia as exporters of tin by 1990. Estimated annual values of metallic exports from the region could reach \$3.2 billion by 1990 from the present level of around \$600 million.

In the past, lack of public transportation has produced serious obstacles to the development of the metallic minerals sector.[8] The private-owned mineral transport system has been operated inefficiently. Therefore, a whole network of transport systems designed by public institutions seems essential for future development.

Petroleum

Petroleum is a new industry in the region and "export-oriented" by nature. At the present time, production is limited to Indonesia (80 percent) and Malaysia and has become a major source of foreign exchange for these two countries. It is expected that earnings from petroleum may reach $1 billion annually by 1980 for the region. In view of the fact that oil exploration in the region is mostly offshore, sophisticated technologies and transportation problems are particularly involved. As far as transportation is concerned, special oil tankers and harbors are needed.

Manufacturing

This represents a widely held belief that manufacturing is crucial to industrialization and reduces dependence on other countries. Their efforts aim at creating an independent capability for manufactured goods and for processing their own primary products in order to export. A transport system is viewed as a major element to achieve this goal.

Tourism

Tourism is regarded as the "industry without a chimney" which can bring foreign exchange to about $1.12 billion in 1990. All the regional countries have made efforts to develop this sector. The specific need for this business is air travel in which emphasis is put on navigation aids and construction of airports. Much interest has been aroused by the increase of international tourism which has a growth rate between 10 percent and 11.5 percent per annum (except in Indonesia where a 16 percent annual rate is expected).

Policy-Making Process

Introduction

Before the Southeast Asian Regional Transport Survey was undertaken, the Bank had no specific region-wide policy framework in this sector.[9] Each country understood its own needs and problems and thus demanded specific programs or projects suited for its economic development. Also, the Bank's policy was established in terms of individual necessities for each country. Since 1971, the Bank's integrated transport policy has been based on this Survey.

In September, 1967, a regional meeting called the "Conference of the Governments" attended by senior transport officials of eight Southeast Asian countries was convened in Kuala Lumpur; they were: Brunei, Laos, Indonesia, Malaysia, Philippines, Singapore, Thailand and the Republic of Viet-Nam.[10] During the meeting, delegates from each country exchanged views concerning transport and communications and the following conclusion was reached.

> Recognizing 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 maximize the possibilities for progressive economic integration of the countries in the area.[11]

In response to this recommendation, the Bank formally initiated the Southeast Asian Regional Transport Survey (hereinafter called the RTS or the Survey) by which the Bank's policy blueprint started to appear. In February, 1968, the Board of Directors authorized necessary action to evolve the framework and terms of reference of the proposed Regional Transport Survey. The framework included an analysis of the existing transport situation and plans for its future development in relation to realistic prospects of overall economic growth of the subregion. Other sources of external aid were also taken into account, such as expertise, advice and financing of the Survey. It was also decided to maintain close consultations with the Coordinating Committee set up by the Kuala Lumpur Conference. When the framework was worked out on this basis, the Board of Directors, on September 17, 1968, agreed that the Bank should undertake the Regional Transport Survey. At the same time, the Board of Directors also authorized a Steering Committee of high-ranking experts[12] which was to prepare the draft of the Survey.

The Draft Final Report on the Survey was completed in September, 1971, and the Final Report in December, 1971. The Bank had engaged an American consulting firm which collaborated with five other firms in carrying out the Survey.[13] The total cost was $2,893,885. Both the United Nations Development Programme[14] and the United States Government[15] contributed. The former gave $1,139,530 while the latter $999,001. The balance of $755,354 was from the Bank's own resources which included Technical Assistance contributions made by the member countries.[16]

Survey as a Major Framework for Policy-Making

The overall purpose of the Survey was to provide a basic framework for integrated development of transportation in the Southeast Asian region. The scope of the Survey was: (1) to study the existing transportation network; (2) to project future transportation requirements; (3) to recommend measures for development of transportation networks; and (4) to inquire how transport could help in the utilization of the region's resources and its overall economic development.[17]

The Survey was undertaken under the sponsorship of the Bank in response to the demands of its member countries. It is apparent that the views expressed in the Survey are those of experts, not necessarily representing the Bank's official decisions. However, in view of the fact that the Survey was initiated and implemented by the Bank, it would seem logical that the Survey has a close relation with the Bank's policy-making in the transport sector. In regard to the Survey, President Watanabe said:

> Although the views expressed in the Report are those of the consultants and do not necessarily reflect the official thinking of the Bank, I believe that the Report will be of considerable assistance to the region and to bilateral and multilateral aid sources in establishing transport programs in the future.
>
> While the Bank is keenly interested in appropriate follow-up action on the recommendations of the Survey, it is for the participating Governments to consider, both individually and collectively, the pattern and range of such actions. Clearly, the implementation of the recommendations will call for resources which are beyond the capacities of the Governments concerned and a substantial measure of foreign assistance will be needed from bilateral and multilateral institutions. Within its limited resource, the Bank would be ready to assist in the development of national and regional transportation networks in the countries of the region.[18]

In the Survey, high priority was given to defining sound investment programs in the transport field. At the same time, priority has also been given to such issues as "pricing and administration of transport services, the competition between modes, and international competitive economic relations between the region and the rest of the world."[19]

The period the Survey serves is twenty years--1970-1990. The Survey covers the following four subject fields: (a) ocean transport, including seaports; (b) inland transport; (c) air transport; and (d) transport related fields.

Ocean Transport, Including Seaports

The Survey finds that the competitive economies of the countries in the region would not encourage an intra-regional trade. Thus extra-regional shipping is emphasized. According to the Survey, the major concern for this sector should be the possible effects on the demand for ships and the types of ships which would be used for the next twenty years. The region's fleet is heavily concentrated in conventional, general, cargo liners. There are few special carriers, i.e., bulk carriers, under national flags of the region. Therefore, the Survey suggests different types of ships or vessels which would contribute to the interests of these seven countries.[20] These types of ships are: Containers, Specialized log and lumber Carriers, Specialized Parcel Tankers, Bulk Carriers, Petroleum Tankers, Barge-Carrying Vessels and the Southeast Asia All-Purpose Ship.

The Survey also suggested that Asian LDC's might enter the ship-building and repair business due to the fact that:

(1) The main shipbuilding yards in Japan and Europe are fully loaded to 1974, and the orders are mainly for large tonnage vessels. Changes in the structure of the demand for ships and their own cost structures will increasingly impel the Japanese and European builders to specialize in these large vessels, which will provide an opportunity for developing countries with low wage costs to enter the shipbuilding industry in the 5,000-20,000 DWT general cargo and bulk carrier field; and

(2) The experience of Singapore will be closely examined. Despite its heavy reliance on imported components, shortages of skilled artisans and supervisory labor, and lack of experience, Singapore has rapidly achieved what appears to be a viable ship construction industry at prices only 10 percent to 15 percent higher than Japan's.[21]

The Survey indicates that there will be a need for some $233 million in new port investments as well as a need for major changes in port management and operation. Old facilities were built mainly to satisfy the economic and military needs of the colonial powers. This has led to a scattered and random pattern of port development and location. Therefore, the Survey indicates that policy should be made to alter this historical pattern "by concentrating on these ports already strategically located, and to go beyond merely repairing existing facilities and making marginal changes in present practices to types of dramatic improvement which are now technologically possible and economically feasible."[22] At some future date, the Survey suggests that entirely new major ports will need to be built.

Land Transport

Systems of rail, highway and internal waterway transport serving the ports of the region are of vital importance. The Survey shows that many of the main rail and highway systems will exceed capacity by 1980, and at least three of the major international airports will have serious access problems (Singapore, Manila, and Bangkok). On the other hand, the old feeder road system which has been used for the movement of forest, farm and mineral products will become major obstacles to the development of large cities and port operations in the near future. The purpose of the Survey is to recommend an integrated land transport system.

In fact, the state of the current rail and highway systems in the region varies from one country to country. The worst situation needs immediate large-scale rehabilitation and new construction. The Survey found that all the countries will need to improve their systems to meet the demands of the latter 1970's and 1980's. Because of the situations of individual countries, the Survey made a detailed study and analysis of problems based on bottlenecks on internal (intra-national) land links, bottlenecks on trans-border links and bottlenecks on indirect links. The Survey particularly is concerned with the importance of feeder transport systems. At least half of all the domestic production of Southeast Asia originates in agriculture, mining, forestry, and fishing. Most of these activities rely heavily on land transport. Although urban traffic congestion has not presented serious problems as yet, the Survey foresees its possible development in the future. Such big cities as Bangkok, Manila, Singapore, Djakarta, etc., have potential problems.

Air Transport

Civil aviation development in the region has been seen as a driving economic force over the next two decades. The special characteristics of this sector will be treated with the development of "tourism" since international tourists are the major subject of air transportation. The Survey shows that over the next twenty years tourists receipts and visitors in this region are projected to increase at annual rates of 10 percent and 11.5 percent respectively.

In discussing the importance of tourism to air transport, attention should be paid to its contribution to economic development. According to the Survey, the major benefits from tourism are basically related to foreign exchange earnings and multiple income and employment effects that result from tourist expenditures. Other benefits may be also provided therefrom such as creating markets, which allow for the domestic production of consumer goods. The Survey recommends the expansion of intercontinental airports and related facilities.

Transport-Related Fields

Basically, as the Survey points out, the region has very little effective cooperation between governmental departments, educational institutions and project authorities in the planning and development of transport-oriented training programs and research. Therefore, the Survey recommends a regional transportation training council for the purpose of coordinating training activities through the region. In addition, effective results can also be achieved through this council in dealing with research programs. It is the Survey's opinion that the Bank could take a leading role to bring such an organization into being in cooperation with governments in the region.[23]

Recommendations for Policy-Making Consideration

After a general description of the regional transport situation and its related sectors, specific project recommendations were made by the Survey for immediate action. The following are the major items based on the categories of ocean, inland, and air transport and trans-port related fields, as shown in Table 11.

The Impact

As of 1973, the Bank has approved thirty-five loans and fourteen technical assistance grants totalling $328.960 million and 2.413 million, respectively, to member countries. (See Table 13.) Of the thirty-five loans the seven nation interest group had nineteen loans granted to the amount of $205.660 million out of the total of $328.960 million as against $115.660 million of the other countries in the region. The former accounts for 61 percent while the latter 39 percent. (See Table 12.) The seven-nation interest group has seven out of fourteen services from the Bank's technical assistance for the amount of $1.591 million out of the total $2.413 million as against the amount of $822,300 of the other countries of the region. Thus the seven-nation group received 65 percent of the technical assistance. It would seem that the seven-nation interest group (little more than one third of the regional LDC member countries), has received more favorable treatment from the Bank than other countries.

TABLE 11

RTS TRANSPORT INVESTMENTS RECOMMENDED
FOR IMMEDIATE CONSIDERATION

Project Description	Location	Investment ($Million)	Period
<u>Ocean Transport</u>			
Expand or install facilities to handle conventional and container cargo	Sibu, Malaysia	5.1	1971-75
Expand or install facilities to handle conventional and container cargo	Kuching, Malaysia	5.7	1971-74
Expand or install conventional cargo handling facilities	Cebu, Philippines	2.0	1971-74
Expand or install conventional cargo handling facilities	Saigon, Vietnam	1.5	1971-72
Install mechanical equipment	Sibu, Malaysia	0.1	1972
Enter a major world-wide container ship consortium	Regional	221.8	1975-80
Replace domestic shipping fleet with multi-purpose vessels	Philippines	144.0	1971-90
Replace domestic shipping fleets with multi-purpose vessels	Indonesia	118.5	1975-90
<u>Inland Transport</u>			
Rehabilitate priority roads	Indonesia	79.1	1971-75
Improve and upgrade highway from Balikpapan to Samarinda (120 Km.)	E. Kalimantan, Indonesia	6.6	1971-75
Improve and upgrade highway Sidjundjung to Lubuklingau (495 Km.)	S. Sumatra, Indonesia	55.0	1971-75
Improve urban transportation system	Bangkok	g	1971-75
Construct truck terminal	Bangkok	g	1971-75
Improve highway, Sri Racha-Sattahip-Rayong	S.E. Thailand	9.2	1971-75
General Improvement of Route 1 (400 Km.)	W. Malaysia	22.5	1971-75

TABLE 11--Continued

Project Description	Location	Investment ($Million)	Period
Improve specific section of Route 1	W. Malaysia	75.0	1971-75
Improve Route 2 from Kuala Lumpur to Karak	W. Malaysia	14.0	
Improve Western Coast Road	Malaysia	4.9	1971-75
Extend Thai Royal State Railways from Ban Pachi to Khlong Sip Kao (75 Km.)	Thailand	8.5	1971-75
Extend Thai Royal State Railway from Chachoengsao to the proposed port of Sattahip (161 Km.)	Thailand	18.9	1971-75
Rehabilitate W. Sumatra Railway Railway	Sumatra, Indonesia	8.0	1971-75
Rehabilitate PNKA	Indonesia	100.0-140.0	1971-75
Purchase new rolling stock and rehabilitate existing equipment	Indonesia	s	1971-75
Purchase new rolling stock for W. Sumatra R.R.	Indonesia	t	1971-75
Purchase new railroad rolling stock for Thai RSR	Thailand	13.0	1972-76
Extend Thai Royal State Railway from Ban Pachi to Khlong Sip Kao	Thailand	u	1971-75
Obtain equipment for extension of Thai RSR	Thailand	11.5	1971-75
Air Transport			
Expand International Airport	Djakarta	21.7	1971-75
Expand International Airport	Bangkok	20.0	1971-75
Expand International Airport	Manila	13.3	1971-73
Expand International Airport	Kuala Lumpur	1.8	1971-72
Expand International Airport	Saigon	1.7	1971-72
Improve navitation and communication system	Thailand	1.6	1971-75

TABLE 11--Continued

Project Description	Location	Investment ($Million)	Period
Improve navigation and communication system	Vietnam	0.3	1971-73
Improve aviation search and rescue capacity	Malaysia	0.1	1971-75
Improve aviation search and rescue capacity	Bangkok	0.1	1971-73
Improve aviation search and rescue capacity	Vietnam	0.1	1971-75
Transport-Related Fields			
Rehabilitate aviation training school	Djakarta	3.5	1971-73
Expand aviation training school	Bangkok	1.6	1971-73
Expand aviation training school	Manila	1.0	1971-73
Establish regional navaide flight inspection service	Regional	3.8	1971-73

[g]Needs further study before more details can be given.

[s]Included in project of "Rehabilitate PNKA, Indonesia."

[t]Included in project of "Rehabilitate W. Sumatra Railway, Sumatra."

[u]Included in the project of "Extend Thai Royal State Railway from Ban Pachi to the Khlong Sip Kao, Thailand."

Source: Southeast Asian Regional Transport Survey, Book One, Prepared by Arthur D. Little, Inc., and Associated Consultants, for the Asian Development Bank, 1972, pp. 134-137.

TABLE 12

STATISTICS OF LOANS AND TECHNICAL ASSISTANCE ON TRANSPORT AND COMMUNICATIONS COMPARING THE SEVEN NATION GROUP AND OTHER COUNTRIES

Items	Amounts			Percentage		
	Seven	Others	Total	Seven	Others	Total
Loans (Millions)						
Ocean Trans.	78.210	26.690	104.900	76	24	100
Inland Trans.	60.250	80.700	140.950	43	57	100
Air Trans.	61.000	8.410	69.410	88	12	100
Communications	6.200	7.500	13.700	45	55	100
Total	205.660	115.800	328.960	61	39	100
Technical Assistance (Dollars)						
Ocean Trans.	1,146,000	160,000	1,306,000	87	13	100
Inland Trans.	445,000	196,000	641,000	69	31	100
Air Trans.	--	446,000	446,000	0	100	100
Communications	--	--	--	--	--	--
Total	1,591,000	822,300	2,413,300	65	35	100

Source: Annual Reports from 1968-73, Asian Development Bank.

TABLE 13

TRANSPORT AND COMMUNICATIONS--LOAN APPROVALS (1967-73)

Projects	Country	Amount ($Million)	Date Approval
	Seven Nations Interest Group		
Ocean Transport			
Kuchin Port Expansion	Malaysia	5.000	11-13-69
Jurong Wharves Expansion	Singapore	8.310	09-03-70
Sibu Port Expansion	Malaysia	3.500	12-10-70
Fisheries Port	Philippines	5.500	03-04-71
Singapore Port Expansion	Singapore	8.100	09-02-71
Tandjung Priok Port Development	Indonesia	5.300	04-04-72
Surabaja Port Development	Indonesia	5.500	10-24-72
Kuantan Port	Malaysia	30.400	11-08-73
Cobabato Port Development	Philippines	6.600	04-03-73
Inland Transport			
Coabota-General Santos Road	Philippines	10.600	12-23-70
Kuala Lumpur-Karak Highway	Malaysia	13.400	11-02-71
LLigan-Cagayan Highway	Philippines	22.250	11-09-72
Central Area Expressway	Singapore	1.100	11-14-72
East-West Highway	Malaysia	9.300	06-29-73
Tarlac-Santa Roads and Feeder Road	Philippines	3.600	06-28-73
Air Transport			
Singapore International Airport	Singapore	20.500	11-24-70
Penang Airport Development	Malaysia	10.900	10-19-72
Manila International Airport	Philippines	29.600	12-11-73

TABLE 13--Continued

Projects	Country	Amount ($Million)	Date Approval
	Seven Nations Interest Group		
Communications			
Saigon Telecommunications	Viet-Nam	6.200	12-06-73
	Other Interest Countries		
Ocean Transport			
Hualien Harbor Development	China	0.990	12-04-69
Colombo Port Tanker Berth	Sri Lanka	2.600	03-30-70
Chittagong Port	Bangladesh	6.800	10-18-73
Incheon Port	Korea	16.300	06-26-73
Inland Transport			
Seoul-Incheon Expressway	Korea	6.800	09-03-68
Transportation & Stevedoring	Korea	7.500	09-04-69
Taipei-Yangmei Freeway	China	18.000	03-30-70
Taipei-Yangmei Freeway	China	13.600	11-25-71
Road	New Guinea	9.800	12-14-72
Hetauda-Narayangarh Road	Nepal	10.100	12-19-72
Helmand Valley Road	Afghanistan	14.900	04-18-73
Air Transport			
Faleolo Airport and Road	W. Samoa	2.400	12-16-69
Air Transport Development	Nepal	6.010	12-18-69

TABLE 13--Continued

Projects	Country	Amount ($Million)	Date Approval
	Other Interest Countries		
Communications			
Communication Satellite Station	Sri Lanka	3.600	12-23-71
Telecommunications	W. Samoa	2.600	11-21-72
Telecommunications	Tonga	1.300	11-08-73

Source: Annual Reports from 1968 to 1973, Asian Development Bank.

TABLE 14

TRANSPORT AND COMMUNICATION--TECHNICAL ASSISTANCE, 1967-1973

Projects	Country	Amount Dollars	Date Approved
	Seven Nation Interest Group		
Ocean Transport			
Octabato Port Development	Philippines	245,000	10-19-71
Fisheries Port	Philippines	71,000	03-04-71
Financial Management of Ports	Indonesia	250,000	04-04-72
Ports Study	Indonesia	580,000	12-11-73
Inland Transport			
Feasibility Study on Kuala Lumpur-Karak Highway	Malaysia	192,000	02-13-69
Feasibility Study for Improvement of LLigan-Cagayan de Oro-Butuan Road	Philippines	222,000	02-09-71
Feasibility Study of Tarlac-Santa Rosa Highway	Philippines	31,000	09-01-71
Air Transport (None)			
	Other Interest Countries		
Ocean Transport			
Chittagong Port	Bangladesh	160,000	10-18-73

TABLE 14--Continued

Projects	Country	Amount Dollars	Date Approved
	Other Interest Countries		
Inland Transport			
Feasibility Study of N-S Freeway	China	100,000	11-19-68
Feasibility Study of Helmand Road	Afghanistan	48,500	05-25-72
Seoul-Incheon Suwoon Road	Korea	47,800	08-02-72
Air Transport			
Air Transport System	Nepal	66,000	11-21-68
Faleo Airport and Road	W. Samoa	50,000	02-19-69
Air Transport Development	Nepal	350,000	12-18-69

Source: Annual Reports from 1968 to 1973, Asian Development Bank.

Although technical assistance represents a small portion out of the total funds for transport and communications ($2.413 million), its significance lies in the fact that this type of work has usually been considered a prerequisite for the Bank's subsequent financing. A good example may be seen from the Bank's financing of the construction of Taiwan's North-South Freeway. In 1968, the Bank granted $100,000 for the feasibility study of the North-South Freeway. The favorable report of the Bank's feasibility study led to the Bank's later actions to issue loans twice for the section of the Taipei-Yangmei Freeway in the amounts of $18 million and $13 million, respectively.[24] The statistics on technical assistance to the seven-nation interest group would seem to insure continued favorable loan treatment for the seven nation group in the next few years.

Finally, a word should be mentioned about the percentage of this sector vis-a-vis all loans and technical assistance undertaken by the Bank for the past years. Thus far, transport and communications occupies a modest position in the Bank's total loans (23.90 percent). As for technical assistance, it only accounts for 19.80 percent.

With regard to the impact of the Survey upon the actions of the Bank, the following facts may be noted. According to the 1973 Annual Report of the Bank, five projects were funded based on "high priority" recommendations of the Southeast Asian Regional Transport Survey.[25] For example, in Table 11 the Survey gave high priority to a $13.30 million loan to the Manila International Airport. In 1973, the Bank actually loaned $29.60 million. In fact during 1973, the Bank issued $125 million in new loans for transportation and communications; members of the seven-nation group received $85.70 million (69 percent).

In 1973 three other loans were issued based upon prior technical assistance grants. This fact would again seem to stress the importance of technical assistance as a prelude to receiving loans.

In both the categories of loans and technical assistance, and both before and after the Survey was conducted, the Seven Nation Group has been very successful in obtaining funds. To date, this is the best example of interest group activity in the Bank.

Footnotes

[1]Japan is a typical example that is experiencing a growing need for precisely those kinds of raw materials that this region possesses in abundance.

[2]According to the Survey (the Southeast Asian Regional Transport Survey), "much more than half of the region's 230 million people live on the far-flung, ocean-locked archipelagos of Indonesia and the Philippines--more than 1,000 inhabited islands in the 5000 mile crescent from Northern Sumatra in the Indian Ocean through West Irian to Northern Luzon in the Philippine Sea. A hundred million others are arrayed along the axis of the Indo-China peninsula, 1,700 miles southward from continental China's border with northern Laos to the city-state of Singapore near the equator." See the Survey, p. 4.

[3]The particular examples are: logs from Mindanao, rice from Thailand, sugar from Negros, tin rubber and palm oil from Malaysia, and crude petroleum from Sumatra.

[4]The significance of agriculture will ultimately decline, according to the Survey. Earnings from agricultural exports, which at present constitute about 57 percent of the total, are expected to drop to 33 percent by 1990. See the Survey, p. 19.

[5]In the region, there appear to be substantial deep-water resources of certain fish such as tuna which have been heavily exploited in the other major fishing areas of the world. Therefore, the best chance to capitalize on these resources is to embark on a number of major projects for large-scale shrimp and tuna production.

[6]In the world, Africa, South America and Southeast Asia contain the world's only uncommitted hardwood forests.

[7]According to the Survey, natural rubber will tend more and more to be produced to conform to standard specifications and will be shipped in smaller units of 75 to 100 pounds. This trend will not only improve the marketability of natural rubber and its competitive position vis-a-vis synthetic, but could also affect the shipping methods and costs.

[8]In the past, Japan has been the leading market for metallic minerals from the region. It is still so now. It is expected that by 1990 its requirements for copper, aluminum, iron and nickel alone are expected to reach more than $3.5 billion. Therefore, Japan has offered financial and technical aid in this region in return for long-term supply contracts.

[9]The present writer's research visit to the Bank's headquarters confirmed this point. The writer interviewed some of its officers responsible for this sector.

[10]Brunei originally participated in the Conference, but ultimately did not take part in the Survey.

[11]See Preface of the Southeast Asian Regional Transport Survey, Book One, prepared by Arthur D. Little, Inc., and Associated Consultants, for the Asian Development Bank, 1972, p. vii.

[12]The leading members of the Committee included: Dr. Wilfred Owen (Senior Fellow of the Brookings Institution, Washington, D.C.), Professor F. W. Anderson (University of Saskatchewan, Regina), Mr. Bernard Bell (Head of the IBRD Mission to Indonesia), Professor H. C. Bos (Netherlands School of Economics, Rotterdam), Mr. Masood Rusain (Director of Transport and Communication Division, ECAFE, Bangkok), Professor Susumu Kobe (U.N. Advisor on Transportation), Mr. R. Krishnamurti (Acting Director, Manufactures Division, UNCTAD), Mr. H. T. Loxton (Chairman, Commonwealth Bureau of Roads, Canberra), Professor Saburo Okita (President, Japan Economic Research Center, Tokyo), Mrs. Suparb Yossundara (Assistant Director to the Governor, Central Bank of Thailand, Bangkok), Mr. K. L. Luthra (Advisor on Transportation, ADB). See Annual Report for 1968, Asian Development Bank, Appendix 9, p. 80.

[13]The firm was Arthur D. Little, Inc., a United States consulting firm which, with five other firms--Kampmann, Kierulff, & Saxild A/S, Pacific Consultants K. K., W. D. Scott & Co. Pty. Ltd., Sycip, Gorres, Velays & Co., and Adrian Wilson Association--carried out the field work on the Survey over a nineteen month period. Supervision of the contractors' work was the responsibility of the Steering Committee and the Bank's Projects Department, of which Dr. Sam Chung Hsieh is the Director. Mr. K. L. Luthra, Deputy Director, served as manager of this project, assisted by Dr. K. C. Sen, Senior Project Economist, and Mr. Natori, Project Economist.

[14]In March, 1969, Participating Governments, in consultation with the Bank, asked the United Nations Development Programme (UNDP) to make a contribution towards the costs of the maritime and air transport studies which are integral parts of the Survey. The United States Government made a specific offer of a grant of $1 million to the Technical Assistance Special Fund of the Bank for use in financing the Survey. The Bank was informed in December, 1968, that UNDP's administrator had recommended to the Governing Council to earmark a little over $1 million for the project for which

the Bank was proposed as a participating and executing agency. See Annual Report for 1969, Asian Development Bank, p. 37.

[15]The United States agreed on May 14, 1969, to make available as a grant, for procurement of services from the United States, a technical assistance contribution of up to U.S. $1,000,000 for carrying out the Regional Transport Survey. The United States contribution for the Survey was made by means of a Letter of Commitment issued to a U.S. commercial bank against which the Bank could draw funds to meet expenditures for the Survey. The above contribution was in addition to a grant of U.S. $250,000 made available in June, 1967, for procurement in the United States of specific kinds of technical assistance. See Annual Report for 1970, Asian Development Bank, Appendix 1-L, p. 102.

[16]The Special Funds were contributed by Denmark, Japan and Canada.

[17]See Annual Report for 1971, Asian Development Bank, p. 43.

[18]See Forward of the Survey, pp. v-vi.

[19]See Preface of the Survey, p. vii.

[20]As for the expansion and development of national fleets for service in international trade, it is a much more complex and controversial operation. Two schools prevail: the "liberal" versus "conservative" positions. The "conservative" school was represented by the major maritime powers of developed countries. They argued that "shipping is an international service industry that should be left to those who can most efficiently perform the task." Their conclusion follows that "unless developing countries can compete with established shipping without recourse to discriminating practices that are harmful both to the developing country and the international shipping community, they should refrain from shipping activities." However, the "liberal" school has a different view. Their justification is based on the activities of Japan, the largest national flag shipowning nation. According to them, ships are needed to ensure "a smooth flow of imports and exports." The importance of receiving imports and delivering exports to their markets is so great that it should not be left entirely to non-nationals. For more details, see The Survey, pp. 42-43.

[21]See The Survey, p. 55.

[22]Ibid., p. 69.

[23] *Ibid.*, p. 121.

[24] For more details, see Annual Reports for 1970 and 1971, Asian Development Bank, p. 26 and p. 35, respectively.

[25] See *Annual Report for 1973*, Asian Development Bank, p. 14.

CHAPTER VIII

POLICY-MAKING IN INDUSTRY AND ITS INFRASTRUCTURAL DEVELOPMENT

Introduction

Although the sector of industry has occupied a major portion of the Bank's total loans, the Bank has not yet developed an overall approach to this sector as it has done in agriculture and transportation. Individual member countries' necessities and the Bank's interests are usually the pattern leading to the Bank's decisions. However, there have been surveys of specific industries and specific sub-regions of the Asian region which collectively have some impact on the Bank's policies. Various member countries have formed interest groups for the purpose of promoting these specific surveys to meet their own needs. Thus this chapter will analyze the basic interests of member countries and the related interest groups with which the Bank has been interacting for the past seven years.

The Bank's policy-making in industry is subject to the position and role of industry in the various national economic development plans. As a matter of fact, in most of the LDC's, the question as to whether the "industrial horse" should pull the "agricultural cart" or the "agricultural horse" should pull the "industrial cart" has long been the topic of debate. However, the general inclination has been to seek the "right mix" among the industrial, agricultural and other sectors in their social and economic development.[1] Some countries have put special emphasis on the industrial sector; but other countries have not. The Bank's Economic Office has categorized three groups of countries based on the stress and priority given to industry in order to determine what the Bank's policy should be in regard to these countries.

First, for those countries in which higher priority has been accorded to the industrial sector in their national economic planning, the Bank should establish corresponding policies for those countries.[2] For instance, Afghanistan, India, the Republic of Korea and Pakistan have indicated on various occasions the important role of industry in their national economic development.

The second category refers to those countries emphasizing the development of both industry and agriculture. In this case, the Bank has emphasized "Agro-based" industries. These countries include the Republic of China, Laos, the Philippines, Thailand, Sri Lanka and Malaysia.[3]

With regard to the third category, only agriculture and miscellaneous other sectors constitute the major themes of their national economic planning. Indonesia, for instance, emphasizes agricultural production in its national economic plans. Fiji, Nepal and Western Samoa have been interested in developing tourism.[4] Also some countries, such as Afghanistan, Fiji, Malaysia, Pakistan and Thailand, have indicated an interest in developing industry using indigenous raw materials, thus policy-making should take into account their potential. India, the Philippines, the Republic of China and the Republic of Korea have indicated a preference for basic metals and heavy industries. In addition, textile industries have a special importance in the economic development in Sri Lanka, the Republic of China, Indonesia, the Republic of Korea, Pakistan and the Philippines. Light industries such as electrical equipment and chemicals have been listed as having priority in Afghanistan, the Republic of China, India, Indonesia, the Republic of Korea, Thailand, and the Philippines. The fertilizer industry has been given importance in the Republic of China, Indonesia and the Republic of Korea.

The foregoing analysis helps to explain why the Bank has not yet developed an overall plan of action as it has done in agriculture and transportation. Therefore, our attention in this chapter will focus on the separate policies promoted by several interest associations which have organized under this sector.

Interest Aggregation

Feelings of nationalism often lead to certain restrictions on foreign investments in the form of non-entry to certain industries. In some other cases, a nation may establish ceilings for foreign investments in individual enterprises, or, to a lesser degree, limit certain privileges enjoyed by domestic investors and the repatriation of profits. The purpose of these measures is that some industries are viewed as the fundamental economic backbone of a nation's industrial establishment. If controlled by others, its economic life would be endangered. Some obvious examples are in the Philippines and Indonesia in which Overseas Chinese have been forbidden to own some kinds of industries. However, some countries, for the purpose of absorbing more capital and modern technologies, give foreign investment the same privileges as domestic investment. Such countries in the region, for instance, as Afghanistan, the Republic of China, Hong Kong, the Republic of Korea, Laos, Malaysia, Nepal, Singapore and Thailand have made specific provisions to guarantee free and unrestricted repatriation of foreign capital and dividends and/or to prevent nationalization.

Secondly, competition in world markets usually leads governments to adopt promotive measures. The so-called governmental promotive measures generally include tax holidays of various lengths, tax exemption on imported capital goods, in general, and on selected imported materials. Some countries allow tax concessions for certain types of industries, accelerated depreciation, the carry-over of losses, rebates of import duties on imported materials for export-oriented industries, direct or indirect government export bonuses, preferential interest rates, easy access to credit, and subsidized public utilities rates.[5] It is no doubt that these measures will vary from country to country; however, their basic purpose is to provide the necessary additional financial incentive to promote foreign and domestic capital investments.

Thirdly, protective measures include high tariffs, quantitative controls, foreign exchange controls aimed mainly at reducing imports and the complete ban of certain imports. Most of the LDC's in the region, except Hong Kong and Singapore (to a lesser extent), have practiced these measures in varying degrees. It is evident that the wide use of protectionism seems to indicate that some industries in these countries are still so weak that they must depend on protection or subsidies for their existence.

As far as composition of industrial development is concerned, the Asian LDC's have placed emphasis upon labor intensive industries usually based on some form of mineral or agricultural raw materials. Agro-based industries generally are composed of food, beverage, tobacco, wood and cork products, furniture and fixtures, leather and leather products, rubber processing and rubber products. Also, the importance of textile and apparel industries to many of these LDC's has been widely noted. The stage of capital/technology intensive industries is just now assuming importance in such areas as paper and paper products, printing and allied industries, chemicals and chemical products, petroleum and coal products, plastics and plastic products, metal fabrication, and machinery and equipment. It is the general trend that most of the LDC's have shifted their emphasis of development from the agro-based industries and, to a lesser extent, from the textile and apparel industries, to the development of capital/ technology intensive industries. Obviously these types of industries require technical imports and capital flows from abroad. Table 15 shows this trend of change.

Next, the LDC's interest in infrastructural development is basically the same as their expectations for the development of industry proper. As far as the necessities of these regional LDC's are concerned, infrastructural development is concentrated on electrical power, water supply and manpower training.

The fact that industrialization needs the support of electrical power is undoubted. Generally, their major concern is how to strengthen and expand generation, transmission and distribution facilities which are planned to serve major urban centers of the region, such as Bangkok, Saigon, and Singapore. The LDC's are also concerned with the extension of existing power systems to bring electric energy to the smaller towns and rural areas for the purpose of exploiting their abundant natural resources. Smaller-size industries, such as agro-based industry are often found in these areas.

TABLE 15

CHANGES IN THE COMPOSITION OF INDUSTRIAL OUTPUT IN THE LDC'S (PERCENT)

		Agro-Based		Textile & Apparel		Capital/Tech. Intensive	
	Period	A	B	A	B	A	B
China	1961-70	40.6	24.0	17.3	20.9	42.1	55.1
Hong Kong	1960-70	6.7	4.6	49.0	44.1	42.4	44.1
India	1960-69	25.0	22.0	27.0	18.0	33.0	45.0
Indonesia	1963-67	75.5	81.8	7.8	2.8	15.7	11.2
Khmer Rep.	1962-66	61.3	61.2	2.0	3.8	28.2	23.1
Korea	1960-69	41.2	27.1	27.4	20.4	29.9	49.4
Malaysia	1960-68	69.1	54.6	0.8	2.6	28.5	24.5
Pakistan	1962-65	28.5	31.2	33.4	27.8	23.4	26.9
Philippines	1960-68	48.1	42.8	11.7	9.7	33.8	46.7
Singapore	1960-69	84.6	44.4	0.9	3.4	13.9	49.4
Sri Lanka	1964-69	35.4	34.2	18.8	16.4	32.7	40.3
Papua Guinea	1960-69	42.8	49.7	--	--	13.9	28.7
Thailand	1962-67	69.7	58.9	6.5	6.6	19.2	30.4

A = Beginning of the period.

B = End of the period.

Source: "Industrial Growth and Economic Development in the Regional Developing Member Countries," published with Annual Report for 1971, Asian Development Bank, p. 135.

Although there is an abundant supply of water in rural areas, most urban areas lack modern water supply systems. This will place limitations upon industrial growth. As industrialization progresses, the necessity for water will become an urgent problem for all urban users such as industry, domestic households, business establishments, schools, and hospitals. On the other hand, a major by-product of industrial development is environmental pollution, particularly river pollution. Thus, attention must be paid to this problem and nations must seek effective measures to control harmful effects.

A major concern of the regional LDC's is to establish vocational training schools for the purpose of providing skilled personnel for economic development. This problem has not yet received much attention and assistance from the member countries and other financial institutions. No doubt, this is due to the fact that the Bank's emphasis to date has been on those projects which have some financial return on investment. Yet this type of education must be undertaken if industrial growth is to be sustained.

The above analysis indicates the basic characteristics of the interests of member countries in regard to industry. There have been six interest groups formed in the region in order to seek development of these interests. They are:

1. Southeast Asian Economy Study Group which includes Indonesia, Khmer Republic, Laos, Malaysia, Philippines, Singapore, Thailand, and Viet-Nam.

2. Asian Industrial Group which includes Burma, China, Indonesia, Khmer Republic, Korea, Laos, Malaysia, Philippines, Singapore, Sri Lanka, Thailand and Viet-Nam.

3. Coconut Industry Group which includes Fiji, India, Indonesia, Laos, Malaysia, Pakistan, Papua and New Guinea, Philippines, Singapore, Sri Lanka, Thailand, Viet-Nam, and Western Samoa.

4. Asian National Development Banks Group which includes Australia, China, India, Indonesia, Japan, Korea, Laos, Malaysia, Nepal, New Zealand, Pakistan, Philippines, Singapore, Sri Lanka, Thailand, and Viet-Nam.

5. Group for LAWASIA Credit and Security Research which includes Australia, China, Indonesia, Japan, Korea, Philippines, Singapore, Sri Lanka, and Thailand.

6. Asian Institute Group which includes Afghanistan, Australia, Bangladesh, Burma, China, Fiji, Hong Kong, India, Indonesia, Japan, Khmer Republic, Korea, Laos, Malaysia, Nepal, New Zealand, Pakistan, Papua and New Guinea, Philippines, Singapore, Sri Lanka, Thailand, Tonga, Viet-Nam, and Western Samoa.

Policy-Making Process

Planning for industrial development in this transitional period has been fragmented. Nevertheless, the Bank has been engaged in some practical actions that indicate its efforts to establish basic policies toward industrial development.

First, the Bank has engaged in several surveys of regional economic development and the role of industrial growth therein. For this purpose, the Bank has undertaken four major works with which three related interest groups have played a leading role. The Bank's major works are: (1) Study of "Southeast Asia's Economy in the 1970's, (2) Asian Industry Survey, (3) Report of Industrial Growth and Economic

Development in the Region, and (4) the Coconut Industry Survey. The related interest groups with which the above four actions have been closely related are: (1) Southeast Asian Economy Study Group, (2) Asian Industrial Group, and (3) Coconut Industry Group. In general, these four basic actions indicate the Bank's policy directions.

Secondly, the Bank has delegated part of its duties of planning for industrial development to the individual national development banks, so that the private sectors can obtain financial and technical assistance therefrom, with the Bank's general direction and coordination. This policy associates the Bank closely with two interest groups, namely (1) Asian National Development Banks and (2) Group for LAWASIA Credit and Security Research.

Action Taken to Initiate Policy Formulation

Study of "Southeast Asia's Economy in the 1970's"

The first official action undertaken by the Bank involving the problem of industrialization in this region was the study of "Southeast Asia's Economy in the 1970's." Although the geographic areas covered in the study were limited to Southeast Asia, the commonly shared characteristics of the whole region may be seen in this report.

During the Fourth Ministerial Conference for Economic Development of Southeast Asia, held on April 3-5, 1969, in Bangkok, Thailand, the Government of Thailand, acknowledging the changing situation, both economic and political in this region,[7] put forward a proposal that "the Conference of Ministers authorize that a study be made of all the significant factors which will affect economic growth in the region in the next decade."[8]

The Thai proposal was adopted by the Conference.[9] An advisory committee was organized by representatives appointed by each member country participating in the Ministerial Conference. In July, 1969, the Board of Directors of the Bank approved the undertaking of the study by the Bank and accepted a recommended procedure for the implementation of this study.

As a preliminary step, an Expert Group was set up with twelve leading economists[10] to identify the major problems to be studied, and their recommendation was put forward to the Advisory Committee and the Board of Directors for discussion. One of the six sectoral reports was "industrialization" of the region.[11] Work commenced in late 1969 and was completed in early 1970. An overall report[12] and the six sectoral reports were accepted and adopted by the Advisory Committee and the Board of Directors of the Bank.

Basically, the result of the study is not viewed as the official policy of the Bank, but it aids in analysis of "the nature of the major problems which confront the nations in the region in the seventies and to explore the possibilities of individual and cooperative action by government to effect their solution."[13] Although it represents the opinions of the individual experts, it does "represent a coherent and integrated approach to the problem of Southeast Asia."[14] On the other hand, so far as the Bank's own activities are concerned, "the report," as President Watanabe put it, "will provide not only an important body of information but also a source of stimulus to deliberation on developmental strategy and tactics in the area."[15]

Asian Industrial Survey

Another effort made by the Bank was its decision to support the Asian Industrial Survey for Regional Cooperation which was sponsored by the U.N. Economic Commission for Asia and the Far East (ECAFE). Basically, the purpose of the Survey was to review and study the long-term perspectives of industrialization and regional cooperation in twelve[16] developing countries of the ECAFE region. It is expected that from the overall survey, concrete proposals for the formulation of industrial programs and projects based on a coordination of investment, production and trade policies can be made for the countries to be studied.

In this survey, the Bank is only one of the participating actors including ECAFE and other agencies.[17] Of the total costs ($617,000) the Bank made a $200,000 contribution. It is evident that these projects constitute a major reference point for the industrial policies of the Bank in the future. The Survey, begun in September, 1971, was completed in 1973, but its details are still not available.

Study of "Industrial Growth and Economic Development in Developing Member Countries"

In view of the fact that the Bank has operated for six years in the absence of concrete industrial policies, it has become more pressing to study the factors influencing individual bankable industrial projects, and to understand the nature and trends of industrial development in general in the region.[18] Based on this understanding, the Board of Directors requested its Economic Office in 1971 to prepare a brief study on industrial development in the LDC's during the last decade which is entitled "Industrial Growth and Economic Development in the Regional Developing Member Countries." Although this does not necessarily represent the policies of the Board of Directors, it does serve as a broad guideline for the consideration of future industrial policy-making. Its discussion of "Policies and Instruments of Industrial Development" is a valuable contribution to the Bank's operations.[19]

Coconut Industry Study

One area of "agro-based" industry, which has drawn particular concern of the Bank, is the Coconut Industry Study. The reason for the Bank to undertake this survey is based on the particular importance of coconut to economic development in the Southeast Asian region. The Study by the Bank was proposed in response to the demand of the Asian Coconut Community (ACC) and other interested member countries.[20] The members of the Asian Coconut Community are Sri Lanka, India, Indonesia, and the Philippines.[21] The ACC members are also members of the Coconut Industry Group which includes six other members, namely, Fiji, Malaysia, Pakistan, Papua and New Guinea, Thailand, and Western Samoa. The Study began in January, 1972, and was completed in 1973.[22]

Collaboration with National Development Banks

Financing national development banks of each member country to carry out certain small-scale projects has become an important policy of the Bank in this period of national development. In the past seven years, these national development banks, under the Bank's direction and financial assistance, have played an important role in the implementation of national economic planning and industrial development. This has been particularly aimed at the private sector.

Before the Bank came into being, individual national development banks had cooperated through a series of meetings known as the "Regional Conference of the Development Banks of Asia."[23] In its third conference held in Tokyo, in September, 1966, just a few months before the ADB was established, a suggestion was put forward that "the Bank, once it had come into being, should itself take the initiative for organizing the next such conference."[24] Therefore, the Bank took the initiative to hold the fourth conference in Manila from July 14-17, 1969. Also the fifth conference was held in Manila from August 14-17, 1973, under the Bank's sponsorship.

In the Fourth Regional Conference,[25] a valuable contribution was the presentation of a "Theme Paper" concerning operational experiences of national development banks with special reference to problems encountered in the identification, formulation, evaluation, and implementation of investment proposals.[26] As a common approach for industrial development, the Paper serves "as a basis for an exchange of views and experiences on the part of development bankers in Asia and representatives of sister international institutions from outside the region."[27] At the request of the ADB, specific case studies were supplied by a number of development banks concerning their recent experiences. These cases were very useful for the Bank's policy-making and the coordination of national development banks' operations.

Related to the operations of national development banks, the Asian Bank is particularly concerned about the creation of a viable legal framework for implementation of development projects and the resolution of legal problems. The Bank particularly emphasizes the important role of lawyers in the complex business of development. Thus, in February, 1969, the Board of Directors approved a proposal for cooperation with the Ford Foundation to assist the Law Association for Asia and the Western Pacific (LAWASIA) to develop a research program involving "a study of security arrangements available to national development banks and other financial institutions in developing member countries of the Bank for the purpose of supplying medium and long term credits for development purposes and the financing of working capital."[28] The LAWASIA was formed at a meeting called by the Law Council of Australia in August, 1966, in Canberra.[29] Basically, it is non-political in character, although it receives the support of many regional governments. The Ford Foundation provides financial assistance and the Bank acts as administrator of the project by receiving and disbursing the funds involved.[30] In view of the fact that an effective legal framework for security arrangements is regarded as a key factor in facilitating the use of resources available to national development banks and other institutions, the project is of considerable interest to the Bank. Present study of security arrangements has been underway in Sri Lanka, Indonesia, the Republic of China, Malaysia, the Philippines, Singapore, the Republic of Korea, and Thailand.[31]

The Impact

Through the Bank's regular operations, a considerable number of loans and technical assistance grants have been given to industrial projects in member countries. Generally, national projects involving large-scale planning, huge investments and sophisticated technologies need the Bank's direct participation. Typical of these projects is the \$10.200 million loan granted to the Republic of China for a Dimethyl Terephthalate (DMT) manufacturing facility in 1968, the \$10.000 million loan given to Indonesia for the PUSRI fertilizer plant expansion in 1970, the $12.000 million loan to Pakistan for cotton spinning mills in 1970, and the $25.000 million loan to the Republic of Korea for a caprolactan plant in 1970.[32]

The Bank's major contribution has not been its financing of any single industrial project, but its role in infrastructural developments. Under the Bank's auspices, infrastructural loans include electric power, development banks, water supply and manpower training. Statistics of the past seven years show that the Bank has invested $875.020 million out of its total investment of $1,376.030 million (roughly 63.6 percent), for industry and its infrastructures. Moreover, infrastructure itself accounts for 88 percent of this sector equivalent to the amount of $575.850 million. Industrial development *per se* only occupies 12 percent out of this sector, equivalent to $99.170 million. In the area of technical assistance, an amount of $4,786,900 has been used for infrastructural development (about 90.2 percent out of this sector), while industrial development accounts for $424,300 (9.8 percent). This also indicates the Bank's policy-making emphasis on infrastructure. (See Table 16.)

Of the infrastructural sectors, the development of electric power is listed as a top priority and has received $365.29 million. On the other hand, the national development banks have been given a considerably important role, as indicated in an earlier section. As of 1973, loans totalling

TABLE 16

STATISTICS OF INDUSTRY AND ITS INFRASTRUCTURAL DEVELOPMENT, 1967-1973

	Loans			Technical Assistance		
	Amounts (Million)	% of Sector	% of Total Loans	Amount (Dollars)	% of Sector	% of Total Loans
Industry	99.170	12	7.3	424.300	9.8	3.0
Development Banks	243.600	27	17.6	1,162,600	24.0	8.9
Electric Power	365.290	42	26.5	1,303,500	27.0	9.3
Water Supply	153.86	17	11.2	1,878,500	39.0	13.7
Manpower Training	13.100	2	1.0	18,000	0.2	0.4
Total	875.020	100	63.6	4,786,900	100	35.3
Agriculture			12.5			44.9
Transport & Communications			23.9			19.8
			100.0			100.0

Source: Annual Reports from 1967-1973, Asian Development Bank.

TABLE 17

NATIONAL DEVELOPMENT BANKS AND
INDUSTRIAL SECTOR LOANS
($MILLION)

Industrial Loans (All Sub-Sectors Combined)		Loans to National Development Banks	
Asian Industrial Group	Amount	Development Bank Group	Amount
Burma	19.100	China	7.500
China	49.900	Indonesia	--
Indonesia	40.100	Korea	85.000
Khmer Republic	1.670	Laos	--
Korea	114.200	Malaysia	15.000
Laos	4.720	Nepal	--
Malaysia	42.360	Pakistan	37.000
Philippines	44.400	Philippines	45.000
Singapore	46.370	Singapore	20.000
Sri Lanka	12.150	Sri Lanka	--
Thailand	107.600	Thailand	15.000
Viet-Nam	10.900	Viet-Nam	--
Sub-Total	492.670	Sub-Total	224.500
All Other LDC Members (10)	138.750	All Other LDC Members (10)	19.100
Total All Members	631.420	Total All Members	243.600
Percentage of Total for "Group"	78	Percentage of Total for "Group"	92

Source: Annual Reports from 1967-1973, Asian Development Bank.

TABLE 18

INDUSTRY AND ITS INFRASTRUCTURAL DEVELOPMENT--
LOAN APPROVALS, 1967-1973

Projects	Country	Amount ($Million)	Date Approved
Industry (1)			
Dimethyl Terephthalate (DMT)	China	10.200	12-19-68
Cold Storate	Korea	7.000	03-13-69
Aluminum Plant Expansion	China	2.670	11-20-69
Copper Fabrication Plant	China	1.150	11-20-69
PUSRI Fertilizer Plant	Indonesia	10.000	06-04-70
Cotton Spinning Mills	Pakistan	12.000	12-17-70
Caprolactam Plant	Korea	25.000	12-22-70
Mineral Sands	Sri Lanka	4.150	11-11-71
Multan Fertilizer	Pakistan	27.000	12-19-73
Development Banks (2)			
Industrial Finance Corp.	Thailand	5.000	01-23-68
Industrial Development Bank	Pakistan	10.000	12-12-68
Private Development Corp.	Philippines	5.000	03-04-69
Development Bank	Singapore	10.000	06-26-69
Medium Industry Bank	Korea	10.000	12-16-69
Industrial Finance Corp.	Thailand	10.000	12-16-69
Korea Development Bank	Korea	10.000	11-17-70
Private Development Corp.	Philippines	15.000	12-17-70
Industrial Development Bank	Pakistan	15.000	12-22-70
Medium Industry Bank	Korea	15.000	08-12-71
China Development Corp.	China	7.500	09-28-71
Papua & New Guinea Development	New Guinea	4.500	12-14-71
Industrial Development Berhad	Malaysia	15.000	12-16-71
Korea Development Bank	Korea	20.000	11-21-72
Industrial Credit and Investment	Pakistan	12.000	12-21-72
Shilpa Bank	Bangladesh	12.600	06-14-73
Fiji Development Bank	Fiji	2.000	12-21-73
Medium Industry Bank	Korea	30.000	12-19-73
Private Development Corp.	Philippines	25.000	12-21-73
Development Bank	Singapore	10.000	12-13-73
Electric Power (3)			
Sarawak Electricity Supply	Malaysia	3.100	12-18-69
Phnom-Penh High Voltage Trans.	Khmer Rep.	1.670	04-02-70
Power Transmission and Distribution	Korea	9.500	10-29-70
Power Transmission and Distribution	China	12.880	12-10-70

TABLE 18--Continued

Projects	Country	Amount ($Million)	Date Approved
Power Transmission and Substation	Thailand	19.000	12-17-70
Vientiane Power Distribution	Laos	3.370	05-06-70
Li-Wu-Chi Hydroelectric Power	China	0.500	15-18-70
Pontianak Power	Indonesia	4.600	07-06-71
Power Transmission and Distribution	Korea	10.600	08-26-71
Power Transmission and Distribution	Singapore	15.470	09-07-71
Mindanao Power	Philippines	23.400	11-02-71
Power Distribution	Thailand	18.000	12-02-71
Power Transmission and Distribution	China	22.500	12-07-71
West Sumatra Power Supply	Indonesia	7.100	12-07-71
Power Supply	Fiji	4.700	02-10-72
Mindanao Power	Philippines	21.000	07-13-72
Sarawak Electricity Supply	Malaysia	6.700	09-21-72
Power Generation	Pakistan	26.500	10-12-72
Gandak-Hetauda Power	Nepal	2.700	10-24-72
Pekanbaru Power	Indonesia	2.600	11-02-72
Saigon Power	Viet-Nam	6.300	11-14-72
Power Transmission and Distribution	Singapore	19.600	12-05-72
Mae Moh Power	Thailand	23.000	12-12-72
Bowatenna Power	Sri Lanka	8.000	12-19-72
West Zone Power	Bangladesh	10.450	10-17-73
Power Transmission	Burma	6.100	12-06-73
Ujung Pandang Power	Indonesia	5.300	02-08-73
Irian Jaya Power	Indonesia	2.600	04-03-73
Minahasa Power	Indonesia	7.900	12-13-73
Vientiane Power Distribution	Laos	1.350	05-03-73
Sabah Electricity Supply	Malaysia	9.800	07-31-73
Power Generation	Pakistan	9.000	11-22-73
Mangla Hydropower	Pakistan	16.700	12-17-73
Power Distribution	Thailand	21.000	11-29-73
Power	W. Samoa	2.300	06-19-73
<u>Water Supply</u> (4)			
Penang Water Supply	Malaysia	7.200	09-19-68
Malacca Water Supply	Malaysia	5.000	11-12-70
Water Supply	Singapore	8.300	12-23-70
Seoul Water Supply	Korea	8.800	03-30-70
Andong Dam Multi-Purpose	Korea	22.000	12-16-71
Sea Water Desalting	Hong Kong	21.500	04-06-72
Busan and Daegu Water Supply	Korea	5.700	06-16-72
Greater Lpoh Water Supply	Malaysia	6.100	11-09-72

TABLE 18--Continued

Projects	Country	Amount ($Million)	Date Approved
Metropolitan Water Intake	Korea	25.600	12-21-72
Rangoon Water Supply	Burma	13.000	12-11-73
Kuching-Sibu Water Supply	Malaysia	4.460	10-30-73
Bangkok Water Supply	Thailand	19.600	07-24-73
Saigon Water Distribution	Viet-Nam	4.600	09-27-73
Manpower Resources (5)			
Ngee Ann Technical College	Singapore	3.000	12-23-70
Vocational Training Institute	Korea	3.700	03-23-72
Vocational Education	Thailand	6.400	12-04-73
Grand Total		$875.020	

Source: Annual Reports from 1967 to 1973, Asian Development Bank.

TABLE 19

INDUSTRY AND ITS INFRASTRUCTURAL DEVELOPMENT--
TECHNICAL ASSISTANCE, 1967-1973

Projects	Country	Amount (Dollars)	Date Approved
Industry (1)			
Kabul Industrial Park	Afghanistan	44,000	06-03-70
Industrial Evaluation System	Thailand	140,000	07-07-70
Oleo Chemical	Sri Lanka	21,000	01-25-70
Mineral Sands	Sri Lanka	3,800	
Urea Fertilizer Plant	Sri Lanka	215,000	01-18-72
Development Banks (2)			
Agricultural Development Bank	Nepal	35,000	09-03-68
Development Financing Institutions	Viet-Nam	89,000	07-02-68
Advisors to Agricultural Bank	Nepal	69,000	05-22-70
Fiji Development Bank	Fiji	90,000	12-22-70
Bank Rakjat Indonesia	Indonesia	75,000	02-24-70
Agricultural Credit	Nepal	146,000	12-23-70
Rural Banking System	Viet-Nam	110,000	09-10-70
Development Financing Institutions	Viet-Nam	26,000	02-09-71
Fiji Development Bank	Fiji	37,000	08-08-72
Bangladesh Shilpa Bank	Bangladesh	100,000	06-14-73
Fiji Development Bank	Fiji	100,000	12-21-73
Cambodian Development Bank	Khmer Rep.	31,000	01-22-73
Development Bank of Laos	Laos	34,000	06-27-73
Development Bank	Papua New Guinea	3,600	02-15-73
Development Financing Institution	W. Samoa	217,000	01-11-73
Electric Power (3)			
Sumatra Electric Power Supply	Indonesia	185,000	07-14-70
Phnom-Penh High Voltage Transmission	Khmer Rep.	80,000	04-02-70
Electric Power Development	Indonesia	85,000	05-27-71
Study of Power Supply	W. Samoa	64,000	03-16-71
Ujung Pandang Power	Indonesia	120,000	04-04-72
Sabah Power Development	Malaysia	198,000	09-07-72
Gandak-Hetauda Power	Nepal	40,000	10-24-72
West Zone Power	Bangladesh	250,000	10-17-73
Minahasa Power	Indonesia	48,000	12-13-73
Mangla Hydropower	Pakistan	150,000	12-17-73
Samanala Wewa Power	Sri Lanka	46,000	04-11-73
Power	W. Samoa	37,000	06-19-73

TABLE 19--Continued

Projects	Country	Amount (Dollars)	Date Approved
Water Supply (4)			
Andong Dam	Korea	150,000	10-06-70
Bandung Water Supply	Indonesia	295,000	06-06-72
Vientiane Water Supply	Laos	50,000	02-07-72
Laguna De Bay Water Development	Philippines	1,284,300	08-08-72
Irian Jaya Water Supply	Indonesia	50,000	07-18-73
Manila Water Supply	Philippines	49,200	05-05-73
Manpower (5)			
Employment	Philippines	18,000	04-09-73

Source: Annual Reports from 1967 to 1973, Asian Development Bank.

$243.60 million, 27 percent of the industrial loan sector, had been made through the national development banks in ten countries, namely, Malaysia, the Republic of Korea, the Republic of China, Thailand, Singapore, Pakistan, Philippines, Papua and New Guinea, Bangladesh, and Fiji. In addition, Indonesia, Fiji, Nepal, the Republic of Viet-Nam, Bangladesh, Khmer Republic, Laos, Papua and New Guinea, and Western Samoa have obtained technical assistance totalling $1,162,000. From these national development banks, 424 sub-loans have been made to support individual industrial and business activities such as textiles, engineering, manufactured goods including leather, rubber, wood, paper, minerals, iron and steel and non-ferrous metals, chemicals, machinery and transport equipment, and food and beverages.[33] The future trend for the relation between the Bank and national development bank groups looks promising.

Although water supply is not entirely for industrial development, the fact that it has contributed to modern industry is evident. When industry progresses and centers of urbanization form, an adequate water supply will become very important. Therefore, the Bank has also drawn attention to this development. In the past seven years, an amount of $153.860 million (17 percent of the industrial loan sector), has been given to six countries: Hong Kong, Korea, Malaysia, Singapore, Burma, and Viet-Nam. As for technical assistance, $1,878,500 has been granted to four countries: Indonesia, Korea, Laos, and the Philippines, of which the Philippines Laguna de Bay Water Resources Development received $1,284,300.

From the aspect of social impact, the Bank's financing for industrial development still has some weakness. This is particularly evident in the Bank's reluctance to finance manpower training programs. For seven years, only the Republic of Korea, Singapore, and Thailand have received $13.100 million support for technical training. Now the Asian Institute Group has begun to act as an interest group seeking more money for its training and research programs. At the present time, the Bank has approved a contribution of $70,000 for this purpose.[34] Manpower training is a key factor leading to efficient management. It has been widely urged that the Bank should pay more attention to this in the future.

Footnotes

[1]For more detailed analysis, see "Policies and Instruments of Industrial Development" of the Report of "Industrial Growth and Economic Development in the Regional Developing Member Countries," published by the Economic Office of the Asian Development Bank as incorporated in the Annual Report for 1971, p. 127.

[2]Ibid. According to the Report, "judging from the nature of government efforts to facilitate industrial growth, this may still be true of Hong Kong and Singapore, even though they have not so far articulated official development plans."

[3]Ibid. With regard to Sri Lanka and Malaysia, the Report makes the following comments: "Sri Lanka seems to have generally followed this approach in spite of some waverings due to changes of government. Malaysia has put greater emphasis on agriculture than on manufacturing in its two national development plans. But in view of the fact that a large part of manufacturing investment in Malaysia was implemented by the private sector and that the Government has recently emphasized the need for industrialization, it may be said that Malaysia also belongs to this category."

[4]Ibid. The Report makes the following comments: "Both Khmer Republic and Laos showed some interest in industrial development, but the main effort seems to have been in agriculture and infrastructure. The Republic of Viet-Nam had an ambitious industrial development plan in the early 1960's, but has since been required to pay more attention to the supply of food and other exigencies of armed hostilities." In the Report, nothing was mentioned about the development of tourism. However, a major reference for this problem is, "Air Transportation and Tourism: Their Role in Regional Development" in the discussion of the Southeast Asian Regional Transport Survey.

[5]See "Industrial Growth and Economic Development in the Regional Developing Member Countries," Annual Report for 1971, Asian Development Bank, p. 128.

[6]In view of overcrowding and other social problems associated with urbanization, individual member countries have paid considerable attention and provided necessary funds to improve systems of water supply. However, the design and construction of water supply systems require sophisticated engineering as well as funds. Thus the involvement of the Bank is regarded as appropriate in both technical assistance and financing.

[7]"Agriculture in the region is being revolutionalized; tourism is expanding enormously; tremendous water resources of the region, like those of the Mekong, are expected to be developed; and mineral resources and industrial complexes have great potential to be explored. On the other hand, the prospective end of the conflict in Viet-Nam and the withdrawal of British troops from her Asian bases would lead to a considerably political and financial implications." See Southeast Asia's Economy in the 1970's, Asian Development Bank (London: Longman Group Limited, 1971), p. 674.

[8]Ibid.

[9]See Resolution on Agenda Item 8, The Fourth Ministerial Conference for Economic Development of Southeast Asia, April 3-5, 1969, Bangkok, Thailand. Ibid., Appendix A, pp. 674-676.

[10]Twelve members of the Expert Group were as follows: Paul Streeten (Chairman), H. W. Arndt, Farrelly, William Gilmartin, Albert Hirschman, S. C. Hsieh, Saburo Okita, G. Rosen, Sixto K. Roxas, Subroto, W. J. R. Woodley, S. Yossundara.

[11]The six sectoral reports and their contributors are: (1) The Green Revolution, by J. Willett; (2) The Manufacturing Industry Sector, by Helen Hughes; (3) Foreign Economic Relations, by Saburo Okita, K. Kojima and Peter Drysdale; (4) The Impact of Private Foreign Investment, by Dirk U. Stikker and R. Hirono; and (5) Aspects of Population Growth and Population Policy, by You Poh Seng and Stephen Yeh; and (6) The Impacts of the End of Viet-Nam Hostilities and the Reduction of British Military Presence in Malaysia and Singapore, by Emile Benoit.

[12]The Overall Report was made by Professor H. Myint which included seven major items: the Green Revolution; Industrialization; International Trade; Private Foreign Investment; Some Aspects of Population Policy; The Economic Impacts of the Ending of the Vietnam Hostilities and the Reduction of British Military Presence in Malaysia and Singapore; and Some General Policy Issues.

[13]It was further stated that "the study is thus not intended to duplicate existing or proposed surveys but rather to rely on available information and studies; nor is it an attempt to engage in a definitive and detailed study of the economies of the various countries with a view to evolve a development framework or plan for the individual countries or plan for the sub-region; it is on the other hand intended to focus attention on key problems of development and study relevant policy alternatives and options open to the countries in dealing with the identified key problems on a national or

sub-regional basis." See "Overall Report," Southeast Asia's Economy in the 1970's, p. 2.

[14]See more details in President Watanabe's Preface, Ibid., p. xxxi.

[15]Ibid., p. xxxii.

[16]The countries to be covered by the Survey are: Burma, Sri Lanka, the Republic of China, Indonesia, Khmer Republic, the Republic of Korea, Laos, Malaysia, the Philippines, Singapore, Thailand, and the Republic of Viet-Nam. However, in the Annual Report for 1972, Burma and China are not listed thereon without giving any explanation. See Annual Report for 1972, Asian Development Bank, p. 46.

[17]Because of its historical relations with the Bank, ECAFE has maintained very close cooperation with the Bank since the latter's establishment in 1966. Generally, the Bank has participated in several ECAFE conferences, including the 1971 Annual Conference, the Committee on Trade, the Asian Planners Conference and the Asian Industrial Development Council. Ibid., p. 44.

[18]It is the purpose of this study that a better understanding of the facts and the issues involved could help the Bank, as well as its developing member countries, in dealing with industrial projects within the context of overall economic growth.

[19]See "Industrial Growth and Economic Development in the Regional Developing Member Countries," Annual Report for 1971, Asian Develoment Bank, pp. 127-128.

[20]See Revised Terms of Reference of Study of the Coconut Industry in the ADB Region, Asian Coconut Community, ACC/V-71/7, November 15, 1971.

[21]Although India has so far not approached the Bank for any loans and assistance, its inclusion in the Study is desirable for the Study itself in view of India's role as a producer and processor of coconut.

[22]As of the end of May, 1973, when the present writer was doing research at the Bank's headquarters, the whole study was still not available to the public.

[23]The first such conference of the development banks in this region was held in Bombay in 1962, the second took place in Teheran in 1964, and the third in Tokyo in September, 1966.

[24]See welcome address made by President Takeshi Watanabe of the Bank. Development Banks of Asia. Summary of Proceedings, Fourth Regional Conference sponsored by the Asian Development Bank (Manila, the Philippines, 1969), p. 4.

[25]Sixty-seven representatives from forty-two development banks and institutions, both regional and non-regional, participated in the Conference. Representatives from the United Nations and the World Bank also attended the conference.

[26]For the "Theme Paper," see Development Banks of Asia, pp. 29-78.

[27]Ibid., p. 31.

[28]Annual Report for 1969, Asian Development Bank, p. 39.

[29]LAWASIA covers a region broadly coincidental with that of ECAFE, and its constituent members are professional legal associations of the countries of the region. In addition, many practicing, business, and academic lawyers have individual membership. There are now over 1,000 such members from twenty countries. The objectives of the Association are widely cast. They cover, inter alia, the promotion of the administration of justice, the advancement of standards of legal education, the diffusion of knowledge of the laws and legal systems of the countries and the study of international and comparative law. Where appropriate it is hoped that the Association can promote uniformity in the laws of the region, and generally facilitate cooperation and exchanges of information between lawyers and law associations. See Development Banks of Asia, p. 68.

[30]The Ford Foundation made a grant of $25,000 for financial assistance; however, in 1970, the Bank also made another financial contribution amounting to $27,000 to enable extension of the LAWASIA Credit and Security Research Project to the point where ten individual country reports and one integrated report will be prepared for the first stage of the proposed research program.

[31]Australia and Japan are also included in the present study under separate financial arrangements made by LAWASIA with other banks and commercial organizations.

[32]See Annual Report for 1972, Asian Development Bank, p. 20.

[33]Ibid., p. 19.

[34]Ibid., p. 44.

CHAPTER IX

CONCLUSION

Introduction

Since it commenced operations on December 19, 1966, the Asian Development Bank has had a creditable record of achievement. For the past seven years (as of the end of 1973), the Bank has made 171 loans totalling $1,376.03 million for 150 projects. Of these, 103 loans for $1,056.32 million (77 percent) were from ordinary capital resources and 68 loans for $319.71 million (23 percent) from Special Funds resources.[1] As far as the sectoral percentages are concerned, industry and its infrastructural development take the leading position, accounting for 63.6 percent;[2] transport and communications account for 23.9 percent; and agriculture received 12.5 percent. With regard to technical assistance, a total of $13.9 million over the seven years has been granted to eighteen member countries.[3] In this respect, agriculture accounts for the largest single share--44.9 percent; industry and its infrastructural development received 35.3 percent; and transport and communications was given 19.8 percent.

The Bank's records as of the end of 1972 showed that a pressing problem was a lack of assistance to small countries. The Charter requests that the Bank should give "special regard to the needs of the smaller or less developed member countries in the region."[4] However, the results of the first six years of operations indicated that little was done on this point. Of the total amount of loans, $954.553 million at the end of 1972, loans for eight small countries, namely, Afghanistan, Fiji, Khmer Republic, Laos, Papua New Guinea, Sri Lanka, Viet-Nam, and Western Samoa, accounted for only $82.333 million (roughly 8.6 percent). The other countries had been granted more than 90 percent. The reason for this imbalance seemed to be the inability of the smaller LDC's to meet the necessary requirements set forth by the Bank in terms of economic potential and sound banking principles. On the other hand, of the total loans given the small countries, the majority of them--$69.198 million--stemmed from the Special Funds resources. In other words, assistance toward small countries has been established on the developed countries' contributions. This unstable source may have been the reason for a lower rate of assistance by the Bank to the small countries. However, it is encouraging to note that growing attention is being given to the smaller less-developed countries.[5] Their share in total Bank lending during 1973 was 31 percent as compared with 14 percent in 1972. On a cumulative basis, the share of these countries in total loan approvals amounted to 15 percent at the end of 1973, compared with 8.6 percent at the end of 1972. One would hope that the Bank will be able to continue this trend in the future.

In a broader sense, as far as development financing is concerned, the Bank's role is of considerable importance. The Bank's lending total of $1,376 million represents about one-third of the total amount lent by multilateral agencies to the Bank's borrowing countries during the period.[6] In the second half of this period, the Bank provided nearly 40 percent of multilateral lending. If the comparison is made on the basis of lending from ordinary capital resources, the Bank's contribution of $1,056 million was about 50 percent of all multilateral lending for this period. It is evident that the Bank's contribution toward economic development of the member countries in the region is worth praising.

Interest Articulation and Aggregation

Although this dissertation proposed to place one of its emphases upon the interest articulation and aggregation process of the member countries, the discussion of this process has assumed considerable difficulties. The common problem arising out of our analysis of both the economic groups and voting groups lies in the fact that we lack adequate evidence at this time to make firm conclusions. Individual member countries do have their own interests, but little evidence has been provided in the Bank's short history to show how commonly shared interests have been articulated and aggregated.

In addition, our difficulties may be also seen from other aspects. As far as the voting groups are concerned, the evidence available for judging the commonly shared interests is rather unclear. First, of the twelve voting groups, several of them are dominated by or made up of one country. Some apparent examples are Group B (India and Bangladesh) and Group C (Australia, Hong Kong, Papua and New Guinea) with India and Australia as individual dominating powers in its own group. Single country voting blocs, such as the United States and Japan, of course, represent a single, national point of view.

Next, when we discuss the other voting groups, we are confronted with several cases that make it difficult to find out the cause, motivations, and reasons that led to their formation. In Group D, no reason was found to explain why Indonesia decided to join a group of the Commonwealth of Nations--Fiji, New Zealand, Tonga and Western Samoa. Similarly, no exact clues could be found to discuss Nepal's motivation for joining the group of Malaysia, Singapore, and Thailand. Likewise, why did Sri Lanka join with Afghanistan, the Khmer Republic, and Laos? Also the Pakistan-Philippines combination is somewhat unclear. While I was doing my research in the Bank's headquarters in Manila, I specifically presented this question to the Bank's officers. The answer was "official" or "on the surface" in nature by indicating that the groups are formed only for the convenience of the distribution of voting powers in the Board of Directors. Evidently, the exact causes behind the political scene are either unknown or the persons involved did not wish to discuss the matter.

From my studies at the Bank's headquarters, the only voting group which seemed to be acting consciously as an interest group was the China-Korea-Vietnam group. As discussed in various places in this dissertation, these three countries have agreed upon a Korean national as their director. Also, Korea and China have cooperated on a major industrial project.

As far as the economic groups are concerned, the following analysis will be presented at this time in the form of tentative conclusions. We have listed twelve interest groups for economic development purposes. However, we found that they are not very active yet in terms of specific bargaining and negotiation for group projects. At this time they seem to have two purposes. One, they have asked for basic surveys of needs to be carried out by the Banks. Second, they use these surveys, then, to justify their own individual requests. There does not yet seem to be much group cohesion for multilateral goals and projects. Most of the groups have no permanent organizational structure and only meet at irregular times. Often they meet at conferences sponsored by the Bank. One group which has been fairly aggressive and cohesive is the National Development Banks Group. As of the end of 1972, this group had received $164.00

million, which was about 17 percent of the Bank's total lending. Other good examples can be found in the "Coconut Industry Group," which is based on its original standing organization called the Asian Coconut Community (ACC), and the "Asian Vegetable Group" which is based on the organization of the Asian Vegetable Research and Development Center (AVRDC) in Tainan, Republic of China. These three groups seem to possess some structure and sense of ongoing purpose.

The use of a survey is regarded as a technique to establish Bank policy and priority. However, it should be noted that whether the surveys have been used as the Bank's working policies for the groups' member countries as a whole, or simply for member countries' individual priorities is not clear. The results of the Bank's activities of the past years show that some surveys have been used by some countries of a group as a justification for applying for the Bank's loans, but not for the group's planning as a whole. A good example is the Regional Transport Group for which a "Southeast Asian Regional Transport Survey" was conducted for seven member countries of the Group. However, only four countries, namely, Malaysia, Singapore, Philippines, and Indonesia, have gotten loans from the Bank for the total amount of $119.960 million as of 1972. Also, the Development Banks Group shows a similar pattern of uneven distribution of rewards.

Even though the benefits within the group may be unevenly distributed, the "group-survey" approach does seem to have an impact. The Seven-Nation Regional Transport Group discussed in Chapter VII has clearly received more than its proportionate share of transport loans. The Asian Industrial Group and the National Development Banks Group have been dominant in their areas. (See Chapter VIII, Table 17.) The Asian Agricultural Group might be cited as another example. However, this is such a large group that it encompasses virtually all of the LDC members who are concerned with this sector. Therefore, we have no basis of comparing this group to non-members of the group. This is not the case, though, with the Transport, Industrial, and Development Bank Groups. These groups are small enough to provide comparison of benefits between the members of the group and non-members.

The Development Banks Group deserves special attention. The Group has regular conferences and a standing organ; therefore, it is well-organized in comparison with the others. The Bank, in the past years, has delegated part of its policy-making powers to individual development banks of the group for issuing small-size loans using the Bank's financial resources. By these means, the National Development Banks group is considerably more involved in the Bank's policies than other groups. The reason which created this situation is due mainly to the political contacts these banks possess. Most of the national development banks identify and formulate projects in accordance with specific government guidelines and cooperate fully with government agencies in locating and promoting suitable projects. Therefore, in their dealings with the Asian Bank, these national banks possess both valuable information and political influence from their contacts with their own national governments.

The achievements of this group are notable. As of 1972, loans totalling $164 million have been made to the National Development Banks Group, including Malaysia, the Republic of Korea, the Republic of China, Thailand, Singapore, Philippines, and Papua and New Guinea. In addition, Indonesia, Fiji, Nepal, and the Republic of Viet-Nam have obtained technical assistance, totalling $597,500. From these national development banks, 273 sub-loans have been made to support individual countries' industrial and business activities.

In order to show all of the facts together, I have examined the patterns of rewards to individual LDC members. This analysis is summarized in Table 20, which is a rank order test. Countries were ranked according to the total amounts of loans they have received vis-a-vis a test of political influence. That test was the amount of shares (votes) each country has in the Bank. Other standards such as per capita income or a combination of economic indicators could have been used. However, two considerations posed problems. First, data, even on such items as per capita income, are lacking for several of these countries. Second, economists still have

TABLE 20

THE RANK ORDER TEST

Countries	Rank on Shares	Rank on Loans	Difference (d)	d^2
Korea	1	2	1	1
Philippines	2	4	2	4
Pakistan	3	5	2	4
Indonesia	4	1	3	9
Malaysia	5	3	2	4
Thailand	6	9	3	9
China	7	6	1	1
Bangladesh	8	12	4	16
Viet-Nam	9	11	2	4
Sri Lanka	10	7	3	9
Burma	11	13	2	4
Hong Kong	12	19	7	49
Singapore	13	8	5	25
Afghanistan	14	16	2	4
Khmer Republic	15	20	5	25
Nepal	16	10	6	36
Papua New Guinea	17	17	0	0
Fiji	18	18	0	0
Laos	19	15	4	16
Tonga	20	21	1	1
Western Samoa	21	14	7	49
				$270 = d^2$

$$Rs = 1 - \frac{6\ d^2}{n^3 - n}$$

$$Rs = 1 - \frac{6 \times 270}{21^3 - 21} = 1-0.17 = +0.83.$$

Sources: (1) Information is based on prior tables and the Annual Report for 1973, Asian Development Bank, pp. 60-63; and (2) Formula is based on William Buchanan, Understanding Political Variables (New York: Charles Scribner's Sons, 1969), pp. 214-6.

not reached a consensus as to how to measure relative economic power. Therefore, I relied upon a more political test of influence. The results of the table indicate a high positive relationship between the number of shares for each developing member country and the amounts of loans each had. See Table 20.

Here we seem to come to a conclusion on this point that the articulation process is taking place in interest groups and surveys. However, the aggregation process is not very clear but the facts support a conclusion that members compete for rewards on an individual basis, using the political and economic power they possess. Though, there is some evidence that the Bank is beginning to pay more attention to the needs of the smaller LDC members.

Rule-Making

The success of the Bank is largely based on the willingness of the developed countries to participate. This is reflected from the voting rules of the Bank. These seventeen developed countries are in possession of 56.897 percent of the voting powers which enable them to make the Bank's policies without too much difficulty. As indicated earlier, if India is counted in the developed countries group, their voting power will account for 65.632 percent. Under the original design, the developing countries were to be protected by the Charter which states 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) percent of the total subscribed capital stocks."[7] Strictly speaking, of the twenty-six regional member countries, twenty-two member countries are "developing" in nature, while four countries (if India is included in the developed group) are "developed" in nature. The original arrangement set forth in the Charter is of little sense when we view the conflicts of interest from the aspect of developing versus developed countries.

However, it seems to be a widely accepted philosophy of international banks that the more the shares subscribed by the countries, the more power will be enjoyed thereby. "It is a democratic, fair way to determine the power distribution," as a Bank's officer put it.[8] Of course, the power distribution based on such an arrangement would not be accepted by the Communist countries who favor "one country, one vote" irrespective of shares. But, the rule of "weighted votes" has become a typical way to encourage wealthy capitalist countries to join a development bank.

The President of the Bank also enjoys great powers in the Bank's policy-making. From a legal aspect, the President is the highest responsible officer to "conduct the current business."[9] The President's power stems from his duty to review projects and recommend their implementation. In other words, the President has information and the power of initiative in regard to projects desired by members. Also, the

President's power extends to the formulation of specific criteria for project selection. Thus some developing member countries have worried that the President may ignore their economic necessities and base his decisions on "banker's criteria." They have argued that the President also has the "inactive" power (omission) to delay or "pigeon-hole" a project's feasibility study. The present writer, during his recent trip to Manila for the study of the Bank, found these problems were worrying some member countries.

It is noteworthy that the arrangement of the basic votes of the Bank is more generous than either the World Bank or the Inter-American Development Bank. By other bank regulations, the basic votes are fixed at certain specific numbers, but the number of the basic votes of each member country of the Asian Bank is adjustable. The World Bank fixed its basic votes at 250 votes for each member country,[10] the Inter-American Development Bank, at 135 votes,[11] and the African Development Bank, at 625 votes.[12] However, the basic votes of the Asian Bank for each member country "shall consist of such number of votes as results from the equal distribution among all the members of twenty (20) percent of the aggregate sum of the basic votes and proportional votes of all the members."[13] By this regulation, the basic votes of each member, as of 1973, is 1411 votes. The advantage of this arrangement is that the power of the smaller countries is not greatly diminished by an increase of the authorized capital stock.

Another feature of the Bank's voting system which deserves favorable mention is the fact that no powerful nation has a veto. The general rule requires that all matters before both the Boards of Governors and Directors "shall be decided by a majority of the voting power represented at the meeting."[14] In the Board of Governors, although the "2/3 + 3/4" rule is applied to certain matters, it is still impossible for one country to hold "veto power" (the biggest one is Japan holding 18.211 percent, as of 1973). But any combination of Japan with either Australia (8.027 percent), or India (8.735 percent), or the United States (7.584 percent), could produce a "veto" effect.

One of the most successful policies of the Bank has been the principle of universal participation of membership. The Charter of the Inter-American Development Bank was recently changed to allow non-regional countries to join. This charter now provides that "for the purpose of increasing the resources of the Bank, non-regional countries which are members of the International Monetary Fund, and Switzerland, may also be admitted to the bank. . . ."[15] The African Development Bank limits its membership to the countries of the African continent and African islands.[16] From its inception, the Asian Bank has accepted members and associate members of the U.N. ECAFE and non-regional developed countries which are members of the United Nations or of any of its specialized agencies.[17] Substantially, this arrangement was established on the hope that more members mean more capital resources for the Bank. Specifically, this was done to encourage more Special Funds contributions, more exchange of technical assistance and to make it easier for the Bank to borrow money from the major capitalist countries. It is evident that the Bank's membership arrangement is a very perceptive policy aimed at maximizing support and establishes the Bank as the major regional organization for Asia. In the long run, this latter fact could be very significant.

Up to the present time, an unresolved problem has been the number of directors representing LDC's. In the original discussion of the Charter, the number of directors was a hotly debated subject. Although the 7:3 formula was finally adopted for the regional and non-regional member countries, the problem still remained because of the fact that there are three developed countries (Japan, Australia, and New Zealand) and India (if viewed as a developed country) in the regional group. This situation gave the LDC's only four directors representing their interests, since Japan represents its own, and Australia and India can control their own groups. To satisfy the LDC's, the Charter provided that "at the Second Annual Meeting of the Board of Governors . . . , 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."[18] In the Second Annual Meeting of the Board of Governors, held in 1969, the total numbers of the directors were increased to twelve with an 8:4 division for regional and non-regional member countries. However, the unfavorable situation for LDC's is still there, because the LDC's only have five directors while the developed countries have seven.

Here the particular position of India is worth noting. India, as stated earlier, is a developing country in the region, but does not seek any loans from the Bank. On the other hand, India holds the second biggest voting power, 8.735 percent, among the member countries (next to Japan). India's role in the Bank's policy-making might be very important either for the promotion of the LDC's interests, or for the developed member countries' policies. For example, in only one year of membership, Bangladesh has received from the Bank $33.05 million for loans and $652,000 for technical assistance. It is obvious that India has had some influence on this matter. However, the unique nature of Bangladesh's relationship to India does not permit generalizations concerning India's role in the Bank and the region.

Taken as a whole, the rule-making system of the Bank is a skillful attempt to balance the power and interests of several different groups of countries from all over the world which represent different stages of economic development, different cultures and philosophies. Although the scheme favors the developed states, this is probably wise in order for the Bank to draw upon a wide base of support. This is particularly true since the Bank does not have the direct support of any other international organizations. The Bank stands alone as the major organization of Asian nations.

Even though the weighted voting system and the composition of the Board of Directors favors the developed members, there are safeguards for the LDC's. For example, the percentage allocated to basic votes is quite generous when compared to most other international financial institutions. Moreover, the LDC's can protect their most vital interests through the Board of Governors "2/3 + 3/4" rule, yet no single powerful developed country can exercise a "veto."

In fact, the "2/3 + 3/4" rule is representative of the Bank's style of decision-making which is obviously compromise oriented. Any group of states can avail themselves of this rule under the proper circumstances. The LDC's together represent 34 percent of the total voting power; Japan and the United States hold 25 percent and Australia and New Zealand in combination with Japan or Europe can control over 25 percent.

Problems and Prospects for Future

Structurally, one weak point under the Bank system is that the major policies made by the Board of Governors are based upon the recommendations from the Board of Directors, and not directly reflected by the member countries in its annual meetings. Particularly, the general opinions of smaller individual member countries need more expression. My personal experience in the Sixth Annual Meeting of the Board of Governors showed that no resolutions were reached through normal, open debate and discussion procedures. Only general opinions were presented by the Governors. The results seemed to emphasize only "sound banking principles," while too little emphasis was given to the opinions concerning development strategies of the member countries.

Obviously, the Bank's dualistic role as a development agency and a financial institution has led to some difficult choices of priorities for a limited pool of resources. The evidence presented thus far suggests the following. First, the Bank has loaned money for agriculture projects which are based on existing infrastructures and activities such as irrigation and fishing. This would seem to be a sound policy for two reasons. One, the Bank can spend less money to get more results. This may account for the low percentage given to agriculture. Two, the projects are likely to have some immediate impact upon member countries' economic growth.

Second, in transport and industry, the Bank has concentrated heavily upon infrastructure development. This also seems wise. Without the support of roads, electrical systems and water systems, industrial projects are likely to fail to meet their goals. Also this type of infrastructure development is useful to agriculture, so that funds spent in this manner can do double duty.

Third, unfortunately not all activities can be funded. The Bank has noticeably passed over such items as manpower training and development. Two notable exceptions are the LAWASIA program and the Asian Vegetable Research and Development Center. Neither project cost much and the Bank had help from other international agencies, governments and private foundations.

Next, the lack of developmental funds, especially the Special Funds resources, has been a considerably embarrassing subject facing the Bank's operations. Under the current capital structure, the ordinary capital resources are able to support its ordinary lending operations, but its Special Funds resources have been lacking. This particularly effects the smaller LDC's. The Special Funds resources as of 1972 accounted for only $222.5 million while Special Funds loans stood at $201.5 million. This means that if further funds are not obtained, the Bank's special operations must stop soon. Although the newly-created "Asian Development Fund" is an improvement in the form of implementation, its structure is still established on voluntary contributions. Unless fully supported by the developed countries, its foundation is still unstable. Therefore, the Asian Development Fund, which has set the target of $540.00 million, was the major topic of the Seventh Annual Meeting of the Board of Governors held in Kuala Lumpur from April 25-27, 1974.

The Bank's accomplishment in such a short period is admirable. Nevertheless many obstacles remain. Among others, its commitment charge, procurement, and interest rate policies are disliked among the LDC members. Furthermore, the time that it takes to implement a project is too long. This seems to be due, in part, to a lack of technical assistance and administrative resources in the countries involved. The Bank should be of more assistance in this regard; however, the Bank's own resources evidently do not permit it to do so. As of 1972, the Bank showed a very discouraging fact that out of 116 loans, totalling $926.10 million for eighteen countries, only $136.30 million had been disbursed.

The problem of procurement is obviously political. According to the Bank's regulations, procurement in relation to project implementation shall be made in the member countries. Therefore, countries interested in doing business with the Bank's projects and/or programs are encouraged to be interested in membership. On the other hand, however, distribution of procurement in the member countries has caused some difficulties. The fact that the United States Congress delayed extending authority to provide a $100 million contribution to the Special Funds resources may be attributed to low procurement in the United States. At the Sixth Annual Meeting of the Board of Governors, Mr. Paul A. Volcker, Under Secretary of the Treasury Department for Monetary Affairs, said:

> We have upon a number of occasions cited our concern about the low procurement share United States firms have received from ADB-financed projects--low in terms of absolute volume, low in terms of relative share, and low in trend. I do not say that the situation reflects either deliberate or inadvertent Bank policy--the evidence I have seen is to the contrary. Rather, it was partly a symptom of exchange rates that were out of line. Moreover, in many instances, U.S. business may not have been sufficiently aggressive in seeking out the opportunities across the broad Pacific. Perhaps, we in Government have not been active enough in assuring that information about projects and contracts is widely disseminated.
>
> We have now taken steps to repair those deficiencies within our control. We hope and expect to see improved results. We must do so to end what has become a very difficult situation in obtaining legislative and public support.[19]

His words indicate the political nature of this problem. Recently, the United States and the Bank signed a $50 million Special Funds contribution to the ~~Asian Development Fund~~.

Summary

Despite all of the difficulties, the Bank seems to have accomplished four major goals in a short period of time. One, it has successfully raised large sums of money and established contacts with major capital markets of the world. Two, it has shown the ability to act as a broker for joint financing of projects in cooperation with other international agencies and private sources. Three, through its surveys, the Bank has helped establish a basic body of knowledge concerning the developmental problems of the region. Fourth, and perhaps most important, the Bank has become a major international organization in an area which has been slow to develop patterns of regional cooperation.

The Bank faces a stiff challenge for the future. Table 6 of Chapter V and the discussion of the Asian Development Fund indicate that the direct financial support of the developed members may be leveling off rather than growing. The Bank may have to rely on its own ability to borrow and arrange parallel financing in order to meet future demands. The ability to adapt and use its own resources will be the key to its survival.

Footnotes

[1]*Annual Report for 1973*, Asian Development Bank, p. 6.

[2]Of 63.6 percent, electrical power occupies 26.5 percent; industry including development banks, 24.9 percent; water supply, 11.2 percent; and education, 1.0 percent.

[3]Technical assistance activities covered eighteen countries: Afghanistan, Bangladesh, Republic of China, Fiji, Indonesia, Khmer Republic, Republic of Korea, Laos, Malaysia, Nepal, Pakistan, Papua and New Guinea, Philippines, Singapore, Sri Lanka, Thailand, Republic of Viet-Nam and Western Samoa.

[4]Article 30, Paragraph 1 (ii), of the Charter.

[5]*Annual Report for 1973*, Asian Development Bank, p. 6.

[6]*Ibid.*, p. 4.

[7]Article 5, Paragraphs 1 and 3, of the Charter.

[8]My interview with the Bank's officers confirmed this point.

[9]Article 34, Paragraph 5, of the Charter.

[10]Article V, Section 3 (a), Agreement Establishing the International Bank for Reconstruction and Development.

[11]Article VIII, Section 4 (a), Agreement Establishing the Inter-American Development Bank.

[12]Article 36, 1, Agreement Establishing the African Development Bank.

[13]Article 33, Paragraph 1 (i), of the Charter.

[14]Article 33, Paragraphs 2 and 3, of the Charter.

[15]Article V, Section 1, Agreement Establishing the Inter-American Development Bank.

[16]Article 3 of the Agreement Establishing the African Development Bank.

[17]Article 3 of the Charter.

[18]Article 30, Paragraph 1 (ii), of the Charter.

[19]See Statement by Temporary Alternate Governor for the United States, Mr. Paul A. Volcker, Under Secretary for Monetary Affairs, Treasury Department, ADB Document Paper, GS-5, 1973, p. 6.

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