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ASIAN DEVELOPMENT BANK ACT

GOVERNMENT

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HEARINGS

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL FINANCE

OF THE

COMMITTEE ON BANKING AND CURRENCY

HOUSE OF REPRESENTATIVES

EIGHTY-NINTH CONGRESS

SECOND SESSION

ON

H.R. 12219, H.R. 12220

H.R. 12245, H.R. 12247

H.R. 12254, H.R. 12256

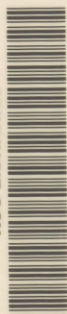
H.R. 12365

A BILL TO PROVIDE FOR THE PARTICIPATION OF THE  
UNITED STATES IN THE ASIAN DEVELOPMENT BANK

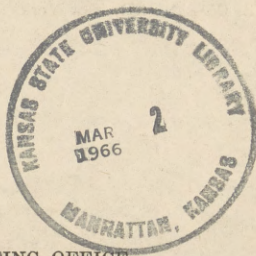
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ASIAN DEVELOPMENT BANK ACT

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# ASIAN DEVELOPMENT BANK ACT

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WEDNESDAY, JANUARY 26, 1966

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

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

Present: Representatives Reuss, Multer, Moorhead, Gonzalez, Hanna, White, Ottinger, Halpern, Widnall, and Talcott.

Also present: Representatives St Germain and Todd of the full committee.

Mr. REUSS. Good morning.

The International Finance Subcommittee of the House Committee on Banking and Currency will be in order to consider H.R. 12219, introduced by the chairman of the full committee, Mr. Patman, enabling legislation authorizing U.S. participation in the founding of the Asian Development Bank.

Identical bills have been introduced by other members of our committee including myself, H.R. 12220; Mr. Halpern, H.R. 12245; Mr. Harvey, H.R. 12247; Mr. Weltner, H.R. 12254; Mr. Annunzio, H.R. 12256; and Mr. McGrath, H.R. 12365.

(The bill, H.R. 12219, follows:)

[H.R. 12219, 89th Cong., 2d sess.]

A BILL To provide for the participation of the United States in the Asian Development Bank

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Asian Development Bank Act".*

## ACCEPTANCE OF MEMBERSHIP

SEC. 2. The President is hereby authorized to accept membership for the United States in the Asian Development Bank (hereinafter referred to as the "Bank") provided for by the agreement establishing the Bank (hereinafter referred to as the "agreement") deposited in the archives of the United Nations.

SEC. 3. (a) The President, by and with the advice and consent of the Senate, shall appoint a Governor of the Bank, an alternate for the Governor, and a Director of the Bank.

(b) No person shall be entitled to receive any salary or other compensation from the United States for services as a Governor or Alternate Governor. The Director may, in the discretion of the President, receive such compensation, allowances, and other benefits as, together with those received by him from the Bank, will equal those authorized for a Chief of Mission, class 2, within the meaning of the Foreign Service Act of 1946, as amended.

SEC. 4. (a) The policies and operations of the representatives of the United States on the Bank shall be coordinated with other United States policies in such manner as the President shall direct.



(b) An annual report with respect to United States participation in the Bank shall be submitted to the Congress by such agency or officer as the President shall designate.

SEC. 5. Unless the Congress by law authorizes such action, neither the President nor any person or agency shall, on behalf of the United States, (a) subscribe to additional shares of stock of the Bank; (b) vote for or agree to any amendment of the agreement which increases the obligations of the United States, or which would change the purpose or functions of the Bank; or (c) make a loan or provide other financing to the Bank, except that loans or other financing may be provided to the Bank by a United States agency created pursuant to an Act of Congress which is authorized by law to make loans or provide other financing to international organizations.

#### DEPOSITORIES

SEC. 6. Any Federal Reserve bank which is requested to do so by the Bank shall act as its depository or as its fiscal agent, and the Board of Governors of the Federal Reserve System shall supervise and direct the carrying out of these functions by the Federal Reserve banks.

#### PAYMENT OF SUBSCRIPTIONS

SEC. 7. (a) There is hereby authorized to be appropriated, without fiscal year limitation, for the purchase of twenty thousand shares of capital stock of the Bank, \$200,000,000.

(b) Any payment made to the United States by the Bank as a distribution of net income shall be covered into the Treasury as a miscellaneous receipt.

#### JURISDICTION AND VENUE OF ACTIONS

SEC. 8. For the purpose of any civil action which may be brought within the United States, its territories or possessions, or the Commonwealth of Puerto Rico, by or against the Bank in accordance with the agreement, the Bank shall be deemed to be an inhabitant of the Federal judicial district in which its principal office or agency in the United States is located, and any such action to which the Bank shall be a party shall be deemed to arise under the laws of the United States, and the district courts of the United States, including the courts enumerated in title 28, section 460, United States Code, shall have original jurisdiction of any such action. When the Bank is a defendant in any action in a State court, it may, at any time before the trial thereof, remove such action into the district court of the United States for the proper district by following the procedure for removal of causes otherwise provided by law.

#### STATUS, IMMUNITIES, AND PRIVILEGES

SEC. 9. The agreement, and particularly articles 49 through 56, shall have full force and effect in the United States, its territories and possessions, and the Commonwealth of Puerto Rico, upon acceptance of membership by the United States in, and the establishment of, the Bank. The President, at the time of deposit of the instrument of acceptance of membership by the United States in the Bank, shall also deposit a declaration that the United States retains for itself and its political subdivisions the right to tax salaries and emoluments paid by the Bank to its citizens or nationals.

#### SECURITIES ISSUED BY BANK AS INVESTMENT SECURITIES FOR NATIONAL BANKS

SEC. 10. The last sentence of paragraph 7 of section 5136 of the Revised Statutes, as amended (12 U.S.C. 24), is amended by striking the word "or" after the words "International Bank for Reconstruction and Development" and inserting a comma in lieu thereof, and by inserting after the words "the Inter-American Development Bank" the words "or the Asian Development Bank".

#### SECURITIES ISSUED BY BANK AS EXEMPT SECURITIES; REPORT FILED WITH SECURITIES AND EXCHANGE COMMISSION

SEC. 11. (a) Any securities issued by the Bank (including any guarantee by the Bank, whether or not limited in scope) in connection with raising of funds for inclusion in the Bank's ordinary capital resources as defined in article 7 of the agreement and any securities guaranteed by the Bank as to both principal and interest to which the commitment in article 6, section 5, of the agreement is ex-



pressly applicable, shall be deemed to be exempted securities within the meaning of paragraph (a)(2) of section 3 of the Act of May 27, 1933, as amended (15 U.S.C. 77c), and paragraph (a)(12) of section 3 of the Act of June 6, 1934, as amended (15 U.S.C. 78c). The Bank shall file with the Securities and Exchange Commission such annual and other reports with regard to such securities as the Commission shall determine to be appropriate in view of the special character of the Bank and its operations and necessary in the public interest or for the protection of investors.

(b) The Securities and Exchange Commission, acting in consultation with such agency or officer as the President shall designate, is authorized to suspend the provisions of subsection (a) at any time as to any or all securities issued or guaranteed by the Bank during the period of such suspension. The Commission shall include in its annual reports to Congress such information as it shall deem advisable with regard to the operations and effect of this section and in connection therewith shall include any views submitted for such purpose by any association of dealers registered with the Commission.

Mr. REUSS. Usually the founding of a financial institution does not normally give vent to an expression of the hopes of mankind in a better tomorrow. Yet, the establishment of this Bank augurs hope for the beggar children born on the streets of Calcutta and Bangkok, for the rice paddy peasants of Vietnam and Malaysia. From Teheran to Taiwan, and from Colombo to Katmandu, the creation of this financial institution symbolizes the new unity for progress of a free Asia. In this effort East and West are met in a common endeavor. Former enemies have beaten their swords into plowshares—joined in this single purpose.

The commitment of the United States to this project speaks eloquently of our desires for peace, and our recognition of what peace is made from. It also speaks again of our recognition of our responsibility to share the bounty of our good fortune to meet the needs of friends. Out of the ashes of World War II rose the phoenix of European economic prosperity—financed in substantial measure by billions of American dollars. However, our recognition of this responsibility has known no geographic boundaries—Africa, Asia, and Latin America have been our partners in hope. Now others join us in providing the spiritual and material wherewithal of hope. Japan, Germany, Great Britain, Italy—former recipients of our aid—have now joined us as partners, along with our Asian friends, in the founding of this Bank.

Last spring at Johns Hopkins University, President Johnson said:

This generation of the world must choose: destroy or build, kill or aid, hate or understand.

The Asian Development Bank is the testament of our choice.

We choose to build, to aid, to understand.

We choose to build roads, dams, and universities.

We choose to aid the hungry and the harvesters, the planners and the builders.

We choose to understand the proud efforts of free peoples for economic independence.

We choose to trust our hopes and not our fears.

This morning we have the privilege of hearing three witnesses who have, each in his way, contributed greatly to the preliminary negotiations for the Asian Development Bank.

These are the Secretary of the Treasury, Henry H. Fowler, Under Secretary of the Treasury, Joseph W. Barr, and Assistant Secretary of the Treasury, Merlyn N. Trued.

Secretary Fowler, please proceed in your own way.



STATEMENT OF HON. HENRY H. FOWLER, SECRETARY OF THE TREASURY; ACCOMPANIED BY JOSEPH W. BARR, UNDER SECRETARY OF THE TREASURY; AND MERLYN N. TRUED, ASSISTANT SECRETARY OF THE TREASURY FOR INTERNATIONAL AFFAIRS

Secretary FOWLER. I appear before you this morning in support of a project charged with very special hope and meaning, for us, for the free world as a whole, and, in particular, for no less than a billion people—a third of humanity—in Asia.

This project, as it comes before you, is the Asian Development Bank Act, H.R. 12219 and H.R. 12220. Identical legislation has been introduced by other members of the committee.

I urge, as President Johnson urged in his message to the Congress of January 18, and as speakers on both sides of the aisle in the House have urged, that the Congress give prompt and firm approval to U.S. participation in this new Development Bank. I am very glad to note, therefore, that this distinguished committee has given its attention to this matter without delay.

Our plans for presenting evidence to you on this subject are designed to continue this pace unabated. My statement, if it pleases you, will be brief and aimed chiefly at providing you with a statement of our views as to the role we think the Asian Development Bank will play, and why we believe that it is both important and necessary for the United States to participate in it.

I have asked the Under Secretary of the Treasury, Joseph W. Barr, who is here with me, and the Assistant Secretary of the Treasury for International Affairs, Merlyn N. Trued, who is also present, to complete the Treasury's testimony. You will find them highly qualified witnesses: Under Secretary Barr heads the interagency task force of the executive branch dealing with the Asian Development Bank. He was alternate chairman, with Eugene R. Black, of the U.S. delegation to the founding conference for the Asian Development Bank at Manila last December. Assistant Secretary Trued headed the U.S. delegation to the Bangkok Conference, last October, at which the proposed new Bank's articles of agreement were negotiated.

The Bank's articles reflect the experience and wisdom of Eugene Black, the President's Special Adviser on Economic and Social Development in southeast Asia. In effect the articles are his testimony to you, since he cannot be here because he is preparing for a journey abroad.

Mr. REUSS. If I may interrupt you at this point. Mr. Eugene Black was invited to be here with you this morning. I understand that he is this morning embarking upon a journey to Asia, and that is the reason he cannot be with us, but I also understand that you and your associates have conferred with him on your testimony this morning and that he does subscribe to what you are now telling us.

Secretary FOWLER. Quite correct, Mr. Chairman.

I think you will see in the articles of agreement the stamp of prudence and imagination that Eugene Black made famous in the many years he was at the helm of the World Bank. In my opinion, the fact that Eugene Black has been in on every phase of the organization of this Bank, and that, together with Under Secretary Barr, he was willing to put his signature to its charter at Manila last December 4,



is one of the strongest recommendations that can be made for U.S. participation in it.

The members of this committee were asked to be members, as congressional advisers, of the U.S. delegation to the Manila Conference. We were delighted that many of you accepted, and that in consequence our delegation to Manila had a very distinguished congressional element.

President Johnson summed up our reasons for participation in the Asian Development Bank in a single sentence of his message of January 18:

Asia's future—and the world's—requires it.

But, as the President also noted in his message, the Bank is neither utopian nor vague.

On the contrary, U.S. participation in the Bank is desirable for the following very practical reasons, among others that will emerge in the testimony of Under Secretary Barr and the further details that you will find in the Treasury Special Report on the Proposed Asian Development Bank that has been made available to you.

The Asian Development Bank will make sound loans for economic development in Asia.

Its lending will complement and extend the effectiveness of the economic assistance the United States and others are now giving in Asia.

When outlays of capital for the new Bank are matched against our exports it appears that any effects upon our balance of payments will be very small.

Countries in the Asian region are contributing 65 percent of the authorized capital of the Bank, giving clear evidence of their deep commitment to the idea of regional cooperation for development.

Our economic interests will be well served by membership in the Asian Development Bank.

While our subscription of \$200 million represents 20 percent of the Bank's authorized capital, the expected subscriptions of the other advanced countries—Japan, Australia, and New Zealand in the Asian region, and nearly a dozen elsewhere—represent more than double that amount.

The Asian Development Bank satisfies a widespread desire of Asian countries for a development institution that is their own, specifically attuned to their economic, social, and financial needs.

Let me add that it would be in the national interest to authorize the President to accept membership in the proposed Bank at an early date. The vital organizing meetings of the Bank are to be held promptly after the Bank enters into force. The United States should be in position to take its proper place in discharging its responsibilities during the formative period of the Bank's development.

To sum up, then, I heartily commend the Asian Development Bank to you, and I hope that this distinguished committee will act favorably and soon upon this legislation because: In my opinion, organization of the Asian Development Bank affords the United States a unique opportunity to show its good will toward the peoples of Asia as a whole. It is well within our financial means. It will be able to use its resources in numerous ways consistent with the assistance pro-



grams we have long sponsored and continue to sponsor in Asia, and will draw new capital resources into the vast task of economic development in an area extending from the Caspian Sea to the South Pacific. The Asian Development Bank is a nucleus around which the Asian peoples can draw together to build a cooperative response to their national, regional, and Asia-wide economic problems. And finally, the Bank's charter for operations is based upon sound development lending principles learned over decades in the World Bank and other international development institutions.

Thank you.

Mr. REUSS. Thank you, Mr. Secretary.

Mr. Barr?

#### STATEMENT OF HON. JOSEPH W. BARR, UNDER SECRETARY OF THE TREASURY

Mr. BARR. Mr. Chairman, I come before this committee on the subject of the Asian Development Bank with particular pleasure. I have had the benefit of extensive contact with a large number of the members of the committee on this project who served as congressional advisers to the U.S. delegation to the founding conference of the Asian Development Bank, at Manila last December.

It is my assignment, as the head of the Interagency Task Force on the Asian Development Bank, to provide for you, in this testimony, information concerning the proposed Bank's structure and operations, additional to the President's message of January 18 and Secretary Fowler's testimony. I will try, with the help of Assistant Secretary Merlyn N. Trued, to answer your questions. In my testimony, and in our answers to your questions, we will be drawing upon the Treasury Special Report on the Proposed Asian Development Bank, which has been provided to the committee.

Before I enter into the body of my testimony, however, I would like to add my tribute to that of Secretary Fowler with respect to the role of Eugene Black in the organization of the Asian Development Bank. I would like to add what I am sure the many members of this committee who served as congressional advisers at the Manila Conference learned, if they did not already know it: that Eugene Black has an exceptional standing among Asians. His judgment is trusted, for he is regarded by them not only as their friend, but as a wise friend.

#### THE PROPOSED BANK'S RESOURCES

The Asians were prepared to provide the major part of the Bank's capital. But if the Bank were to be able to make any considerable contribution to the amelioration of Asia's tremendous economic and social problems, it was necessary to have financial links to the developed countries.

In part, this necessity was met by the fact that Japan offered to provide no less than \$200 million of the Bank's proposed authorized capital of \$1 billion, and that Australia and New Zealand, as countries within the region, made further pledges totaling over \$100 million.

The decisive event assuring that the Bank would be supported outside the region, was President Johnson's announcement, last April, that the United States would be prepared to be a member of a properly constituted Asian Development Bank. The U.S. pledge that you are



now asked to approve is the same as Japan's—\$200 million. Other pledges from outside the region total over \$100 million, including \$30 million each from Great Britain and Germany, \$25 million from Canada, and \$10 million from Italy.

The Bank's articles permit it to increase its resources beyond its capital subscriptions in ways already familiar in the existing international development institutions:

The Bank is authorized to accept from member or from non-member countries, or from others, special funds, which the Bank may administer on terms designated by the donor, so long as the purposes are consistent with the Bank's development objectives and methods.

The Bank may enlarge its resources by borrowing, through the sale of its bonds in the world's capital markets. It is not expected that the Bank will be in position to commence such borrowing for some time. When it does begin, it is required to avoid any undue concentration of its borrowing in any one financial center.

The Bank can reconstitute its capital by sales from its loan portfolio.

The Bank is permitted to borrow or to sell from its portfolio in member countries only with prior official approval.

#### THE RELATION OF THE ASIAN DEVELOPMENT BANK TO DEVELOPMENT ASSISTANCE IN ASIA

The proposed new Bank's authorized capital of \$1 billion is equal to no more than \$1 per head of the populations of the developing member countries. And, the Bank's development territory runs from Iran on the Caspian Sea to Western Samoa, far into the Pacific.

The proposed Bank can make an important addition to what is now being done to help the Asian nations, and its activities will in many ways extend or even be a multiplier of present assistance. Let me mention a few such instances. The Bank can bring together consortiums for lending on projects that are too big for any one donor to undertake. It can improve the effectiveness of the assistance of others by helping to finance enlarged programs of technical education and training and other types of technical assistance. It can improve the setting in which assistance is given, by financing surveys and through the provision of expert assistance in the formulation of projects.

Subscriptions to the Bank's capital will help to spread the aid burden—by bringing in funds from nations not previously giving aid there, or by increasing the assistance that they might otherwise have provided.

The proposed Bank's authority to accept and administer special funds would also permit it to spread the burden of development assistance by serving as a channel for this form of additional financing from donor countries.

The Bank's charter gives it all necessary powers to stimulate and assist private enterprise development in Asia. The Bank can do the following:

Make loans directly or guarantee loans by others to private enterprises in Asian countries.



Make loans to development banks in Asian countries which would then relend to small private enterprises.

At an appropriate time, commence to invest in equity capital of private enterprises.

Facilitate development of local capital markets by underwriting or participating in underwriting of securities issued by private enterprises.

Draw on funds in private capital markets, through bond sales and sales of portions of loans it has made, for lending in the Asian region.

Normally, the Bank's hard loans will be similar to those of the World Bank, currently 5½ percent interest and up to 25 to 30 years' maturity.

The Asian Development Bank's charter permits it also to extend and increase the economic assistance being given in Asia in a limited special use of its own funds. I refer to the authority given the Bank to earmark up to 10 percent of its paid-in capital as special funds that it may use to make, or to guarantee, loans of longer than usual maturity, with longer initial periods before repayment begins, and lower than ordinary interest rates.

These loans are to go to projects where the need is great, the potential payoff is great, but where the ability to liquidate the debt on conventional terms is low in the absence of such assistance. This gives the Bank a means—through use of its own funds—to break through the vicious cycle in which poverty becomes the cause of poverty.

#### THE MEMBERSHIP AND MANAGEMENT OF THE PROPOSED ASIAN DEVELOPMENT BANK

The Asian Development Bank's membership is open to members and associate members of the United Nations Economic Commission for Asia and the Far East, and to other Asian nations—and developed non-Asian nations—that are members of the United Nations or of any of its specialized agencies. This excludes Communist China, North Korea, and North Vietnam.

At the Manila Conference, the United States and 21 other countries signed the Bank's charter. In addition, other countries named in annex A to the articles of agreement can become charter members by signing and making a pledge by January 31. Thereafter, members may be admitted only by the vote of two-thirds of the Governors of the Bank—one Governor per member—representing not less than three-fourths of total voting power.

Voting in the Bank will be related to size of subscription. Twenty percent of the total votes, called basic votes, are to be distributed equally among the members. The rest are distributed in proportion to subscriptions.

Since the United States is a minority subscriber in the Asian Development Bank it has a minority voting position, roughly 17 percent of the total votes. However, the charter of the proposed Bank provides that matters of unusual importance are to be settled by votes requiring large majorities—two-thirds in some cases and in others, such as membership, three-quarters of total voting strength. All member countries, regional and nonregional, have a substantial



financial stake in the Bank. Under these circumstances, it can be expected with reasonable certainty that our capital and position in the Bank can be protected.

The Board of Governors will be the senior policymaking arm of the Bank. Day-to-day supervision of policy is to be in the hands of a 10-man Board of Directors. The subscription of the United States entitles it to one of the three non-Asian directorships. The Governors will elect the Bank's chief executive, its President, who is to be an Asian. This President is to serve for a renewable 5-year term.

The Asian members of the Bank have selected Manila as the Bank's site.

The Bank is to enter into force when 15 of the signatories of the Bank's charter—10 of them Asian—having subscriptions of at least \$650 million, have deposited instruments of ratification or acceptance of membership. The legislation that is before this committee would authorize the President of the United States to accept membership in the proposed Bank.

The Board of Governors is to hold its inaugural meeting, elect the Bank's President and make other vital decisions establishing in the Bank's regulations the purposes and practices envisaged in its charter, soon after the minimum requirement for entry into force is met. It is for this reason that the President proceeded speedily in the new term to ask the Congress to authorize U.S. participation, and that early action by the Congress is essential.

#### SUBSCRIPTION TO THE CAPITAL OF THE ASIAN DEVELOPMENT BANK

The authorized capital of the Asian Development Bank is \$1 billion. Asian nations are authorized to subscribe \$650 million and others \$350 million.

Half the authorized capital is to be paid in five equal annual payments. The other half is callable capital to be fully subscribed—without any payment required—at the outset. The function of the callable portion is the same as in the World Bank and the Inter-American Development Bank: to provide backing against which the Bank would be able to sell bonds. The funds would be called for only if needed to make good on such borrowings. In the experience of the World Bank and the Inter-American Development Bank, the use of the callable capital has never been required and we do not expect that it would be required by the Asian Development Bank.

All subscriptions to paid-in capital are to be at least half in dollars or other convertible currency. No member may restrict the Bank's use of this portion of its subscription. The remainder may be in the currency of the subscriber. In the case of the United States this payment will be on a convertible basis.

The \$200 million U.S. pledge to the capital of the Asian Development Bank is smaller than its share of the capital of the World Bank, the International Development Association, or the Inter-American Development Bank.

Required U.S. payments amount to \$20 million initially and \$20 million a year thereafter until \$100 million has been paid.

However, one-half of each \$20 million payment would, in accordance with an option given in the articles, be made in the form of irrevocable letters of credit to the Bank, to be drawn upon only when the cash is



actually needed by the Bank. Table 3 in the Treasury Special Report on the Proposed Asian Development Bank summarizes, by fiscal year, the subscription obligations of the United States.

#### THE ASIAN DEVELOPMENT BANK AND THE U.S. BALANCE OF PAYMENTS

The foregoing section of my testimony indicates that in practice, the effects upon our balance of payments of our capital subscription to the Asian Development Bank would not exceed, initially, the cash portion of our payment; that is, \$10 million in the first year.

Over a somewhat longer term, looking into the period when procurement in the United States resulting from the proposed Bank's lending would largely match our subscriptions, we look for no net balance-of-payments cost to the United States resulting from our participation in the Asian Development Bank.

This is the case because, first, procurement by the Bank is limited to member countries, and, second, the Bank's lending will finance, for the most part, the purchase of capital goods and expert services.

The United States is a competitive world supplier of capital goods and of technical services. Further, the United States has a strong supplier position already in a number of the countries where the Bank will be lending for development. The United States has pledged to subscribe about a fourth of the Bank's convertible currency. Convertible currency procurement in the United States resulting from Bank lending should come close to or exceed this proportion.

Any U.S. contributions as special funds to the Bank can be tied explicitly to procurement in the United States.

The Bank cannot use its dollar holdings as a claim on our gold stock.

Thank you.

(Tables 1 and 2 submitted by Mr. Barr follow:)



TABLE 1.—*Subscriptions to Asian Development Bank capital (based on pledges as of Jan. 25, 1966)*

|                                   | In millions<br>of dollars | Percent of<br>total sub-<br>scriptions | Percent of<br>developed<br>country sub-<br>scriptions | Percent of<br>regional<br>country sub-<br>scriptions |
|-----------------------------------|---------------------------|----------------------------------------|-------------------------------------------------------|------------------------------------------------------|
| Regional:                         |                           |                                        |                                                       |                                                      |
| Afghanistan.....                  | 3.36                      | 0.3                                    |                                                       | 0.5                                                  |
| Australia.....                    | 85.00                     | 8.7                                    | 13.2                                                  | 13.2                                                 |
| Cambodia.....                     | 3.00                      | .3                                     |                                                       | .5                                                   |
| Ceylon.....                       | 8.52                      | .9                                     |                                                       | 1.3                                                  |
| Republic of China.....            | 16.00                     | 1.6                                    |                                                       | 2.5                                                  |
| India.....                        | 93.00                     | 9.5                                    |                                                       | 14.5                                                 |
| Iran.....                         | 60.00                     | 6.1                                    |                                                       | 9.3                                                  |
| Japan.....                        | 200.00                    | 20.4                                   | 31.1                                                  | 31.1                                                 |
| Korea.....                        | 30.00                     | 3.1                                    |                                                       | 4.7                                                  |
| Laos.....                         | .42                       |                                        |                                                       |                                                      |
| Malaysia.....                     | 20.00                     | 2.0                                    |                                                       | 3.1                                                  |
| Nepal.....                        | 2.16                      | .2                                     |                                                       | .3                                                   |
| New Zealand.....                  | 22.56                     | 2.3                                    | 3.5                                                   | 3.5                                                  |
| Pakistan.....                     | 32.00                     | 3.3                                    |                                                       | 5.0                                                  |
| Philippines.....                  | 35.00                     | 3.6                                    |                                                       | 5.5                                                  |
| Vietnam.....                      | 7.00                      | .7                                     |                                                       | 1.1                                                  |
| Singapore.....                    | 4.00                      | .4                                     |                                                       | .6                                                   |
| Thailand.....                     | 20.00                     | 2.0                                    |                                                       | 3.1                                                  |
| Western Samoa.....                | .06                       |                                        |                                                       |                                                      |
| Subtotal.....                     | 642.08                    | 65.6                                   | 47.8                                                  | 100.0                                                |
| Nonregional:                      |                           |                                        |                                                       |                                                      |
| Austria.....                      | 5.00                      | .5                                     | .8                                                    |                                                      |
| Belgium.....                      | 5.00                      | .5                                     | .8                                                    |                                                      |
| Canada.....                       | 25.00                     | 2.6                                    | 3.9                                                   |                                                      |
| Denmark.....                      | 5.00                      | .5                                     | .8                                                    |                                                      |
| Finland.....                      | 5.00                      | .5                                     | .8                                                    |                                                      |
| Germany, Federal Republic of..... | 30.00                     | 3.1                                    | 4.7                                                   |                                                      |
| Italy.....                        | 10.00                     | 1.0                                    | 1.6                                                   |                                                      |
| Netherlands.....                  | 11.00                     | 1.1                                    | 1.7                                                   |                                                      |
| Norway.....                       | 5.00                      | .5                                     | .8                                                    |                                                      |
| Sweden.....                       | 5.00                      | .5                                     | .8                                                    |                                                      |
| United Kingdom.....               | 30.00                     | 3.1                                    | 4.7                                                   |                                                      |
| United States.....                | 200.00                    | 20.4                                   | 31.1                                                  |                                                      |
| Subtotal.....                     | 336.00                    | 34.3                                   | 52.2                                                  |                                                      |
| Grand total.....                  | 978.08                    | 100.0                                  | 100.0                                                 | 100.0                                                |

NOTE.—Totals may not add due to rounding.



TABLE 2.—*Voting strength in Asian Development Bank (based on pledges as of Jan. 25, 1966)*

| Country                | Subscription<br>amount<br>(In millions<br>of dollars) | Proportionate<br>votes | Basic votes | Total votes | Percent<br>of total |
|------------------------|-------------------------------------------------------|------------------------|-------------|-------------|---------------------|
| <b>Regional:</b>       |                                                       |                        |             |             |                     |
| Afghanistan.....       | 3.36                                                  | 336                    | 789         | 1,125       | 0.92                |
| Australia.....         | 85.00                                                 | 8,500                  | 789         | 9,289       | 7.60                |
| Cambodia.....          | 3.00                                                  | 300                    | 789         | 1,089       | .89                 |
| Ceylon.....            | 8.52                                                  | 852                    | 789         | 1,641       | 1.34                |
| China.....             | 16.00                                                 | 1,600                  | 789         | 2,389       | 1.95                |
| India.....             | 93.00                                                 | 9,300                  | 789         | 10,089      | 8.25                |
| Iran.....              | 60.00                                                 | 6,000                  | 789         | 6,789       | 5.55                |
| Japan.....             | 200.00                                                | 20,000                 | 789         | 20,789      | 17.00               |
| Korea.....             | 30.00                                                 | 3,000                  | 789         | 3,789       | 3.10                |
| Laos.....              | .42                                                   | 42                     | 789         | 831         | .68                 |
| Malaysia.....          | 20.00                                                 | 2,000                  | 789         | 2,789       | 2.28                |
| Nepal.....             | 2.16                                                  | 216                    | 789         | 1,005       | .82                 |
| New Zealand.....       | 22.56                                                 | 2,256                  | 789         | 3,045       | 2.49                |
| Pakistan.....          | 32.00                                                 | 3,200                  | 789         | 3,989       | 3.26                |
| Philippines.....       | 35.00                                                 | 3,500                  | 789         | 4,289       | 3.51                |
| Singapore.....         | 4.00                                                  | 400                    | 789         | 1,189       | .97                 |
| Thailand.....          | 20.00                                                 | 2,000                  | 789         | 2,789       | 2.28                |
| Vietnam.....           | 7.00                                                  | 700                    | 789         | 1,489       | 1.22                |
| Western Samoa.....     | .06                                                   | 6                      | 789         | 795         | .65                 |
| Total regional.....    | 642.08                                                | 64,208                 | 14,991      | 79,199      | 64.78               |
| <b>Nonregional:</b>    |                                                       |                        |             |             |                     |
| Austria.....           | 5.00                                                  | 500                    | 789         | 1,289       | 1.05                |
| Belgium.....           | 5.00                                                  | 500                    | 789         | 1,289       | 1.05                |
| Canada.....            | 25.00                                                 | 2,500                  | 789         | 3,289       | 2.69                |
| Denmark.....           | 5.00                                                  | 500                    | 789         | 1,289       | 1.05                |
| Finland.....           | 5.00                                                  | 500                    | 789         | 1,289       | 1.05                |
| Germany.....           | 30.00                                                 | 3,000                  | 739         | 3,789       | 3.10                |
| Italy.....             | 10.00                                                 | 1,000                  | 789         | 1,789       | 1.46                |
| Netherlands.....       | 11.00                                                 | 1,100                  | 789         | 1,889       | 1.54                |
| Norway.....            | 5.00                                                  | 500                    | 789         | 1,289       | 1.05                |
| Sweden.....            | 5.00                                                  | 500                    | 789         | 1,289       | 1.05                |
| United Kingdom.....    | 30.00                                                 | 3,000                  | 789         | 3,789       | 3.10                |
| United States.....     | 200.00                                                | 20,000                 | 789         | 20,789      | 17.00               |
| Total nonregional..... | 336.00                                                | 33,600                 | 9,468       | 43,068      | 35.22               |
| Grand total.....       | 978.08                                                | 97,808                 | 24,459      | 122,267     | 100.00              |

NOTE.—Totals may not add due to rounding.



(The following tables were subsequently submitted by the Treasury Department:)

TABLE I.—*Subscriptions to Asian Development Bank capital stock (based on information as to pledges available through Feb. 7, 1966)*

[Dollars in millions]

| Country                           | Subscription amount | Percent of total subscriptions | Percent of developed country subscriptions | Percent of regional country subscriptions |
|-----------------------------------|---------------------|--------------------------------|--------------------------------------------|-------------------------------------------|
| <b>Regional:</b>                  |                     |                                |                                            |                                           |
| Afghanistan.....                  | \$3.36              | 0.3                            | -----                                      | 0.5                                       |
| Australia.....                    | 85.00               | 8.5                            | 12.9                                       | 13.1                                      |
| Cambodia.....                     | 3.00                | .3                             | -----                                      | .5                                        |
| Ceylon.....                       | 8.52                | .9                             | -----                                      | 1.3                                       |
| Republic of China.....            | 16.00               | 1.6                            | -----                                      | 2.5                                       |
| India.....                        | 93.00               | 9.3                            | -----                                      | 14.5                                      |
| Iran.....                         | 60.00               | 6.0                            | -----                                      | 9.3                                       |
| Japan.....                        | 200.00              | 20.1                           | 30.4                                       | 30.9                                      |
| Korea.....                        | 30.00               | 3.0                            | -----                                      | 4.6                                       |
| Laos.....                         | .42                 | -----                          | -----                                      | -----                                     |
| Malaysia.....                     | 20.00               | 2.0                            | -----                                      | 3.1                                       |
| Nepal.....                        | 2.16                | .2                             | -----                                      | .3                                        |
| New Zealand.....                  | 22.56               | 2.3                            | 3.4                                        | 3.5                                       |
| Pakistan.....                     | 32.00               | 3.2                            | -----                                      | 4.9                                       |
| Philippines.....                  | 35.00               | 3.5                            | -----                                      | 5.4                                       |
| Vietnam.....                      | 12.00               | 1.2                            | -----                                      | 1.9                                       |
| Singapore.....                    | 4.00                | .4                             | -----                                      | .6                                        |
| Thailand.....                     | 20.00               | 2.0                            | -----                                      | 3.1                                       |
| Western Samoa.....                | .06                 | -----                          | -----                                      | -----                                     |
| Subtotal.....                     | 647.08              | 64.8                           | 46.7                                       | 100.0                                     |
| <b>Nonregional:</b>               |                     |                                |                                            |                                           |
| Austria.....                      | 5.00                | .5                             | .8                                         | -----                                     |
| Belgium.....                      | 5.00                | .5                             | .8                                         | -----                                     |
| Canada.....                       | 25.00               | 2.5                            | 3.8                                        | -----                                     |
| Denmark.....                      | 5.00                | .5                             | .8                                         | -----                                     |
| Finland.....                      | 5.00                | .5                             | .8                                         | -----                                     |
| Germany, Federal Republic of..... | 34.00               | 3.4                            | 5.2                                        | -----                                     |
| Italy.....                        | 20.00               | 2.0                            | 3.0                                        | -----                                     |
| Netherlands.....                  | 11.00               | 1.1                            | 1.6                                        | -----                                     |
| Norway.....                       | 5.00                | .5                             | .8                                         | -----                                     |
| Sweden.....                       | 5.00                | .5                             | .8                                         | -----                                     |
| United Kingdom.....               | 30.00               | 3.0                            | 4.5                                        | -----                                     |
| United States.....                | 200.00              | 20.1                           | 30.4                                       | -----                                     |
| Subtotal.....                     | 350.00              | 35.1                           | 53.3                                       | -----                                     |
| Grand total.....                  | 997.08              | 100.0                          | 100.0                                      | 106.0                                     |

NOTE.—Total may not add due to rounding. Figures include \$5,000,000 additional pledge by Vietnam and \$4,000,000 additional pledge by Germany, based on information available through Feb. 7, 1966.



TABLE II.—*Voting strength in Asian Development Bank*<sup>1</sup>

[Dollars in millions]

| Country                 | Subscription amount | Proportionate votes | Basic votes | Total votes | Percent of total |
|-------------------------|---------------------|---------------------|-------------|-------------|------------------|
| <b>Regional:</b>        |                     |                     |             |             |                  |
| Afghanistan.....        | \$3. 36             | 336                 | 804         | 1, 140      | 0.91             |
| Australia.....          | 85. 00              | 8, 500              | 804         | 9, 304      | 7.47             |
| Cambodia.....           | 3. 00               | 300                 | 804         | 1, 104      | .89              |
| Ceylon.....             | 8. 52               | 852                 | 804         | 1, 656      | 1.33             |
| China.....              | 16. 00              | 1, 600              | 804         | 2, 404      | 1.93             |
| India.....              | 93. 00              | 9, 300              | 804         | 10, 104     | 8.11             |
| Iran.....               | 60. 00              | 6, 000              | 804         | 6, 804      | 5.46             |
| Japan.....              | 200. 00             | 20, 000             | 804         | 20, 804     | 16.69            |
| Korea.....              | 30. 00              | 3, 000              | 804         | 3, 804      | 3.05             |
| Laos.....               | .42                 | 42                  | 804         | 846         | .68              |
| Malaysia.....           | 20. 00              | 2, 000              | 804         | 2, 804      | 2.25             |
| Nepal.....              | 2. 16               | 216                 | 804         | 1, 020      | .82              |
| New Zealand.....        | 22. 56              | 2, 256              | 804         | 3, 060      | 2.46             |
| Pakistan.....           | 32. 00              | 3, 200              | 804         | 4, 004      | 3.21             |
| Philippines.....        | 35. 00              | 3, 500              | 804         | 4, 304      | 3.45             |
| Singapore.....          | 4. 00               | 400                 | 804         | 1, 204      | .97              |
| Thailand.....           | 20. 00              | 2, 000              | 804         | 2, 804      | 2.25             |
| Vietnam.....            | 12. 00              | 1, 200              | 804         | 2, 004      | 1.61             |
| Western Samoa.....      | .06                 | 6                   | 804         | 810         | .65              |
| <b>Nonregional:</b>     |                     |                     |             |             |                  |
| Austria.....            | 5. 00               | 500                 | 804         | 1, 304      | 1.05             |
| Belgium.....            | 5. 00               | 500                 | 804         | 1, 304      | 1.05             |
| Canada.....             | 25. 00              | 2, 500              | 804         | 3, 304      | 2.65             |
| Denmark.....            | 5. 00               | 500                 | 804         | 1, 304      | 1.05             |
| Finland.....            | 5. 00               | 500                 | 804         | 1, 304      | 1.05             |
| Germany.....            | 34. 00              | 3, 400              | 804         | 4, 204      | 3.37             |
| Italy.....              | 20. 00              | 2, 000              | 804         | 2, 804      | 2.25             |
| Netherlands.....        | 11. 00              | 1, 100              | 804         | 1, 904      | 1.53             |
| Norway.....             | 5. 00               | 500                 | 804         | 1, 304      | 1.05             |
| Sweden.....             | 5. 00               | 500                 | 804         | 1, 304      | 1.05             |
| United Kingdom.....     | 30. 00              | 3, 000              | 804         | 3, 804      | 3.05             |
| United States.....      | 200. 00             | 20, 000             | 804         | 20, 804     | 16.69            |
| Total, regional.....    | 647. 08             | 64, 708             | 15, 276     | 79, 984     | 64.18            |
| Total, nonregional..... | 350. 00             | 35, 000             | 9, 648      | 44, 648     | 35.82            |
| Grand total.....        | 997. 08             | 99, 708             | 24, 924     | 124, 632    | 100.00           |

<sup>1</sup> Based on information as to pledges available through Feb. 7, 1966.

NOTE.—Totals may not add due to rounding.

Mr. REUSS. Secretary Trued, did you have a formal statement?

Mr. TRUED. No, sir; I do not.

Mr. REUSS. At this time, I would like to announce that Mr. Patman, chairman of the full committee, wrote to Chairman Morgan, of the House Committee on Foreign Affairs, advising him of these hearings and extending an invitation to him and to all members of the House Committee on Foreign Affairs to participate freely in our deliberations here, because of the intense interest of that committee in these proceedings.

Chairman Morgan replied on January 21 that because of their own previously scheduled hearings, a conflict of time was presented preventing their appearance. We would be most happy to welcome here, as we have in the past, members of the Foreign Affairs Committee who have been given the right to participate fully in the questioning of witnesses.

I am impressed to observe in the back of the room a very fine group of good neighbors, young men from the great universities of our sister nation, Mexico, who are here through the good offices of the exchange student program immediately under the shepherding and tutelage of our distinguished colleague, a member of this committee, Mr. Gonzalez.

You are very welcome, gentlemen, and we are glad to have you here this morning.



We will now proceed under the 10-minute rule to interrogate Secretary Fowler and his colleagues, and the way we will proceed, Mr. Secretary, is to ask a collective question, and either you or your associates may answer it.

I wish you would refer, Mr. Secretary, to table I, on page 52 of the House Document 361, which is the President's message.

On that table it lists the United Kingdom as having contributed \$10 million as its capital subscription to the bank.

I was happy to hear both you and Mr. Barr indicate that that \$10 million ante has been raised to \$30 million.

Did I hear right?

Secretary FOWLER. That is correct.

Mr. REUSS. That, of course, is good news and a tribute, not only to the United Kingdom but to the example set by others.

Are there any other changes in that table?

Secretary FOWLER. Yes, Mr. Chairman, there are changes which I believe are reflected in table 1 attached to Secretary Barr's statement.

If you will turn to table 1 of Secretary Barr's statement, you will find that as of January 25, pledges, according to our information, total \$978 million, as compared with \$938 million shown on page 52 of the House document.

Mr. REUSS. I note, having looked at this for the first time, Austria has entered the list of saints with the \$5 million.

Secretary FOWLER. That is right.

Mr. REUSS. What other good news is there?

Secretary FOWLER. Finland, Norway, and Sweden have been added—all for \$5 million each.

Mr. REUSS. And that totals \$336 million for the nonregionals. What was the total target?

Secretary FOWLER. \$350 million.

Mr. REUSS. I notice that a geographically small country of Europe, the Netherlands, which once had an Asian empire but has it no longer, is contributing \$11 million which, given the Netherlands' gross national product and balance-of-payments situation, seems to me a very noble contribution.

Secretary FOWLER. I think it is, indeed, Mr. Chairman.

Mr. REUSS. Among the named subscribers, I note that the name of a friend and ally, France, does not seem to be included at all.

Secretary FOWLER. That is correct. We do not know whether there will be any change in that between now and January 31, the closing date for charter membership subscriptions.

Mr. REUSS. And a \$14 million contribution by France which would be scarcely greater than that of the small neighbor, the Netherlands, would bring the nonregional total up to the target of \$350 million, would it not?

Secretary FOWLER. It would, indeed.

Mr. REUSS. Why is it significant to try to bring it up to \$350 million for the nonregional countries?

Secretary FOWLER. It was felt, I believe, in the early days, that full participation, particularly by the developed countries outside the region would stimulate interest and knowledge to the Bank. It would also make those countries more receptive, for example, to bond issues and make them cognizant of the development of this institution. Moreover, it would reflect the very real worldwide interest that developed countries in parts of the world other than Asia have in the



course of developments there. I do not think that there is any particular magic to the figure, but I will defer to Mr. Barr or Mr. Trued.

Mr. BARR. Mr. Chairman, there is also a technical reason. In making up the 10-man Board of Directors, it was agreed that 7 were to come from the region and 3 were to come from nonregional countries. But, as you will remember in Manila, the nonregional members were very short of meeting their goal. I think we had \$96 million from the nonregional countries, outside the U.S. contribution. At that time we agreed with the Asians that there would continue to be seven regional board members and three nonregional board members, but that we would only elect two nonregional members until such time as contributions of nonregional members reached a total of \$345 million. We would like to have three nonregional Directors.

As the Secretary has indicated, we think developed country participation in this organization is essential. We would like to have three Directors, so our immediate technical target is another \$9 million. However, we would like to complete, as Secretary Fowler indicated, the whole \$350 million.

Mr. REUSS. Yes, while I don't want to put myself in the role of a community fund director looking at his thermometer, I think we could have some pleasant surprises, and particularly, I think members of this committee would be most happy to see our oldest ally and oldest friend, France, indicate that she, too, recognized her responsibilities.

Mr. BARR. Mr. Chairman, the committee should be made aware that it is not possible for France to subscribe to the Bank at this time as a charter member. The charter signed at Manila provided that only specified countries could join. Provision was made at that time for Austria, Finland, Norway, and Sweden, and provided specified minimum amounts under which they could come in—\$5 million each. The charter at Manila also provided that the initial subscriptions of the nonregional members could be increased, but it made no provision for France to come in.

France could not come in as a charter member at this time. They would have to come in at a subsequent date by a two-thirds vote of the Governors representing three-fourths of the total vote of the Bank.

Mr. REUSS. Could we have some assurance that with the Government of France, if they were to reconsider this and to appear at the window of the Asian Development Bank loaded with hard currencies, gold, and other convertible items, that modalities could be arranged so that this contribution could be swiftly laid on?

Mr. BARR. I defer to the Secretary of the Treasury.

Secretary FOWLER. Well, considering the voting arrangements provided in the articles of agreement, the result would be determined largely by the views of the Asian members who would hold the dominant voting authority.

I think I can say that if the Congress should see fit to place the United States in the full-membership-participating position, it would certainly be the position of the U.S. Governor and U.S. Director to encourage the open-door policy so far as France is concerned, and to encourage other participating members of the Asian Development Bank to welcome any such overture.

Mr. HANNA. Will the gentleman yield? I just wondered if I am right in assuming that this would apply to other countries that have



not taken an interest or position in the Bank, such as Russia? I presume it does.

Mr. BARR. That is correct.

Mr. REUSS. Mr. Halpern, it is your turn.

Mr. HALPERN. Thank you, sir.

Mr. Secretary, would you care to comment on the prospects for participation in the Bank on the part of the Soviet Union?

Secretary FOWLER. I have no view of the prospects. I have no information other than that which is generally available to members of the committee who were part of the delegation.

As I understand the situation, the representatives of the U.S.S.R. attended as observers during the session at Bangkok when the articles were drafted. They are in possession of complete information about the Bank.

The general attitude at that meeting was that the door was open, and there was every indication that the organizing group would be receptive to Russian membership. But for reasons beyond our knowledge, there have been no overtures, I understand, since the Bangkok meeting.

Mr. HALPERN. It might be informative, Mr. Secretary, for me to state that I was in the Soviet Union, in Moscow, prior to the meeting in Manila. I did bring up the subject with the appropriate Soviet officials. I must say that they did not close the door. The way they left it is that they did have an observer in Bangkok, would be carefully watching developments in Manila, and they were seriously studying the prospects of coming into the Bank. They definitely left the door open. I thought that I would pass that along to you.

Mr. Secretary, first, I think it is appropriate to compliment you on your presentation here, and I would like to say, personally, that I think you are a practical and realistic and outstanding Secretary of the Treasury—a shining star in the administration.

I would like also to commend Under Secretary Barr, our former colleague, for his analytical, precise, and clear presentation. I can readily see that his outstanding knowledge and ability reflect his experience as a member of this committee. We miss him here, but certainly welcome the scope of his knowledge that is felt so effectively in the Treasury Department.

Mr. BARR. Thank you.

Mr. HALPERN. Mr. Secretary, as I understand it, the Bank will be able to serve as a vehicle for the administration of U.S. bilateral development assistance, taking the form of special funds. Now, certain questions come to mind with respect to this, and I would appreciate your providing me with some guidance.

First, what benefits would come to the United States through an arrangement which would introduce the Bank as an intermediary in the administration of U.S. AID programs?

In other words, we can give special funds to the Bank and the Bank will administer a development project which the United States would otherwise have done by itself.

What advantages come to the United States in using the Bank instead of doing it ourselves?

Secretary FOWLER. Well, I think the benefits that would probably come would be in the utilization of persons familiar with the ground, who know the territory so to speak, in addition to the representatives



of our agencies with their knowledge and acquaintance with local conditions.

Although I think we have a very fine corps of personnel that is rapidly gaining, and has gained, considerable experience in this particular area, I think that we would be the first to recognize that there is an added dimension to the problem of utilizing aid in the most efficient and most politic manner in foreign countries. Technical representatives from the area can be much more frank in delineating what are sound policies, sound terms and conditions without any of the unfortunate overtones that might flow from the statement by U.S. representatives.

We have found that having the advice and assistance of the Inter-American Development Bank is useful and desirable in connection with our aid program in Latin America.

Latins can speak to the Latins more firmly and frankly than perhaps we can on various matters. I think this is one major advantage—the knowledge of the region, the sensitivities that are involved, and the ability to deal with them directly and frankly without overtones.

Mr. HALPERN. I agree, Mr. Secretary.

Secondly, some criticism might be advanced from other quarters that these American contributions might go to a nation like Cambodia. As I read the charter, this would not be possible without our consent. Is this correct?

In other words, they would not take our special funds that we have contributed and use it for projects that we might oppose?

Secretary FOWLER. We could exercise the normal prerogative in setting up any special fund—to state the terms and conditions that we thought would be appropriate. Certainly the terms and conditions of our participation in any special fund would take into account factors such as the one you mentioned, and other factors.

I do not want to deal at this time with particular countries, nor do I wish to delineate in advance what would be suitable terms and conditions. But I think you take each operation, each special fund operation, and treat it on an ad hoc basis in the framework and tradition that attaches to, for example, special funds in the Inter-American Development Bank.

Of course, we think that the question of dealing with special funds is not immediately upon us. It will be necessary first for the Bank to get into operation, to become a functioning, effective entity and then, thereafter, being in a position to deal with special funds. I do not think that is the immediate problem at this session.

Mr. HALPERN. One aspect of this program warrants clarification: The President in his Baltimore address last year made reference to a \$1 billion development plan for southeast Asia. What is the status of this proposal, and how will it tie into the Asian Bank?

Mr. BARR. First of all, Mr. Halpern, the Asian Development Bank will certainly be closely involved with the \$1 billion the President specified.

But the precise delineation of the expenditure or authorization for the \$1 billion has not been decided and has not been presented to the Congress for approval. The first thing we are coming forward with right now is the Asian Development Bank.

Mr. HALPERN. That is \$200 million?

Mr. BARR. That is correct.



Mr. HALPERN. I have heard that the developing countries are piling up enormous debts due to their borrowing activities, and that the answer to this problem is to strengthen soft loan institutions like IDA. Every year, developing nations spend more and more of their foreign exchange or hard currency to finance foreign debt. Yet, the Asian Bank is not a soft loan venture. How do you interpret this situation?

Secretary FOWLER. Well, this is a position that was primarily taken by the Asians themselves. They did not seem to wish to have this Bank, which they consider their institution, to get underway with a heavy emphasis on soft loans which are sometimes almost equivalent to grants.

They want to set up a thoroughgoing banking institution along the pattern of the World Bank.

There is, I think, a provision for, as Mr. Barr's testimony has indicated, a relatively small percentage of funds to be utilized on what we would think of as soft loan basis. But the predominant role of the Bank, certainly at the outset, would be in the hard loan field.

Undoubtedly, as your comments suggest, I think the future will almost be bound to give rise to later consideration as to whether or not additional regional banks should have larger soft loan lending. As of now, according to my colleagues and associates who participated in the informal conversations and negotiations, this was a decision of the Asians themselves.

Mr. HALPERN. Thank you, Mr. Secretary. My time has expired.

Mr. REUSS. Mr. Moorhead?

Mr. MOORHEAD. Mr. Secretary, I commend you and your associates for this very able and eloquent presentation of the case for the Asian Development Bank, and also for the handling of the negotiations and the accomplishment of agreement. I commend you for it.

Secretary FOWLER. Thank you.

Mr. MOORHEAD. There is one concern that I have, and that is, quite frankly, the capitalization of this Bank; is it big enough? Are we in danger of holding out a hope to these people of the Asian region that this Bank will do something and yet it is only \$1 billion, which is, as Secretary Barr pointed out \$1 per head for the people in that area, but that is over a 5-year period, so it is only 20 cents per head per year. Is this Bank big enough to do a job?

Secretary FOWLER. I think the answer to that question will undoubtedly be determined by future events.

If the Bank proves itself, over the long-term pull the revolving fund character of the bank will begin to extend its resources. The provisions in the Bank charter contemplate, of course, that as it becomes established and its operations give confidence to private capital markets in other parts of the world, its ability and capacity to borrow and to develop as a bank would, as the World Bank and the Inter-American Development Bank has, extend these particular resources.

So looking at the tasks ahead in the area, thinking of this particular institution as a total answer to those problems is not an accurate way to look at it. The World Bank, as you know, has taken a major role in India and Pakistan as the development figures in those areas show.

This particular Bank provides, as I look at it, a place for many of the smaller countries with smaller needs to be served, since they



have not been able to participate as fully in World Bank operations. It fills a unique role along with their own indigenous capital resources, along with the World Bank, along with IDA and our own bilateral AID program. So, as just one of the jewels as it were in the firmament, it plays a role which should not be overestimated. But it is very significant.

Mr. MOORHEAD. Thank you, Mr. Secretary.

Mr. BARR, on page 7 of your testimony, you point out that the agreement excludes from membership Communist China and North Korea and North Vietnam.

My first question would be: Would it also exclude Indonesia?

Mr. BARR. No. Indonesia, while it does not belong to the United Nations, still belongs to some of the specialized agencies that are part of the United Nations. So, Indonesia, technically today, would be eligible for membership. They are not charter members, as you know, so if they are admitted to membership it would take a two-thirds vote of the Governors representing three-fourths of the total voting power of the Bank. But they could be admitted.

Mr. MOORHEAD. Could you, by this two-thirds and three-fourths vote, vote to amend the agreement so as to permit, say, North Vietnam to become a member? Can we hold out that carrot to North Vietnam?

Mr. BARR. I am going to ask Mr. Trued to answer that question. You can amend the charter, and, technically, I would suppose that this can be taken to mean that you could change the membership qualifications. Is that correct, Mr. Trued?

Mr. TRUED. Mr. Chairman, I would, I think, approach that in this way: The fact is that an amendment to the charter can be made which would provide for the admittance of any country by the two-thirds and three-fourths vote. By the same vote, any regional country could be admitted to membership after it had become a member of the U.N. or any of its specialized agencies.

Mr. MOORHEAD. That would be the distinction for Indonesia; it could be admitted to the membership without coming back to Congress for ratification?

Mr. TRUED. It belongs to the World Health Organization and hence is a member of a specialized agency of the United Nations.

Mr. HALPERN. Will the gentleman yield?

Mr. MOORHEAD. Yes.

Mr. HALPERN. If I may: Have there been any representations, to your knowledge, to Indonesia to participate?

It does represent a significant percentage of the population of the Asian people, so I wonder if there were any contacts with the Indonesian Government during the formation of the Bank. Also, in view of the political changes which have occurred there, would the United States be receptive to the prospect of admitting Indonesia?

Mr. BARR. First of all, let me say that there were no normal channels for us to communicate with Indonesia. The Economic Commission for Asia and the Far East (ECAFE) was the organizing force in this whole attempt. All members of ECAFE were, of course, invited to participate in this Bank, but the Commission had no channels to Indonesia, because she had pulled out. Therefore, I cannot say whether there were informal approaches to Indonesia. There were no formal invitations.



As to Indonesia's potential participation in this organization, I think that the Asians would have to look at this.

That would be a decision we would undertake jointly.

Mr. MOORHEAD. Mr. Barr, on page 12 of your testimony, you say the Bank cannot use its dollar holdings as a claim on our gold stock. Would it not be true that if the Bank used dollars, loaned dollars, that ultimately there could be a claim against our gold stock? And we cannot prevent it, can we?

Mr. BARR. That is correct. Normally, the way this would work, Mr. Moorhead, is that the Bank will approve a project, let's say a power station. They let contracts for, let us say, generators. Now, we are in a strong supplier position in most of this area, as I mentioned. Some places we are up to as high as 49 percent of the total trade of the countries involved. On the average, I think it would go over 25 percent which is our percentage of the convertible capital contributions. When the Bank made the loan on the generator for this powerplant, it would disburse the funds as the project went along. If the order went to the United States, of course, there would be a net improvement in the balance of payments. If the order went to Japan, Japan, from the profit, would have a potential claim on our gold supply. It could not at the moment go to a country like France, because France is not a member. Procurement is limited to only member countries of this organization.

Mr. MOORHEAD. My original question was about the size of the capitalization. I would think that even if this amount of money is not large enough to do an important job, nevertheless, this structure, it seems to me, is important, and is important in and of itself because it is the first venture of regionalism in Asia. I think that this gathering together of the Asian countries is a beginning of regionalism, and possibly the beginning of the nations of the Asian region realizing that the problems in South Vietnam are primarily an Asian regional problem—more important to them than to the United States.

So, for this reason, I think even if the capitalization is not large enough, we should nevertheless in the Congress authorize the participation and encourage development of the Bank.

Secretary FOWLER. I would just like to supplement some figures that might be of interest to the committee on lending by other multilateral agencies.

As of November 30, 1965, the World Bank had lent to countries in the Asian Development Bank's purview over \$2,219 million. The International Finance Corporation had provided \$30 million to countries in the area, and IDA had provided loans of \$887 million to countries in the area, mostly, of course, in India and Pakistan.

Mr. REUSS. Before calling on Mr. Widnall, the questioning by Mr. Moorhead suggests that we perhaps should have in the record a complete list—and I do not believe we now have one—of every single country in Asia with an indication of whether that country is a member of the United Nations or any specialized agencies thereof and, therefore, eligible for membership in the Bank.

Am I right in thinking we do not have such a list?

Mr. BARR. Yes; we will supply it for the record.

(The information requested follows:)



## MEMBERSHIP IN U.N. OR U.N. SPECIALIZED AGENCIES OF ASIAN COUNTRIES

*Countries listed in annex A, part A, of Asian Development Bank Agreement*

|                    |                                   |
|--------------------|-----------------------------------|
| Afghanistan        | Malaysia                          |
| Australia          | Mongolia                          |
| Burma              | Nepal                             |
| Cambodia           | New Zealand                       |
| Ceylon             | Pakistan                          |
| China, Republic of | Philippines                       |
| India              | Singapore                         |
| Iran               | Thailand                          |
| Japan              | Vietnam, Republic of <sup>1</sup> |
| Korea <sup>1</sup> | Western Samoa <sup>1</sup>        |
| Laos               |                                   |

*Other Asian countries which are U.N. members or members of U.N. specialized agencies*

Indonesia,<sup>1</sup> Maldives Islands.

*Asian Communist countries, not members of U.N. or U.N. specialized agencies*

China, mainland, North Korea, North Vietnam.

Mr. REUSS. Such countries are eligible for membership, whereas other countries like North Vietnam are not.

Mr. Widnall?

Mr. WIDNALL. Thank you, Mr. Chairman.

Mr. Secretary and Under Secretary Barr, and Mr. Trued, I think you ought to be commended on the wonderful work that you have done in helping to put this organization together. Through you, I would also like to commend Mr. Black for his very excellent contribution and the work that he has done with so many nations, through his activity in the World Bank.

I was privileged to be one of those who participated in Manila charter signing meetings. I know there were no Members of Congress present in Bangkok where Mr. Trued was active, but we were fortunate in having some congressional staff members there who reported back to us that they had never seen a group work harder, and that these fruitful deliberations gave them a very wholesome feeling toward the entire project.

Secretary FOWLER. Thank you, Congressman Widnall.

Mr. WIDNALL. I am interested in a statement in your testimony—you say that normally that the Bank's loans will be similar to those of the World Bank, currently at 5½ percent interest and up to 25-30 years maturity. What does that word "normally" mean?

Mr. BARR. The terms of the loans, maturity, and interest rates, are left to the discretion of the Board of Directors who will consult with the President of this Bank.

The indications that we had as we put this charter together is that they will follow the pattern of the World Bank. What they mean by the word "normally" is probably that there might be some deviation from the norm where they might charge more or less or have longer or shorter maturities. They contemplate very clearly in the organization of this Bank to conform their hard loan practices to the experience and the knowledge that has been gained from the operation of the World Bank.

<sup>1</sup> Member of specialized U.N. agencies, but not a U.N. member.

NOTE.—This tabulation does not include independent or semi-independent entities whose foreign relations are controlled in varying degrees by other states; e.g., Bhutan, Sikkim, and Tonga. Also excluded are dependencies or administered territories such as Hong Kong, Brunei (both classed as "Associate Members" of ECAFE), Fiji Islands, Okinawa, Timor, etc.



Mr. WIDNALL. I gather, from my own contacts when I was out there with the delegation, that there is a feeling among the members, particularly the southeast Asian members of the Bank that they do want this Bank based on sound banking principles. It was not set up to be a speculative undertaking; is that true?

Mr. BARR. This is very correct. It is very clearly the desires of the Asians to establish a sound, viable banking institution.

Mr. WIDNALL. Looking over the proposed legislation, there is just one section that really bothers me, and that is section 5(c) where it says—rather section 5, where it says:

Unless the Congress by law authorizes such action, neither the President nor any person or agency shall, on behalf of the United States (a) subscribe to additional shares of stock of the Bank; (b) vote for or agree to any amendment of the agreement which increases the obligations of the United States, or which would change the purpose or functions of the Bank; or (c) make a loan or provide other financing to the Bank, except that loans or other financing may be provided to the Bank by a United States agency created pursuant to an Act of Congress which is authorized by law to make loans or provide other financing to international organizations.

Is it not a fact that section 5(c) provides virtually unlimited authority for the United States to give unlimited foreign assistance through the Bank in future years without any further authority from either this committee or the Committee on Foreign Affairs?

I believe the authority is contained in section 301 of the Foreign Assistance Act of 1961, as amended. Would this not be open to the justified charge that section 5(c) funding would weaken the multi-lateral character of the Bank permitting straight U.S. foreign aid to be administered by an institution where the United States retains only 16 percent of the voting strength?

Secretary FOWLER. I think, Congressman Widnall, this clause is identical to the provision contained in the Inter-American Development Bank, and is for the purpose of making clear that section 5 is not intended to repeal any existing authority already granted to Government agencies to provide financing to the international organizations. You referred to the authority AID has under the Foreign Assistance Act. This would merely preserve that authority. I would much prefer that if the committee desires more information and expression of the point of view on this particular question—which I know the committee is interested in—that the questions be directed to Director David Bell of the AID, when he appears here, because this does relate specifically to his area of responsibility. I am in no position to speak for or against the provision in question.

Mr. WIDNALL. Well, among the questions that arise in my own mind on that particular section are the ones with respect to our balance of payments where, rather frightfully, we are saying this has very little effect on the balance of payments, in setting up the Bank, that the cash portion of the payment is only \$10 million, that there are practically no balance-of-payments costs to the United States; yet, this approach could be used to vitally affect our balance of payments by sending money in without any justification from—without further authorization from the Congress. It seems to me there is no way you can ask them to come back and justify any expenditures made through that window.

Secretary FOWLER. Well, I think, if the Agency should provide funds for a special fund to be handled by the Bank, a normal provision



that would follow, in terms of our current policy, would be to require that those funds be tied to procurement in the United States. This would certainly be a position that we would encourage and expect to be accepted in dealing with that aspect of the problem.

Mr. WIDNALL. But it would not necessarily be procurement; it would be technical assistance, or a lot of other things where U.S. procurement would not be a consideration.

Secretary FOWLER. The nature and character of the aid does affect its impact on balance of payments. That is quite true.

Mr. WIDNALL. Something else I have in mind, in raising this question, is, in effect, I believe that you are going to come back later and ask for authorization to be used for a special fund in connection with the operation of this Bank.

Secretary FOWLER. There are no current plans to do so, as I believe Secretary Barr said. This is somewhere in the future. We have no current plans as of now for that.

Mr. WIDNALL. If I read this—if I listen to you correctly, there would be no necessity in coming back for further congressional authorizations. I should think everything the President had in mind when he advanced this proposal a couple months ago could be carried out by this section.

Mr. BARR. Mr. Widnall, the President referred to this Special Fund in the Johns Hopkins speech. He indicated that this Special Fund would also be on a multilateral basis. We would be willing to provide up to \$100 million if other countries indicated that they would join us. I cannot say anything more except this. I do know, however, that it is the thinking of the Treasury and the State Department and the administration that they could not approach such a thing without coming to the Congress for an authorization and an appropriation.

Mr. WIDNALL. I understand your answer completely, but there is nothing in this bill, as it is set up, which would indicate that.

In the legislation on foreign relations, Committee on Foreign Relations of the U.S. Senate and the U.S. House of Representatives, February 1965, chapter 3, "International Organizations and Programs," section 301 says:

General Authority.

(a) When he determines it to be in the national interest, the President is authorized to make voluntary contributions on a grant basis to international organizations and to programs administered by such organizations on such terms and conditions as he may determine, in order to further the purpose of this part.

(b) Contributions to the United Nations expanded program of technical assistance and the United Nations Special Fund for the calendar years succeeding 1961 may not exceed 40 per centum of the total amount contributed for such purpose (including assessed and audited local costs) for each year.

(c) In determining whether or not to continue furnishing assistance for Palestine refugees—

and then it goes on to section 302, "Authorization."

It says:

It is hereby authorized to be appropriated for the President to use, in addition to funds available under any other Act for such purposes, for the Fiscal Year 1965 to carry out the purposes of this chapter not to exceed \$134,272,400.

I would think that under that authority, if we have this, that everything can be done today, is that right?

Mr. BARR. Well—

Mr. WIDNALL. Have you thought about this, Mr. Barr?



Mr. BARR. Mr. Widnall, I defer to Director Bell. I can remind you that the Appropriations Committee has never seen fit to appropriate the funds that are authorized under section 205, but I would respectfully defer to Mr. Bell. He is more competent to deal with this question.

Mr. WIDNALL. I will ask Mr. Bell.

Mr. REUSS. Mr. Gonzalez.

Mr. GONZALEZ. I do not have any specific questions in mind. The two that I had in mind have been asked and answered very specifically by Mr. Moorhead and Chairman Reuss.

I do want to take this opportunity to congratulate both the Secretary as well as the Under Secretary, Mr. Barr, for a magnificent job. Our country in that area has been accused of raising only armies. This proves that our country has also been most diligent in raising living standards, and I am sure that you will meet with the success that other enterprises—as the Inter-American Development Bank—have met with. That is about the only thing that I can say at this moment. I think most of the questions that are really pertinent, such as the gold drain situation, and the others with respect to what would arise as to modifications of the charter have been answered already.

Thank you very much.

Secretary FOWLER. Thank you, sir.

Mr. REUSS. Mr. Talcott?

Mr. TALCOTT. I would like to ask just a couple of questions, if I may.

Just generally and overall, why is it necessary for the United States to participate in this Bank at all?

It appears that the Asian nations, with other advanced nations, probably have enough funds of their own, so that the United States itself would not have to participate.

Secretary FOWLER. I think the absence of U.S. participation in projects of this general nature would certainly eventually give rise to inferences that would be unfortunate and which our enemies in the world would take advantage of, particularly in view of current operations.

Mr. TALCOTT. If we did not participate?

Secretary FOWLER. Yes, in terms of peaceful development. I think this is the propaganda which would emerge.

Mr. TALCOTT. Some of the things that I observe would appear imperialistic in this area. I think the world understands that we are not interested in acquiring more territory, but everyone is not so sure we are not interested in the development of resources, tin, cocoa, oil, and this sort of thing, which is sort of imperialistic in a way, building an empire to take resources for our benefit.

I think we are not completely clean in this "imperialistic" allegation. And some people are also saying that our financiers are going into other countries, and that they are sort of imperialistic, too, exacting high interest rates from other countries. Therefore we appear to be imperialistic in this regard.

Is there any fear of this?

Secretary FOWLER. I think in this particular case, it is an example of what I call point 4 in the field of finance.

It is providing, through our participation in the Bank, not only funds but whatever knowledge and experience can be brought to bear on the operations of the Bank in the running of such an institu-



tion. I think, for example, participation of Eugene Black in it, and John McCloy and others in the World Bank, the participation of our representatives in the Inter-American Development Bank is a very far cry from anything with the overtones that you have mentioned. Indeed, there is a strong rebuttal.

But, to come to another part of your question which has to do with the fact that private banks in the United States operate on a worldwide basis, and U.S. private capital and U.S. business operate overseas, rather than being imperialistic, I believe the record continually shows the same kind of experience by and large that we know in our own country, that a New York corporation operating in Tennessee or Kansas or California tends to exercise traditions and practices of good corporate citizenship in the particular area in which it operates. I believe, by and large, all banks that operate outside the country, and companies that operate so-called multinational companies tend to be good corporate citizens, and make a very real contribution to the development of the area in which they operate. If anything, they set very good examples for the way private business should operate and amount to a good advertisement for the kind of a system that we think we are.

Mr. TALCOTT. I generally agree. I think that the idea of exporting the ideas and techniques and disciplines of banking is a good idea, better than exporting just plain money or giving money. But then some people are suggesting that we spoil this idea of exporting ideas and disciplines by insisting that we get so much "procurement" and that we seem to be doing it with the idea that we should lend more money so they can buy more stuff from us, and this sort of spoils the idea. Do you think talking about "procurement" with the United States spoils the idea?

Secretary FOWLER. I think any perception of the problem that we currently have in dealing with the balance of payments gives understanding to why the so-called tied-aid principle is invoked. Our first responsibility to the free world is to do our part to maintain a sound international monetary system. The very basis of a sound international monetary system is a sound dollar, because the dollar is not only a vehicle currency but provides part of the official reserves of many countries, along with gold. Therefore, our first responsibility to the nations of the free world is to get our balance of payments into equilibrium and keep it there. Tying our aid is a way of being able to continue the AID program while minimizing the impact of that aid on our balance of payments. I think we would all hope to come to a day in which the changing character of international monetary affairs would make insistence on the tied-aid principle no longer necessary. It would not be a permanent part of the program. But we are not in such position now, and, as Secretary of the Treasury, I could not go along with participation or enlargement in aid efforts that did not carry along with it this overriding responsibility of getting our balance of payments into equilibrium.

Mr. TALCOTT. Following through Mr. Moorhead's thought, that maybe this Bank is not big enough even in the beginning, that maybe it should be a \$5 billion or a \$10 billion institution to start with, did you not also indicate that probably there were techniques, and probably through section 5(c), for the United States to put up \$5 billion or \$10 billion within the proposed legislation.

Secretary FOWLER. I have no such plans or prospects in mind.



Mr. TALCOTT. As a matter of fact, you and Mr. Barr would prefer to come back to Congress, would you not, to get further authority?

Secretary FOWLER. We find it very congenial to get authorizations; that tends to be our style.

Mr. TALCOTT. But we have to fight with Mr. Bell?

Secretary FOWLER. I do not know. You will have to find out from Mr. Bell what the terms and conditions are. I think that such an exchange will be a more profitable and pointed one. I am not aware of the considerations that Mr. Bell has in connection with the handling of his total responsibilities and I would defer to him as the spokesman for the administration on this particular provision.

Mr. TALCOTT. As a banker dealing with Asian bankers, this latter part of 5(c) just is not necessary within good banking procedures, is it?

Secretary FOWLER. I do not think that the project proposal before you stands or falls on what happens in connection with 5(c). I think Congress can work its will on this section, whatever it thinks fit.

Mr. TALCOTT. Thank you.

With the exception of 5(c), it appears to me that this may be the best international banking proposal we have had yet.

Secretary FOWLER. Thank you, sir.

Mr. REUSS. Mr. Hanna?

Mr. HANNA. Thank you, Mr. Chairman.

I would like to specifically commend the Treasury in this particular legislation for the confidence that they have already demonstrated that they have in this committee and inviting the participation which has been enjoyed by the committee members so early in its conception.

I would like to see this kind of practice from many agencies of the Government, because it provides a base upon which to do our work.

I specifically think that this reflects credit on your Department, Mr. Secretary.

Secretary FOWLER. Thank you.

Mr. HANNA. I have been profoundly interested in and impressed by this legislation, because I believe that the Pacific community is just as important to the United States as the Atlantic community. I am delighted to see that the U.S. policy is beginning to make some real expressions of substance in doing things that need to be done in the Pacific community.

To some extent perhaps I am expressing a parochial position of a westerner, particularly from the State of California, which is the greatest window to that ocean of the Pacific. But our shores are washed by two oceans, and we enjoy the community around them, and this is one of them. I think it is very important, and I am delighted to see that we are making these forward steps as in this legislation.

I wonder if you can tell us something about the expectations, Mr. Secretary, of the operation of this Bank in terms of timing. How do you think it will work? How long do you think it will take before there is the establishment of the full management of the Bank?

Secretary FOWLER. I believe I will defer to Secretary Trued on that. He has been closer to the day-to-day, week-to-week developments and has a better feel of the pace which our associates in this project will move. I will ask him to answer the question.



Mr. TRUED. I think, Mr. Hanna, that there is deep Asian interest in pushing forward. We could reasonably expect the Bank to be in operation sometime in the third quarter of this year.

Mr. HANNA. By that, would I take it to mean that by this time, you would think that having established the management, that you have developed the policies and procedures required for its initial actions?

Mr. TRUED. It is going to be a bit time consuming, but even now the Asian group and ours have a so-called steering committee which is seeking to develop the order of activity, the general framework within which the Bank when formally established would operate. This gives us a jumpoff point for the Bank to actively undertake its operations as soon as the necessary number of members have signed and ratified the charter.

Mr. HANNA. How many members will sign and ratify the charter?

Mr. TRUED. It requires 15, 10 from the Asian countries, with a minimum of \$650 million.

Mr. HANNA. That would include the \$650 million?

Mr. TRUED. Yes, sir.

Mr. HANNA. At that time, we would be in a position to process the first loan?

Mr. TRUED. Yes; I think so.

Mr. HANNA. Looking back at the experience we have had in other banks, how long would it take before money of the Bank would be in action in any one particular project? Would you say a year and a half?

Mr. TRUED. With the sense of urgency and feelings that lie behind this Bank, I would think they could get going within a year.

Mr. HANNA. Within a year?

Mr. TRUED. Yes, sir.

Mr. HANNA. It is well that the public understands that this type of organization does not get started full bloom right at the very moment that we get through with the technical details, that there are some other processes that we must go through with, and that the flow of funds will not be significant until some specific time has passed.

Mr. TRUED. That's right.

Mr. HANNA. In terms of our interest out there, I only visited five of the countries while I was out there myself, but I did find these facts, that, for instance, the United States, in the countries I visited, Japan, Korea, Taiwan, Philippines, and Hong Kong, the United States is enjoying 31 percent of the imports into Japan, 50 percent into Korea, 35 percent into Taiwan, 41 percent in the Philippines, and about 12 percent into Hong Kong. Out of this, we are talking in terms of just those five countries, and about \$3-plus billion. This is a rather significant amount, and I think when you look at the fact that these are the very countries that seem to have the greatest potential for growth in the national product. You look at these figures, and if this is characteristic of the growth in these areas, it looks as if this Bank is going to go into a situation where it can do some good; where there is vitality and movement.

I notice that one of the great requirements of each of these countries is the problem of fixed capital formation, going to the question raised by my colleague on the other side, Mr. Talcott. Certainly, this Bank is going to be able to assist in this very great need, fixed capital formation, and I would think, Mr. Secretary, if we look to



this charter as we look to a charter in your Department in the Comptroller's Office, we look to the needs and necessities of the community; do we not? We would look to see whether or not this was the kind of a community that could use the Bank; does it have any amount of money that looks like it could do a significant job with; does it have the people in it who look like they could make it a success?

Would you, say, looking at this charter and looking at it in terms of the requirement that we have for a bank to be chartered in our country, that this looks a rather healthy situation to charter a bank?

Secretary FOWLER. I would not have any hesitancy at all in recommending it to the Congress on the very test that you have indicated. But since you mentioned the role of the United States in exports to the countries in question, I would like to add the 1964 figures of exports from the United States to Asian Development Bank developing countries. This leaves off Japan and Australia, but Japan particularly.

Afghanistan, of its imports, 26.8 percent comes from the United States.

Cambodia, 4.9 percent.

Ceylon, 2.7 percent.

Republic of China, 32.7 percent.

India, 31 percent.

Iran, 16.2 percent.

Republic of Korea, 49.9 percent.

Laos, 28 percent.

Malaysia, 6.1 percent.

Nepal, no data available.

New Zealand, 10.3 percent.

Pakistan, 41.7 percent.

Philippines, 59.9 percent.

Republic of Vietnam, 42.5 percent.

Singapore, 5.2 percent.

Thailand, 16.4 percent.

Mr. HANNA. I thank the Secretary for filling out the list. I think it indicates that the United States has a very significant position already in these countries, and the trade of this country can only grow as we help to develop it.

When I was out there, I talked with these people in terms of something I think brought a great deal of sympathy. This action is building a bigger rice bowl. There is no use fighting with chopsticks in a little bowl, and if you can get the bigger bowl, there is plenty of room for everybody's chopsticks, and that is what we are trying to do with this Bank.

Secretary FOWLER. It is, indeed, a very good analogy.

Mr. REUSS. Mr. Multer?

Mr. MULTER. All I would like to say is to reecho what has already been said in complimenting the Secretary of the Treasury, Under Secretary Barr, and Mr. Black. They have done a very fine job, and all of us who have had the opportunity to go to these countries, and particularly to attend the conference in Manila came away with the thought that this was long overdue, was very well done, and not only should our Americans like Mr. Black and Mr. Barr and others who did this job be complimented for what they did, but I think they are entitled to our praise for what they withheld doing. I



think that this gave great impetus to the final act, and the Asians know that while we hold out a helping hand we will not do the job for them. This is really the first cooperative effort by the Asian countries to help themselves.

We certainly are doing what we can to assist that project in accordance with President Johnson's statement on the subject.

Congratulations to all of you for the very fine job you did.

Mr. REUSS. Mr. White?

Mr. WHITE. Thank you, Mr. Chairman. I would like to join with my colleague from California, to my immediate left, in his remarks with respect to what has been accomplished. I am very glad that the State of California as being a great window that observes the Orient and that it is now washed, as the observance of the gentleman has shown.

I think this record, to be complete, should have some reference made to the Inter-American Development Bank and the successes of that particular operation, and the question that I should like to direct to the Secretary, if I may, is to ask if the analogy is correct that the pattern of the Asian Bank is similar to the Inter-American Development Bank, and I would like to have him point out to me some of the successes of the Inter-American Development Bank.

Secretary FOWLER. Well, I think I can only do justice to the accomplishments of the Inter-American Development Bank by perhaps providing a short statement for the record which would fill out the general comments I would make.

I have observed it at close range only in the last 9 or 10 months. Because of Secretary Dillon's close association with the founding and development of the Inter-American Development Bank, he took most of the assignments and had the closest and most intimate knowledge of its operations during my tour as Under Secretary in 1961 through the spring of 1964.

So, my period of observation has been somewhat limited.

I would say this, that the record of the loans and the performance of the borrowers in the Inter-American Bank up to now has been a very, very remarkable one. I think one of the items that has impressed me the most in the reports the President, Mr. Herrera, and our U.S. representatives, have given me is the almost unbelievable record of success in repayment. The creditworthiness of the loans, the care in which they must have been processed, and the feeling that the borrowers must have about their obligations, have been most encouraging and most significant.

I think the second observation I would make about the Inter-American Development Bank is that since the management and operation of the Bank includes full participation by most of the Latin American countries, they are able to bring the kind of knowledge of their own situation and conditions, which certainly extended the reach and understanding of the U.S. representatives to the Bank, to complement and supplement the whole Alliance for Progress movement.

Now, I would like to draw one distinction between the Inter-American Bank and the Asian Development Bank that is before you. In the Inter-American Development Bank, the United States is, by and large, the only outside country, if you can use that word—developed country—outside of the framework of Latin America participating heavily and importantly in the Bank.



In the Asian Development Bank, in contrast, there is provision for participation of a number of developed countries outside the area, in addition to Japan, so that rather than being the only outside country, so to speak, we will have colleagues and associates. Therefore, the point of view of the remainder of the world on the operations of the Bank and the countries concerned will not necessarily be just a U.S. point of view, it will be a point of view of the industrialized countries of Western Europe as well.

(The following information was submitted for the record:)

#### INTER-AMERICAN DEVELOPMENT BANK ACTIVITIES THROUGH DECEMBER 31, 1965

The Inter-American Development Bank's 1965 volume of lending was the highest yearly total since it initiated operations 5 years ago. The Bank's previous high mark was \$325.5 million in 1962. The 66 loans approved by the Bank during 1965 brought the Bank's cumulative net lending contribution to Latin America's economic and social development as of December 31, 1965, to 326 loans totaling \$1,530 million.

Significantly, this billion and a half dollar contribution to Latin America's growth was more than matched by the resources supplied by the borrowing nations, supplemented by other sources of financing. Thus the Bank's lending is helping to finance projects whose total cost is approximately \$4.2 billion.

In addition to its substantial lending operations, other highlights of the Bank's activities during 1965 included:

Action taken by its member countries to increase the Bank's resources in order to permit it to accelerate its rate of lending.

Its successful efforts to mobilize additional financial resources for Latin America's development from nonmember countries.

Expanded support for Latin America's drive toward economic integration.

The creation of a consultative group of countries and organizations to help finance Ecuador's national development plan.

By sources of funds the Bank's lending in 1965 was:

Ordinary capital resources: 18 loans totaling \$121.5 million compared with 25 loans for \$155.5 million in 1964, bringing the cumulative total at the end of the year to 125 loans for \$657.2 million.

Fund for special operations: 31 loans for \$196.6 million, compared with 1964 totals of 14 loans for \$49.4 million. This brought the cumulative figures to 82 loans and \$367.4 million.

Social Progress Trust Fund: 15 loans for \$51.2 million, compared with 1964 figures of 29 loans totaling \$85.9 million. This brought the yearend total to 117 loans amounting to \$501.2 million.

Other funds: 2 loans equivalent to \$4.2 million extended from a Canadian fund administered by the Bank.

During 1965 disbursements amounted to \$181.6 million from the Bank's different sources of funds, compared with \$198.1 in 1964. This brought the Bank's cumulative disbursements as of December 31, 1965, to \$585.9 million.

The Bank's cumulative lending by fields is shown in the following table, first in 1965, and then on a cumulative basis through December 31, 1965:

#### *Distribution of loans*

[In millions of dollars]

|                          | 1965   | Cumulative total |
|--------------------------|--------|------------------|
| Industry and mining..... | \$67.2 | \$354.8          |
| Agriculture.....         | 33.4   | 326.1            |
| Water supply.....        | 79.2   | 287.6            |
| Housing.....             | 29.9   | 227.1            |
| Transportation.....      | 113.7  | 136.0            |
| Electric power.....      | 31.3   | 124.5            |
| Education.....           | 7.3    | 36.6             |
| Preinvestment.....       | 10.4   | 25.2             |
| Export financing.....    | 1.1    | 12.1             |
| Total.....               | 373.5  | 1,530.0          |



The steps taken during the year to increase the Bank's resources included: Completion of action by all the Bank's member countries to subscribe their portions of an increase of \$1 billion in the authorized callable capital of the Inter-American Bank. The increase, which was formally put into effect on January 28, 1964, will give the Bank additional backing to borrow funds in the world's capital markets.

This completed action initiated in April 1962 by the member countries to increase the Bank's initial authorized capital from \$850 million to \$2.15 billion through a \$1 billion increase in the authorized callable capital for the Bank's original signatory nations, and a \$300 million increase in the authorized capital stock, both paid in and callable, to be available for subscription by countries which might join the Bank in the future.

Approval by the Bank's member countries of a \$900 million increase in their contributions to the Fund for Special Operations, of which \$750 million is being contributed by the United States and \$150 million by the Latin American member countries in their own currencies.

The first two tranches of the increase, totaling \$600 million, were wholly paid to the Bank during 1965; the third tranche, amounting to \$300 million, will be contributed during 1966. These increases are enabling the Bank to continue and expand its support for economic and social development projects in Latin America which require loan on "soft" conditions.

The expanded Fund is being utilized also to carry out the activities previously financed with the resources of the Social Progress Trust Fund, the U.S. Government-supplied fund which the Bank administers under the Alliance for Progress for loans in the social fields of housing, agriculture, water supply and sewage systems, and education.

During 1965 the Bank stepped up its efforts to mobilize additional financial resources for Latin America's development among nonmember countries. Highlights included:

Spain: \$20 million made available to the Bank by the Spanish Government, of which \$12.5 million was in the form of a direct loan and \$7.5 million was in the form of an agreement to purchase up to \$7.5 million in participations in the Bank's ordinary loans.

Canada: 10 million Canadian dollars added to the 10 million made available to the Bank late in 1964 to finance economic, technical, and education projects in Latin America on long terms and at little or no interest.

In addition the Canadian Export Credits Insurance Corp. made available 15 million Canadian dollars for commercial-type loans to be made in Latin America in cooperation with the Bank on a parallel or on an independent financing basis.

The Netherlands: \$10 million made available for development projects in Latin America by the Government of the Netherlands also in cooperation with the Bank on a parallel or an independent basis.

In the field of integration, the Bank's Institute for Latin American Integration began operations in Buenos Aires during the course of the year. The center, a unit of the Bank, is studying the economic, technical, legal, and institutional aspects of integration; is serving as a training center in the field; is providing advisory services on its field of activity, and is publishing a great number of publications on the subject.

During the year the Bank also extended technical assistance to the Latin American Free Trade Association to provide funds designed to stimulate integration in industrial and agricultural fields and to seek to promote productive activities in the countries of so-called relatively less development.

In 1965, the Bank also carried out a study of the possibilities of integrating the frontier zones between Ecuador and Colombia. This study is now in the hands of the respective Governments. In 1963, the Bank had carried out similar studies for the frontier zone between Venezuela and Colombia.

The Consultative Group on External Financing for Ecuador, the first such group organized by the Inter-American Bank, had its initial meeting at the Bank's headquarters in mid-1965. The group, convoked by the Bank as the financial agent for Ecuador's 10-year national development plan, includes 19 countries and 12 agencies. At the meeting, the group expressed interest in financing 40 projects whose total external requirements amount to \$173 million to be carried out in the 1965-68 period.

During 1965, the Bank also accelerated its technical assistance activities, authorizing about \$19 million, for such purposes, of which \$16 million is reimbursable and \$3 million is in the form of grants. Cumulative technical assistance had risen to about \$53 million, \$40 million reimbursable and \$13 million non-reimbursable, by December 31, 1965.



Mr. WHITE. The next question, Mr. Secretary: In your remarks you referred to properly constituted banks, the reference made to a statement by the President of the United States last April. Some people have felt that the vote of the United States should be greater and our direction should be more forceful in consideration of proposed regional banks such as this. I should like you to cite the experience of the Inter-American Development Bank, that such an arrangement has proved to be very successful, has it not, and can we not anticipate a similar type of success in the Asian Development Bank as well?

Secretary FOWLER. I think you definitely could. I think, moreover, the fact that other developed countries, particularly those in Western Europe, are participating in the establishment of this Bank is, in my judgment, a very good thing, because it is an important part of American foreign policy in the economic field.

It seems to me to encourage maximum burden sharing, if you want to put it as such.

I would put it in another way: The participation of the developed countries, particularly those in the West, in the great adventure of this century in Latin America and Africa and in Asia.

Mr. WHITE. Two other points that I would like to comment on if I have the time, one of which is: Does not this type of banking, supported by other governments tend to complement, not compete with, our aid and alliance programs—perhaps, would it not tend to reduce the outright grant type of program we have had? The people in my district are critical of foreign aid at times, and I think this type of operation is more representative of the thinking of the people in that portion of Idaho. Do you not think this is possible?

Secretary FOWLER. I would not want to make a judgment about the time cycle that would be involved in the transition from the grant type of aid to the soft loan to the hard loan sequence. I think it is too early to make judgments about so many of the countries that are just at the beginning of a development cycle. However, this is the kind of an institution, certainly, that bodes well for the future and looks to the future for providing a framework in which viable economies, or economies that have potential, will need not be hamstrung by the lack of capital provided on reasonable terms.

So, looking back at the entire history of our venture in this area since World War II, I think it moves from grants to soft loans to hard loans. This has been the sequence. I have no doubt but that it will be necessary to continue for a long time, particularly in such areas as food and food development. The President foreshadowed in his message practices that people normally think of as aid. That is going to be with us, I believe, for a long time. But accompanying the straight grant aid, this type of financial organization indicates that it is a phase and not a permanent burden.

Mr. WHITE. Thank you very much, Mr. Secretary.

I feel that when we spend \$35,000 for every Vietcong that is killed in South Vietnam and North Vietnam, though we may spend more ultimately in this area, the creation of an Asian Development Bank may result in a reduction of this kind of spending.

Secretary FOWLER. Thank you.



(The following information was submitted for the record:)

TREASURY DEPARTMENT RESPONSE TO SUBSEQUENT QUESTION BY MR. WHITE

Subsequent to the subcommittee hearing on January 26, Mr. White submitted the following question to the Treasury Department:

Does the ADB Charter prohibit a company in a nonmember country from obtaining procurement through a subsidiary located in a member country; e.g., could a subsidiary of a French company located in Germany receive an award on ADB-financed equipment?

The response by the Treasury Department is as follows:

The Articles of Agreement of the ADB provide that the proceeds of any loan with certain limited exceptions, "shall be used only for procurement in member countries of goods and services produced in member countries \* \* \*". It will be one of the functions of the Bank's directors to interpret and apply the provision of the articles to cases such as the one suggested. The guidelines the directors may adopt cannot be forecast at this time, but it would seem likely that their decision would *inter alia* take into account such factors as the extent to which components of the final product were produced in the nonmember country.

Mr. REUSS. Mr. Ottinger?

Mr. OTTINGER. Thank you, Mr. Chairman. Mr. Secretary, I would like to join my colleagues in congratulating you on a fine job in your participation in putting together the Bank as a demonstration of constructive interest shown by the United States in this region as a counterpart to the military interest we have demonstrated. Nothing is more important to our eventual success in southeast Asia.

One thing that concerns me is the inclusion and exclusion of countries. I wonder what the U.S. position was in the negotiations of this Bank with respect to definitions of what countries may participate so as to exclude Communist China, North Korea, and North Vietnam?

Secretary FOWLER. I will defer to those who participated directly in the discussions and negotiations.

Secretary Barr and Mr. Trued.

Mr. BARR. Mr. Ottinger, our position was not as flexible as you might imagine. The idea of this Bank originated in the Economic Commission for Asia and the Far East. It originated with the secretariat of this organization. It was put forward to the members—we happened to be a nonregional member of this Commission, as well as Russia. It was put forward for the first time in the Philippines and there was general agreement, some sort of consensus in 1963; it was brought up again in Wellington, New Zealand, early in 1965. We had been invited to participate and the President indicated our willingness to accept this invitation in his April speech at Johns Hopkins.

The criteria for membership was established not by us but by the regional members of the Commission. So, we took no position there. We merely accepted an invitation to participate.

Mr. OTTINGER. We did not express any opinion as to which countries should be included or excluded?

Mr. BARR. No, sir. We were not in a position to express an opinion. We could merely accept or decline the invitation.

Mr. OTTINGER. Once we accepted the invitation, I assume we participated in these negotiations and had some opinion on the subject?

Mr. BARR. That is correct, but the guidelines were very clearly established.

The question might be put to us at some subsequent date, but the question has not been put to us yet. The concept of how this Bank



was to be organized, who were to be the members, was an Asian initiative, and we responded to an invitation. We were not invited, I might add, to comment particularly in this area.

Mr. OTTINGER. How do you feel now, perhaps, of taking some initiative with respect to including these countries?

Mr. BARR. Mr. Ottinger, we might want to take the initiative, but may I remind you that we only have 17 percent of this Bank. If we want to take an initiative, first we are going to be faced with the problem that you gentlemen are faced with here, securing the vote—scurrying around getting some votes. We have a strong minority position.

We also feel, and the Asians have indicated very definitely, that this is their Bank and they are going to run it the way they see fit. We participate and we cooperate.

Now, I think a clear indication is apparent, the United States cannot dominate this Bank. We will vote our shares, and that is about as far as we can go.

Mr. OTTINGER. I agree with that 100 percent, Mr. Secretary.

I am concerned, and I would like your assurance—we did not agree to enter into this association on any condition that these countries would be excluded?

Mr. BARR. There is no such thinking on our part. There is no such proposition. It was an invitation; we were members of the organization; we were eligible, and our only decision was do we accept or do we decline.

Secretary FOWLER. We did not put any strings to our acceptance, Mr. Ottinger.

Mr. OTTINGER. You feel it was the Asians who represent the majority interest in this Bank who wanted to draw the definition in this way?

Secretary FOWLER. That's the fact.

Mr. OTTINGER. Would the same be true with respect to the participation of France?

Mr. BARR. France was invited to join, Mr. Ottinger. There was a group of Asians who toured Europe, all the developed nations. They represented the regional members. They called on the French Government and asked if they were interested. They have not indicated any interest.

Mr. OTTINGER. Thank you very much.

Mr. REUSS. We are happy to have with us a member of the full committee, Mr. Todd, of Michigan.

Mr. TODD. Mr. Secretary, Mr. Moorhead's remarks as to adequacy of capitalization make me curious. Could you give me an estimate of the rate of return on investment which would be made out of the Bank's fund? In other words, how much increase in GNP will result from a given loan?

Secretary FOWLER. I would not want to hazard an estimate on that. I think it is simply one component in a number of other components. There are so many imponderables that enter into developing gross national product—I do not have it. Perhaps others would venture in that area.

Mr. TRUED. I will stay with you, Mr. Secretary.

Mr. TODD. There would not be any experience coming out of the South American banks and other banks?

Secretary FOWLER. There are so many different factors that enter in—the economic climate, self-help, the willingness of local capital



either public or private, outside private capital, the contributions, as I have indicated in answering Mr. Moorhead, of the World Bank and the IDA, that it would be awfully hard to earmark any given result except in terms of given projects themselves.

Mr. TODD. I am concerned: You have an \$80 per capita income in some countries, and if you should get a rate of return of 25 percent on investment on a billion dollars of capital, you would not increase per capita income in southeast Asia by more than 25 cents per year, which is insignificant, particularly when the population grows at a rate of 2 or 3 percent, so it would seem to me that unless the Bank took population policy into consideration in its development plans you would simply continue the status quo and only hold out a false hope to these countries. Do you think there is some truth in that opinion?

Secretary FOWLER. I think your comments are applicable not only to this but to other activities, both by the countries in question and by other multilateral institutions. As President Johnson indicated in his state of the Union message, with the population problem increasing, there is concern if the sum total of all these activities, domestic and external, are going to produce a meaningful rising standard of living. I do not think, however, that this project stands or falls on on the pace or rate of accompanying developments in the field of population policy, regardless of the rate of progress in that area. It seems to me going ahead on things like this gives thrust to the importance of this corollary in the minds of those who are responsible in those countries.

Mr. TODD. Thank you, Mr. Chairman.

(The following questions were subsequently submitted for the record:)

ADDITIONAL QUESTIONS SUBMITTED TO SECRETARY FOWLER BY HON. PAUL H. TODD, JR.

A considerable amount of experience has been gained through the activities of other international financial institutions in South America and in other parts of the world. It is my understanding that the purpose of these banks is to encourage the development of these areas, and to help these peoples help themselves in an economically sound manner. This means that both per capita food supplies and per capita incomes should be rising. In many areas served by the banks, they are in fact declining. This is because the population is doubling in 20 to 25 years. Have there been discussions by directors of any of these banks of the need to establish population policy if the banks are to achieve their purpose?

Do you foresee any possibility of the banks achieving their purpose of improving living standards in these areas without the establishment of population policy?

Does your Department have any studies of the impact of successful population policy on economic development and stability? In this connection, I would like to call your attention to the success Japan has had with population policy, and the development of such a policy in Taiwan and South Korea. Have these policies been as significant in increasing personal well-being as the economic policies followed by these governments?

TREASURY DEPARTMENT RESPONSE TO SUBSEQUENT QUESTIONS POSED BY Mr. TODD

Subsequent to the subcommittee hearing on January 26, Mr. Todd submitted the following questions to the Treasury Department:

(1) A considerable amount of experience has been gained through the activities of other international financial institutions in South America and in other parts of the world. It is my understanding that the purpose of these banks is to encourage development of these areas, and to help these people help themselves in an economically sound manner. This means that per capita food supplies and per capita incomes should be rising. In many areas served by the banks, they are in



fact declining. This is because the population is doubling in 20 to 25 years. Have there been any discussions by the directors of any of these banks of the need to establish a population policy if the banks are to achieve their purpose?

(2) Do you foresee any possibility of the banks achieving their purpose or improving living standards in these areas without the establishment of a population policy?

(3) Does your Department have any studies of the impact of successful population policy on economic development and stability? In this connection, I would like to call your attention to the success Japan has had with population policy, and the development of such a policy in Taiwan and South Korea. Have these policies been as significant in increasing personal well-being as the economic policies followed by these governments?

The response by the Treasury Department is as follows:

Both the World Bank and the Inter-American Development Bank have taken an active interest in the question of population policy. The World Bank was a cosponsor, with the United Nations, of the first World Population Conference, held at Belgrade, Yugoslavia, in September 1965. The World Bank underwrote a portion of the costs of the Conference. The Bank was represented at the Conference by one of its senior staff members, who served as organizer of the discussion group dealing with "The Effect of Demographic Changes on Savings and Investment." The World Bank also financed a basic study of the interrelationship between demographic factors and economic growth, based on case studies in India and Brazil. This study has been published under the title "Population Growth and Economic Development," by Edward Hoover and Ansley J. Coale.

The staff of the World Bank, as a matter of course in making its appraisals of the economic progress of individual countries, relates increases achieved in gross national product to increases in population. These appraisals form the background against which the Bank's Executive Directors make decisions on loan applications so that the question of population growth trends in relation to economic development is taken into account in many specific cases considered by the Executive Directors, particularly when financing for increased agricultural production is involved.

During recent meetings of the Intergovernmental Committee on the Alliance for Progress (CIAP), the Inter-American Development Bank suggested that CIAP undertake a systematic study of the ramifications of population problems in the various Latin American countries, in order to provide a basis on which these countries might formulate rational policies designed to balance population increases with economic growth. The Inter-American Bank suggested that this effort be coordinated among CIAP, the Pan American Health Organization, and other national and international institutions engaged in research in this field. The Bank carefully noted that it is important that support for policies involving population control be generated within each country, and are apt to fail if imposed by outside forces. Thus the Inter-American Bank is stimulating Latin American attention to the broad and fundamental questions of population policy.

The existing international institutions have already made significant contributions to improving living standards in many countries. In some areas, these gains have been eroded by population growth trends. In other areas, economic growth continues to keep ahead of population growth. As a general statement, it may be said that long-range population policies will need to be adopted by many borrowing countries if the benefits of economic development are to be preserved. The initiative for the adoption of such long-range population policies must spring from the borrowing countries themselves.

While the Treasury Department is generally aware of the successful employment of population policies by a number of countries in recent years, it has not prepared any studies on the subject, nor is it in a position to apportion the economic progress these countries have realized between the economic and the population policies followed.

As is evident from the President's recent message on foreign aid, the Agency for International Development bears the major responsibility within the U.S. Government for assistance to family planning programs adopted by developing countries.

Mr. HALPERN. Mr. Chairman—

Mr. REUSS. The Chair notes that the time of the House session is fast approaching, and also the Secretary and his associates have been most patient and helpful here for the last 2 hours.



I have a number of questions which I think, in the interest of time, I will submit to the Secretary and his colleagues, not for immediate answer but for answer for the record just as soon as the answer can be provided.

I will recognize other members, too, for conditional questioning, although may I suggest to the extent that the answer can be provided for the record rather than immediately here. This may expedite the proceedings.

Mr. Halpern has a question.

Mr. HALPERN. I have one additional query, which I think is most important to all of us, and on which we would like the benefit of your views before we go into executive session.

Mr. Secretary, I would like to ask: If 5(c) were removed, would it pose, in your opinion, any legal questions with respect to the charter?

In my opinion, I do not believe it would pose a problem as far as the charter was concerned.

Secretary FOWLER. It would not pose any problems as far as the charter is concerned.

Mr. HALPERN. Thank you.

Mr. WIDNALL. Mr. Chairman——

Mr. REUSS. Mr. Widnall.

Mr. WIDNALL. I would just like to say, Mr. Secretary, that we are very grateful for the opportunity that Congress has had to share with you in the birth of this new Asian Development Bank. I think it is, by far, the closest that Members of Congress views have been sought since Bretton Woods, and I am sure this close cooperation between the executive and legislative branches is going to prove healthy in a better understanding of the objectives and goals that are involved, and I hope that this kind of practice continues.

Secretary FOWLER. Thank you very much. Certainly we have every desire to do so in any projects with which we are concerned.

Mr. REUSS. In that connection, the Chair would like to say one of the reasons for this most helpful and cooperative spirit between the executive branch and the committee is because of the early initiative of Mr. Widnall, Mr. Halpern, and others of the minority who have worked equally hard with members of the majority in bringing this matter to the point where it is now.

Secretary FOWLER. It certainly is true. I have never seen a more bipartisan background for a worthwhile project.

Mr. REUSS. Mr. Multer?

Mr. MULTER. May I suggest that the Secretary consult with counsel when it comes to reviewing the record, particularly with reference to the questions addressed to him by Mr. Halpern a few moments ago. I think, Mr. Secretary, you may have answered that too readily. There may be legal implications that may be contrary to the statement. I think it may be unwise to strike out 5(c).

Secretary FOWLER. I always consult counsel.

Mr. REUSS. Are there any other of my colleagues who have any questions?

If not, I will announce that we shall meet tomorrow in this place at 10 o'clock to hear other witnesses.

On Monday next, at 10 o'clock in this same chamber we expect to hear from Secretary of State Rusk and David Bell, Administrator of AID.



I now have a number of questions to ask. I will not ask for an answer at this time.

Mr. Secretary, will you prepare for the record an answer to the following questions—

Secretary FOWLER. They will be prompt.

Mr. REUSS. No. 1. On page 52, table II of House Document 361 is a comparison of the U.S. subscription in the Asian Development Bank with that of various other multilateral development agencies. Would you provide us with a similar comparison of the voting power of the United States in the ADB and such other agencies?

Secretary FOWLER. Yes.

Mr. REUSS. No. 2. What is the present dollar volume of the U.S. exports to the regional member countries of the Asian Development Bank?

How do such exports of the United States compare with exports of nonregional participants; how do they compare with the exports of such regional participants such as Japan and India in terms of the dollar volume of the U.S. foreign aid flowing into Asian Bank area? What percentage of such total dollars are presently tied to purchases of goods and services in the United States, and, finally, what arrangements are made by other exporters of capital in or out of the region with regard to purchases of goods and services?

No. 3. What currently is the debt burden situation of prospective recipient borrowers from the Asian Development Bank, assuming that additional lending to these borrowers from the Asian Development Bank is made?

What can be anticipated concerning their ability to repay these loans in hard currencies—what portions of current loans are you currently absorbing by such debt servicing?

No. 4. What is the opinion of the World Bank concerning the establishment of the Asian Development Bank? Will the effect of the creation of the Asian Development Bank mean a decrease in participation of the members of the Asian Bank who are also members of the World Bank?

No. 5. Can loans by the Asian Development Bank be made directly to governments, to private enterprise activities, and to nonprofit corporations such as agriculture or housing cooperatives?

No. 6. I understand that prospective borrowers from Asian government banks must seek other sources of financing prior to consideration of a loan application by the ADB. Does this mean a prospective borrower will have to receive a turndown from institutions such as the World Bank—any of the others, IDA and private lenders—prior to consideration by the Asian Bank authorities? Just how will this work?

No. 7. What provisions will the ADB have regarding payments of capital into the Bank and repayment of loans for repayment in soft currencies?

I think that covers what I had in mind. If there are no other questions, then, with thanks from the subcommittee to the gentlemen from the Treasury, we will now stand adjourned until 10 o'clock tomorrow morning.

The information requested is as follows:)



## TREASURY DEPARTMENT RESPONSE TO QUESTIONS POSED BY MR. REUSS

No. 1. A comparison between the voting strength of the United States in the Asian Development Bank and U.S. voting strength in other international development finance institutions is given in the following table. It should be borne in mind that the U.S. share of total subscriptions in the Asian Bank of approximately 20 percent compares with a 29.3-percent share in IBRD, a 32.1-percent share in IDA, a 35.6-percent share in IFC, and a 41.2-percent share in the ordinary capital of the IDB.

*U.S. voting power in Asian Development Bank compared with voting power in other international development finance institutions*

[In percent]

|                                                                         | IBRD <sup>1</sup> | IDA <sup>1</sup> | IFC <sup>1</sup> | IDB <sup>2</sup><br>(ordinary capital) | ADB <sup>3</sup> |
|-------------------------------------------------------------------------|-------------------|------------------|------------------|----------------------------------------|------------------|
| Total voting power-----                                                 | 100.0             | 100.0            | 100.0            | 100.0                                  | 100.0            |
| Voting power of developed country members, including United States----- | 66.41<br>(26.32)  | 64.71<br>(26.23) | 70.60<br>(29.90) | 42.47<br>(42.47)                       | 62.44<br>(16.69) |
| Voting power of developing country members-----                         | 33.59             | 35.29            | 29.40            | 57.43                                  | 37.56            |

<sup>1</sup> Based on data as of June 30, 1965; developed countries defined as those countries within and part I members of IDA.

<sup>2</sup> Based on data as of Jan. 1, 1965.

<sup>3</sup> Based on subscription pledges totaling \$997.08 million, in accordance with information available through Feb. 7, 1966.

The information requested in question No. 2 is as follows:

TABLE A.—*U.S. exports to ADB developing countries, 1964 and 1965*

[In millions of dollars]

| Country          | Calendar 1964 | Calendar 1965 |
|------------------|---------------|---------------|
| Afghanistan----- | 15.9          | 13.6          |
| Cambodia-----    | 2.6           | 1.8           |
| Ceylon-----      | 9.4           | 10.0          |
| China-----       | 145.4         | 171.6         |
| India-----       | 947.9         | 974.0         |
| Iran-----        | 130.9         | 159.5         |
| Korea-----       | 197.6         | 198.1         |
| Laos-----        | 7.4           | 8.6           |
| Malaysia-----    | 75.9          | 88.0          |
| Nepal-----       | .8            | 1.3           |
| Pakistan-----    | 375.6         | 321.7         |
| Philippines----- | 356.5         | 341.8         |
| Vietnam-----     | 133.3         | 172.9         |
| Thailand-----    | 82.8          | 93.4          |
| Total-----       | 2,482.0       | 2,556.4       |

## NOTES

1. From U.S. Department of Commerce data, on f.o.b. basis.

2. Data for 1965 are annual rates based on results for 10 months.

3. Singapore included in Malaysia data; Western Samoa data not separately available.



TABLE B.—U.S. share of 1964 imports of ADB developing countries compared to shares of other principal countries in ADB

[In percent]

| Country                    | Australia | Austria | Belgium | Canada | Denmark | Finland | Germany | India | Italy | Japan | Netherlands | New Zealand | Norway | Sweden | United Kingdom | United States | Other |
|----------------------------|-----------|---------|---------|--------|---------|---------|---------|-------|-------|-------|-------------|-------------|--------|--------|----------------|---------------|-------|
| Afghanistan                | (1)       |         |         |        |         |         | 13.7    | 19.9  | 2.3   | 14.6  | 2.0         | (1)         | (1)    | (1)    | 3.7            | 26.8          | 17.0  |
| Cambodia                   | 2.6       | (1)     | (1)     | (1)    | (1)     | (1)     | 3.6     | 5.2   | 1.7   | 20.0  | 2.6         | (1)         | (1)    | (1)    | 4.2            | 4.9           | 56.5  |
| Ceylon                     | 6.1       | (1)     | 1.3     | (1)    | (1)     | (1)     | 3.3     | 8.8   | 1.1   | 6.8   | 2.5         | (1)         | (1)    | (1)    | 16.2           | 2.7           | 50.0  |
| People's Republic of China | 2.2       | (1)     | 1.6     | (1)    | (1)     | (1)     | 3.8     | 3.3   | 1.8   | 35.1  | 1.1         | (1)         | (1)    | (1)    | 1.4            | 32.7          | 21.2  |
| India                      | 1.3       | 1.4     | 2.1     | (1)    | (1)     | (1)     | 8.8     | 3.3   | 1.8   | 6.4   | 1.1         | (1)         | (1)    | (1)    | 14.1           | 31.0          | 30.7  |
| Iran                       | 1.4       | 1.3     | 2.1     | (1)    | (1)     | (1)     | 18.6    | 1.4   | 4.1   | 6.4   | 3.0         | (1)         | (1)    | (1)    | 14.6           | 16.2          | 27.0  |
| Republic of Korea          | 2.0       | (1)     | (1)     | (1)    | (1)     | (1)     | 5.9     | (1)   | 1.1   | 27.2  | 1.0         | (1)         | (1)    | (1)    | 8.8            | 50.0          | 10.8  |
| Laos                       | (1)       | (1)     | (1)     | (1)    | (1)     | (1)     | (1)     | (1)   | (1)   | 4.8   | (1)         | (1)         | (1)    | (1)    | 16.7           | 28.1          | 58.3  |
| Malaysia                   | 6.0       | (1)     | (1)     | (1)    | (1)     | (1)     | 3.8     | 3.2   | 1.0   | 12.2  | 2.5         | (1)         | (1)    | (1)    | 10.4           | 6.2           | 46.2  |
| Nepal                      |           |         |         |        |         |         |         |       |       |       |             |             |        |        |                |               |       |
| Pakistan                   | .8        | (1)     | 1.0     | 2.2    | (1)     | (1)     | 12.3    | 2.2   | 2.0   | 7.7   | 1.2         | (1)         | (1)    | (1)    | 13.5           | 41.7          | 14.2  |
| Philippines                | 3.1       | (1)     | .8      | 2.8    | (1)     | (1)     | 5.4     | 2.2   | 1.0   | 19.9  | 2.5         | (1)         | (1)    | (1)    | 4.3            | 40.0          | 18.5  |
| Republic of Vietnam        | .5        | (1)     | .8      | (1)    | (1)     | (1)     | 2.7     | 2.2   | 2.5   | 10.8  | 2.5         | (1)         | (1)    | (1)    | 1.5            | 42.5          | 35.2  |
| Singapore                  | 3.6       | (1)     | .4      | (1)    | (1)     | (1)     | 2.6     | 2.6   | .9    | 9.5   | 1.9         | (1)         | (1)    | (1)    | 10.0           | 5.3           | 61.2  |
| Thailand                   | 2.1       | (1)     | .8      | .7     | (1)     | (1)     | 7.8     | 1.0   | 1.8   | 33.0  | 3.6         | (1)         | (1)    | (1)    | 9.2            | 16.4          | 21.2  |
| Western Samoa              |           |         |         |        |         |         |         |       |       |       |             |             |        |        |                |               |       |

<sup>1</sup> Negligible.<sup>2</sup> Includes imports from New Zealand and South Africa.<sup>3</sup> Country distributions projected from 9 months data.<sup>4</sup> Includes Singapore.<sup>5</sup> No data available.

Source: Direction of Trade, Annual 1960-64 (all import data adjusted to c.i.f. basis).



TABLE C.—U.S. nonmilitary assistance to ADB developing countries, fiscal years 1964 and 1965

[Net obligations and loan authorizations, in millions of dollars]

| Country            | Fiscal year<br>1964 | Fiscal year<br>1965 |
|--------------------|---------------------|---------------------|
| Afghanistan.....   | 41.9                | 31.9                |
| Cambodia.....      | -7.9                | -5.6                |
| Ceylon.....        | 3.3                 | 4.0                 |
| China.....         | 48.5                | 60.3                |
| India.....         | 689.8               | 718.2               |
| Iran.....          | 26.7                | 43.5                |
| Korea.....         | 226.8               | 182.9               |
| Laos.....          | 42.0                | 48.1                |
| Malaysia.....      | 4.0                 | 4.3                 |
| Nepal.....         | 6.3                 | 12.4                |
| Pakistan.....      | 379.6               | 347.0               |
| Philippines.....   | 18.4                | 34.5                |
| Vietnam.....       | 230.3               | 268.9               |
| Singapore.....     | ( <sup>1</sup> )    | ( <sup>1</sup> )    |
| Thailand.....      | 32.2                | 41.7                |
| Western Samoa..... |                     |                     |
| Total.....         | 1,741.9             | 1,792.1             |

<sup>1</sup> Not available.

## NOTES

1. Negative figures indicate net deobligations.
2. May not add due to rounding.
3. Figures include supporting assistance and contingency funds related to U.S. political and security objectives in Asia amounting net to \$270,400,000 in fiscal year 1964 and \$327,300,000 in fiscal year 1965. By country these amounts were as follows:

|               | Fiscal year<br>1964 | Fiscal year<br>1965 |
|---------------|---------------------|---------------------|
| Korea.....    | 75.0                | 69.7                |
| Laos.....     | 32.0                | 37.0                |
| Thailand..... | 6.5                 | 11.9                |
| Vietnam.....  | 156.9               | 208.7               |

NOTE.—Minor amounts of supporting assistance were deobligated in 5 other Asian countries during these fiscal years.

*Tying of aid.*—As indicated in the President's foreign aid message, with minor and essential exceptions, all funds appropriated to AID must be spent in the United States for American goods and services.

Vigorous efforts are being made to reduce still further the amount of foreign assistance which is not tied to U.S. procurement.

Detailed information is not readily available on the tying practices of other capital exporting countries. The Development Assistance Committee has recently estimated, on the basis of data for 1961–63, that roughly two-thirds of the gross assistance provided to all countries by DAC members was tied.

The information requested is as follows:

No. 3. The most recent overall study on the debt situation of developing countries is that published under the sponsorship of the World Bank, entitled *Economic Growth and External Debt*,<sup>1</sup> by Dragoslav Avromovic. Data from that study are presented in the following table on those ADB developing countries for which available. It should be borne in mind that significant changes in the external position of certain of the countries listed have taken place since the date of the information used in the study.



*External public debt situation of ADB developing countries*

[In millions]

| Country          | Outstanding<br>external<br>public debt,<br>1962 | Total debt<br>service pay-<br>ments, 1963 | Foreign<br>exchange<br>earnings<br>from ex-<br>ports, 1963 | As percent<br>of column<br>(3) |
|------------------|-------------------------------------------------|-------------------------------------------|------------------------------------------------------------|--------------------------------|
|                  | (1)                                             | (2)                                       | (3)                                                        | (4)                            |
| Ceylon.....      | 117.3                                           | 8.5                                       | 363                                                        | 2.3                            |
| China.....       | 89.2                                            | (1)                                       | 332                                                        | (1)                            |
| Korea.....       | 78.4                                            | (1)                                       | 87                                                         | (1)                            |
| India.....       | 2,925.8                                         | 238.0                                     | 21,666                                                     | 14.3                           |
| Iran.....        | 449.9                                           | 62.6                                      | 933                                                        | 6.7                            |
| Pakistan.....    | 829.2                                           | 58.1                                      | 417                                                        | 13.9                           |
| Philippines..... | 222.3                                           | 63.9                                      | 727                                                        | 8.8                            |
| Thailand.....    | 249.7                                           | 19.6                                      | 466                                                        | 4.2                            |

<sup>1</sup> Not available.<sup>2</sup> Indian fiscal year beginning Apr. 1.

Source: IBRD (cols. 1 and 2).

While certain of the developing countries in the ADB may only be able to make hard currency repayments on further external borrowings if such borrowings are on concessional terms as to interest and amortization, there remain ample opportunities for lending by the Asian Development Bank in countries with capacity to service some or all of their further borrowings on normal repayment terms.

No. 4. While the World Bank has not been called upon to express a formal position regarding the Asian Development Bank, the World Bank has already given ample evidence that it is prepared to cooperate fully with the Asian Development Bank and assist it where feasible. The World Bank made available one of its senior legal experts to assist in the negotiations at Bangkok. The World Bank also sent one of its senior operating officers concerned with Asian affairs to attend the Manila Conference. It is understood that the management of the World Bank has given assurances that it stands ready to assist in the training of personnel once the Asian Bank begins to assemble its staff. In regard to loan operations, it is reasonable to expect the evolution of a complementary relationship between the two banks, similar to the cooperative relationship established in Latin America between the World Bank and the Inter-American Development Bank.

No reduction on the part of prospective Asian Development Bank members in their participation in the World Bank is foreseen. The United States intends to continue its full support of the World Bank and its affiliates and will expect and urge other countries to do likewise.

No. 5. The articles of agreement of the Bank confer on it broad authority to lend to public or private borrowers. Accordingly, the Bank may lend directly to governments, to private enterprise activities, and to nonprofit corporations such as agricultural or housing cooperatives. In the case of loans made to a borrower which is not the member government itself, the Bank may, if it deems it advisable, require that the member government or an acceptable agency thereof guarantee payments on the loan.

No. 6. The articles of agreement of the Asian Development Bank require that—

“In considering an application for a loan or guarantee, the Bank shall pay due regard to the ability of the borrower to obtain financing or facilities elsewhere on terms and conditions the Bank considers reasonable for the recipient, taking into account all pertinent factors” (art. 14 (v)).

Similar provisions exist in the articles of the World Bank and the IDB.

As with other operational aspects, the Asian Bank's Board of Directors will develop the specific policies by which this principle expressed in the articles will be put into practice. For this reason, it is not possible to give an answer at this time as to the criteria that may be employed in determining whether or not alternative financing is reasonably available. It does not appear likely, however, that in their interpretation of article 14(v), the Asian Development Bank's



directors will feel compelled to require formal submission of a loan request to, and formal rejections by, other public or private lenders as a prerequisite for consideration by the Asian Bank. Neither the World Bank nor the Inter-American Bank have placed so restrictive an interpretation on the similar provisions of their own charters.

No. 7. The articles of agreement of the Bank require the Bank's developing members to make subscription payments 50 percent in gold or convertible currency. The remaining 50 percent of subscriptions may be made in national currency, the use of which may be limited to acquisition of national goods or services for projects in the developing member's territory. Only to this extent may subscriptions be made in the "soft" currencies of developing member countries.

With regard to loan repayments, the charter provides that all repayments of loans from the Bank's own funds must be made in the currency loaned, or in gold or other convertible currency. Only in the case of loans out of special funds provided to the Bank by a member for lending on terms which include local currency repayment could the Bank permit repayment of a hard currency loan in soft currency. Of course, a loan made to a member in its own currency would be repayable in that currency.

(Whereupon, at 12:05 p.m., the subcommittee adjourned, to reconvene at 10 a.m., Thursday, January 27, 1966.)



## ASIAN DEVELOPMENT BANK ACT

THURSDAY, JANUARY 27, 1966

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

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

Present: Representatives Reuss, Moorhead, Gonzalez, Hanna, White, Ottinger, Halpern, Widnall, and Talcott.

Also present: Representatives Todd and Cabell of the full committee.

Mr. REUSS. Good morning; the International Finance Subcommittee of the House Committee on Banking and Currency will be in order for a further hearing on H.R. 12219, a bill to provide for participation of the United States in the Asian Development Bank.

Yesterday we heard from representatives of the U.S. Treasury, and this morning we are privileged to hear from representatives of three organizations: the AFL-CIO, the American Bankers Association, and the Citizens Foreign Aid Committee to Aid American Taxpayers.

We are very grateful for your help. If Dr. Groseclose, Mr. Biemiller, and Mr. Heffelfinger will come up to the table and Mr. Doherty, we would appreciate it.

Do I understand, Mr. Doherty, you are going to give Mr. Biemiller's statement?

Mr. DOHERTY. Yes.

Mr. REUSS. All right.

I will recognize first the representative of the AFL-CIO.

Will you identify yourself, Mr. Doherty?

### STATEMENT OF JAMES F. DOHERTY, LEGISLATIVE REPRESENTATIVE, AFL-CIO; ACCOMPANIED BY WILLIAM A. DOUGLAS, AID TO THE ADMINISTRATOR, AMERICAN INSTITUTE FOR FREE LABOR DEVELOPMENT

Mr. DOHERTY. My name is James F. Doherty, and I am the legislative representative for the AFL-CIO. Mr. Biemiller, who was scheduled to be here, was called over to the other body on another piece of legislation that he is working on.

Mr. REUSS. We are very happy to have you, Mr. Doherty. Please proceed.

Mr. DOHERTY. I am accompanied this morning by Dr. William Douglas, who is with the staff of the American Institute for Free Labor Development, and his presence here, I guess, will be explained by my statement.



Mr. Chairman, my name is James F. Doherty, I am the legislative representative for the AFL-CIO and I am here today to express the support of the American labor movement for H.R. 12219 and H.R. 12220, bills sponsored by Congressman Patman, the chairman of the Committee on Banking and Currency, and by Congressman Reuss, the chairman of the Subcommittee on International Finance.

The legislation authorizes the President to accept membership for the United States in the Asian Development Bank in accordance with the Agreement Establishing the Asian Development Bank last December.

We heartily support this legislation since it initiates, in the words of President Johnson, "a cooperative effort for peaceful development and human betterment in Asia." The AFL-CIO, through convention action and executive council resolution, has consistently affirmed its support for a practical and humanitarian foreign economic policy which recognizes that material improvement in human welfare is essential to preserve freedom in the world.

In connection with the operation of the Asian Development Bank—which we support—we are particularly concerned about one aspect of this program which holds tremendous potential for assuring human betterment, human welfare, and development of free and democratic social institutions.

I refer to the provisions of article 19, paragraphs 2 and 3, of the Agreement Establishing the Asian Development Bank. These sections allow the establishment of special funds for long-range and low-interest loans and guarantees for matters of high developmental priority which are in line with the purposes of the Bank.

One of the Bank's functions, as set forth in article 2, subsection ii, is—

to utilize the resources at its disposal for financing development of the developing member countries in the region, giving priority to those regional, sub-regional as well as national projects and programmes which will contribute most effectively to the harmonious economic growth of the region as a whole \* \* \*

This language embodies an earlier concept developed through the establishment and implementation of the Inter-American Development Bank. Less than 2 years after the Inter-American Bank was established, the Bank and the United States created the Special Progress Trust Fund. By this agreement concluded on June 19, 1961, the Inter-American Development Bank became the administrator of this Fund. The money appropriated to this Fund which was approved by Congress is used in four areas:

Development of housing for low-income families.

Land improvement and land tenure.

Water and sanitation development.

Higher education.

Loans from this Fund are made to national and local governments, private borrowers and—particularly important to us—to cooperatives and organizations sponsored by or affiliated with free labor unions.

The American Institute for Free Labor Development, created by the AFL-CIO along with representatives of American industry, is drawing upon these funds for the creation of low-cost workers' housing in several Latin American countries in cooperation with Latin American labor unions and with union-sponsored organizations.



The people of Asia need low-cost housing, credit and marketing facilities, cooperatives, technical training, community development services, agrarian reform, health and sanitation, and the like.

Our successful experience in Latin America with projects supported by the American Institute for Free Labor Development demonstrates that free trade unions, with proper guidance and assistance, can do a similarly effective job in Asia.

We realize that experience in Latin America cannot be transferred in toto to Asia, and we are not now advocating establishment of an Asian equivalent of the American Institute for Free Labor Development. Nevertheless, we believe that the Asian Development Bank should operate in such a way that it will foster, develop, and strengthen institutions of a free democratic society such as labor unions and cooperatives.

Therefore, the AFL-CIO most urgently recommends to this subcommittee that the U.S. Congress give a clear expression of intent in the legislative history of its approval of U.S. participation in the Asian Development Bank. We believe that this intent should be clearly spelled out to show that the Congress desires and expects the Bank's authority to establish and administer special funds will be utilized as fully as possible for social development projects sponsored by labor unions, cooperatives and similar institutions, following the pattern of the Social Progress Trust Fund of the Inter-American Development Bank.

Finally, Mr. Chairman, I note that the Inter-American Development Bank has a special assistant to its president who is responsible for liaison with the Latin American labor movement. This is a sound procedure and we recommend that your committee call for a similar position to be established by the Asian Development Bank.

Mr. Chairman, I thank you for this opportunity to present the support of the AFL-CIO for U.S. participation in the Asian Development Bank.

Mr. REUSS. Thank you, Mr. Doherty. Have you fully identified for the record your colleague here this morning?

Mr. DOHERTY. Yes, Congressman, I have. He is Dr. William Douglas, and he is on the staff of the American Institute for Free Labor Development.

Mr. REUSS. We will next hear from Mr. Heffelfinger.

Mr. HEFFELFINGER. Yes, sir.

Mr. REUSS. Will you identify yourself?

**STATEMENT OF CHARLS E. WALKER, EXECUTIVE VICE PRESIDENT,  
AMERICAN BANKERS ASSOCIATION, AS PRESENTED BY WILLIAM  
T. HEFFELFINGER, FEDERAL ADMINISTRATIVE ADVISER,  
AMERICAN BANKERS ASSOCIATION**

Mr. HEFFELFINGER. I am William T. Heffelfinger, Federal administrative adviser of the Washington office of the American Bankers Association.

I have here a statement prepared by Dr. Walker, who fully intended to be here for this purpose. He had to return to New York City yesterday afternoon and was unable to make connections to get here this morning.

With your permission, sir, I would like to read his statement.



Mr. REUSS. You are very welcome and I appreciate your reading it.

Mr. HEFFELFINGER. Reading Dr. Walker's statement—we appreciate this opportunity to express our views on H.R. 12219, a bill to provide for the participation of the United States in the Asian Development Bank. We urge its prompt enactment.

President Johnson, in his message to the Congress on January 18, 1966, presented cogent reasons for participation by the United States in the Asian Development Bank. There is no need to repeat them. It should be noted, however, that nearly two-thirds of the \$1 billion of capital resources of the Bank will be furnished by 21 regional countries, and the balance by 12 nonregional countries, including the United States. Japan and the United States will each supply \$200 million; followed by India, Australia, and Iran which will supply a total of \$238 million. Other regional and nonregional countries will supply about 36 percent of the total in amounts ranging from \$60,000 by Western Samoa to \$35 million by the Philippines. The bill before the committee authorizes an appropriation of \$200 million to cover the capital subscription by the United States.

The charter of the Bank provides that one-half or \$500 million of its authorized capital shall be paid in five equal installments, the first on entry in force of the charter, and the remainder in four annual payments thereafter. This will require payments by the United States of five installments of \$20 million each. The balance of the authorized capital, \$500 million, shall be subject to call on a uniform basis if needed in the event the Bank, at some future date, would be unable to meet its commitments.

The American Bankers Association, in supporting participation of the United States in the Asian Development Bank, has taken into consideration the fact that we are not dealing with a unique or untried form of international organization. The Bank will be organized and operated along the lines of the International Bank for Reconstruction and Development and the Inter-American Development Bank. These latter institutions have demonstrated the effectiveness of marshaling the collective resources of member countries in cooperative undertakings for financing major projects essential for the economic development of many areas throughout the world. The establishment of regional banks, soundly conceived and administered, is a logical and desirable extension of the successful approach to development financing as employed on a world basis by the International Bank for Reconstruction and Development.

All, except four, of the regional countries participating in the Asian Development Bank also are members of the International Bank, but they are devoting larger amounts of their resources to the Asian Bank. The new Bank will limit its operations to fostering economic growth and cooperation in the region of Asia and the Far East and thereby contribute to the acceleration of the process of economic development of the developing member countries in the region, collectively and individually. In keeping with its Asian character, the Bank would have predominantly Asian management.

The question may be raised whether at a time when the United States is exerting strenuous efforts to improve its international balance-of-payments position, it should divert dollar resources to a new international organization. The dollar outlay required for our participation is so relatively small as compared to our total resources, and will be spread over a period of nearly 5 years, that we believe this factor



does not need to be considered in determining our participation in the Bank. What is more important is that we can reasonably be assured that the Bank will play an important role in accelerating the economic growth of the developing countries in Asia and the Far East, and this in turn will increase international trade. The United States can confidently look forward to sharing in this increasing trade. It is necessary to foster the economic growth of the developing nations of the world if we expect to achieve lasting prosperity and soundly based international trade. The United States must lend its support to cooperative efforts to reach these objectives.

Mr. REUSS. Thank you, Mr. Heffelfinger.

Dr. Groseclose?

**STATEMENT OF DR. ELGIN GROSECLOSE, REPRESENTING THE  
CITIZENS FOREIGN AID COMMITTEE; ACCOMPANIED BY BRIG.  
GEN. BONNER FELLERS, NATIONAL CHAIRMAN**

Dr. GROSECLOSE. Thank you, Mr. Chairman.

Mr. Chairman and members of the committee, thank you for the privilege of appearing before you in regard to H.R. 12219, a bill to provide for the participation of the United States in the Asian Development Bank.

My name is Elgin Groseclose. I appear under the auspices of the Citizens Foreign Aid Committee to register my views and the committee's views on this legislation. The questions before you have interested me for many years. My first professional assignment 43 years ago was as a Department of Commerce specialist in Far Eastern finance. My first publications were two monographs, one on "Budgets of Far Eastern Countries," and the other, "Currency Systems of the Orient." Both are official documents of the Department of Commerce. During World War II, I served as Treasurer General of Iran by appointment of the Iranian Parliament. The firm which I head—Groseclose, Williams & Associates, financial and investment consultants of Washington—has been active for several years in promoting trade and financial relations between United States and Indian businesses. My most recent book is a history of the Federal Reserve System, just published, and entitled "Fifty Years of Managed Money—the Story of the Federal Reserve System."

I will confine my comment to three pertinent observations. My first relates to the controls over the operations of the proposed Bank. A sound principle is that governmental bodies should be responsive to the will of the people. The great movement to democracy began with a rebellion against autocratic agencies operating under irresponsible authority. The distinguished chairman of the House Banking and Currency Committee has long exercised concern over the quasi-independence of the Federal Reserve System, and has persistently sought to bring it more effectively under the control of the Executive.

It is curious, therefore, and paradoxical, that the chairman should have introduced a bill that adds to the proliferation of supragovernmental agencies which are in effect self-perpetuating bureaucracies only remotely responsive to the public will.

There are at present seven governmental agencies with power to distribute U.S. dollars for various benign purposes abroad, and all of them are fortified by the U.S. Treasury. One of these, the Inter-



American Development Bank, is limited to assisting Latin American countries. The remaining six are fully qualified and upholstered to assist Asian countries and their existence raises question as to the need for yet another.

These lending agencies are the Export-Import Bank of Washington, the Agency for International Development, the International Bank for Reconstruction and Development, the International Monetary Fund, the International Development Association, the International Finance Corporation.

Of these seven institutions only two, the Export-Import Bank and the Agency for International Development, are under effective control of the U.S. Congress. The remaining five are in effect beholden to no one. This is a fact familiar to anyone who travels the Washington scene. Which officials of these agencies appear before this or any other committee of the Congress to explain their operations? Which of these agencies are subject to audit by the General Accounting Office? Indeed, what official of the U.S. Government, including the Chief Executive, exercises any supervision and control over the operation of these agencies? For that matter, which of them are subject to any audit whatsoever?

According to an official statement by the Department of Commerce the U.S. Director of these agencies is "instructed by the National Advisory Council on International Monetary and Financial Problems." But what is this Council? It is not listed in the official telephone or agency directory; neither the Executive Office nor Government information seem to know of it. After considerable research one official advised that this National Advisory Council has been defunct since the expiration of the Government Reorganization Act. Such is the bureaucratic bog from which flows the supposedly crystal stream of U.S. authority and influence over international agencies.

Yet these international agencies exert an influence over the U.S. monetary structure that should be disturbing to anyone concerned for the quasi-independence of the Federal Reserve System. By their power to create dollar credits they can, and do, set up balance-of-payments drains and drafts upon our gold stock which imperil the stability of the dollar and reflexively the economic stability of the entire free world.

You are asked, as representatives of the American people, to authorize participation in an international institution which has been, as the President declared, conceived and sponsored by Asians, the charter of which was drawn up on the other side of the earth, the terms of which may be known to some of you, but certainly not to the American public. If ever there was a case of buying a pig in a poke, this is it.

International cooperation is an excellent theory. It would be comforting, indeed, if the United States in its involvement in south-east Asia, could enjoy some cooperation from its scores of allies and friends to whom, in our naive trust, we have passed out some \$120 billion in foreign aid. Unfortunately, these practicalities of international cooperation are not solved by a proliferation of supranational agencies exercising ungoverned, autocratic power, such as is here proposed in the Asian Development Bank.

Moreover, the notion that this Asian Development Bank will be a cooperative operation of Asians is spurious. Make no mistake—



despite the limited official U.S. contribution of 20 percent, and the minority voice the United States will have, the principal resources of the Bank will be U.S. dollars.

The voice will be that of Asia, but the extending hand will be that of Uncle Sam. With the exception of Japan and the Commonwealth countries, none of these Asiatic members is in position to provide funds for lending to others. They are all dependent upon U.S. assistance. In total they have received over \$54 billion in U.S. aid. It is obvious where the money will come from to meet their capital subscriptions and, of course, recurring levies. Vietnam, for instance, is set down for \$7 million. Where do you suppose Vietnam will find that \$7 million? Nepal is down for \$2 million, Singapore for \$4 million, Cambodia and Laos for other amounts. It is surprising to learn that these countries are able to become international bankers.

Certainly, if these Asian countries are able to become international bankers, then it is odd that we should be asked to continue foreign aid to them.

The objection to the Bank lies upon still deeper grounds—banking and lending agencies or government or foreign aid are not the proper agencies to solve the problems of Asia. I can recall when U.S. money doctors were going around the world setting up imitation Federal Reserve Systems as the panacea for the world's ills. Fifteen years ago President Truman inaugurated what he called a crash program of foreign aid to solve India's problems within the decade. Fifteen years later, and India is today faced with starvation, and by common measures worse off economically than before foreign aid began. India, incidentally, is set down for \$93 million subscription to the Bank.

The same is true for most of the aid-recipient countries of Asia. The Food and Agriculture Organization recently reported that for the advanced countries 1965 food production rose 14 percent above the 1955-57 average, but only 1 percent in the so-called developing countries.

The fact is, that in proliferating international banking and lending agencies we have the wrong end of the stick; we are only compounding the ills of the developing countries. The defect of lending agencies is that they must, by necessity, lend to large enterprises, and to men and organizations already in possession of capital and power. The urgent need is rather among the needy, the indigent. Our foreign aid program relies too much on the trickle-down theory, with the result in the developing countries of the rich getting richer and the poor, poorer, while corruption flourishes. As the New York Times, a longtime fanatical advocate of foreign aid, conceded editorially last Monday:

There is need for establishing a clear order of priorities \* \* \*. The highest priority must go to alleviating the hunger now so widespread.

Ten years ago, in my earliest appearance before a congressional committee in opposition to foreign aid, I pointed out, from my personal observations in Turkey, that the aid program "demoralized traditional livelihood systems and created the very unrest and unsettlement which it was designed to allay." Turkey, formerly self-sufficient and an exporter of wheat, has now become dependent upon U.S. wheat supplies. A distinguished former Member of the House, a member of the Foreign Affairs Committee, and a strong advocate of foreign aid, recently conceded that, until his recent visit to Korea, he had not



realized how our cotton subsidy program had wrecked the Korean cotton economy. Iran, long an exporter of foodstuffs, now is an importer of American wheat, while it lays ambitious plans for a steel mill and other industrial enterprise. India has become chronically dependent upon American wheat, despite or because of our billions in aid.

Notwithstanding these evidences, the President speaks rather of "the building of roads, dams, harbors, powerplants" as an objective of the proposed Bank. These will surely facilitate the increased imports of U.S. wheat and other foodstuffs and further cripple and stagnate indigenous efforts to produce food for the market.

The time allowed compels me to end my comments, though the case against establishing the Asian Development Bank could be documented to fill a book.

I close by urging the House Committee on Banking and Currency to reject the bill.

Thank you very much.

Mr. REUSS. Thank you, Dr. Groseclose.

Mr. Moorhead?

Mr. MOORHEAD. Thank you, Mr. Chairman. I understand you are opposed to foreign aid, but do I understand that of the two evils of multilateral aid and bilateral aid you think that bilateral foreign aid is the lesser evil?

Dr. GROSECLOSE. I would say indeed it is the lesser of the two evils.

Mr. MOORHEAD. Thank you, Mr. Chairman. I have no further questions.

Mr. REUSS. Mr. Talcott?

Mr. TALCOTT. I would like to ask a couple of questions.

Mr. DOHERTY, you are speaking on behalf of Mr. Biemiller, who preferred to be in the Senate rather than the House today, I take it?

Mr. DOHERTY. Yes, sir. That is right.

Mr. TALCOTT. Do you have any objection to a good deal of this money that would be used by the Asian Development Bank being devoted to birth control, family planning, or population control?

Mr. DOHERTY. Well, as a father of seven children, no, Congressman, I don't have any objection.

Mr. TALCOTT. It would be a good idea, would it not?

Mr. DOHERTY. That is right, sir. We have no objection.

Mr. TALCOTT. This is one of our problems. We give money, we lend money, we do all kinds of things with money to foreign countries and it doesn't raise their standard of living at all. We go further and further behind because the per capita change is negative. They become worse off because they have more people.

Mr. DOHERTY. If you are going to talk about satisfying some of the needs of the people of Asia, one of their problems is population. Population growth is a fact and you would have to be blind not to recognize that something has got to be done about it.

Mr. TALCOTT. I am not sure that any of us can deny your allegations, Dr. Groseclose. This disturbs me a bit.

Dr. GROSECLOSE. Thank you.

Mr. TALCOTT. I have always felt that if we were going to help foreign nations, and I think we should, as we help neighbors and needy people in our communities, we should do it in the community of nations—that a banking institution, the banking disciplines, the banking techniques were far superior than just giving out money.



You would agree with that, would you not, that if we are going to try to help a foreign country wouldn't it be far preferable to help using banking methods rather than welfare methods?

Dr. GROSECLOSE. That is a mixed question. There are certain welfare methods—if you intend to extend welfare—that would be preferable, if you can reach down to the people. In our history, one of the first experiences was back in about 1796 when the Congress appropriated money to relieve the earthquake sufferers of Peru. In that case, you had direct assistance which was probably proper in an emergency. But generally speaking, banking, as I have pointed out here, becomes remote from control, remote from the need. It serves the wrong ends of the economy. It doesn't reach down to the people. My own feeling is that you should have bilateral, person-to-person aid or people-to-people programs. I myself organized and founded a work for the blind of the Middle East, the only American organization presently carrying on the work for the blind in that region and we are doing it at a far lesser expense than by any official program, and we are reaching thousands of people.

Mr. TALCOTT. This is something I think that disturbs many of us. I voted against our foreign aid program because I thought it was not adequate but I consistently tried to find other solutions. Banking techniques, for instance.

Dr. GROSECLOSE. I was in Iran when the foreign aid began, Mr. Congressman. At that time the conception was of a simple program of technical assistance and education among the farmers. The head of it was a distinguished man from my State, Dr. Bennett, president of one of our universities. He was unfortunately killed, as you know, in an airplane accident over Iran. I was in the office of the Iran Director when he received a cable from Washington telling him to increase their budget from \$1 million to \$50 million, and I saw his face fall and he said, "We can't spend that kind of money without creating corruption and waste."

But we suddenly converted the program from what was originally highly motivated, a well-conceived program, of a simple demonstration of agricultural techniques to a process of industrializing these countries, and the effort to industrialize has created this terrible food problem we now have and now we are trying the wrong way again. We are trying to solve it by genocide, in effect; that is, killing off the unborn rather than directing our efforts to creating food.

There is a book just came out, "The Sahara," by James Welland, in which the author points out that the Romans cultivated vast areas of the Sahara which are now desert and it was the granary of the Roman Empire at one time. There is plenty of food available in the world. But apparently we are trying to industrialize and then kill off the people by not meeting the real problem, which is increasing the food supply.

Mr. TALCOTT. The trouble is we are not dealing with Roman days, we are dealing with today. We have to devise and use the best system we can for today.

Dr. GROSECLOSE. We have the techniques that the Romans had or even better techniques and we can increase food supplies.

Mr. TALCOTT. Mr. Chairman, I think Dr. Groseclose has asked some questions that need answering particularly with regard to the reporting, auditing, this sort of thing.

Is there any way we can get some answers to his questions?



Mr. REUSS. Would the gentleman yield?

Mr. TALCOTT. Surely, I yield.

Mr. REUSS. Yes, I think I can give the answer right now.

Dr. Groseclose, you referred to the International Bank for Reconstruction and Development and the International Development Association, and you asked, "Which officials of these agencies appear before this or any other committee of the Congress to explain their operations, which of them are subject to any audit whatsoever?"

I now hand you the report of the International Bank for Reconstruction and Development, International Development Association, for the years 1964 and 1965 and ask you to read with me page 44 thereof, an independent auditor, to the International Development Association, Washington, D.C., dated July 29, 1965:

In our opinion the accompanying financial statements present fairly in terms of U.S. currency the financial position of the International Development Association at June 30, 1965, and the results of its operations for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included a review of allocation of expenses incurred jointly with the International Bank and tests of the accounting records and such other auditing procedures, that we considered necessary.

PRICE WATERHOUSE & Co.

Nothing wrong with them, is there?

Dr. GROSECLOSE. Mr. Chairman, is Price Waterhouse & Co. an agency of the U.S. Government?

Mr. REUSS. No; your question was whether this was subject to audit.

Dr. GROSECLOSE. No, subject to public control.

Mr. REUSS. Well, the record will have to speak as to the question you asked.

Dr. GROSECLOSE. Responsive to the people.

Mr. REUSS. But my question to you, sir: Is Price Waterhouse an auditor?

Dr. GROSECLOSE. They are an auditor; yes, indeed.

Mr. REUSS. I will now call your attention to pages——

Mr. TALCOTT. Mr. Chairman, I decline to yield further. I didn't want to turn this into a wrestling match.

Mr. REUSS. I thought you wanted an answer to your question.

Mr. TALCOTT. Yes, of course.

Mr. REUSS. We will be back on this.

Mr. TALCOTT. I don't want to preclude valuable testimony, but I don't want to start an argument between two men who agree Price Waterhouse is a capable auditor. I think this is missing the point that Dr. Groseclose really wanted to present. What are the auditing procedures that are responsible to the Federal Government or to Congress, or to this committee? That is what he was interested in.

I would like to get an answer to his question. We have to admit that Price Waterhouse is a competent auditor.

Mr. REUSS. Well, the question was which of them are subject to any audit whatsoever, and if you agree that Price Waterhouse is an auditor the syllogism is complete and the question is answered.

Mr. TALCOTT. I would like to get a larger answer than simply, "What are the present accounting techniques of the Bank?" Maybe use of a private auditor is all that is necessary, but I don't want to get into this kind of a dialog. I yield back the balance of my time.



Mr. REUSS. Mr. Gonzalez?

Mr. GONZALEZ. I have no questions.

Mr. REUSS. Mr. Halpern?

Mr. HALPERN. Thank you, Mr. Chairman.

Doctor, do you support the present American military actions in South Vietnam?

Dr. GROSECLOSE. Mr. Congressman, I am not an authority on military actions; I am an economist.

Mr. HALPERN. Does your organization, which certainly has an interest in foreign activities, have personal views in support—

Dr. GROSECLOSE. I couldn't speak for the Citizens Foreign Aid Committee on its policy on our military involvement in southeast Asia nor am I competent to pass an opinion on military activities in southeast Asia. I will say this—

Mr. HALPERN. Perhaps your colleague here, General Fellers, would care to answer that. He is a military man. This is all I am asking: Do you favor or do you oppose the American position in South Vietnam?

Dr. GROSECLOSE. I will make this statement, we are in there because of a misguided foreign aid program. We are deeper and deeper into these problems and if we continue these programs we will find ourselves militarily involved in a lot of places in the world where the American people would very much dislike to be.

Mr. HALPERN. My question is, Do you support the military effort in South Vietnam today?

Dr. GROSECLOSE. That is a very difficult question to answer.

Mr. HALPERN. It is a very simple question.

Dr. GROSECLOSE. It isn't easy to answer a question like that. I support military action. But whether I support our military policy is quite a different question.

Mr. HALPERN. Well, would General Fellers care to answer that?

General FELLERS. I can't speak for our committee.

Mr. HALPERN. Will you speak individually?

Mr. TALCOTT. May I inquire who the witness is now?

Mr. HALPERN. I have asked if Dr. Groseclose would yield to Brig. Gen. Bonner Fellers, who is national chairman of this organization.

Dr. GROSECLOSE. I came to testify—

Mr. REUSS. I will say, Mr. Halpern, if General Fellers or Dr. Groseclose do not wish to answer your question they may not.

Dr. GROSECLOSE. We came to testify on this Bank and not on military matters.

Mr. HALPERN. I think there is a very close relationship.

Dr. GROSECLOSE. I think there is a very distant relationship.

Mr. REUSS. I don't think we should press the question, if they have indicated they do not wish to answer.

Mr. HALPERN. General Fellers did not so indicate.

General FELLERS. Our committee has taken no stand as a committee on the war in Vietnam. I think if you were to—it would be dangerous for me to say this, but if it were put up to our people individually, from the conversation I have had and the correspondence with our committee, we would want to win the war.

Mr. HALPERN. You would want to win it?

General FELLERS. Right.



Mr. HALPERN. That is the point I wanted to make, Mr. Chairman, and I certainly feel it is very pertinent because this Bank, in my opinion, and I am sure in the opinion of many others, is really carrying on western influence and assistance in another and far more promising means, if we may put it that way, in southeast Asia.

Now, you are for winning this war and, in doing it, Americans are giving their lives in Vietnam fighting the Communists. Then how can you possibly be against the purposes of this Bank which in long-range terms can contribute to an economic viability which removes the appeal of communism in the area?

Dr. GROSECLOSE. I think that can be answered.

Mr. HALPERN. I would like to ask that of Dr. Groseclose.

Dr. GROSECLOSE. No. 1, if we want to win in southeast Asia we should devote our efforts in the most economical way. The American people just can't spend and spend and spend, and still win wars. This is a waste of money in one sense, and the money could be spent probably in better ways than scattering it in foreign aid all around the world.

No. 2, you say this is an extension of American influence. By the President's statement this is an institution which was conceived and sponsored by Asians and it will probably be run by Asians. I don't see quite how American influence will get in there except that we will supply the dollars.

Mr. HALPERN. That is all, Mr. Chairman.

Mr. TALCOTT. Will the gentleman yield?

I hate to see us get into this kind of an argument because I am afraid we may be putting Mr. Doherty or Mr. Biemiller in a position where they suggest they don't want to win the war.

Mr. HALPERN. I don't think that is the point at all.

Mr. TALCOTT. You are arguing that Dr. Groseclose opposes the Bank and yet he wants to win the war and that the two positions are not equitable.

Mr. HALPERN. No; I made the point here that there is a direct relationship. On the one hand they say they want to win the war; which means giving up lives and the spending of billions of dollars before we are through.

Then how can they possibly be against the purpose of this Bank which, I repeat, in long-range terms can contribute to the economic viability and remove the appeal of communism in that area? There is a direct relationship and that is the point I am making.

Dr. GROSECLOSE. I think your premises are in error that it would increase the economic viability of these countries.

Mr. REUSS. Mr. Hanna?

Mr. HANNA. Mr. Doherty, from your statement I gather you would want the legislative history on this bill to indicate that since social progress funds will be used through the Asian Bank it should be used to assist in the development of housing and other types of activities sponsored by the free trade unions?

Mr. DOHERTY. Yes, sir; the individual human needs we are talking about that can be accomplished on a people-to-people basis. We have been very successful with this concept in Latin America. We have put 18,000 Mexican workers in houses; they have had housing projects in Colombia; we have a bank in Peru that we helped establish, and this is a real embodiment of the people-to-people concept.



Mr. HANNA. Actually, by taking such action as we would take under this legislation and becoming an active participant in the Bank, we are moving in the directions suggested in the philosophical statement made by one of our university presidents who said that it is not enough to be against injustice but you have to help build justice. It is not sufficient to harass the oppressor, you have got to help the oppressed. You have to build up their abilities, broaden their opportunities.

Mr. DOHERTY. Precisely.

Mr. HANNA. And this is a practical constructive process that is being suggested by the Bank, is it not?

Mr. DOHERTY. And as a natural concomitant of the war in Vietnam the President has advocated this \$1 billion program for Asia, the development of the Mekong River and the like, as a means of helping these people. The war will never be won over there if you talk only in military terms.

Mr. HANNA. I agree.

Mr. Chairman, I think that one of the presentations does raise the question that I think the record should make at least a little more clear, about the particular commitments of the countries. When we talk about the \$7 million from Vietnam, as I understand it, that \$7 million will be paid as follows: First of all, the \$7 million is divided in half—\$3.5 million can be paid by a guarantee or promissory note from Vietnam which is only callable in the event the Bank should default on bonds it would issue on the strength of its guarantees. The remaining \$3.5 million would be payable in five annual payments of \$700,000. Fifty percent or \$350,000 of this payment would be made in Vietnam's local currency. The other \$350,000 would be due in convertible currency; that is, Swiss marks, English pounds, German marks, French francs, or American dollars. This would indicate far greater flexibility than Dr. Groseclose's statement reflects and does not indicate a necessary involvement of U.S. currency at all.

The argument that has been presented also seems to suggest to me that there is a belief that some kind of sovereignty exists over anything that ought to be controlled. That is fallacious, absolutely false. There is an argument that suggests that anything that ought to be done will get done if it should be done, and that is also, clearly demonstrable in this world to be, not true.

Therefore, if we are going to create an effective sovereignty, we have to find those avenues by which some intelligent relevant operative sovereignty can be developed, and if that kind of sovereignty is developing, we ought to be a part of it. We can either sit in or sit out. I think it is to our long-term interest to sit in. It is for that reason that I believe it is an intelligent and appropriate thing for the United States to be part of this Bank.

I yield back the balance of my time.

Mr. REUSS. Mr. Widnall?

Mr. WIDNALL. Mr. Chairman, I have questions.

Mr. REUSS. Mr. White?

Mr. WHITE. Thank you, Mr. Chairman.

Dr. Groseclose, over a period of years, having at first a very minimal knowledge of the real implementation of foreign aid, having the benefit of your close experience in Iran after World War II, I would like to ask you the question that you suggest an answer to, and it is one that I think is very easy to propose but I think most difficult to



implement, and it concerns person-to-person type of aid. This is a very easy proposal to make, person-to-person aid; I would like to have the benefit of your knowledge as to how you would propose the implementation of such person-to-person-type aid to be effective in the degree needed in today's world.

Dr. GROSECLOSE. Thank you, Congressman White.

No. 1, the foreign aid program, the concept of it was really initiated in an activity with which I had some association over 40 years ago, the Near East Relief, which was an agency set up to relieve the distresses of the Armenian people that had been massacred and persecuted by the Turks and later, in Russia, by the Communists.

They spent something like \$200 million, I believe, all privately raised, in relief, and it was the activities of this Near East Relief that really saved the economy of those countries at that time, following World War I.

We set up many of the economic programs which were later adopted into the United Nations Relief and Rehabilitation Administration, and then taken up in the foreign aid.

We worked closely among the people. We put the women, as I recall, spinning wool, with their little spindles. We started many other work programs roadbuilding and the like. We took care of the children. That was all done by private funds raised among the American people. They responded.

Over the years missionaries and the foundations have exercised tremendous influence. As a matter of fact, as Mr. Willkie observed in his trip abroad after the war, he found a great reservoir of good will toward the American people. I observed it then, in my experience 40 years ago, and noted it in my diary, the wonderful good will we had without any government representation whatsoever. I was in the Soviet Caucasus at the time, and we Americans enjoyed a good will, and a prestige, you might say, that we have never enjoyed since, when we began to establish these formal political relations.

Mr. WHITE. Do you honestly believe this can be of a magnitude great enough to be of beneficial aid to the great numbers of people in the great areas of despair that we find in Asia today?

Dr. GROSECLOSE. Yes, because the purpose is to establish a catalyst, a seed. It is impossible obviously for our country, rich as it is, to build all the sewers, to provide all the water systems, to provide all the seed wheat that the rest of the world needs. We cannot undertake to do that. We can only provide a catalyst, a seed of progress; that is what these countries need, they need the idea.

Mr. WHITE. Don't you think that the Asian Development Bank would help to do this?

Dr. GROSECLOSE. I don't think so. Obviously it goes to the wrong type of people. It creates the wrong type of organizations. It creates what they call this infrastructure, dams and roads and harbors, which promote imports of U.S. products but do not solve the problems of the peasant and the indigent who are really in need of help and hope. It doesn't reach down to them.

Mr. WHITE. Admitting the inefficiencies of foreign aid in Western Europe, do you not feel that ultimately the aid programs that were implemented by our Government in the period after World War II have now raised the standard of living of the lowest person in Western Europe today?



Dr. GROSECLOSE. The greatest influence in Western Europe, and I have heard it from the lips of one of the leading, one of the high officials of the Marshall plan, was this catalyst. He told that the whole thing started in Vienna when some of the workers there in the United Nations Relief and Rehabilitation Administration said, "If we can just get a little factory started here—it cost about \$200,000—maybe we can put some of these people to work."

He said, "We managed to scrape the funds together somewhere, but it is just that little catalyst that stimulated a whole revival." They found that they had a friend, they found a new hope, and it was that that revitalized Europe; not so much the U.S. dollars, but the U.S. influence through its concern. I think it is a mistake to think that you can do this job with dollars. It is people that do the job.

Mr. WHITE. Well, I have always had a basic philosophy that labor, management, and capital working with the forces of nature create all wealth.

Dr. GROSECLOSE. I met a man in Iran who was a labor representative out there and his influence was far more than all the millions of dollars we are spending because he worked among the officials and the laboring classes and was creating a new atmosphere of labor and management. It is people who generate hope and concern, and vitality and not dollars.

Mr. WHITE. I still feel that capital is a very necessary ingredient.

Dr. GROSECLOSE. That is the great heresy of the American public policy today. We believe everything can be done with appropriations.

Mr. WHITE. Perhaps you and I have fought some losing battles in the past but I think we are going to have to part here.

Dr. GROSECLOSE. Thank you.

Mr. WHITE. Thank you.

Mr. REUSS. Mr. Ottinger.

Mr. OTTINGER. Thank you, Mr. Chairman.

I am one who has considerable sympathy with a good deal of what you have to say. I was one of the people who founded the Peace Corps. Our chairman was the original sponsor, in the House of Representatives of the Peace Corps.

I think you will find a number of us who have a great deal of concern that your past aid has done more to build up bureaucracies in the countries where we have worked than to reach the people.

It is important for our aid programs to get right down to the people and build from the bottom up rather than by pouring lots of money from the top on the hope that somehow it will trickle down.

But the idea that the people-to-people approach of the Peace Corps should be the exclusive effort or that we can do enough in this type program to affect the hundreds of millions of people in Asia, Latin America, and Africa, gives me a great deal of pause. While I have some concern that with our aid programs we have to some extent, as you say, made the rich richer and the poor poorer, I do think in the long run if we help to build up the businesses within the normal trade channels in these countries it must eventually extend down so that it affects the ordinary person. Perhaps we should do more in connection with administration of our aid to see to it that the programs that are instituted do reach the people more effectively and that better working conditions are established. This kind of condition might well be placed in effect and more adequately supervised.



But I just am very concerned about our ability to affect the course of events in the underdeveloped countries solely with people-to-people efforts.

Take the Peace Corps; it is now at the level of 13,000 volunteers. If you put those 13,000 volunteers into India and you spread them out in the country, you wouldn't know that anybody was there. This would be ignoring a good nine-tenths of the rest of the underdeveloped world. I think the two types of programs really have to go together, that you can't really just do the people-to-people effort to the exclusion of private enterprise through existing trade channels.

Dr. GROSECLOSE. Congressman, you gave me an opportunity to give you the second prong to my answer to Mr. White.

To the extent that there is a need for capital—and there is a need for outside capital—although there is a much greater need for the generation of local capital, our aid policies are actually strangling the flow of capital because all the funds are going abroad through Government agencies, and in order to protect the dollar we have had to impose restrictions upon the export of private capital. We are today preventing our American businessmen who have know-how and who have an immediate interest in developing the local economies as markets for their products, and also as branch productive agencies of their own operations, from doing the very job that you are speaking of, and we are channeling all through an official agency which actually is so unrealistic that it really doesn't reach a realistic solution of economic problems.

They are more concerned in building roads that go nowhere and things of that sort, whereas a businessman with the necessity to make a profit to regain his capital goes into enterprises where he does put people to work, where he does produce something that is useful, and where he does contribute to the local economy.

Now, there are several things that the Government can do. No. 1, we should increase our efforts to secure our capital abroad against expropriation. I think our efforts have been very weak and we have tolerated all sorts of expropriations and exactions that make it difficult for American capital to invest abroad. We don't protect our capital abroad as we used to.

We could encourage these countries to adopt laws. There is a whole area of foreign aid that we could enter in the field of politics. We could go in and encourage them to create commercial law systems, legal systems that would give protection to capital; labor laws which would help generate better labor relations to encourage the investment by American businessmen and local enterprise, and finally—and something I have given a great deal of thought to—and that is the encouragement we give to the continual depreciation of their moneys.

The foreign aid program actually promotes inflation in these countries, and it is obvious none of these countries have the reserves or the monetary systems as strong as they had 15 years ago, and when you have inflation, a continually depreciating money, local capital is not generated, local people will not invest or put money in a savings bank because money depreciates.

We could do a great deal by encouraging sound money—sound monetary practices. Unfortunately we are debasing our own money steadily and it is very hard for us to give them an example of monetary integrity to these countries. But if we could put our own monetary house in order, and encourage them to establish stable monetary



regimes, you would find capital being generated of its own in these countries.

India is a rich country. There is plenty of capital there but it is in hiding and we try then to meet that deficit by pouring in dollars from abroad. It doesn't do the job. We have got to help them generate their own capital and we could do it through these political rather than these economic mechanisms that we have adopted.

Mr. OTTINGER. I think you have got to do it through both.

I also worked with the aid agency, when it was the International Cooperation Administration, and I think many of the things we do, we do imperfectly. I suppose, due to the complexity of the problems that face us, it is very hard to come by a perfect solution.

But what you are largely arguing, it seems to me, is the old question of, Which comes first, the chicken or the egg? One has to do something to build institutions, one has to do something to train people to be able to participate in programs, public or private, to be able to execute effectively the kind of private sector program that you are talking about.

I think we should do everything we can to do the things you are talking about, to help make capital secure within these countries, to help make their economies stable so that private enterprise will want to come in. But certainly a concomitant of that is the building of institutions, training of people, making them strong enough so they can be attractive to private capital. In many countries the people can't work a full day because they don't have enough in their stomachs and they don't have the educational system to train people to go into private enterprise. The problems are just enormous and while I can agree with your private enterprise approach as a matter of emphasis, the idea that we should neglect another important arm of effective action in these countries bothers me.

I think the various elements that we are talking about can go hand in hand together. We should encourage private enterprise to go overseas. We should give more effective guarantees in this country to go abroad. But that isn't going to be enough, in terms of providing any kind of measurable progress.

Are the developing countries really going to get going if you don't have also a financial arm of the kind proposed in this Asian Bank helping to train people and stimulate growth in their economy?

Dr. GROSECLOSE. It surprises me that the American Bankers Association should favor an institution like this because we have witnessed over the postwar years a gradual monopolization of international finance through Washington through various Government agencies and international agencies such as you are proliferating here.

In the former days, American bankers lent abroad, and did a very good job of it despite what has been written up often and the investigations, they are doing a much better job in my opinion than these international agencies.

In the first place, they had to do a good job because they were responsive to a market. These international agencies don't have to go to the market to justify their loans. If they make a blooper nobody knows about it, but if Morgan & Co., one of the banks, makes an unsound loan, their whole reputation is affected.

Furthermore, they can't sell a loan until it has been checked by the entire market apparatus of our investment community.



These official agencies go ahead and make loans, a few men sitting here in Washington, isolated from all the currents of the finances of the country. They don't have to go out and resell their obligations, they just go to the Treasury; they come down here and ask for an appropriation.

Mr. OTTINGER. If I may interrupt, that isn't so, with respect to the Asian Bank or the Inter-American Bank. These Banks are controlled by people from the area affected and they do know what is going on.

Dr. GROSECLOSE. They just simply come before this or some other committee for another appropriation.

Mr. OTTINGER. That raises another question. I think it is very important that we draw the rest of the countries of the world into the developmental process and not do it all ourselves, don't you? The Banks achieve this

Dr. GROSECLOSE. If they are remote from control in this, the most democratic and most organized government in the world, what do you suppose is the position of the officials of the banks in some under-developed countries?

Mr. OTTINGER. How are they going to learn?

Dr. GROSECLOSE. Not with U.S. dollars; let them learn with their own money.

Mr. OTTINGER. My own view is these efforts have to be pulled together. You can't just work on one sector of the economy. You just can't work entirely with a people-to-people approach. You need a rounded program to build the various institutions that can help support a viable economy.

Dr. GROSECLOSE. I don't think you have answered the question you have raised.

Mr. OTTINGER. I think you have put blinders on.

Dr. GROSECLOSE. This continuous concentration of the flow of capital through U.S. Government agencies is today strangling the flow of private capital abroad which is the most productive and most generative form of capital.

Mr. OTTINGER. I think we are trying to do it. I think we are doing moderately effectively in making it possible for foreign capital to flow in and to create the kind of stability that you are talking about.

Dr. GROSECLOSE. How does that jibe with our voluntary restriction program?

Mr. OTTINGER. I don't agree with the voluntary restriction program presently in effect as a tool to try to curb our balance of payments. I disagree with it very strongly. Our economic future is tied to participation in the growth of the developing countries. Foreign investment consistently returns more dollars than it takes out. The policy is shortsighted in my opinion.

Dr. GROSECLOSE. It is necessary to save the dollar. Either private business has to quit investing abroad or the Government has to quit. Which one are you going to strangle or close down? Are you going to make it a Government monopoly of capital going abroad or are you going to give the free enterprise system a chance to see what it can do?

Mr. OTTINGER. I don't think you have that choice. I think there are other methods that you can use to curb our balance of payments. It is a subject which gets a little too broad for us here. But I think the two should go together.

I'm afraid my time is up. Thank you.

Mr. REUSS. Mr. Todd, do you have any questions?



Mr. TODD. If the committee has time I would like to ask the witnesses to express their views on a statement of mine. A considerable amount of experience has been gained through the activity of other international financial institutions in South America and in other parts of the world.

It is my understanding that the purpose of these banks is to encourage the development of these areas and to help these people help themselves in an economically sound manner. This means that both per capita food supplies and per capita income should be rising. In many areas served by the banks they are, in fact, declining. This is because the population is doubling in 20, 25 years.

Do you foresee any possibility of the banks achieving a purpose in improving living standards in these areas without the establishment of a population policy?

Would you gentlemen care to comment on that?

Dr. GROSECLOSE. Speaking for myself, I think my views have already been pretty well developed in the previous questions and answers, Mr. Congressman.

Mr. TODD. Fine, thank you.

Mr. DOHERTY. I think we are talking here in terms of development and sometimes when we talk about relief we get off on a tangent in a different concept.

Development, as Congressman Ottinger pointed out is a multifaceted activity, and I think that perhaps, as I said to Congressman Talcott earlier, that you would be blind if one of your facets did not involve this tremendous population problem, especially in Asia and Latin America and I think the statement is a very logical one, that you are—I agree with Dr. Groseclose, that as long as population is expanding—you are going to have this problem. That the value of the dollar that you send over or the value of the project is going to be minimized.

Mr. TODD. Thank you.

Mr. HEFFELFINGER. I have no comment.

Mr. TODD. Thank you, Mr. Chairman.

Mr. REUSS. I have just three short questions, one to each one of you gentlemen: Mr. Heffelfinger, it has been suggested by our friend, Dr. Groseclose, that the American Bankers Association may be a little softheaded in endorsing the Asian Development Bank. If you care to, I will be delighted to give you a chance to respond.

Mr. HEFFELFINGER. I don't want to get into a debate with Dr. Groseclose, sir, but we look upon this Bank as a bank. It is being developed and will be operated as a bank, much along the lines of the World Bank. I don't believe anyone looking at the history of that institution and what it has done throughout the world, the projects it has generated and the way and ability it has of accumulating capital, not only from this country but from other areas of the world, Germany, Switzerland, England, and directing it to projects in developing countries. It is only through these productive projects that wealth is created.

I don't think you and I with our hands alone could go out and with a piece of ground create much wealth, but through the factories generated by mobilizing our wealth and capital we can go in with others and see the wealth in automobiles and refrigerators pouring out and that is what I think we are providing for in this Bank.



The Asian Bank will be an institution which can vitalize such projects. There are opportunities in the area but some organization needs to follow through and develop them, get the capital necessary, and that is how we look at it.

Mr. REUSS. Thank you, sir.

Mr. Doherty, you had an interesting colloquy with Mr. Talcott and Mr. Todd on the question of population control and you have given us your view that you and your organization would really have no objection should population controls be thought of as part of the mission of the new Asian Development Bank.

I would ask you this question. Is it not in your judgment perhaps a better way of getting at the problem of population control to move through an international agency dominated by Asians in the case of Asia, than to use a bilateral U.S. country of destination method?

Mr. DOHERTY. We talk in terms of the multifaceted approach. Certainly a bilateral system is good. Certainly an international development bank is good. Certainly a people-to-people program is good, and I think that you are talking in such broad concepts that—I mean you are talking in terms of a multifaceted problem—you are talking in terms of multifaceted solutions to these problems.

Mr. REUSS. Thank you.

The final question would be to Dr. Groseclose.

While I was not in agreement with you on many things you said I was delighted to hear you give a plug to the good work done by the United Nations Relief and Rehabilitation Administration in Vienna some years ago, and I happen to agree with your observation there. I am aware that many of the members of the Citizens Foreign Aid Committee are prominent members of the John Birch Society which, of course, takes a violently anti-United Nations position. I would, therefore, ask you whether in your observation about the good work of the United Nations Relief and Rehabilitation Administration you were speaking for yourself or for your entire board and national committee on that.

Dr. GROSECLOSE. I was speaking purely personally, Mr. Chairman, on the United Nations Relief and Rehabilitation.

Mr. REUSS. Thank you very much.

Mr. Halpern?

Mr. HALPERN. Yes, Mr. Chairman.

I would like to direct this inquiry, if I might, to the representative of the AFL-CIO.

Do you recall the way the labor unions headed off a complete Communist takeover in British Guiana where Cheddi Jagan was flirting with Red Chinese communism? Labor, as you know, acted as the primary political force in presenting a viable alternative to the voters in that country and unfortunately this story isn't too well known.

To what extent, if any, did the AFL-CIO engage in this effort?

Are you in a position to tell us?

Mr. DOHERTY. I am glad you asked the question because you are talking about the only trip I ever made to Latin America.

Mr. HALPERN. I asked a very pertinent question.

Mr. DOHERTY. It was my pleasure when Jagan was in power in British Guiana to attend a trade union educational conference there. I was practicing law at that time. I met the Premier and Mr. Ishmael, president of the trade union council, at that conference.



At that time—this was after the first riot in Georgetown—Jagan attempted to ram through the legislature a labor law which he was touting as a carbon copy of our Taft-Hartley law, our Labor-Management Relations Act, but in effect it was a gimmick whereby Communists could take over the labor unions. I spent 3 weeks down there pointing out the differences between the proposed law and the Taft-Hartley law and talking about many, many safeguards in Taft-Hartley that did not appear in Mr. Jagan's law.

Now, as to labor's activities here, I think Dr. Douglas is eminently qualified since he is with the American Institute for Free Labor Development and does work in British Guiana.

Mr. DOUGLAS. Yes, we have several programs which we have under organization in British Guiana. Probably the most dynamic is the housing program. We expect in a very few days to receive a letter of advice for housing guarantee which will guarantee \$2 million of moneys which will come from pension and welfare funds of AFL-CIO unions. This \$2 million will go into British Guiana to build a housing project for the lower income workers of the TUC, the major union federation in British Guiana.

In addition, we have a program of impact projects going there. We are drawing up plans now for a vocational training school, which is something of a new departure for us, and which we are quite excited about, and this was suggested by Mr. Pollydore, who is one of the leaders of the TUC, so in the economic and social welfare field as well as in the political field we are very active in this area.

Mr. HALPERN. And you feel that you can act as a potent force, shall we say, as an alternative of the Communist regime?

Mr. DOHERTY. Excuse me, sir?

Mr. TALCOTT. I was amused by the way the question was phrased. You were asked, "How good were you?"

Mr. DOHERTY. We were great.

Mr. HALPERN. I am asking whether or not labor was a potent force in political developments there in opposing the regime of Jagan.

Mr. DOHERTY. There was no question during the Jagan regime there the only institution to which the freedom-loving forces in British Guiana could turn to was the American labor movement and our organization and in the Caribbean Federation of Labor.

Mr. HALPERN. That is all.

Mr. REUSS. Mr. Gonzalez?

Mr. Talcott?

Mr. TALCOTT. I think I am in favor of the Inter-Asian Bank for many reasons, but I also believe that when someone has objections to it, or any criticism, we ought to hear them out. I am grateful to Dr. Groseclose for presenting what he considers to be some imperfections. If they are imperfections we can argue them down. I think all ideas should be presented whether they are ideas of a small group or a small minority or not. One of the questions he has asked, I think, was, "Where will these Asian countries get their money?" Will they get their money from the United States? Are they going to borrow it from the United States and then put it in the Bank? For example, India is practically bankrupt. Where are they going to get their money to invest in the Bank? From the United States?

Mr. REUSS. I think Mr. Hanna addressed himself to that. But I agree with you, Mr. Talcott, that it is entirely proper that our friend Dr. Groseclose be here this morning and make the searching



criticisms that he has and that is why he and his organization were invited along with other people.

Mr. TALCOTT. Yes, and I commend the chairman, Mr. Reuss, for permitting a difference of opinion. This is the best way to legislate. This is the most effective method for perfecting legislation. I commend the chairman also for his fairness in conducting these hearings.

But Mr. Hanna's answer was not an answer. Mr. Hanna said they were going to pay piecemeal, with promissory notes and that payments were not going to be all in cash. But how about the little money they are going to pay? Where is it coming from? An insolvent nation, where do they obtain the money for the Inter-Asian Bank?

Mr. REUSS. Obviously they get it from their total sources—exports, taxes, and possibly indirectly from foreign aid from the United States. Certainly one of the functions of foreign aid is to provide dollars for the purchase of needed goods and services in the United States.

Mr. TALCOTT. This may be proof that they need this Bank and our help even more. I am not saying that they don't. I am just saying we need to explain this fully. These are questions which will be asked on the floor of the House and if we go to the floor of the House without the questions being answered satisfactorily, we are going to run into some trouble. If we want this bill to pass, if we want to achieve a vote with a strong majority we have to ask and answer these questions now. I am merely suggesting to the committee that if they have answers to Dr. Groseclose's objections, we should present them in a form that people will understand and accept.

Dr. GROSECLOSE. Mr. Chairman?

Mr. REUSS. Yes, Dr. Groseclose.

Dr. GROSECLOSE. I think the important thing is to establish an integrity here, and not a facade.

Now, it is true—

Mr. TALCOTT. Mr. Groseclose, excuse me for interrupting, but I sort of resent those remarks. I think we all recognize this is a type of foreign aid. We have always made the representation from this committee that this is a type of foreign aid. We are going to have Mr. Bell come in here to talk about the bill. We have invited the Foreign Affairs Committee to come and sit with us. Our committee has been forthright. It is really not a facade. We recognize this is a type of foreign aid, but we are hoping it is a better type of foreign aid than outright gifts and grants of money to the heads of central governments.

Dr. GROSECLOSE. It may be presented to your distinguished committee, but I am speaking of how the American public looks at it and sees it. It is presented to the public as a joint operation cooperative among Asians and this country. Let's examine it in detail. Here is an agency that wants to tap this Bank for resources. Will they want to borrow Thailand bahts, or whatever they are, or Malaysian dollars or Indian rupees? They will want to borrow U.S. dollars from the Bank so they can buy things that dollars will buy and which rupees will not buy, and to say that these countries are putting in their own currencies, well, the Bank's business will not be done with those currencies. It will be done with the dollars and to some extent the pound sterling put in and to some extent the German marks and Western currency. But the bulk of it will be done with dollars.



Mr. TALCOTT. I think this is true. What we are saying is that the Asian countries can put in less valuable money but we and the Bank are going to deal with our money. There is a dilution of their contribution. I think we all recognize that. The Bank must have moneys; we must permit them to participate; we have to have a form of money they can contribute. They can't put in dollars, they don't have the dollars. So I think we all recognize when we permit Vietnam, for instance, to put in one-twentieth of their share the first year and only half of it in their kind of currencies, this is a dilution of their contribution compared to ours.

Dr. GROSECLOSE. In my humble opinion it would be more honest if we created an American bank and made them the directors of it and said, "You run it," than to create this facade.

I would like to make one further comment on a matter which I think that Dr. Doherty will agree, and that is the theory which governs so much of what we are doing, drawn from Keynesian economics, the theory that you create productivity by increasing investments, that is a basic theory of Keynes that employment follows investment. But I think Dr. Doherty would agree, and others, that really the important thing in productivity is good relations among workers and between workers and management.

Take two factories side by side. Where the relations are good they can produce twice the product that the other factory with the same investment of dollars and equipment, and it is at that angle, it is at that side that we should devote our efforts.

How can we improve the level, the character, and the quality of our people-to-people relations, not only within the factory, through better labor and management relations but all up and down the line? But instead we attempt to do it by just dishing out some more money, pouring out some more money and let it go and we create these very problems that we are trying to solve.

Mr. REUSS. What about it, gentlemen from the AFL-CIO, is capital investment an irrelevant element in productivity and is productivity determined solely by labor skill?

Mr. DOUGLAS. I would like to comment on this point. Of course we think capital is important in raising production and productivity, but I would like to point out the irony of the fact that Dr. Groseclose is opposing the Bank because he feels we need to stress the people-to-people approach, that we need to do more to improve labor-management relations and so forth and, therefore, he feels the Bank is the wrong approach. This strikes me as odd because we came up here today to testify in favor of the bill because we also favor the people-to-people approach, we also favor stressing productivity and labor relations; we also oppose the trickle-down theory. We took a look at this bill and we are excited because we saw an opportunity to get some help in our programs in the people-to-people sector, specifically, in our case, in the labor-union-to-labor-union sector. We came up here because we think the Bank will not only provide capital but it will provide such an opportunity. We base that judgment on our experience with the Inter-American Development Bank, a comparable organization, which has assisted us greatly in giving aid—instead of government to government, which promotes statism—giving aid on the labor-union-to-labor-union basis promoting democratic pluralism. So we see the Asian Development Bank as an aid of the kind of things that Dr. Groseclose wants and which we want, too.



Mr. REUSS. Mr. Gonzalez?

Mr. GONZALEZ. Mr. Chairman, actually it was not my intention to get involved in this as I consider so much of this sterile, but I can't help but make an observation here in view of the utterances just made a few minutes ago by Mr. Groseclose. He is using the same phrases practically that the Communists are using in opposing this Bank. He says it is an American facade, it is a hypocritical thing. This is exactly what the Communists are saying, that this is a facade, an American facade. That instead of going through the pretense of saying we are involving Asian partners, that we ought to make it a unilateral American venture, that is exactly what he is saying. I think it is very, very intriguing to see how this type of opposition follows or falls into the same identical channels. The question about the sources of the contribution and all were also—that objection was also raised in the postwar period when the Marshall plan came up and the question of salvaging a Europe that was in ruins came up. What money did France have? What money did Belgium have? What money did the other countries have, ravaged by war? We are talking in terms of areas of the world that are in no position for a variety of reasons, and I can't help but underline this similarity of objections by the enemies of the country, by the very enemies of the legitimate aspirations of the Asian people with the critics, the domestic critics here on the establishment of this Bank.

Dr. GROSECLOSE. Mr. Chairman?

Mr. REUSS. Dr. Groseclose?

Dr. GROSECLOSE. If I used the same words that the Communists used, it is simply because they use the English language, and I use the English language. To suggest that I am a Communist because I happen to use certain phrases indicates that you have not analyzed what Marxism stands for or what I stand for.

Mr. GONZALEZ. You just said——

Dr. GROSECLOSE. I just spent a term in a Russian prison, a Soviet prison, and I think my record over the years indicates my relationship to the Communists, and I think it is a bit of an aspersion by the distinguished Congressman to suggest that because——

Mr. GONZALEZ. That is your interpretation gratuitously made. If the shoe fits, fine. I say whatever you label yourself or whatever the Communists label themselves, you are using the same phrasing in attacking this Bank for the same reason. You are making—if you use English language as it is reasonably interpreted, you are saying this is a hypocritical venture, that it is a facade or those words. Aren't those the words you used? What other conclusion can you raise from that language?

Dr. GROSECLOSE. I am not as familiar with the Communist literature apparently as the Congressman is, so I don't know whether my views correspond to his or not.

Mr. GONZALEZ. All you have to do is pick up the papers and see the remarks made from those sources when the invitations were extended to the Asian nations and those in the neighborhood and the charges being made currently for the establishment of this Bank by the opponents of this country. I think you are not naive, and I think you have revealed clearly exactly what, if any, creative and constructive thinking you can offer this committee, and that is the only reason I didn't want to waste the time of this committee. But I am not going



to let this opportunity pass to underline the similarity of language used, whether you are or you are not, whatever you are.

Mr. TALCOTT. Will the gentleman yield?

Mr. REUSS. The time of Mr. Gonzalez has expired. I will recognize Mr. Talcott.

Mr. TALCOTT. I was hoping that we wouldn't get into personalities here. But if there is a facade, or if there is anything like this, our committee should strive very hard to dispel it. Our committee should make it clear to everybody so that the Communists understand, so that the Citizens Committee that Dr. Groseclose represents understands. We shouldn't create any impression that gives other people an opportunity to think it is a facade. This is a point which we should consider.

Mr. GONZALEZ. Will you yield?

That is exactly what I am saying. The only one raising this has been the witness that I know of here, and that is why I am addressing myself to that point. I don't think anybody challenges anybody's right to say what they want to say. But I don't think, by the same token, that any one of us should be in any way restricted in drawing the conclusions that are clear from the obvious intention and the connotations of the words used in presenting testimony before this committee.

Mr. TALCOTT. You can draw any conclusion you want. All I want to do is develop arguments that will clarify and explain this legislation. We should be careful not to cast aspersions upon witnesses before this committee. This would discourage witnesses from contributing. If we obtain and evaluate all points of view, we can make better judgments. Personalities and aspersions defeat and hinder the important committee purposes.

Mr. GONZALEZ. I agree.

Mr. REUSS. Mr. Halpern, did you have any questions?

Mr. GONZALEZ. I was not disputing that.

Mr. HALPERN. No.

Mr. REUSS. At this time I want to thank Mr. Heffelfinger, Dr. Douglas, and Mr. Doherty and Dr. Groseclose for their helpfulness in participation this morning and I much appreciate it.

I ask unanimous consent that a letter dated January 21, 1966, from the National Association of Manufacturers endorsing the Asian Development Bank, and a letter dated January 26, 1966, from the Investment Bankers Association of America endorsing the Asian Development Bank be included in the record. Without objection, so ordered.

(The letters referred to follow:)

NATIONAL ASSOCIATION OF MANUFACTURERS,  
New York, N.Y., January 21, 1966.

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

MY DEAR CONGRESSMAN REUSS: President Johnson on January 18 asked the Congress to approve promptly U.S. participation in the proposed \$1 billion Asian Development Bank. I understand hearings on the proposed legislation will begin before your subcommittee Wednesday, January 26.

My purpose in writing is to inform you and members of your subcommittee as well as all members of the Banking and Currency Committee and of the House as a whole as to the affirmative view of the International Economic Affairs Committee of the National Association of Manufacturers in support of authorizing legislation to provide for U.S. participation.



A number of members of the International Economic Affairs Committee have followed with interest developments which resulted in the Agreement Establishing the Asian Development Bank. This agreement was signed by representatives of Governments at a Conference of Plenipotentiaries in Manila, Philippines, December 2-4, 1965, subject to approval of legislatures.

The Bank will become a reality when 15 nations—10 of them Asian—have ratified its charter. The Bank's membership will number 30 or more countries, including many capital-contributing developed countries.

The U.S. subscription of \$200 million is equally divided between paid-in and callable shares. The paid-in shares are payable in five equal annual installments of \$20 million each, half of each will be in cash and half in the form of letters of credit.

The President in his message to Congress said that "the callable shares will constitute a guarantee for borrowing by the Bank in private capital markets. They would be drawn on only in the unlikely event that the Bank were unable to meet its commitments." President Johnson's message also stated:

"Our pledge is equaled by that of Japan. India has pledged \$93 million; Australia another \$85 million. More than \$100 million has already been pledged by European countries and Canada, and further pledges may be made.

"Joint action with these major subscribers provides another instrument of cooperation between the donors of aid. That is a long-sought goal of the United States, for it offers the most efficient use of all the free world's aid resources.

"Finally, our commitment to the Asian Bank should have little negative effect on our balance of payments. Procurement financed through the Bank's regular capital will normally be limited to member countries. Purchases of U.S. goods and services will approximately offset the dollar outflow occasioned by our \$10 million annual cash subscription."

The National Association of Manufacturers has long held as official policy that "A substantial international flow of capital on sound bases is essential for the realization of the world's aspirations for economic development." We believe that:

"Private initiative can do the job of production, distribution and related services more effectively and economically than any form of government operation or control. Therefore, we believe that the policy of U.S. lending agencies, as well as the policy of the United States in international financial agencies in which it participates, should operate to encourage and not to compete with private investment." \* \* \*

If—as we understand to be the case—the Asian Development Bank will make sound loans on conventional terms similar to World Bank loans and if in its operations its guiding principles are the encouragement and not competition with private investment, then early approval by the U.S. Congress can be an important step in creating a nucleus around which Asian economic development can take place.

The various provisions contained in the agreement, the Treasury's special report on the proposed Bank, the President's message, and the bill are readily available for your consideration; hence I shall not make any comment related thereto. I should like, however, to conclude this letter with full endorsement of the following statements expressed by the Honorable Eugene R. Black when he signed the agreement in Manila on behalf of the United States:

"Your subscriptions, combined with many millions more from non-Asian subscribers, including, subject to the approval of our Congress, \$200 million from my Government, guarantee that the Asian Development Bank will begin with a wealth of confidence already expressed in it. In a very brief period you have reached about 100 percent of the billion-dollar goal you set for yourselves. The oversubscription by the Asian countries of the \$600 million goal was a spectacular and magnificent achievement \* \* \*.

"You have made the charter. You have gathered the subscriptions. You have begun. But I do not have to tell you that charters and subscriptions do not make a bank. The men who decide how the subscriptions will be invested and how the charter will be interpreted will make the reputation of this Bank. And the number of people who benefit from the work which this Bank sets in motion will measure its worth. \* \* \*

"Because development finance can be a maddeningly slow business, I strongly urge that you let the management of this new Bank get on with the job. During the negotiations which led to the charter, I was impressed with the resolve, expressed on all sides, that the Asian Development Bank should be known for its



professional competence—for its ‘hardhead,’ if you will, insofar as that expression means letting the weight of economic evidence be decisive. This is a difficult standard to stick to, as I know from my own experience as President of the World Bank. It is not always easy to gather the economic evidence necessary to provide the basis for investment decisions. For this reason I hope you will call on all the help you need in establishing the operational procedures of this new Bank. In this connection I have been pleased to learn that my good friend, George Woods, who is so imaginatively charting the course of the World Bank, has said that he is fully ready to work as closely with you as possible in these early days.”

We are making this letter available to the membership of the House Banking and Currency Committee. We would appreciate if you would make it a part of the record of the hearings.

With warm personal regards,  
Sincerely,

ROBERT D. MURPHY,  
*Chairman, International Economic Affairs Committee.*

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STATEMENT SUBMITTED BY THE FOREIGN INVESTMENT COMMITTEE, INVESTMENT BANKERS ASSOCIATION OF AMERICA

IBA RECOMMENDATION

The Investment Bankers Association endorses the agreement establishing the Asian Development Bank and recommends approval by Congress of legislation authorizing the United States to participate in the future operations of the Bank and to subscribe to its allotted share of the capital of the Bank.

SIGNIFICANCE OF BANK

The establishment of this financial institution, which is Asian in its basic character as well as location, acknowledges the importance of regional economic cooperation in Asia and the Far East as a means to achieve efficient utilization of resources and to accelerate economic development. The charter members of the Bank realize the necessity for procuring additional development financing by mobilizing funds and resources both from inside and outside the region and, therefore, wish to foster an atmosphere conducive both to the creation of increased domestic savings and to a greater flow of development funds into the area.

FUNCTIONS OF THE BANK

The Bank's charter provides for a multiplicity of functions to accomplish its objective of regional economic development. The Bank will provide financing for principally national, regional, and subregional programs and projects which are expected to contribute substantially to the harmonious growth of the region as a whole, including loans and guarantees to national development banks and other suitable entities which are able to supervise specific development projects. The Bank will also assist its member nations in coordinating their development policies and programs to achieve better utilization of their resources to make their economies more complementary to each other, to promote the orderly expansion of their foreign trade, and in particular, intraregional trade. Another function will be to provide technical assistance for the preparation, financing, and execution of specific development projects. The Bank will also cooperate with the United Nations and its agencies, including the Economic Commission of Asia and the Far East, and with other international organizations concerned with investment of development funds in the region, and will seek to interest such organizations in new opportunities for investment and assistance. In effect, the Bank will serve as an institutional nucleus for regional economic cooperation.

THE WORLD BANK PATTERN

The operating characteristics of the Bank are modeled deliberately after those of the World Bank and other development banks. Regular banking operations will be financed from resources ordinarily utilized by banks of this type, and the scope of its regular operations will be limited in accordance with sound banking practices.



## SPECIAL OPERATIONS

Through the use of special funds made available to the Bank for administration apart from its regular banking activities, the Bank will be able to carry out special development operations on terms appropriate for any given situation and consistent with the Bank's purpose. President Johnson has stated that he hopes one of the first special funds to be set up by the Bank will be to aid the special development problems of southeast Asia. If other members of the Bank will agree and contribute to such a fund, the United States has stated that it will advance \$100 million to this end, subject to congressional approval. It is hoped that through such special funds the Bank will be able to direct more aid to southeast Asia on a multilateral basis, thereby pooling the resources of many nations.

## SUPPORT OF REGIONAL MEMBERS

The Asian Development Bank has received the firm support of and confidence of nearly all of its charter members and has obtained subscription pledges for almost 100 percent of its \$1 billion of authorized capital. The oversubscription by Asian member nations of their \$600 million goal demonstrates their commitment to the concept of regional cooperation for economic development. In particular, Japan's \$200 million subscription, equal to that allotted the United States, manifests that nation's increasing role in the economic development of Asia.

## EFFECT ON U.S. TRADE DEFICIT

Although the United States would be, along with Japan, the largest capital subscriber of the Bank, its subscription payments will have a minimum effect on the U.S. balance-of-payment problems. Half of its \$200 million subscription will be for paid-in shares and half for callable shares. Payment for the paid-in shares will be made in five equal annual installments, each payable half in cash and half in demand obligations. Therefore the entire cash portion of the first annual installment will be only \$10 million.

## U.S. SUPPORT ESSENTIAL

The support and participation of the United States in the Asian Development Bank is essential to the future of regional cooperation for economic development in Asia and the Far East. Membership in the Bank is open to members of the United Nations Economic Commission for Asia and Far East (ECAFE) and to other regional countries and nonregional developed countries which are members of the United Nations or its specialized agencies. In December 1965 at Manila, the United States and 21 other nations signed the "Agreement Establishing the Asian Development Bank," subject to legislative approval, and several other countries have indicated an interest in joining the Bank. The message sent to the Manila conference by President Johnson concluded as follows:

"You know that peace in Asia can only be preserved by championing diversity, not fighting it. As you know, that to preserve the vigor and distinction of your nationalities, there must be some forms of regional cooperation. As you set out to make a reality out of the promise of such cooperation, we Americans are eager to extend you every assistance we can. Your initiative has captured the imagination of us all."

Mr. REUSS. We now stand adjourned subject to the call of the Chair.

(Whereupon, at 11:35 a.m., the subcommittee adjourned subject to the call of the Chair.)



## ASIAN DEVELOPMENT BANK ACT

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WEDNESDAY, FEBRUARY 2, 1966

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

The subcommittee met, pursuant to recess, at 2:10 p.m. in room 2128, Rayburn House Office Building, Hon. Henry S. Reuss (chairman of the subcommittee) presiding.

Present: Representatives Reuss, Ashley, Moorhead, Gonzalez, Hanna, Ottinger, and Halpern.

Mr. REUSS. The International Finance Subcommittee of the House Committee on Banking and Currency will be in order, for further consideration of H.R. 12219, which provides for the participation of the United States in the Asian Development Bank.

This afternoon we are privileged to have before us the Honorable W. Averell Harriman, Ambassador at Large, and the Honorable David E. Bell, administrator, Agency for International Development. We will ask you, Ambassador Harriman, to proceed first, and may I, on behalf of the committee, welcome you once again. We are most appreciative of the work that you have been performing for your country for many years, and not excluding the last few weeks, and we appreciated your readiness to appear here Monday morning in the blizzard, and let the record show that it was not due to your failing that we postponed our hearing.

Mr. Harriman, please proceed in whatever way you wish.

### STATEMENT OF HON. W. AVERELL HARRIMAN, AMBASSADOR AT LARGE, ACCOMPANIED BY ROBERT W. BARNETT, DEPUTY AS- SISTANT SECRETARY FOR FAR EASTERN ECONOMIC AFFAIRS, DEPARTMENT OF STATE

Mr. HARRIMAN. Thank you. Mr. Chairman and members of the committee, if you agree, I would like to read this rather brief statement which I have prepared to submit to you. It is in support of the bill to which you have referred.

It is a privilege to come before your committee to discuss the Asian Development Bank. This Bank promises to be an institution of major importance in the life of all Asia. U.S. national interests will be served significantly by membership in this institution.

The Asian Development Bank is, in fact, an important step toward realization of President Johnson's program to promote economic development in Asia. United States support for the Bank at this time,



when world attention is focused on news of the war in Vietnam, will demonstrate the vitality of the President's concept of peaceful development in Asia. It will show that the United States is looking beyond the fighting in Vietnam to a time when the resources now required to curb aggressions can be devoted to the task of peaceful reconstruction and development.

Before I proceed further, I want to make plain that stress should be laid upon the fact that this Bank is Asian. The initiative that launched it was Asian. The organizing group was Asian. The momentum developed to mobilize its capital resources was organized by Asians. Two-thirds of its capital will be subscribed by countries in the Asian region. In the history of Asia and the Far East there has never before been an enterprise in which the unmistakable stamp of real Asian interest has been so strong. This Bank offers hospitality and a focus of common venture for countries of a wide variety of economic and political systems, some of them antagonistic to each other. All of them, however, look to an opportunity to accelerate the economic and social growth from which all will benefit. Achievement of this goal is second only to restoration of peace in the area in the fulfillment of our hopes for improving the welfare of the peoples of Asia.

Both the President and Secretary Rusk have become deeply interested in the promise of the Asian Development Bank, and Mr. Rusk regrets that he is unable to discuss this matter with you personally today, and has authorized me to come and talk for him and for the State Department.

Participation in the Asian Development Bank is an opportunity for the United States to become associated with Asian countries in new enterprises to promote the economic development of Asia and the Far East. It is an institution which can, we hope, make part of that contribution to the realization of the accelerated economic and social development of the troubled area of southeast Asia envisaged by the President in his speech at Johns Hopkins University on April 7, 1965.

If our expectations for the Asian Development Bank are fulfilled, we can look to it:

1. As a vehicle for raising additional development capital both in the industrialized countries of the world and among the Asian countries themselves for the accelerated development of the area. The Bank will be a hard-money institution, ready to finance soundly conceived, bankable projects. In time, it will come to enjoy the confidence of the international financial community, and be able to borrow capital on the strength of its credit standing.

2. As an institution with a predominantly Asian character, the Bank will be able to concentrate its attention and resources on the problems of growth and development in Asia, thereby providing a vehicle through which the Asians themselves will become more intimately engaged in the process of mutual self-help.

3. As a venture promising bolder regional cooperation, the Bank brings together 19 countries of the Asian-Pacific region in the task of economic development, but it is hoped that this example of Asian economic cooperation will stimulate Asian efforts in other fields—social, cultural and perhaps political.

Secretary Fowler and Under Secretary Barr have already testified on the financial aspects of the Bank. I would like to dwell upon some of its broader implications.



Since 1947, the United Nations Economic Commission for Asia and the Far East (ECAFE) has been the principal forum for a dialog on Asia's development needs and requirements. The Commission pioneered the concept of an Asia Development Bank. Its able Executive Secretary, U Nyun, has been one of the Bank's leading advocates. Through its studies and training programs, the Commission has fostered a greater understanding and consciousness of the development needs of Asia and the preconditions and requirements for successful self-sustaining economic growth.

Despite the Commission's pioneer work in the economic field—as well as that of other organizations such as the Colombo plan—only limited progress has been made in either actual day-to-day cooperation or joint planning to overcome the region's economic problems, whether in the field of trade policy, the coordination of development planning and financial policies, or in joint industrial development. Aside from the valuable planning work of the Mekong Committee, such cooperation as exists today is essentially restricted to bilateral relations.

It is in this field—by bringing Asians together to consider their economic problems and to seek common solutions—that the Bank would make a major contribution.

The planning of this Bank has already brought together important officials from the countries of the region working with genuine and considerable enthusiasm on the task of charting its course. Although many of the Asian countries suffer from balance-of-payment difficulties, by their joint efforts they have overfulfilled the regional subscription target originally set for them. The Bank includes among its members the countries of the Indian subcontinent as well as most of the countries of southeast and east Asia. It joins the highly developed countries of Japan, Australia, and New Zealand to the developmental efforts of their less advanced neighbors in the region.

There are many obstacles to regional economic cooperation in Asia. It is legitimate to ask why, given these obstacles, we believe that the hopes held for this venture by Asians themselves may bear fruit.

The promoters of the Bank have always emphasized that the Bank should be more than a source of development capital. They envisage that the Bank, through its lending and technical assistance operations, will foster a regional orientation in the economic policies of its member countries in the area. It will do this by—

- (a) Emphasizing bankable projects with a regional impact;
- (b) Helping member countries in the preparation and co-ordination of national development plans;
- (c) Insisting on reasonable monetary and fiscal policies; and
- (d) Promoting, where feasible, regional complementarity in industrial and agricultural development and perhaps efforts toward economic integration in appropriate fields.

The Bank also will provide a valuable forum for the exchange of views on these vital issues of economic development. The Board of Directors and the Board of Governors of the Bank will consist of senior economic officials from the countries of the area. As in the case of the World Bank, on whose charter the Asian Development Bank's is modeled, the meetings of these bodies will provide occasions for an exchange of views on the problems of the area and the possibili-



ties of working out common solutions by the coordination of economic and social policies.

In sum, we feel that there are good reasons to hope that the Bank will in time stimulate the development of other forms of economic cooperation.

As has been said in a different context, the mark of an historic event is that it changes people, or more precisely, the way they think, so that they are never quite the same again. We believe the Asian Development Bank will be such an event.

I now would like to say a word about the relationship of the Bank to U.S. policy in Asia.

Our policy in Asia is twofold:

1. To assist the countries of the area to resist subversion and external aggression.

2. To offer the peoples of the area an alternative to violence—an alternative which, in the President's words, would replace "despair with hope and terror with progress."

In his speech at Johns Hopkins University on April 7 of last year, the President called for an international cooperative effort, responsive to Asian initiative, to accelerate the economic and social development of southeast Asia. The President proposed this program because of his conviction that the best hope for peace and stability in southeast Asia, over the long term, lies in such an accelerated program of coordinated regional development.

The President's proposal calls for a great international cooperative effort that would lift the hopes and spirits of the peoples of Asia by promising an alternative to the destruction of wars and the oppression of adverse economic circumstances. It envisages that the countries of southeast Asia associate themselves in a cooperative enterprise in which, at some future time, a peaceful North Vietnam could take its place.

We believe that the Bank will be a stimulating force in such an international program of development for southeast Asia.

Some of the ways by which the Bank will contribute to such a program are:

1. Emphasis of its own lending policy on regional policies;
2. Lending in conjunction with the United States and other donors for projects too large for any single donor to finance;
3. Through the financing of technical assistance which will improve the effectiveness with which United States and other external assistance is utilized; and
4. By serving as a coordinating mechanism for bilateral programs in particular countries, including leadership in consortia and consultative arrangements.

An important feature of the Bank is its authority to earmark up to 10 percent of its paid in capital for financial assistance on concessional terms and to accept special funds from member and non-member donor countries for this purpose. Special funds made available by donor countries will be separate from the Bank's own capital. In view of the development needs of the region, such funds will be a vital complement to the Bank's own lending operations on commercial terms. Such special funds would be an important supplement to fulfilling the objectives of the Bank for development of the area.

The United States has offered to contribute \$100 million toward a special fund for southeast Asia's regional development if other in-



dustrialized countries will contribute. We are hopeful that the other nations will respond and make available such special funds to the Bank.

Thus, we hope that the Bank can play an important role in mobilizing financing for the modernization and reform of southeast Asia's agriculture, essential industrial development, the development of the Mekong, and the promotion, on a regional basis, of southeast Asia's educational system. In a Vietnam where peace was restored, the Bank could assume an important role as an instrument of the World Community in helping to move ahead with tasks of postwar reconstruction.

Other developed countries have recognized the promise of the Bank to the future of Asia and their response to the approach by the Asians for their membership and subscription has been encouraging.

Japan, from the outset, has taken a prominent part in the planning of the Bank. Its contribution of \$200 million is equal to that of the United States. Australia and New Zealand likewise have shown a deep interest in the Bank and their joint contribution—\$108 million—comes to more than half of that of the United States. Canada has contributed \$25 million. Ten Western European countries have decided to participate and have subscribed a total of \$121 million toward the capital stock of the Bank. Thus, the Bank has virtually met its \$1 billion subscription target and is assured of the continuing cooperation and support of most of the developed countries of the free world.

In conclusion, there is substance to the hopes of what this Bank might accomplish.

I have the final list of the January 31 subscription list, Mr. Chairman, which I would be glad to submit, showing the number and the size of the contribution of the Asian countries and the names of the European and other nonregional countries that have made a contribution.

The total for nonregional subscriptions, I think, is \$4 million short of the total of \$350 million, which was the target, and the Asian contributions are, I think, \$8 million short of the \$650 million target. The total shortfall is so small that it will be made up probably at a later date, but it in no way hampers moving ahead with the plans for the Bank. In fact certain countries have already indicated they will be glad to increase their contributions when the proper occasion occurs.

In conclusion, there is substance to the hopes of what this Bank might accomplish:

The Bank is the product of careful thought by leading Asian statesmen.

Its proposed organization insures that it will reinforce existing assistance programs in Asia.

Its design is both practical and imaginative.

It holds promise of fostering new habits of thought.

In the words of the President, it is—

\* \* \* one of the most hopeful events of our time \* \* \* most of all \* \* \* because (it) will bring so many of Asia's diverse peoples, who so long have gone their ways alone, together in a cooperative effort for peaceful development and human betterment in Asia.

Thank you, Mr. Chairman.



Mr. REUSS. Thank you very much, Ambassador Harriman.

Congressman Paul Todd, of Michigan, who is snowbound there today, has asked me to put to you and to Administrator Bell three questions which I think you would perhaps prefer to answer for the record, rather than answer immediately. I will read them, and then you will be furnished with a copy of them so that both you and Mr. Bell can answer on behalf of the State Department and AID.

1. A considerable amount of experience has been gained through the activities of other financial institutions in South America and in other parts of the world. It is my understanding that the purpose of these Banks is to encourage the development of these areas, to help these people help themselves in an economically sound manner. This means that both per capita food supplies and per capita income should be rising.

In many areas served by the Banks they are, in fact, declining. This is because the population is doubling in 20 to 25 years. Have there been discussions by directors of any of these Banks of the need to establish population policies, if the Banks are to achieve their purpose?

Mr. HARRIMAN. I don't know of any policy that the Bank, as such, has developed as far as population is concerned. That would be a matter for the Board of Directors or for the Board of Governors to decide what the conditions would be for loans. I have not heard of any discussions at the Bank as such.

Mr. BELL. Mr. Chairman, could I add a word to that? I agree with Governor Harriman. I don't think that the new Bank, which has obviously hardly had time to consider questions of this type, has had any discussion of this matter.

In response to Mr. Todd's question, it might be worth pointing out that Mr. George Woods, who is President of the World Bank, has made reference to the same point that Mr. Todd does, namely the relationship between economic growth on the one hand and population growth on the other, and in that sense it is entirely appropriate to note that the leaders of the major international financial institutions at the present time are thoroughly in accord that this represents a major problem which must be faced.

Mr. REUSS. Mr. Todd's second question is: Do you foresee any possibility of the various development banks achieving their purpose of improving living standards in these areas without the establishment of a population policy?

I will read his third question too, and then you gentlemen can decide whether you want to answer now or later, or both.

Mr. BELL. We will be glad to supplement our response for the record, Mr. Chairman, but let me say right now that the leaders of the developing countries almost without exception are very much aware of the problems which are created by the rapid rise in population in most of the underdeveloped countries.

This is not a universal or uniform phenomenon, but it exists in most of the underdeveloped countries, and we are seeing a change, a massive change in the attitudes and policies of the developing governments in all parts of the world, Asia, Africa, and Latin America. So that the awareness of the seriousness and significance of population problems is growing, and the policies of the developing countries are more and more taking account of that problem.

Mr. REUSS. Mr. Todd's third question is: Does the State Department or the AID have any studies of the impact of successful popula-



tion policies on economic development and stability? In this connection I would like to call your attention to the success Japan has had with population policy and the development of such policy in Taiwan and South Korea. Have these policies been significant in increasing personal well-being as economic policies are followed by these governments?

Mr. BELL. In the case of Japan, there was a very sharp reduction in the population growth rate starting a decade or so ago. The particular method that the Japanese have used does not seem likely to be widely emulated.

In Taiwan and Korea in the last 3 or 4 years there have been the beginnings of what would appear to be very successful family planning programs based on free choice by the individuals and families concerned, and based on very widespread community support in both countries. They are both operated as part of the health programs in each of those countries, and they do represent, in the judgment of most observers, prototypes of what are quite likely to be programs which would be acceptable and effective in countries of widely varying cultural, religious, historical backgrounds, because they are essentially based on the principle of freedom of choice.

Now it is too soon really to respond directly to Mr. Todd's question, because the effectiveness of the Korean and Taiwanese programs is just beginning to be apparent. Over the next 5 to 10 years, if the statistics turn out the way it now looks as though they will, there will be a sharp reduction in the rate of population growth in both countries, and at the rate of economic improvement, of increase in gross national product and national income, which now exists in both countries, a decline, a lower rate of population growth would certainly result in a speedier growth in per capita income.

But, I repeat, that is a projection of statistics which are still rather problematical, rather than an assertion that that has yet taken place.

Mr. REUSS. Thank you. Mr. Halpern?

Mr. HALPERN. Yes, Mr. Chairman. First as a fellow New Yorker, Mr. Chairman, I want to commend our learned former Governor, now our Nation's able Ambassador at Large, on the most admirable job he has been doing in pursuing world peace and international justice. Averell Harriman's dedication to public service and to a better society everywhere is truly outstanding, and we of this committee are privileged to have the benefit of his views on the important legislation before us.

Now, Mr. Ambassador, and, of course, our good friend David Bell, if you would care to comment on my question, I certainly would welcome it.

Last week Dr. Elgin Groseclose, representing the Citizens Foreign Committee, testified before this committee and stated that the notion that this Asian Development Bank will be a cooperative operation of Asians is spurious. With the exception of Japan and the Commonwealth, none of these Asiatic members is in a position to provide funds for lending to others. They are all dependent on U.S. assistance. Vietnam is set down for \$7 million. Where do you suppose Vietnam will find that \$7 million?

Now this was, of course, from Dr. Groseclose. In other words, he said this proposed Bank is a sham. The developing states are simply incapable of meeting their promised subscription alone. Consequently the United States will be funneling unilateral aid to these nations,



which will use it for Bank subscriptions. If this is true—and I for one don't agree—this is certainly a very circuitous, rather defective, and inefficient way of going about this business. Can you comment on the financial ability of these Asiatic states to meet their subscription?

Mr. HARRIMAN. Let me first speak about the fact that the non-regional countries include a number of European countries. It includes Canada. Their total contribution is just short of \$350 million.

As far as the Asiatic countries are concerned, Japan is one of the most dynamic developing countries—has been one of the most dynamic in its development of any country in the world. Its financial capabilities are well known, and I don't think I need comment on that.

Australia and New Zealand have a high standard of living, among the highest in the world, outside of the United States, and are thoroughly capable of contributing the \$100 million that they have subscribed.

Now the other countries. The Philippines have contributed \$35 million. It is rather unrealistic, I think, to think that a great country such as the Philippines is unable to contribute a figure of that sort.

India and Pakistan—India is \$93 million, Pakistan a figure of \$32 million. It is quite true that each of them do require external funds, but that in no sense limits their possibility of contributing to a bank which is of value to them. They have most important financial institutions of their own in their countries, which carry on a very large share of each nation's business.

The country of Iran—\$60 million—they have very important income from outside, in their oil sales. And so it goes.

I would not agree at all with the statement that has been made. I think these countries are well able to make a contribution to an institution of this kind, and certainly to make a contribution in its management, and certainly a contribution in terms of cooperating with their neighbors in progress which will be of importance to the area as a whole. Mr. Bell, would you care to add to that?

Mr. BELL. Yes; might I add a word or two to that, Mr. Chairman and Mr. Halpern?

As the Governor said, in addition to Japan and New Zealand and Australia, which are obviously not involved in the comment that was quoted, there are several other regional countries which are not receiving any U.S. assistance. Therefore, Mr. Groseclose is simply misinformed on them.

They include the Republic of China on Taiwan, where our economic assistance program was brought to an end successfully last year. They include Malaysia, where we have no economic assistance program from the United States. They include Singapore, where the same thing is true.

Moreover, as the Governor said, some of the regional countries in the Bank, such as Iran, Thailand, and the Philippines, are approaching the stage of economic self-sufficiency. We may well have made our last AID loan to Iran, because of the growing strength of the Iranian economy and its earnings from petroleum.

The Thai economy is strong and growing stronger. We have an economic assistance program in Thailand, but it is relatively small, and it is directed at the special problem of insurgency in the northeast and northern part of that country.

Now there are three or four countries on the list—India, Pakistan, Vietnam, and Korea—in which at the present time the American



economic assistance program is large, and is likely to stay large for several years. But as the Governor said, that doesn't mean that these countries have no economic resources of their own. They do have resources, and it is a real contribution they are making when they join this Bank and subscribe to its capital stock.

And over time, if and as our economic assistance programs are successful, as we fully expect they will be, India, Pakistan, Korea, and even Vietnam will, just as Taiwan and Thailand and Iran have done in the past, approach the stage of economic self-sufficiency when our economic assistance to them can come to an end.

Moreover, their participation in the Bank is more than a matter of subscribing to the capital stock. As the Governor indicated, they will be providing individuals to serve as part of the Bank's staff, and those individuals in turn will be gaining competence. Many of them will return to their own governments and will add to the numbers of persons in Asia who are increasingly competent to manage economic affairs in that part of the world effectively and well.

Mr. HANNA. Will the gentleman yield?

Mr. HALPERN. Before I yield, if I may, I would like to state that both of you distinguished gentlemen feel that Dr. Groseclose is grossly wrong?

Mr. BELL. That is correct.

Mr. HALPERN. I am delighted to hear this direct refutation of some of the arguments that have been advanced against this Bank. I wish to thank you for this answer. I yield.

Mr. HARRIMAN. Could I, before that, mention to the Congressman that the list of the countries which Mr. Bell indicated were not dependent now on American aid amount to over \$400 million out of the \$650 million contribution.

Mr. HANNA. I think that is a very important point.

Mr. HARRIMAN. So leaving aside the outside resources of those who do get aid from us, the largest share of the Asian contribution comes from countries that are not dependent upon us.

Mr. HANNA. I am delighted the Ambassador made this point, because I would like to pursue it further, Mr. Ambassador, and Mr. Bell, if I might.

We are talking about only \$250 million out of the \$650 million that might possibly be affected. Should we not go further and remind ourselves—let's take Korea, for instance. When you talk about \$7 million from Korea, if I understand the way we are going to work this thing, one-half of that \$7 million or \$3.5 million remains as callable countries and support from that country. So as an immediate thing, we are only talking about \$3.5 million that could possibly be involved, is that correct?

Mr. BELL. I think the figures are like this, Mr. Hanna. The total subscription of Korea is \$30 million. Of that, \$15 million—

Mr. HANNA. Pardon me, it wasn't Korea. Was it Vietnam?

Mr. BELL. Yes, they were talking about Vietnam.

Mr. HANNA. Let's talk about that. That is the one Mr. Groseclose brought up. That is why I use it.

Mr. BELL. You are quite correct.

Mr. HANNA. One-half, or \$3.5 million would be in terms of a promissory note in effect.

Mr. BELL. That is right.



Mr. HANNA. Which would be callable. Now of the other \$3.5 million, half of that would be in their local currencies.

Mr. BELL. That is correct.

Mr. HANNA. There is no question about their ability to meet that half?

Mr. BELL. That is right.

Mr. HANNA. Then the other half would be split up in 5-year payments.

Mr. BELL. That is right.

Mr. HANNA. So if we are talking about how to get this Bank off on its first year of operations as far as foreign currency is concerned and our dollars could possibly be involved, we are talking about one-fifth of \$3.5 million.

Mr. BELL. One-fifth of \$1,750,000.

Mr. HANNA. That is right.

Mr. BELL. Which is \$350,000.

Mr. HANNA. So when we say this and break it down for each one of the countries that are involved in this \$250 million, we certainly have a much better perspective of what we are talking about in terms of risk.

That does not mean that the United States is the only country bearing that risk, because if I understand it, Mr. Bell, besides U.S. dollars, they can pay in sterling, they can pay in Swiss francs.

Mr. BELL. That is right.

Mr. HANNA. French francs.

Mr. BELL. Any convertible currency.

Mr. HANNA. So that gives us our risk in a little more revealing form, does it not?

Mr. BELL. Yes, sir.

Mr. HANNA. I thank the gentleman for yielding.

The record ought to be fairly complete on this, so we don't get confused by somebody throwing in large figures like this without understanding as to what they mean.

Mr. MOORHEAD (presiding). I wonder if we could agree as to the procedure in the next few minutes. It would seem to me that it would be appropriate while we have some absentees, for Mr. Bell to read the written part of his statement, because the other members can catch up and read that, but when we have questions like this, they will miss the benefit of questions and answers. I know there are some members who want to question Governor Harriman. Will you be able to stay with us, Governor?

Mr. HARRIMAN. Yes, I will stay.

Mr. MOORHEAD. I see the Chairman returning.

Mr. REUSS (presiding). Thank you, Mr. Moorhead. I have consulted with a few Members on the floor, and I think that it would be agreeable to everyone if we finished our examination of Ambassador Harriman, and then excused him, and then proceed to hear Mr. Bell. Have you had an opportunity for questioning, Mr. Moorhead?

Mr. MOORHEAD. No, I have not.

Mr. REUSS. Would you take it now.

Mr. MOORHEAD. Governor, I would like to ask you, sir, if you wouldn't agree that the situation in Vietnam, in addition to being a world problem and our problem, should also be considered an Asian regional problem? And don't you further agree that the creation of



this Asian Development Bank will tend to foster this feeling of regionalism among the free nations of Asia?

Mr. HARRIMAN. I would think so, Congressman Moorhead, very much so. It is a fact that of all the regions of the world, this general area of the Far East has not had very much of a regional consciousness, and it is due to many historic reasons.

One reason is that a good number of these countries were under the colonial influence of European countries in their trade relationship, their relationship running parallel to different countries in Europe, whether it be Britain, France, the Netherlands, and so forth. It is only in more recent years they have begun to think in regional terms.

The strength of countries like Japan will obviously make it possible for Japan to play a greater role. The countries like Australia and New Zealand are beginning to recognize their future allies in the Pacific, whereas previously they were very closely tied to Great Britain. So that there is a change in the psychology, a change in the political relationships, and we feel very strongly that a regional consciousness is an important thing to develop and that this Bank, as it is the creation of an inspiration of the Asians themselves, will lead to far greater thought and consideration being given to regional conceptions beyond its influence purely in the institution itself.

I think it is fair to say that the World Bank and the Monetary Fund have led to all sorts of cooperative international considerations over the years that they have been in existence, beyond the business of those particular institutions. So we have practical reasons to believe that it will have the effect that you suggest.

Mr. MOORHEAD. It also appears to me that above and beyond its economic impact, that this institution will form a facade, if you will, behind which political discussions can take place.

I was impressed in Manila that before Tashkent, that the Indians and the Pakistanis were signing the same piece of paper, and the Cambodians, who wouldn't have diplomatic dealings with us, were signing the same piece of paper with us. Don't you think that this Bank provides an important forum for this kind of dealing between countries?

Mr. HARRIMAN. Yes, we feel that it will have political impact. I wouldn't want to suggest we think the political problems as exist over Kashmir will be solved by this Bank, but the fact that they will be working together in common endeavor will have in a good many cases a very salutary political influence.

Mr. MOORHEAD. Would you consider that the U.S. participation in this Bank was an indication that the United States was very much interested in peace and economic development in this area, and I would think a vote on this Bank by the Congress could also be so interpreted as the attitude of Congress.

Mr. HARRIMAN. Yes, I think very much that this does underline the President's statements about our interest in economic development, not only President Johnson's but previous Presidents, and our participation in it will certainly focus attention on it as a real fact, a concrete fact, our willingness to move ahead. I would like to point out that if by any chance we fail to participate, it would have a most unfortunate adverse effect.

Mr. MOORHEAD (presiding). ¶ Mr. Hanna?



Mr. HANNA. I would like to have for the record, and I think a very valuable aid to this committee for presentation of this matter to the Congress, some idea about what the Ambassador's evaluation is of the actual benefits that we have derived both tangible and intangible from our connection with the Inter-American Development Bank.

And I would like to have Mr. Bell's comments on that, too, because I think there is definitely going to be parallels drawn between the Inter-American Development Bank, which we have had experience, and this Asian Development Bank with which we are, unfortunately, at this point are without experience. Could you enumerate some of the benefits that the United States has had that would justify our putting further monetary investment in this kind of institution?

Mr. HARRIMAN. I think of course the Inter-American Bank has been of great importance in developing the concept that there is a mutuality of interest in the development of all of Latin America and that it is not dependent solely upon the United States.

The situations are a little different in that our support for the Bank, the Inter-American Bank, is proportionately much greater than the Asian Bank. But I think the same advantages that have accrued to us, or parallel advantages that have accrued to us in the Inter-American Bank will accrue to us in the Asian Bank.

Mr. HANNA. Mr. Bell?

Mr. HARRIMAN. Could you add to that?

Mr. BELL. I would like very much if I might to add two or three points of a rather strictly economic nature.

The Inter-American Development Bank has quite plainly been an instrument which has promoted ideas and arrangements for increasing regional trade and other forms of economic cooperation on a regional basis. This is extremely important to the progress of Latin America, and it is a very valuable matter from the point of view of the United States. We are strongly in favor of the increased emphasis on regional trade and better improved economic relationships among the countries of Latin America.

Second, the Inter-American Development Bank clearly has been an instrument through which the attention of the Latin American countries has been focused on regional projects. The so-called Andean Highway, for example, the highway which would run down on the eastern slope or the eastern foothills of the Andes Mountains from Colombia in the north clear down to Argentina, is a project of very great potential for the economic growth of Latin America. It is a project which involves a number of Latin American countries. The Inter-American Bank has proved to be a very effective instrument through which this project and other similar projects are now being considered.

Thirdly, the Inter-American Development Bank has clearly been an instrument for upgrading, for raising the quality, improving the standards of project preparation and execution in Latin America. The individual governments and institutions in Latin America which have presented projects to the Inter-American Bank have had to meet high standards of engineering and financial study and advance preparation. The Bank has been a very positive and constructive influence in making sure that projects which it financed did meet high standards, in spreading the concepts of what appropriate standards are for development projects and that sort of thing.



Lastly, in my experience, the Inter-American Bank has been a very valuable organization for communication on economic development problems and policies. The members of this committee like Mr. Halpern and you, Mr. Hanna, who were present as I was at the last annual meeting of the Inter-American Bank at Asuncion in Paraguay, will understand what I mean. That meeting was a very mature and sophisticated discussion of the kinds of problems which countries face as they attempt to achieve economic and social progress.

You will recall that at that meeting there was a great deal of discussion of the meaning and significance of self-help through the development process. This is simply one illustration of the way in which the Inter-American Bank has lifted the level of discussion of development problems and has educated large numbers of national leaders from the various Latin American countries so that they understand better what they are up against, and the kind of problems they confront as they try to raise the living standards of their people.

Now I would expect each and all of these good results which we have seen in the case of the Inter-American Bank also to flow from the establishment of the Asian Bank.

Mr. HANNA. I appreciate your making this part of the record, Mr. Bell. I would say that in sum there are two overriding important issues for the United States.

I think we have an interest in stability and peace in the world. I think that our interest there has to focus on a point most disturbing in achieving this desire, the unmet needs of the people and the frustrations in the path of advancement.

Now when you read that in the next 5 years the overall world average, which is heavily weighted by the Asians, will be an improvement of from \$76 a year to \$125 a year, where in the same period of time the United States will go from \$3,000 to \$4,000-plus on the same kind of standard, it shows that we have to make better progress than that or we are not going to have stability in the world. And I think that these points that you are making are essential for shifting this balance more in favor of these people who are at the lower end of this level of life.

Thank you, Mr. Chairman.

Mr. HARRIMAN. Thank you.

Mr. GONZALEZ (presiding). I recognize the gentleman from New York.

Mr. HALPERN. I have one further question I would like to direct to either Governor Harriman or to Administrator Bell.

My earlier query covered one of the most potent objections to the bill, which I am very pleased that you so clearly refuted. Another objection raised in connection with this legislation is that lending institutions, such as this bank, earmark funds mostly to large and going enterprises; that most projects envisaged are not directed toward alleviating the simple basic needs of the indigent population; that whatever real good this Bank does depends upon the trickle down theory. This means wealth to the more affluent, to the detriment of the poor majority. How do you feel about this commentary?

Mr. BELL. I would be glad to answer. Perhaps that is a question that is more appropriate for me to take. I think that is an entirely erroneous concept of how this Bank will in fact work. I would expect the Bank, for example, to make loans for the extension of highway facilities in Asian countries. I have just returned from a visit to



southeast Asia. In northeast Thailand and in Laos I was out in village communities, and saw how immediately effective in increasing the welfare of those villages was the simple job of building an all-weather road which connected those villages with the nearest towns. This meant that the people in those villages could market their crops quickly and get much more income from their agricultural production. It meant that the people in those villages could reach the nearby towns, send their children to secondary school there, have the benefit of acquiring contact and communication with the broader world.

There would be a bookshop in the nearby town. There would be none in the village itself. So that the extension of all-weather roads as part of the highway system of one of the Asian countries has an immediate beneficial effect on the people in the villages.

It is not an instrument for making the rich richer and without any effect on the poor. That is only one example, but I could give you a dozen examples of similar character.

This Bank will make loans for agricultural projects directly benefiting the people who work the land and live on it. The bank will make loans, I am sure, to help establish credit institutions, which will make credit available to farmers and to small businessmen so that they can enlarge their capital, their investment, and raise their incomes and that of their families.

I would think that the notion that lies behind that question is an archaic and obsolete notion. Presumably the person who made that comment thinks that the Bank will lend money, for example, to plantation owners. That is not what this Bank will be doing. The Bank will be lending to government institutions and to private institutions of various kinds, which will be directly creating jobs and directly raising the agricultural incomes of farm families, directly opening up opportunities in education, through transport and more schools, for the great bulk of the people of these countries.

So that I would just flatly say that that comment is entirely erroneous and does not reflect an up-to-date and modern understanding of what is going on in the Asian countries.

Mr. HALPERN. In view of this objection to the Bank that I cited as having been presented to this committee, I am glad we have had this opportunity for the record to show a direct answer to the criticism and I want to thank you for doing so fine a job.

Mr. ASHLEY (presiding). Are there further questions of Governor Harriman?

(No response.)

Mr. ASHLEY. If not, Governor, I know that your time is precious and we are very grateful to you for your being so generous with it so far as the committee is concerned.

Mr. HARRIMAN. Thank you very much, Mr. Chairman. This is the list that I agreed to submit of the contributors to the Bank since it has been revised since the last testimony was given.

(The list referred to follows:)



*Status of subscriptions, Asian Development Bank (based on pledges as of Jan. 28, 1966)*

[In millions of U.S. dollars]

|                                   | <i>Amount<br/>of sub-<br/>scription</i> |
|-----------------------------------|-----------------------------------------|
| Regional countries:               |                                         |
| Afghanistan.....                  | 3.36                                    |
| Australia.....                    | 85.00                                   |
| Cambodia.....                     | 3.00                                    |
| Ceylon.....                       | 8.52                                    |
| China, Republic of.....           | 16.00                                   |
| India.....                        | 93.00                                   |
| Iran.....                         | 60.00                                   |
| Japan.....                        | 200.00                                  |
| Korea, Republic of.....           | 30.00                                   |
| Laos.....                         | 0.42                                    |
| Malaysia.....                     | 20.00                                   |
| Nepal.....                        | 2.16                                    |
| New Zealand.....                  | 22.56                                   |
| Pakistan.....                     | 32.00                                   |
| Philippines.....                  | 35.00                                   |
| Republic of Vietnam.....          | 7.00                                    |
| Singapore.....                    | 4.00                                    |
| Thailand.....                     | 20.00                                   |
| Western Samoa.....                | 0.06                                    |
| Total.....                        | 642.08                                  |
| Nonregional countries:            |                                         |
| Austria.....                      | 5.00                                    |
| Belgium.....                      | 5.00                                    |
| Canada.....                       | 25.00                                   |
| Denmark.....                      | 5.00                                    |
| Finland.....                      | 5.00                                    |
| Germany, Federal Republic of..... | 30.00                                   |
| Italy.....                        | 20.00                                   |
| Netherlands.....                  | 11.00                                   |
| Norway.....                       | 5.00                                    |
| Sweden.....                       | 5.00                                    |
| United Kingdom.....               | 30.00                                   |
| United States.....                | 200.00                                  |
| Total.....                        | 346.00                                  |

Mr. REUSS (presiding). Thank you, Governor.

Mr. Bell, would you now proceed with your statement.

**STATEMENT OF DAVID E. BELL, ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT, ACCOMPANIED BY THOMAS L. FARMER, GENERAL COUNSEL; ROBERT S. SMITH, ASSOCIATE ASSISTANT ADMINISTRATOR FOR PROGRAM; JOHN H. ZENTAY AND FRANK E. SAMUEL, LEGISLATIVE PRESENTATION STAFF; AND ALEX DICKIE, CONGRESSIONAL LIAISON OFFICER**

Mr. BELL. If I may, I would like to submit my prepared statement for the record and simply note two or three highlights from it.

Mr. REUSS. That will be satisfactory.

(Mr. Bell's complete statement follows:)



## STATEMENT OF HON. DAVID E. BELL, ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. Chairman, thank you for the privilege of appearing before this committee in support of U.S. participation in the Asian Development Bank.

We appreciate your prompt consideration of the legislation which will authorize that participation.

Mr. Chairman, I join with Secretary Fowler and Governor Harriman in urging approval of H. R. 12219 by this committee.

The Bank marks a major step toward the goal of a stable and peaceful Asia, where nations can work together in a spirit of cooperation. As President Johnson said in his message to the Congress on January 18:

"The Asian Development Bank is a necessity—not a luxury \* \* \*. It is practical and imaginative. It is the product of Asian initiative, and it offers the nucleus around which Asians can make a cooperative response to the most critical economic problems—national and regional."

Secretary Fowler and Governor Harriman have already discussed with you in some detail the technical aspects of proposed legislation and some of its foreign policy implications. I should like, therefore, to take a few moments this morning to discuss the importance of the Asian Development Bank to the economic development of the region and to our long-range foreign assistance goals of promoting growth and stability.

In this context, there are five basic reasons why we are seeking approval for U.S. participation.

First, the Bank will be a significant step toward regional economic cooperation.

The experience of the last few years in Latin America has clearly demonstrated the benefits to the less developed nations of close regional cooperation among themselves and with the developed countries in international agencies in stimulating development and improving the effectiveness of external assistance. The Central American regional integration movement is ahead of schedule, and trade among the members of this Common Market has increased 123 percent in the past 2 years. In Africa there have also been a number of encouraging steps toward regional unity and cooperation.

In Asia, the problem of achieving greater regional cooperation in economic development is difficult—clearly more difficult than in Latin America, and probably more difficult than in Africa. There is not the same degree of similarity of culture, race, language, and religion. There is great diversity in Asia of geographic and economic factors, crosscutting political ambitions, and overall the brooding presence of aggressive communism which has caused a massive diversion of resources from urgent, human needs to military use.

In recent years, however, there has been some encouraging progress in the region. The Asian Highway, a network to draw the countries of the area together, is well underway. The Mekong Coordination Committee has made progress in drawing up plans and starting construction on facilities to develop this great river basin.

The most encouraging step of all is the Asian Development Bank. It marks a recognition by the Asians that they have been lagging behind much of the rest of the world in developing regional institutions and a sign of their determination to do something about it.

As Governor Harriman has pointed out, we hope that the Asian Bank will result in increasing political cooperation and solidarity among all these countries. But I believe it will play an equally significant role as a force for economic cooperation.

The countries of Asia can make full use of their vast economic potential only by drawing together through trade and commerce, through the exchange of information and skills, through mutual economic development efforts.

Second, the Bank is a multilateral approach to economic development.

A continuing goal of U.S. assistance policy has been to encourage the use of multilateral institutions and channels. We have been a leader in efforts to build such institutions. However, the Bank itself is an Asian initiative, and U.S. participation grew out of President Johnson's offer of last April to join with others in promoting the economic development of the area.

A major advantage of the Bank, as with other multilateral institutions, is that others join in providing funds. As you know, the United States is being called upon to provide 20 percent of the initial capitalization of the Bank. Japan is matching this figure, and other industrialized nations together are putting up an even larger share. The developing Asian countries themselves are providing more than one-third of the capital.

This brings me to my third point: that the Bank is based on the very sound principle of self-help.



The Asians themselves have come forward with funds; they will supply leadership. These are the key to success of any development effort.

The Asian Bank has one particular advantage in the field of self-help that is lacking in a bilateral program. The developing countries themselves are subscribing a large part of the capital. They are lending their own money, a fact which will provide a great incentive to look closely at the way in which the Bank is managed and projects for which the money is lent.

I foresee, through this process, an upgrading of the quality of projects and a greater use of feasibility studies and engineering analysis to bring new projects to light for consideration by the Asian Bank and other lenders.

The fourth major advantage of the Bank is closely related to the principle of self-help. As an Asian Bank run by Asians, it will play a significant role in building the skills needed to run a 20th century economy. Asians will learn through experience how to plan and how to operate the Bank and other institutions needed to support economic growth. Only by achieving this technical competence and experience can the Asians achieve the financial and political independence essential to their future.

Fifth, the Bank will also play a major role in carrying forward another basic policy of our own assistance program—strengthening the role of the private sector.

The Bank will do this in several ways—by identifying particular projects which can attract private capital; by helping to draw up development plans and stimulate policies which will encourage private initiative; by insisting, as have similar institutions, on strict economic and banking standards which will encourage initiative and efficiency on the part of borrowers; and by drawing private capital to the region through its regular operations and by helping to tap other sources and put them to work in the region.

Before closing, Mr. Chairman, I should like to touch on the relationship of the Bank to other assistance efforts. The Bank is, as I have indicated, expected to play a significant role and will provide an important source of lending on commercial terms to Asian nations.

However, neither the total capital available to the Bank nor the terms on which loans are made will be sufficient to meet the full range of requirements in the developing economies of Asia.

The Asian countries will still need bilateral assistance on concessional terms. The Asian Development Bank may in time also provide certain amounts of assistance on concessional terms, as have the World Bank and the Inter-American Development Bank.

The Asian Bank is expected to be one element in a broader development effort on that continent.

Mr. Chairman, I strongly support U.S. participation in the Asian Development Bank. I believe the Bank will be a major instrument in stimulating and encouraging the economic development of the countries of Asia. As President Johnson has said, much of the future of the world depends on the course and progress and success of this development.

Mr. BELL. The committee has heard from Secretary Fowler and Governor Harriman about the technical aspects of the proposed Bank and its foreign policy implications. My point of view on the Bank is primarily related to the importance of the economic development of Asia and to our long-range foreign assistance goals of promoting growth and stability. From this point of view we think there are five good reasons why the United States should participate.

The first is that the Bank will be a significant step toward regional economic cooperation. We have seen this in Latin America. We are seeing it in Africa.

The problem of achieving greater regional cooperation in economic development in Asia is quite difficult. It is clearly more difficult than the same problem in Latin America, probably more difficult than in Africa, because of the diversity of culture and race and language and religion, geographic and economic factors, and because of the presence of the strong and pervasive Communist effort to take over Asia, which has caused in most of the free countries of Asia, a very significant diversion of resources from human needs to military use—



as necessary diversion, but nevertheless one which causes great problems from the point of view of economic and social progress.

There has been in recent years, as the committee knows, some real progress toward regional economic cooperation in Asia. The Asian Highway, the Mekong Coordinating Committee, and other steps have been taken and are underway. But clearly the most encouraging step that has yet been taken is this Asian Development Bank, and as such, we consider that it is a most important matter for the United States strongly to support and to participate in.

The second reason we think that the U.S. participation is urgently necessary is that the Bank is a multilateral approach to economic development. The United States has followed continuously the policy of encouraging the use of multilateral institutions and channels for assistance for economic development. The United States has been a leader in previous cases in the effort to build such institutions, from the World Bank, through the Inter-American Bank.

In this case, the Bank is an Asian initiative, but the United States has strongly supported its establishment through President Johnson's initiative. We think it has the advantages from the point of view of the United States that all such well-organized, well-founded multilateral institutions have.

Others are providing a large share of the funds that are necessary, and the Asian countries themselves are participating very strongly.

The third reason why we think participation is wise is that the Bank is based on the sound principle of self-help. The Asians themselves are putting up most of the money. They will supply leadership for the Bank, and the result can only be beneficial, because they will recognize the necessity of assuring that the projects into which the Bank puts its money, the projects and programs, have been well studied and will yield permanent gains to the economy of the region.

The fourth advantage of the Bank, as we see it, is that as an Asian bank run by Asians, primarily staffed by Asians, it will play a significant role in building the skills that are needed to manage a modern economy. Asians who have served on the Bank's staff will learn a great deal, and many of them will return to their own countries and will be able to use the experience and knowledge that they have gained in order to improve the effectiveness of their own countries' economic policies and programs.

Lastly—and this is a point that I personally would call special attention to, Mr. Chairman—we think the Bank will play a major role in carrying forward another basic policy of our own U.S. assistance program; namely, to strengthen the role of the private sector. The Bank will do this in several ways: by identifying particular projects which can attract private capital, by helping to draw up development plans and to stimulate policies which will encourage private initiative, by insisting, as have other similar institutions, on strict economic and banking standards which will encourage initiative and efficiency on the part of borrowers, by drawing private capital to the region through the regular operations of the Bank, and thus helping to tap outside resources and put them to work in the region.

I would like to make one other point before closing, Mr. Chairman. We think, as I have indicated, that the Bank will play a very significant role and will provide an important source of lending on commercial terms to the Asian nations. However, neither the total



capital available to the Bank nor the terms on which loans are made will be sufficient to meet the full range of requirements in the developing economies of Asia. The Asian countries will still need—or many of the Asian countries will still need for some years yet—bilateral assistance on concessional terms, much of it provided through the program of the Agency that I have the honor to head.

The Asian Development Bank itself may in time provide certain amounts of assistance on concessional terms as have the World Bank and Inter-American Development Bank, but that will develop later, and no such arrangements have been made at this stage. So that we see the Asian Bank as one element in the very broad development effort that is necessary in Asia, and as President Johnson has said, much of the future of the world depends on the course and progress and success of the economic development of the countries of Asia.

Mr. REUSS. Thank you, Mr. Bell. Mr. Ashley?

Mr. BELL. Mr. Chairman, might I add one point? That completes the major points I had in my prepared statement. It might be helpful to the committee if I commented on one point which I understand was raised at the earlier hearing with Secretary Fowler, and this relates to section 5(c) of the draft bill.

Mr. REUSS. Yes. I am delighted that you are coming to that, Mr. Bell. Mr. Widnall, who raised the point, is at the moment on the floor, but does expect to be here.

Mr. BELL. Why do I not just hold the comment.

Mr. REUSS. It might be sensible to withhold it for awhile.

Mr. BELL. Fine.

Mr. REUSS. While other members have an opportunity to question you.

Mr. BELL. I will be glad to.

Mr. REUSS. I certainly want to give you an opportunity to be heard on that. Mr. Ashley?

Mr. ASHLEY. Mr. Bell, I think that your statement is a good one. I read it with interest. I think that you do well, too, to make it clear that this institution really offers no hope for a substitute in the immediate foreseeable future insofar as our bilateral assistance programs are concerned.

Mr. BELL. Right.

Mr. ASHLEY. I think it should be understood, and I think really the point you are making, is that this is really a supplementary effort that in some respects will go beyond the major countries of our own concern and will offer, therefore, facilities for assistance that might otherwise, and are otherwise, not available.

Mr. BELL. That is right. Furthermore, of course, sir, it will be a permanent institution and, as our bilateral economic aid efforts serve their purpose and are phased out, this Bank presumably will remain in existence and will have a larger and larger role to play.

Mr. ASHLEY. Yes. Would you not agree, too, that insofar as capitalization of the institution is concerned, this really is only a beginning? Obviously there will be a demand—

Mr. BELL. Right.

Mr. ASHLEY (continuing). Which will very soon far exceed the resources of the institution as it is presently capitalized.

Mr. BELL. Yes, sir; I would agree with that. It presumably will follow the same type of development that we have seen in the case of the World Bank and the Inter-American Bank. As it becomes



established, gains a well-trained and experienced management and staff, it will become an increasingly strong and effective organization which will be able to use larger amounts of capital, some of which it will earn as its own operations produce revenue, and some of which it will obtain by other means, such as borrowing from private capital markets.

Mr. ASHLEY. I think that it is well to note that an imaginative undertaking of this kind often is subject to attack by those who feel that the impact on the U.S. budget, the success is shown by the fact that the present impact is \$10 million.

Mr. BELL. That is right.

Mr. ASHLEY. I think the prospect for an institution to be as meaningful as you and the Governor and others have testified, that the kind of hope that this embodies really in terms of the dollar impact is the kind of ratio that should be applauded.

Mr. BELL. Yes, sir, the benefit-cost ratio, Mr. Ashley, in this case looks very good indeed.

Mr. REUSS. Mr. Halpern?

Mr. HALPERN. Yes.

Mr. Chairman, before I direct my questions, similarly as I commended the public service of Governor Harriman, I want likewise to compliment our other distinguished witness here this afternoon. I feel we are honored to have the comprehensive analysis of this legislation from the Administrator of our Agency for International Development.

Now it is easy to throw bricks at a program of such magnitude, with so many facets, but I think a bouquet is due the Agency for the immeasurable achievements it has attained under the direction of David Bell. I witnessed many of the Agency's operations firsthand. My only regret is that every American has not had the same opportunity. Perhaps then much of the criticism would be reversed.

I do not think we can heap enough praise on the AID Agency's skilled and able Administrator, and I welcome his presence here today.

Mr. Administrator, to supplement one of my previous queries, I would like to make an observation and then ask for your comment.

The President in connection with this bank speaks of building roads, dams, harbors, and so forth. A critic of the bank has contended that what this really means is that these developing countries will largely ignore the agricultural sector in favor of industrial and commercial advantage. And in long-range terms the accelerated population growth dissipates the progress of economic development. Such an emphasis will make these nations even more reliant upon foodstuffs from the West and particularly America. Iran and India are cited as examples of this pattern. Would you care to comment on this?

Mr. BELL. Yes, I would. This comment is based, I would say, on a matter of real concern, on a substantive point but not one, however, which I think leads to any concern, any criticism of the Bank. As we envision it in nearly every Asian country and in every developing country of the world, highest emphasis has to be given to agricultural improvement. I think the comment is misleading in one sense. In the quotation that was referred to in this comment, the President spoke about dams and roads and harbors. Now the dams that are built in many cases either are wholly for irrigation or will have irrigation benefits, which is directly connected with the increase in agricultural output, and indeed in many cases is an extremely profitable



way by which to enlarge agricultural output as we see in our own country.

Second, the reference to roads. In a previous response here this afternoon I have indicated that in many cases the construction of roads of the type that we had in our own country, the county roads out through the Midwest and Far West, were a necessity for the enlargement of agricultural output, and any farmer in the United States can testify to this. Well, it is county roads or their equivalent that are needed through large areas of Asia, and putting the resources of this bank into such roads would have a very direct and beneficial effect in enlarging the opportunities for agricultural production, both by providing a more attractive market, providing an incentive for the farmers, and by giving them access to the inputs that they need, fertilizer, better equipment, improved seeds and all the rest.

So both the dams and roads should not be misinterpreted as being unrelated to the problems of agricultural improvement. Frequently they are extremely significant from that point of view.

Moreover, the President's list, the list that is quoted in that statement, was obviously not intended to be exhaustive. The President himself, in his foreign aid message to the Congress yesterday, placed first emphasis, the most important emphasis, on the problem of agricultural improvement, improving agricultural output. He is not in any sense unaware of this. Quite the contrary, he has been placing the strongest emphasis on the agricultural sector, and we would expect the Bank to follow the same priorities. The United States Executive Director, who will sit at the headquarters of the Bank and be a member of the group which directs the policies of the Bank, and the Americans who will participate in the staff will obviously all feel that same way, and I do not think there is any question at all that this Bank will attach the same high priority to the agricultural sector that any of us would want.

Mr. HALPERN. I am very glad to have you present this. In your prepared testimony you stated "The United States has offered to contribute \$100 million toward a special fund for southeast Asia's regional development if other industrialized countries will contribute."

Now, have we received any assurance from industrialized countries participating in this special fund?

Mr. BELL. I think that was from Governor Harriman's statement.

Mr. HALPERN. I am so sorry. Would you care to comment.

Mr. BELL. I am perfectly glad to respond, certainly.

There has not been much discussion yet, Mr. Halpern, of this idea. Mr. Black made the offer, on the President's behalf at one of the preparatory meetings, but the various meetings that have been held to establish the Bank have been focused on the organization of it, the initial subscriptions, the place where the Bank is going to be located, and all these questions of organization. They have simply deferred the question of any special funds until a later date.

I do not believe that this question has been explored at any length with any of the other countries that might be involved with us, so that the necessary response, sir, simply is that these questions are still in the future.

Mr. HALPERN. Right.

Mr. Bell—and this is your prepared testimony, I have double-checked that—you touched very briefly on the relationship between



our support of the Bank and other unilateral aid programs in Asia. What is that relationship more specifically? Are multilateral aids to this Bank planned to be reduced as a consequence of the \$200 million subscription, or has the total amount of unilateral aid by Bank members increased this year despite this new commitment to the Asian Bank?

Now I am sure these are the kinds of questions we will have on the floor when the bill comes before the House.

Mr. BELL. Oh, yes.

Mr. HALPERN. I think it would be most helpful to the committee to get your opinions on this point.

Mr. BELL. It is an entirely legitimate question, sir, and the committee needs and deserves an answer.

The basic answer is, as was pointed out a few minutes ago, the funds which the United States will be making available to this Bank, in the fiscal year 1966, and each of the following 4 years, will be \$10 million. The Bank is just getting started. While we speak of our willingness to put \$200 million into the Bank, that is not in fact, as the committee knows, the amount of money we will be putting in right away. Indeed half of it we do not expect to have to contribute at all. It is simply a guarantee of callable capital. The other half will be going in slowly, and much of it or half of that will be available only as and when needed.

Now as the Bank becomes an effective instrument, starts to make loans, begins to support, finance, projects 2 years from now, 3 years from now, 4 years from now, I would expect it to play an increasing role in financing the development needs of the Asian countries.

This year and next year it will not make any appreciable difference to the availability of financing for development purposes. So that in a sense the question, the right answer to the question is that in the very short run it will not make any difference. But looking ahead 2, 3, 4, 5 years, yes indeed, there will certainly be a difference as it gets going.

Mr. HALPERN. Right.

Mr. BELL. Now, even then, sir, it is important to note—this is part of the comment that I made in my prepared statement—that it will have an uneven effect. The Bank will initially lend to those countries which can afford to borrow on commercial terms. It will find it easy to lend to Taiwan. It will find it easy to lend to Iran, quite possibly Malaysia, to finance most of the development projects in cases like that. In cases such as India, Pakistan, countries whose economies at the moment are in greater difficulty or who are further from economic self-support, such countries can only afford to assume a relatively small part of their total needs of capital for development on commercial terms the type of loan that this Bank will offer, so that even looking ahead 2, 3, 4, or 5 years—I am thinking of the relationship to our own bilateral programs of assistance—the existence of the Bank will have a somewhat uneven relationship, because our bilateral assistance programs are tailored to the economic circumstances of the different countries.

In some Asian countries we have no bilateral assistance because they do not need it. In others we have very large bilateral programs because they do need it. And therefore in the initial years the impact of the Asian Bank on our own bilateral programs will depend on the country that one is considering.



Mr. HALPERN. Thank you very much.

I have one other very brief question, Mr. Chairman.

I am going to ask you a question I asked Secretary Fowler. If section 5(c) were deleted, would this create any legal problems in your opinion with respect to our discharging our obligations under the charter? Secretary Fowler said he did not feel it would create any legal problems.

Mr. BELL. Right.

Mr. HALPERN. Would you care to comment on that?

Mr. BELL. I offered a few minutes ago to comment on section 5(c). I understood that a question had been raised at the previous hearing. At the time a few minutes ago, the chairman suggested that Mr. Widnall expected to come to this hearing, and that I should hold my comment until he arrived. I am perfectly willing to—why do I not say what I have to say now, and I can repeat it.

Mr. ASHLEY (presiding). We would like to accord Mr. Hanna an opportunity for questioning, and so why do we not come back to that.

Mr. HANNA. I think my questioning may very well bring up the point where your remarks on this might be quite cogent.

First of all I wanted to know whether you could tell the committee approximately how many agencies are authorized now to provide loans or other financing to foreign governments or agencies of the governments and peoples of the governments.

Mr. BELL. I do not know quite how broad the lawyers would say that terminology is, Mr. Hanna. Certainly the Agency for International Development and the Export-Import Bank would be among those that are so authorized, and the Department of Agriculture under the Public Law 480 program.

Mr. HANNA. I wonder to make the record accurate if we could look at 5(c) and indicate in the record at this point what possibilities could be involved.

Then I would ask the second question: In the instances where other agencies have utilized the International Development Bank, what has motivated their use of the Bank and what has been the results in their use of the Bank, if any?

Mr. BELL. The Inter-American Development Bank you mean?

Mr. HANNA. Yes.

Mr. BELL. I am not sure that there is a case. At least offhand I do not know of a case in which the general authority of the Export-Import Bank or AID or the Department of Agriculture has been used to make any funds or anything of value available to the Inter-American Development Bank. The funds that the United States has made available to the Inter-American Development Bank, apart from the capital subscription, have all been specifically authorized and appropriated.

Mr. HANNA. By the Congress?

Mr. BELL. By the Congress, either under the Social Progress Trust Fund of 3 or 4 years back, or more recently as part of our contribution to the Fund for Special Operations of the Inter-American Bank.

Mr. HANNA. Let me ask you another specific question that will have some bearing on this. Am I right in assuming that the provision under 5(c) which is in this bill also is somewhere in the legislation that pertains to the Inter-American Development Bank?



Mr. BELL. As I understand it, sir, it was written into the Inter-American Development Bank statute and was copied therefrom in this draft bill.

Mr. HANNA. I would think then that there would be some reason to look at whether there has been abuse or lack of abuse——

Mr. BELL. Right.

Mr. HANNA (continuing). In the utilization of this section for that Bank, as to whether we would anticipate that there would be such abuse in its appearance in this legislation.

Mr. BELL. Perhaps, Mr. Chairman, it would be helpful at this point if I made the comment that I was prepared to make on this. I gather that there was some concern expressed over whether under the language of section 5(c), as it stands in the draft bill, there might be large sums made available to the Asian Bank under the existing authority of other agencies like the Agency for International Development. I would like to say categorically, and on behalf of the executive branch, that there is no such intention and there would be no such use. The special funds which have been discussed would not be made available to the Asian Development Bank except under a specific authorization and appropriation considered by the Congress at a later date on their own merits and voted up or down. We do, however, think that section 5(c) is valuable and we would urge its retention in the bill for a different reason; namely, that we think it might well be helpful for us to be able to offer small technical assistance contributions to the Bank for staff training, for perhaps helping them build their library facilities, similar to the activities the Agency for International Development is now authorized to do.

We have provided similar assistance to other international agencies on occasion, when it made sense. In this case, if we did this, the amounts of money involved would be very small. Perhaps \$250,000 would be a relatively large amount of money for such a purpose in any year, certainly well under \$1 million would be sufficient. Therefore, the costs are minimal. But the benefit of providing such technical assistance, if it works out to be appropriate and desirable, might be very large.

All of us want to see this Bank get started quickly and well, and the initial training and advisory services that the staff of the Bank will need will be very important. We have offered such advisory and training services to the African Development Bank.

Mr. ASHLEY. What was the cost involved there, just out of curiosity?

Mr. BELL. I can put that in the record if I may, Mr. Chairman.

Mr. ASHLEY. That might give us some guidance.

Mr. BELL. But the order of figures that I have already referred to, our experience indicates that——

Mr. ASHLEY. And you say that that has proved to be extremely useful and helpful.

Mr. BELL. Yes, sir; right. It is only for that reason that we think there is any value in section 5(c).

(The information referred to above follows:)

The Agency for International Development recently offered to provide \$350,000 to \$500,000 of technical cooperation funds to the African Development Bank for initial training and advisory services.



Mr. BELL. I repeat, we would not use it even if it could be argued that it is legally available for the purpose—we would not use section 5(c) to make available any substantial sums of money, any special funds or amounts of money to the Asian Development Bank. Any such funding for the Bank, special funds or other large amounts of money, we would not make available except after requesting them of the Congress in the normal authorization and appropriation method.

Mr. ASHLEY. Mr. Halpern?

Mr. HALPERN. I can see your reasons in desiring to see 5(c) changed. Do you see any legal problems in regard to our obligations under the Charter?

Mr. BELL. No, I do not.

Mr. HALPERN. If 5(c) were retained, could we insert a dollar limit?

Mr. BELL. It would certainly be perfectly possible, sir.

Mr. HALPERN. Would you disapprove of that?

Mr. BELL. No, in the sense assuming that it would be——

Mr. HALPERN. If it were retained.

Mr. BELL. Assuming that it would be large enough to permit the kind of technical assistance activity I have referred to.

Mr. HALPERN. It would allow flexibility.

Mr. BELL. Exactly, right.

Mr. HALPERN. Thank you.

Mr. ASHLEY. This of course is a matter of what we choose to take up here in a sense.

Mr. BELL. Right.

Mr. ASHLEY. But would it not occur to you that particularly in view of your clear statement of intention a moment ago, that it might be preferable to include that kind of statement in the report rather than to eliminate the language from the bill itself?

Mr. BELL. It would be entirely effective from our point of view, Mr. Chairman, to state the understanding of the Congress based on my assurances on behalf of the executive branch. It would nail down the legislative history in a way that would be unequivocal.

Mr. ASHLEY. Precisely.

Mr. REUSS (presiding). Mr. Moorhead.

Mr. MOORHEAD. No questions at this time, Mr. Chairman.

Mr. REUSS. Mr. Bell, as you can see from the running in and out of here, we have a number of bells ringing votes on the floor; I hope you will accept our apologies.

Mr. BELL. Of course.

Mr. REUSS. You have had a limited audience from time to time. I understand from Mr. Halpern that he did have an opportunity to explore with you the question of 5(c).

Mr. BELL. That is right.

Mr. REUSS. I was not here during that discussion. However, I do not want to burden the record with repetitions. Did you have a full opportunity to state to Mr. Halpern that which you started to discuss earlier?

Mr. BELL. Yes, sir.

Mr. REUSS. You have nothing to add?

Mr. BELL. From my point of view I believe the record is now clear and complete. My colleagues assure me that we have left nothing unsaid that we should say.

Mr. REUSS. And you have no further questions.



Mr. HALPERN. I have no further questions, but I do want again to complement Mr. Bell.

Mr. BELL. Thank you very much, sir, for those kind words.

Mr. REUSS. In the light of this, I think we can excuse Mr. Bell with our thanks. I should say, Mr. Bell, that while I am under the impression that those committee members who are on the floor of the House will be satisfied with the questions that have been asked of you, I assume that if there are additional questions, you would be prepared to respond to them in writing, would you not?

Mr. BELL. Yes, sir, either in writing or I would be glad to come back if there were any reason for it.

Mr. REUSS. Since it is our intention to go into executive session as soon as we can reconvene, I am wondering if Mr. Thomas Farmer, the general counsel, would be able to stay in the hearing room and also the gentleman from the Treasury; if you gentlemen would stay, you may be of help. Thank you very much.

Mr. BELL. Thank you, sir.

Mr. REUSS. I ask unanimous consent to submit for the record a letter from the Honorable Eugene R. Black endorsing the Asian Development Bank. We had invited Mr. Black to testify before the subcommittee and would have welcomed his comments in view of his particular expertise, both as an adviser to President Johnson on the Asian Bank and as former President of the World Bank. Unfortunately, previous commitments have prevented his appearance.

Without objection, it is ordered.

(The letter referred to follows:)

NEW YORK, N.Y., January 26, 1966.

HON. WRIGHT PATMAN,  
*Chairman, Committee on Banking and Currency,  
U.S. House of Representatives, Washington, D.C.*

DEAR MR. CHAIRMAN: I had hoped very much to be able to appear personally before your committee in support of H.R. 12219, a bill providing for U.S. participation in the Asian Development Bank. I regret, however, that a longstanding commitment for an overseas trip prevents my appearance, and I wish to take this opportunity to tell you why in my view this proposal merits the full support of the United States.

Since I last appeared before the committee, the proposal for a regional development bank in Asia has moved a further significant step forward—from the discussion stage to the verge of realization. Many members of your committee attended the meeting at Manila last December at which the agreement establishing the Asian Development Bank was signed by 22 countries. They know at first hand of the Asian hopes and aspirations that are bound up with the creation of this Bank. We must not disappoint these hopes. Early and favorable action by the Congress on U.S. participation is essential if we are to keep faith with the peoples of the vast regions of Asia.

As President Johnson's adviser for southeast Asia economic and social development, I have given the evolution of the Asian Bank concept my closest attention. I consider the Bank a fitting companion for the existing international development finance institutions, of which the United States is a member—the World Bank family and the Inter-American Development Bank. The Asian Bank is cast in the same mold of financial soundness as those tested and constructive institutions. I am confident that the Asian Development Bank—uniquely adopted in its structure to fit the requirement of Asia—will prove to be another example of effective international economic cooperation in the developing areas of the world.

As President Johnson pointed out in his message of January 18, 1966, Asia has long suffered from conflict, hunger, disease, and illiteracy. The Asian Bank proposal is an Asian response to these pressing problems. We have been asked to join with them in setting up this Bank and it is in my judgment clearly in our interest to do so.



Membership in this Bank is in our economic interest. The expected subscription of the other advanced countries—Japan, Australia, and New Zealand in the Asian region and nearly a dozen elsewhere—represent more than double the \$200 million the United States is to subscribe.

We are therefore supporting Asian development in a framework that spreads the burden of assistance among the nations able to bear it.

The Asian Development Bank is vital to peaceful development in Asia. Early U.S. action toward membership is vital to the full success of the Bank. Your committee has wisely recognized the far-reaching significance of this new Bank by taking up this important bill so promptly.

In a single sentence, President Johnson has summed up the need for the establishment of this Bank: "Asia's future—and the world's—requires it."

I urge your favorable action on H.R. 12219.

Sincerely,

EUGENE R. BLACK.

Mr. REUSS. I also ask consent to submit for the record the following letters endorsing the Bank from the League of Women Voters, the Friends Committee on National Legislation, and the Foundation for Cooperative Housing.

(The letters referred to follow:)

LEAGUE OF WOMEN VOTERS OF THE UNITED STATES,  
Washington, D.C., January 28, 1966.

HON. HENRY S. REUSS,

*Chairman, Subcommittee on International Finance, House Committee on Banking and Currency, Rayburn House Office Building, Washington, D.C.*

DEAR MR. REUSS: The League of Women Voters of the United States would like to file the enclosed statement in support of the legislation to provide for U.S. participation in the Asian Development Bank which is now before your committee. We hope it can be included in the hearing record.

Sincerely,

Mrs. ROBERT J. STUART, *President.*

#### STATEMENT BY THE LEAGUE OF WOMEN VOTERS OF THE UNITED STATES

The League of Women Voters of the United States urges the Subcommittee on International Finance of the House Banking and Currency Committee to report favorably the legislation providing for U.S. participation in the Asian Development Bank.

We have followed with great interest the steps taken in recent months to transform into a reality the concept of a regional bank for Asia first proposed in 1963 by the U.N. Economic Commission for Asia and the Far East (ECAFE). The league regards U.S. membership in the Asian Development Bank to be a major implementation of President Johnson's April 7, 1965, proposal "for countries in southeast Asia to associate themselves in a greatly expanded cooperative effort for development"—a proposal which the league enthusiastically endorsed at that time. We also feel that the Asian Bank's charter-signing Conference, which many of you attended in Manila last December, represented an important culmination point which fortuitously coincided with the climaxing events of ICY at the White House Conference. In our judgment, U.S. endorsement in mid-1965 of a regional bank in Asia was one of the major ICY initiatives taken by the U.S. Government.

For the past 15 years, the United States has been committed to the development of the Asian countries. Through technical and capital assistance programs, this Nation has sought to help the people in this area of the world. Now that vastly diverse nations in this area have joined together for the first time to work for their own economic development—to finance roads, bridges, powerplants, harbors, and communication systems—it is especially appropriate for the United States to participate fully in this new endeavor.

We realize that the Asian Bank in and of itself is not the final answer to the problems facing Asia today. However, we feel it will fulfill a vital regional need for a joint development institution in addition to reinforcing existing aid programs and stimulating the flow of private as well as public capital into Asia.

The league has long supported the concept of multilateral cooperation in development financing, as exemplified internationally by the World Bank and regionally by the Inter-American Development Bank. Our support of inter-



national development financing goes back over 20 years to the days of Bretton Woods when the league was extensively engaged in a public educational campaign on behalf of U.S. membership in both the World Bank and the International Monetary Fund. Since that time the league has welcomed the shift by the World Bank from reconstruction assistance in Europe to development assistance to the less developed countries in Asia, Africa, and the Middle East. The league also has welcomed regional economic institutions such as the Inter-American Development Bank—the first such institution based on a major geographic area. We have been impressed by the important role which this regional Bank has been able to play not only in promoting the economic development of the Latin American Continent but also in providing a framework of economic partnership. It seems to us that the Asian Development Bank has been set up to follow closely the successful patterns set by both the Inter-American Bank and the World Bank.

In short, the League of Women Voters believes that the Asian Development Bank can make a solid contribution in developing patterns of cooperation among the Asian countries as well as in contributing to their economic development and political stability. A regional bank created for and by Asians in the midst of turmoil in that part of the world could in the long run play a vital role in the peaceful development of these countries. We urge you to report favorably the legislation which provides for U.S. participation in this Bank.

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FRIENDS COMMITTEE ON NATIONAL LEGISLATION,  
Washington, D.C., February 7, 1966.

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

DEAR REPRESENTATIVE REUSS: The Friends Committee on National Legislation warmly supports early enactment of H.R. 12219, H.R. 12220, which would provide for U.S. participation in the proposed Asian Development Bank. We particularly welcome the Bank's provision for special funds to cover the widespread need for long-term low interest rate loans.

U.S. membership in the Bank is essential for at least three reasons: (1) the needs of the area are immense; (2) the United States should be channeling a larger share of its aid through multilateral efforts which are less subject to nationalistic resentments than bilateral programs; and (3) the United States must redeem the President's April 1965 promise to supplement the war in Vietnam with works of peace, including a much more massive effort to improve the life of man in that conflict-torn corner of the world.

Our organization would like to urge, however, that the House Banking and Currency Committee go on record as favoring membership in the Bank for the three Asian countries that are presently ineligible because they do not belong to any specialized agencies of the United Nations. These three countries are the People's Republic of China, North Vietnam and North Korea. The President has already suggested that North Vietnam should join at some future date, but membership should be encouraged now if the Bank is to function effectively. The fact that these Communist areas might not accept membership now only indicates the urgency of starting the conciliation process. The central purpose of the Bank is to foster regional cooperation and to contribute to the harmonious economic growth of the region as a whole. Or, as President Johnson has said, to be "an agent of unity as well as development." One of the most obvious focuses for such an effort is in the divided countries of Korea and Vietnam.

We would also hope that your committee would analyze the adequacy of the U.S. subscription to the Bank, which has been set at \$200 million, or 20 percent of the total capitalization. This is smaller than the U.S. share of the total capitalization of the World Bank, or IDA or the Inter-American Development Bank. The committee might also reexamine the adequacy of the overall \$1 billion capitalization. We raise these points not because we have exact knowledge of how large a crash development program is needed, but because we agree with President Johnson that "works of peace in Asia \* \* \* are vital to peace in the entire world."

According to recent estimates, the Vietnam war may cost Americans \$15 billion in this fiscal year alone. It is very probable that Americans would prefer



to donate several billions toward an effort to reduce regional tensions and promote cooperation in Asia, regardless of whether that effort is matched by contributions from other nations.

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

Sincerely yours,

EDWARD F. SNYDER.

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FOUNDATION FOR COOPERATIVE HOUSING,  
Washington, D.C., February 4, 1966.

Hon. WRIGHT PATMAN,  
*House of Representatives, Washington, D.C.*

DEAR MR. PATMAN: The legislative proposals now before your committee concerning U.S. participation in the Asian Development Bank are in our opinion essential to the development of the newly emerging countries of Asia.

We have, of course, been pleased that President Johnson has taken leadership in encouraging the formation of the Asian Development Bank, and that representatives of the United States have consistently supported the basic philosophy involved in its establishment.

Last year at this time I was greatly honored to receive your invitation to testify before the House Committee on Banking and Currency in support of U.S. appropriations for additional capital for the Inter-American Development Bank. I am similarly greatly honored to have been asked to submit my views as to this proposed legislation as it affects the U.S. oversea program in support of cooperatives, and particularly cooperative housing.

The proposed Asian Development Bank should serve very much the same function as the Inter-American Development Bank. As I pointed out in my testimony last year, we have had an opportunity to see concrete projects developed by and completed with loans made by the IDB. We are pleased with what we have seen in concrete and tangible housing projects growing out of these loans. In those instances which I cited to the committee there were very close relationships between the governments involved, the voluntary savings and loan associations organized in those countries, and the people involved in the organization of cooperative housing projects whose homes were built with funds from the IDB loans, supplemented by savings made by the people through their savings and loan associations.

The work of IDB in these projects is an excellent example of the new partnership between governments and the people organized in their own voluntary, non-governmental, democratic, economic organizations.

On behalf of the Foundation for Cooperative Housing, the FHC Company, and FCH International, I would like to indicate the very great interest our organizations have in comparable development in the area which is to be served by the Asian Development Bank.

As you know, government officials and others in many of the countries to be served have shown great interest in the encouragement of cooperative associations of various types. In a number of these countries cooperatives are a major factor in the development of the economies, particularly in the rural areas. The growth of these organizations could, in due time, parallel the tremendous cooperative organizations which now serve as the economic backbone of American agriculture. A program of assistance in the organization of all types of cooperatives is now being undertaken by the Agency for International Development under the Humphrey amendment to the Foreign Assistance Act of 1961.

We sincerely hope that in the legislative history of U.S. interest in the objectives of the Bank, there will be a similar expression of the intent of the U.S. Congress and the administration to encourage the Asian Development Bank to follow this policy of the United States in helping people to help themselves through the organization of cooperative institutions.

We also sincerely recommend that it become the policy of the Bank at its outset to make loans which will be used in the development of cooperative institutions including, of course, single-mortgage type cooperative housing projects similar to those which have been so successful in the Scandinavian countries and the United States, and which now are a pattern for development in Latin America.



We sincerely hope the Congress will approve U.S. participation in the Asian Development Bank and support it with the resources necessary to make it an effective agency for democratic, economic development.

With sincere best wishes,

Very truly yours,

WALLACE J. CAMPBELL, *President.*

Mr. REUSS. We will now stand in recess subject to the call of the Chair.

(Whereupon, at 3:40 p.m., the subcommittee adjourned, to reconvene subject to the call of the Chair.)



## APPENDIX

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### AGREEMENT ESTABLISHING THE ASIAN DEVELOPMENT BANK

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### MESSAGE

FROM

### THE PRESIDENT OF THE UNITED STATES

TRANSMITTING

### AGREEMENT ESTABLISHING THE ASIAN DEVELOPMENT BANK

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JANUARY 18, 1966.—Referred to the Committee on Banking and Currency and ordered to be printed, with accompanying papers

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#### *To the Congress of the United States:*

I recommend that the Congress promptly approve United States participation in the Asian Development Bank.

This new institution expresses the will of Asia to develop her manifold human and natural resources, and thereby to lift the burden of poverty that has been the lot of her people since ancient times.

Conceived and sponsored by Asians, the Bank is open to all countries in that region, regardless of ideology, who are members of the United Nations or its specialized agencies. Of its \$1 billion authorized capital, 65 percent is to be subscribed by nations in the Asian area.

United States representatives—led by Mr. Eugene Black and a distinguished Congressional delegation—signed the Charter of the Asian Development Bank at Manila last December 4. But only the Congress itself can authorize the final acceptance of U.S. membership.

That is the action I request today.

#### I

I take this step because of my urgent belief that the works of peace in Asia—the building of roads, dams, harbors, power plants, and all the other public and private facilities essential to a modern economy—are vital to peace in the entire world.



An Asia torn by conflict, depressed by hunger, disease and illiteracy, deprived of the means and the institutions that alone can offer hope to her people, must ever be a source of turmoil and anxiety for nations beyond her borders, as well as those within. Because this is so—and because we have recognized our moral obligation to our brothers on this earth—the United States has committed itself over a decade and a half to major assistance programs in Asia, making food, development loans, and technical assistance available to those who required our aid.

We have sought no American empire. Our purpose has never been to exploit, but to encourage; not to master, but to magnify the works of those who truly served the Asian people.

Now the Asians themselves have formed an institution by whose hand new works of peace may be accomplished. They have committed precious resources to that institution. They are determined to join in a cooperative endeavor, uniting the talents and resources of diverse cultures in pursuit of a common vision of progress.

They have asked us to join with them—to subscribe 20 percent of the institution's total capital—and thus to help make that vision a reality.

I recommend that we respond quickly and affirmatively.

## II

This proposal is neither utopian nor vague. It is the product of careful deliberation by the foremost experts in international finance. It rests solidly on the lessons learned in building the World Bank, and other organs of international finance, into the powerful forces for good they are today. It will take its place among regional financial institutions alongside the Inter-American Development Bank and the newly-formed African Development Bank.

Loan terms will be similar to those offered by the World Bank. Project justifications will be as rigorous as prudent management requires. Special efforts will be made to develop and finance projects involving more than one country, so that the Bank may be an agent of unity as well as development.

The Bank will reinforce existing aid programs in Asia, and thereby multiply their effectiveness. It will link its resources—financial and human—to such institutions as the Mekong Coordinating Committee, already joining the countries of the Mekong River Basin in major water resource projects.

Its Charter permits it to administer special development funds, contributed by either member or non-member countries. Thus it will serve as a channel for funds beyond its own resources.

These advantages are developed further in the Special Report of the Secretary of the Treasury on the Asian Development Bank which accompanies this message.

## III

The largest share of the Bank's subscriptions will be provided by Asians themselves.

The United States has been asked to pledge \$200 million, equally divided between paid-in and callable shares. The paid-in shares are payable in five equal annual installments of \$20 million each, half of which will be in cash, half in the form of a letter of credit.



The callable shares will constitute a guarantee for borrowings by the Bank in private capital markets. They would be drawn on only in the unlikely event that the Bank were unable to meet its commitments.

Our pledge is equalled by that of Japan. India has pledged \$93 million; Australia another \$85 million. More than \$100 million has already been pledged by European countries and Canada, and further pledges may be made.

Joint action with these major subscribers provides another instrument of cooperation between the donors of aid. That is a long-sought goal of the United States, for it offers the most efficient use of all the free world's aid resources.

Finally, our commitment to the Asian Bank should have little negative effect on our balance of payments. Procurement financed through the Bank's regular capital will normally be limited to member countries. Purchases of U.S. goods and services will approximately offset the dollar outflow occasioned by our \$10 million annual cash subscription.

#### IV

The Asian Development Bank is a necessity—not a luxury.

It was needed yesterday. It is needed even more today. Tomorrow, when the demands of Asia's millions on her struggling economies are more pressing still, it can mean the difference between opportunity and chaos.

It is practical and imaginative. It is the product of Asian initiative, and it offers the nucleus around which Asians can make a cooperative response to the most critical economic problems—national and regional.

Because it is all these things, it is also an avenue of good will and sound policy for the United States. For our destination is a world where the instinct for oppression has been vanquished in the heart of man. Given the means to work, to build, to teach, to heal, to nourish his family, man may yet achieve such a world—if not in our time, then in the generations that will succeed us on this planet. I believe the Asian Development Bank is an essential tool in providing the means of life for hundreds of millions of human beings who live between the Caspian Sea and the South Pacific.

It will become a reality when fifteen signatories, ten of them Asian, have ratified the Charter. It appears now that this will be achieved by early Spring. Our own constructive influence in the organization and management of the Bank will be increased if we can become active at its very beginning.

Last April in Baltimore I spoke of our dream of a world "where all are fed and charged with hope." I promised that "we will help to make it so." Our partnership in the Asian Bank is a step in keeping that pledge. It brings us nearer that day when our resources—and the world's—can be devoted to the constructive works of peace, not the destructive forces of war.

I urge the Congress to adopt the Asian Development Bank Act. Asia's future—and the world's—requires it.

LYNDON B. JOHNSON.

THE WHITE HOUSE, *January 18, 1966.*



A BILL To provide for the participation of the United States in the Asian Development Bank

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,*

#### SHORT TITLE

SECTION 1. This Act may be cited as the "Asian Development Bank Act."

#### ACCEPTANCE OF MEMBERSHIP

SEC. 2. The President is hereby authorized to accept membership for the United States in the Asian Development Bank (hereinafter referred to as the "Bank") provided for by the agreement establishing the Bank (hereinafter referred to as the "agreement") deposited in the archives of the United Nations.

SEC. 3. (a) The President, by and with the advice and consent of the Senate, shall appoint a Governor of the Bank, an alternate for the Governor, and a Director of the Bank.

(b) No person shall be entitled to receive any salary or other compensation from the United States for services as a Governor or Alternate Governor. The Director may, in the discretion of the President, receive such compensation, allowances, and other benefits as, together with those received by him from the Bank, will equal those authorized for a Chief of Mission, Class 2, within the meaning of the Foreign Service Act of 1946, as amended.

SEC. 4. (a) The policies and operations of the representatives of the United States on the Bank shall be coordinated with other United States policies in such manner as the President shall direct.

(b) An annual report with respect to United States participation in the Bank shall be submitted to the Congress by such agency or officer as the President shall designate.

SEC. 5. Unless the Congress by law authorizes such action, neither the President nor any person or agency shall, on behalf of the United States, (a) subscribe to additional shares of stock of the Bank; (b) vote for or agree to any amendment of the agreement which increases the obligations of the United States, or which would change the purpose or functions of the Bank; or [(c) make a loan or provide other financing to the Bank, except that loans or other financing may be provided to the Bank by a United States agency created pursuant to an Act of Congress which is authorized by law to make loans or provide other financing to international organizations].

#### DEPOSITORIES

SEC. 6. Any Federal Reserve bank which is requested to do so by the Bank shall act as its depository or as its fiscal agent, and the Board of Governors of the Federal Reserve System shall supervise and direct the carrying out of these functions by the Federal Reserve banks.

#### PAYMENT OF SUBSCRIPTION

SEC. 7. (a) There is hereby authorized to be appropriated, without fiscal year limitation, for the purchase of 20,000 shares of capital stock of the Bank, \$200 million.

(b) Any payment made to the United States by the Bank as a distribution of net income shall be covered into the Treasury as a miscellaneous receipt.

#### JURISDICTION AND VENUE OF ACTIONS

SEC. 8. For the purpose of any civil action which may be brought within the United States, its Territories or possessions, or the Commonwealth of Puerto Rico, by or against the Bank in accordance with the agreement, the Bank shall be deemed to be an inhabitant of the Federal judicial district in which its principal office or agency in the United States is located, and any such action to which the Bank shall be a party shall be deemed to arise under the laws of the United States, and the district courts of the United States, including the courts enumerated in Title 28, Sec. 460, United States Code, shall have original jurisdiction of any such action. When the Bank is a defendant in any action in a State Court, it may, at any time before the trial thereof, remove such action into the district court of the United States for the proper district by following the procedure for removal of causes otherwise provided by law.



## STATUS, IMMUNITIES AND PRIVILEGES

SEC. 9. The agreement, and particularly Articles 49 through 56, shall have full force and effect in the United States, its Territories and possessions, and the Commonwealth of Puerto Rico, upon acceptance of membership by the United States in, and the establishment of, the Bank. The President, at the time of deposit of the instrument of acceptance of membership by the United States in the Bank, shall also deposit a declaration that the United States retains for itself and its political subdivisions the right to tax salaries and emoluments paid by the Bank to its citizens or nationals.

## SECURITIES ISSUED BY BANK AS INVESTMENT SECURITIES FOR NATIONAL BANKS

SEC. 10. The last sentence of paragraph 7 of section 5136 of the Revised Statutes, as amended (12 U.S.C. 24), is amended by striking the word "or" after the words "International Bank for Reconstruction and Development" and inserting a comma in lieu thereof, and by inserting after the words "the Inter-American Development Bank" the words "or the Asian Development Bank".

## SECURITIES ISSUED BY BANK AS EXEMPT SECURITIES; REPORT FILED WITH SECURITIES AND EXCHANGE COMMISSION

SEC. 11. (a) Any securities issued by the Bank (including any guarantee by the Bank, whether or not limited in scope) in connection with raising of funds for inclusion in the Bank's ordinary capital resources as defined in article 7 of the agreement and any securities guaranteed by the Bank as to both principal and interest to which the commitment in article 6, section 5, of the agreement is expressly applicable, shall be deemed to be exempted securities within the meaning of paragraph (a)(2) of section 3 of the Act of May 27, 1933, as amended (15 U.S.C. 77c), and paragraph (a)(12) of section 3 of the Act of June 6, 1934, as amended (15 U.S.C. 78c). The Bank shall file with the Securities and Exchange Commission such annual and other reports with regard to such securities as the Commission shall determine to be appropriate in view of the special character of the Bank and its operations and necessary in the public interest or for the protection of investors.

(b) The Securities and Exchange Commission, acting in consultation with such agency or officer as the President shall designate, is authorized to suspend the provisions of subsection (a) at any time as to any or all securities issued or guaranteed by the Bank during the period of such suspension. The Commission shall include in its annual reports to Congress such information as it shall deem advisable with regard to the operations and effect of this section and in connection therewith shall include any views submitted for such purpose by any association of dealers registered with the Commission.

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AGREEMENT ESTABLISHING THE ASIAN DEVELOPMENT BANK

## FINAL ACT

I. In pursuance of resolution 62 (XXI) of the United Nations Economic Commission for Asia and the Far East, the Executive Secretary of ECAFE convened a Conference of Plenipotentiaries on the Asian Development Bank which met at Manila, Philippines from 2 to 4 December 1965.

II. The Governments of the following twenty-seven States were represented at the Conference: Afghanistan, Australia, Belgium, Cambodia, Canada, Ceylon, China, Denmark, Federal Republic of Germany, India, Iran, Italy, Japan, Republic of Korea, Laos, Malaysia, Nepal, Netherlands, New Zealand, Pakistan, the Philippines, Republic of Viet-Nam, Singapore, Thailand, the United Kingdom, the United States of America, and Western Samoa.



III. The Conference unanimously adopted the attached text of the Agreement Establishing the Asian Development Bank and opened it for signature on 4 December 1965.

The representatives listed in the Annex hereto, their powers having been found by the Conference in good and due form, signed this Final Act at the closing session of the Conference.

IV. The Conference took the following action:

It established a Committee on Preparatory Arrangements for the establishment of the Asian Development Bank composed of fourteen members, twelve from the regional countries and two from the non-regional members, namely, Australia, Ceylon, India, Iran, Japan, Korea, Malaysia, Nepal, Pakistan, Philippines, Republic of Viet-Nam, and Thailand, and Federal Republic of Germany and the United States of America, respectively. This final Act and the annexes thereto shall be deposited with the Secretary-General of the United Nations.

IN WITNESS WHEREOF, the duly authorized representatives of Governments have subscribed their names below.

DONE AT MANILA, this fourth day of December one thousand nine hundred and sixty-five, in a single copy in the English language.

\_\_\_\_\_,  
*Chairman of the Conference.*

\_\_\_\_\_,  
*Executive Secretary of ECAFE.*

For Afghanistan: \_\_\_\_\_

For Australia: \_\_\_\_\_

For Belgium: \_\_\_\_\_

For Burma: \_\_\_\_\_

For Cambodia: \_\_\_\_\_

For Canada: \_\_\_\_\_

For Ceylon: \_\_\_\_\_

For China: \_\_\_\_\_

For Denmark: \_\_\_\_\_

For the Federal Republic of Germany: \_\_\_\_\_

For India: \_\_\_\_\_

For Iran: \_\_\_\_\_

For Italy: \_\_\_\_\_

For Japan: \_\_\_\_\_

For Laos: \_\_\_\_\_



- For Malaysia: \_\_\_\_\_
- For Mongolia: \_\_\_\_\_
- For Nepal: \_\_\_\_\_
- For the Netherlands: \_\_\_\_\_
- For New Zealand: \_\_\_\_\_
- For Pakistan: \_\_\_\_\_
- For the Philippines: \_\_\_\_\_
- For the Republic of Korea: \_\_\_\_\_
- For the Republic of Viet-Nam: \_\_\_\_\_
- For Singapore: \_\_\_\_\_
- For Thailand: \_\_\_\_\_
- For the United Kingdom of Great Britain and Northern Ireland: \_\_\_\_\_
- For the United States of America: \_\_\_\_\_
- For Western Samoa: \_\_\_\_\_

## AGREEMENT ESTABLISHING THE ASIAN DEVELOPMENT BANK

### THE CONTRACTING PARTIES

CONSIDERING the importance of closer economic co-operation as a means for achieving the most efficient utilization of resources and for accelerating the economic development of Asia and the Far East;

REALIZING the significance of making additional development financing available for the region by mobilizing such funds and other resources both from within and outside the region, and by seeking to create and foster conditions conducive to increased domestic savings and greater flow of development funds into the region;

RECOGNIZING the desirability of promoting the harmonious growth of the economies of the region and the expansion of external trade of member countries;

CONVINCED that the establishment of a financial institution that is Asian in its basic character would serve these ends;

HAVE AGREED to establish hereby the Asian Development Bank (hereinafter called the "Bank") which shall operate in accordance with the following



## ARTICLES OF AGREEMENT

*Chapter I. Purpose, Functions and Membership*

## ARTICLE 1. PURPOSE

The purpose of the Bank shall be to foster economic growth and co-operation in the region of Asia and the Far East (hereinafter referred to as the "region") and to contribute to the acceleration of the process of economic development of the developing member countries in the region, collectively and individually. Wherever used in this Agreement, the terms "region of Asia and the Far East" and "region" shall comprise the territories of Asia and the Far East included in the Terms of Reference of the United Nations Economic Commission for Asia and the Far East.

## ARTICLE 2. FUNCTIONS

To fulfil its purpose, the Bank shall have the following functions:

(i) to promote investment in the region of public and private capital for development purposes;

(ii) to utilize the resources at its disposal for financing development of the developing member countries in the region, giving priority to those regional, sub-regional as well as national projects and programmes which will contribute most effectively to the harmonious economic growth of the region as a whole, and having special regard to the needs of the smaller or less developed member countries in the region;

(iii) to meet requests from members in the region to assist them in the coordination of their development policies and plans with a view to achieving better utilization of their resources, making their economies more complementary, and promoting the orderly expansion of their foreign trade, in particular, intra-regional trade;

(iv) to provide technical assistance for the preparation, financing and execution of development projects and programmes, including the formulation of specific project proposals;

(v) to co-operate, in such manner as the Bank may deem appropriate, within the terms of this Agreement, with the United Nations, its organs and subsidiary bodies including, in particular, the Economic Commission for Asia and the Far East, and with public international organizations and other international institutions, as well as national entities whether public or private, which are concerned with the investment of development funds in the region, and to interest such institutions and entities in new opportunities for investment and assistance; and

(vi) to undertake such other activities and provide such other services as may advance its purpose.

## ARTICLE 3. MEMBERSHIP

1. Membership in the Bank shall be open to: (i) members and associate members of the United Nations Economic Commission for Asia and the Far East; and (ii) other regional countries and non-



regional developed countries which are members of the United Nations or of any of its specialized agencies.

2. Countries eligible for membership under paragraph 1 of this Article which do not become members in accordance with Article 64 of this Agreement may be admitted, under such terms and conditions as the Bank may determine, to membership in the Bank upon the affirmative vote of two-thirds of the total number of Governors, representing not less than three-fourths of the total voting power of the members.

3. In the case of associate members of the United Nations Economic Commission for Asia and the Far East which are not responsible for the conduct of their international relations, application for membership in the Bank shall be presented by the member of the Bank responsible for the international relations of the applicant and accompanied by an undertaking by such member that, until the applicant itself assumes such responsibility, the member shall be responsible for all obligations that may be incurred by the applicant by reason of admission to membership in the Bank and enjoyment of the benefits of such membership. "Country" as used in this Agreement shall include a territory which is an associate member of the United Nations Economic Commission for Asia and the Far East.

## *Chapter II. Capital*

### ARTICLE 4. AUTHORIZED CAPITAL

1. The authorized capital stock of the Bank shall be one billion dollars (\$1,000,000,000) in terms of United States dollars of the weight and fineness in effect on 31 January 1966. The dollar wherever referred to in this Agreement shall be understood as being a United States dollar of the above value. The authorized capital stock shall be divided into one hundred thousand (100,000) shares having a par value of ten thousand dollars (\$10,000) each, which shall be available for subscription only by members in accordance with the provisions of Article 5 of this Agreement.

2. The original authorized capital stock shall be divided into paid-in shares and callable shares. Shares having an aggregate par value of five hundred million dollars (\$500,000,000) shall be paid-in shares, and shares having an aggregate par value of five hundred million dollars (\$500,000,000) shall be callable shares.

3. The authorized capital stock of the Bank may be increased by the Board of Governors, at such time and under such terms and conditions as it may deem advisable, by a vote of two-thirds of the total number of Governors, representing not less than three-fourths of the total voting power of the members.

### ARTICLE 5. SUBSCRIPTION OF SHARES

1. Each member shall subscribe to shares of the capital stock of the Bank. Each subscription to the original authorized capital stock shall be for paid-in shares and callable shares in equal parts. The initial number of shares to be subscribed by countries which become members in accordance with Article 64 of this Agreement shall be that set forth in Annex A hereof. The initial number of shares to be



subscribed by countries which are admitted to membership in accordance with paragraph 2 of Article 3 of this Agreement shall be determined by the Board of Governors; provided, however, that no such subscription shall be authorized which would have the effect of reducing the percentage of capital stock held by regional members below sixty (60) per cent of the total subscribed capital stock.

2. The Board of Governors shall at intervals of not less than five (5) years review the capital stock of the Bank. In case of an increase in the authorized capital stock, each member shall have a reasonable opportunity to subscribe, under such terms and conditions as the Board of Governors shall determine, to a proportion of the increase of stock equivalent to the proportion which its stock theretofore subscribed bears to the total subscribed capital stock immediately prior to such increase; provided, however, that the foregoing provision shall not apply in respect of any increase or portion of an increase in the authorized capital stock intended solely to give effect to determinations of the Board of Governors under paragraphs 1 and 3 of this Article. No member shall be obligated to subscribe to any part of an increase of capital stock.

3. The Board of Governors may, at the request of a member, increase the subscription of such member on such terms and conditions as the Board may determine; provided, however, that no such increase in the subscription of any member shall be authorized which would have the effect of reducing the percentage of capital stock held by regional members below sixty (60) per cent of the total subscribed capital stock. The Board of Governors shall pay special regard to the request of any regional member having less than six (6) per cent of the subscribed capital stock to increase its proportionate share thereof.

4. Shares of stock initially subscribed by members shall be issued at par. Other shares shall be issued at par unless the Board of Governors by a vote of a majority of the total number of Governors, representing a majority of the total voting power of the members, decides in special circumstances to issue them on other terms.

5. Shares of stock shall not be pledged or encumbered in any manner whatsoever, and they shall not be transferable except to the Bank in accordance with Chapter VII of this Agreement.

6. The liability of the members on shares shall be limited to the unpaid portion of their issue price.

7. No member shall be liable, by reason of its membership, for obligations of the Bank.

#### ARTICLE 6. PAYMENT OF SUBSCRIPTIONS

1. Payment of the amount initially subscribed by each Signatory to this Agreement which becomes a member in accordance with Article 64 to the paid-in capital stock of the Bank shall be made in five (5) installments, of twenty (20) per cent each of such amount. The first instalment shall be paid by each member within thirty (30) days after entry into force of this Agreement, or on or before the date of deposit on its behalf of its instrument of ratification or acceptance in accordance with paragraph 1 of Article 64, whichever is later. The second instalment shall become due one (1) year from the entry into force of this Agreement. The remaining three instal-



ments shall each become due successively one (1) year from the date on which the preceding instalment becomes due.

2. Of each instalment for the payment of initial subscriptions to the original paid-in capital stock:

(a) fifty (50) per cent shall be paid in gold or convertible currency; and

(b) fifty (50) per cent in the currency of the member.

3. The Bank shall accept from any member promissory notes or other obligations issued by the Government of the member, or by the depository designated by such member, in lieu of the amount to be paid in the currency of the member pursuant to paragraph 2(b) of this Article, provided such currency is not required by the Bank for the conduct of its operations. Such notes or obligations shall be non-negotiable, non-interest-bearing, and payable to the Bank at par value upon demand. Subject to the provisions of paragraph 2(ii) of Article 24, demands upon such notes or obligations payable in convertible currencies shall, over reasonable periods of time, be uniform in percentage on all such notes or obligations.

4. Each payment of a member in its own currency under paragraph 2(b) of this Article shall be in such amount as the Bank, after such consultation with the International Monetary Fund as the Bank may consider necessary and utilizing the par value established with the International Monetary Fund, if any, determines to be equivalent to the full value in terms of dollars of the portion of the subscription being paid. The initial payment shall be in such amount as the member considers appropriate hereunder but shall be subject to such adjustment, to be effected within ninety (90) days of the date on which such payment was due, as the Bank shall determine to be necessary to constitute the full dollar equivalent of such payment.

5. Payment of the amount subscribed to the callable capital stock of the Bank shall be subject to call only as and when required by the Bank to meet its obligations incurred under sub-paragraphs (ii) and (iv) of Article 11 on borrowings of funds for inclusion in its ordinary capital resources or on guarantees chargeable to such resources.

6. In the event of the call referred to in paragraph 5 of this Article, payment may be made at the option of the member in gold, convertible currency or in the currency required to discharge the obligations of the Bank for the purpose of which the call is made. Calls on unpaid subscriptions shall be uniform in percentage on all callable shares.

7. The Bank shall determine the place for any payment under this Article, provided that, until the inaugural meeting of its Board of Governors, the payment of the first instalment referred to in paragraph 1 of this Article shall be made to the Secretary-General of the United Nations, as Trustee for the Bank.

#### ARTICLE 7. ORDINARY CAPITAL RESOURCES

As used in this Agreement, the term "ordinary capital resources" of the Bank shall include the following:

(i) authorized capital stock of the Bank, including both paid-in and callable shares, subscribed pursuant to Article 5 of this Agreement, except such part thereof as may be set aside into one or more Special Funds in accordance with paragraph 1(i) of Article 19 of this Agreement;



(ii) funds raised by borrowings of the Bank by virtue of powers conferred by sub-paragraph (i) of Article 21 of this Agreement, to which the commitment to calls provided for in paragraph 5 of Article 6 of this Agreement is applicable;

(iii) funds received in repayment of loans or guarantees made with the resources indicated in (i) and (ii) of this Article;

(iv) income derived from loans made from the aforementioned funds or from guarantees to which the commitment to calls set forth in paragraph 5 of Article 6 of this Agreement is applicable; and

(v) any other funds or income received by the Bank which do not form part of its Special Funds resources referred to in Article 20 of this Agreement.

### *Chapter III. Operations*

#### ARTICLE 8. USE OF RESOURCES

The resources and facilities of the Bank shall be used exclusively to implement the purpose and functions set forth respectively in Articles 1 and 2 of this Agreement.

#### ARTICLE 9. ORDINARY AND SPECIAL OPERATIONS

1. The operations of the Bank shall consist of ordinary operations and special operations.

2. Ordinary operations shall be those financed from the ordinary capital resources of the Bank.

3. Special operations shall be those financed from the Special Funds resources referred to in Article 20 of this Agreement.

#### ARTICLE 10. SEPARATION OF OPERATIONS

1. The ordinary capital resources and the Special Funds resources of the Bank shall at all times and in all respects be held, used, committed, invested or otherwise disposed of entirely separate from each other. The financial statements of the Bank shall show the ordinary operations and special operations separately.

2. The ordinary capital resources of the Bank shall under no circumstances be charged with, or used to discharge, losses or liabilities arising out of special operations or other activities for which Special Funds resources were originally used or committed.

3. Expenses appertaining directly to ordinary operations shall be charged to the ordinary capital resources of the Bank. Expenses appertaining directly to special operations shall be charged to the Special Funds resources. Any other expenses shall be charged as the Bank shall determine.

#### ARTICLE 11. RECIPIENTS AND METHODS OF OPERATION

Subject to the conditions stipulated in this Agreement, the Bank may provide or facilitate financing to any member, or any agency, instrumentality or political subdivision thereof, or any entity or enterprise operating in the territory of a member, as well as to international or regional agencies or entities concerned with economic



development of the region. The Bank may carry out its operations in any of the following ways:

(i) by making or participating in direct loans with its unimpaired paid-in capital and, except as provided in Article 17 of this Agreement, with its reserves and undistributed surplus; or with the unimpaired Special Funds resources;

(ii) by making or participating in direct loans with funds raised by the Bank in capital markets or borrowed or otherwise acquired by the Bank for inclusion in its ordinary capital resources;

(iii) by investment of funds referred to in (i) and (ii) of this Article in the equity capital of an institution or enterprise, provided no such investment shall be made until after the Board of Governors, by a vote of a majority of the total number of Governors, representing a majority of the total voting power of the members, shall have determined that the Bank is in a position to commence such type of operations; or

(iv) by guaranteeing, whether as primary or secondary obligor, in whole or in part, loans for economic development participated in by the Bank.

#### ARTICLE 12. LIMITATIONS ON ORDINARY OPERATIONS

1. The total amount outstanding of loans, equity investments and guarantees made by the Bank in its ordinary operations shall not at any time exceed the total amount of its unimpaired subscribed capital, reserves and surplus included in its ordinary capital resources, exclusive of the special reserve provided for by Article 17 of this Agreement and other reserves not available for ordinary operations.

2. In the case of loans made with funds borrowed by the Bank to which the commitment to calls provided for by paragraph 5 of Article 6 of this Agreement is applicable, the total amount of principal outstanding and payable to the Bank in a specific currency shall not at any time exceed the total amount of the principal of outstanding borrowings by the Bank that are payable in the same currency.

3. In the case of funds invested in equity capital out of the ordinary capital resources of the Bank, the total amount invested shall not exceed ten (10) per cent of the aggregate amount of the unimpaired paid-in capital stock of the Bank actually paid up at any given time together with the reserves and surplus included in its ordinary capital resources, exclusive of the special reserve provided for in Article 17 of this Agreement.

4. The amount of any equity investment shall not exceed such percentage of the equity capital of the entity or enterprise concerned as the Board of Directors shall in each specific case determine to be appropriate. The Bank shall not seek to obtain by such an investment a controlling interest in the entity or enterprise concerned, except where necessary to safeguard the investment of the Bank.

#### ARTICLE 13. PROVISION OF CURRENCIES FOR DIRECT LOANS

In making direct loans or participating in them, the Bank may provide financing in any of the following ways:

(i) by furnishing the borrower with currencies other than the currency of the member in whose territory the project concerned



is to be carried out (the latter currency hereinafter to be called "local currency"), which are necessary to meet the foreign exchange costs of such project; or

(ii) by providing financing to meet local expenditures on the project concerned, where it can do so by supplying local currency without selling any of its holdings in gold or convertible currencies. In special cases when, in the opinion of the Bank, the project causes or is likely to cause undue loss or strain on the balance of payments of the member in whose territory the project is to be carried out, the financing granted by the Bank to meet local expenditures may be provided in currencies other than that of such member; in such cases, the amount of the financing granted by the Bank for this purpose shall not exceed a reasonable portion of the total local expenditure incurred by the borrower.

#### ARTICLE 14. OPERATING PRINCIPLES

The operations of the Bank shall be conducted in accordance with the following principles:

(i) The operations of the Bank shall provide principally for the financing of specific projects, including those forming part of a national, sub-regional or regional development programme. They may, however, include loans to, or guarantees of loans made to, national development banks or other suitable entities, in order that the latter may finance specific development projects whose individual financing requirements are not, in the opinion of the Bank, large enough to warrant the direct supervision of the Bank;

(ii) In selecting suitable projects, the Bank shall always be guided by the provisions of paragraph (ii) of Article 2 of this Agreement;

(iii) The Bank shall not finance any undertaking in the territory of a member if that member objects to such financing;

(iv) Before a loan is granted, the applicant shall have submitted an adequate loan proposal and the President of the Bank shall have presented to the Board of Directors a written report regarding the proposal, together with his recommendations, on the basis of a staff study;

(v) In considering an application for a loan or guarantee, the Bank shall pay due regard to the ability of the borrower to obtain financing or facilities elsewhere on terms and conditions that the Bank considers reasonable for the recipient, taking into account all pertinent factors;

(vi) In making or guaranteeing a loan, the Bank shall pay due regard to the prospects that the borrower and its guarantor, if any, will be in a position to meet their obligations under the loan contract;

(vii) In making or guaranteeing a loan, the rate of interest, other charges and the schedule for repayment of principal shall be such as are, in the opinion of the Bank, appropriate for the loan concerned;

(viii) In guaranteeing a loan made by other investors, or in underwriting the sale of securities, the Bank shall receive suitable compensation for its risk;



(ix) The proceeds of any loan, investment or other financing undertaken in the ordinary operations of the Bank or with Special Funds established by the Bank pursuant to paragraph 1(i) of Article 19, shall be used only for procurement in member countries of goods and services produced in member countries except in any case in which the Board of Directors, by a vote of the Directors representing not less than two-thirds of the total voting power of the members, determines to permit procurement in a non-member country or of goods and services produced in a non-member country in special circumstances making such procurement appropriate, as in the case of a non-member country in which a significant amount of financing has been provided to the Bank;

(x) In the case of a direct loan made by the Bank, the borrower shall be permitted by the Bank to draw its funds only to meet expenditures in connexion with the project as they are actually incurred;

(xi) The Bank shall take the necessary measures to ensure that the proceeds of any loan made, guaranteed or participated in by the Bank are used only for the purposes for which the loan was granted and with due attention to considerations of economy and efficiency;

(xii) The Bank shall pay due regard to the desirability of avoiding a disproportionate amount of its resources being used for the benefit of any member.

(xiii) The Bank shall seek to maintain reasonable diversification in its investments in equity capital; it shall not assume responsibility for managing any entity or enterprise in which it has an investment, except where necessary to safeguard its investments; and

(xiv) The Bank shall be guided by sound banking principles in its operations.

#### ARTICLE 15. TERMS AND CONDITIONS FOR DIRECT LOANS AND GUARANTEES

1. In the case of direct loans made or participated in or loans guaranteed by the Bank, the contract shall establish, in conformity with the operating principles set forth in Article 14 of this Agreement and subject to the other provisions of this Agreement, the terms and conditions for the loan or the guarantee concerned, including those relating to payment of principal, interest and other charges, maturities, and dates of payment in respect of the loan, or the fees and other charges in respect of the guarantee, respectively. In particular, the contract shall provide that, subject to paragraph 3 of this Article, all payments to the Bank under the contract shall be made in the currency loaned, unless, in the case of a direct loan made or a loan guaranteed as part of special operations with funds provided under paragraph 1(ii) of Article 19, the rules and regulations of the Bank provide otherwise. Guarantees by the Bank shall also provide that the Bank may terminate its liability with respect to interest if, upon default by the borrower and the guarantor, if any, the Bank offers to purchase, at par and interest accrued to a date designated in the offer, the bonds or other obligations guaranteed.



2. Where the recipient of loans or guarantees of loans is not itself a member, the Bank may, when it deems it advisable, require that the member in whose territory the project concerned is to be carried out, or a public agency or any instrumentality of that member acceptable to the Bank, guarantee the repayment of the principal and the payment of interest and other charges on the loan in accordance with the terms thereof.

3. The loan or guarantee contract shall expressly state the currency in which all payments to the Bank thereunder shall be made. At the option of the borrower, however, such payments may always be made in gold or convertible currency.

#### ARTICLE 16. COMMISSION AND FEES

1. The Bank shall charge, in addition to interest, a commission on direct loans made or participated in as part of its ordinary operations. This commission, payable periodically, shall be computed on the amount outstanding on each loan or participation and shall be at the rate of not less than one (1) per cent per annum, unless the Bank, after the first five (5) years of its operations, decides to reduce this minimum rate by a two-thirds majority of its members, representing not less than three-fourths of the total voting power of the members.

2. In guaranteeing a loan as part of its ordinary operations, the Bank shall charge a guarantee fee, at a rate determined by the Board of Directors, payable periodically on the amount of the loan outstanding.

3. Other charges of the Bank in its ordinary operations and any commission, fees or other charges in its special operations shall be determined by the Board of Directors.

#### ARTICLE 17. SPECIAL RESERVE

The amount of commissions and guarantee fees received by the Bank pursuant to Article 16 of this Agreement shall be set aside as a special reserve which shall be kept for meeting liabilities of the Bank in accordance with Article 18 of this Agreement. The special reserve shall be held in such liquid form as the Board of Directors may decide.

#### ARTICLE 18. METHODS OF MEETING LIABILITIES OF THE BANK

1. In cases of default on loans made, participated in or guaranteed by the Bank in its ordinary operations, the Bank shall take such action as it deems appropriate with respect to modifying the terms of the loan, other than the currency of repayment.

2. The payments in discharge of the Bank's liabilities on borrowings or guarantees under sub-paragraphs (ii) and (iv) of Article 11 chargeable to the ordinary capital resources shall be charged:

(i) First, against the special reserve provided for in Article 17;

(ii) Then, to the extent necessary and at the discretion of the Bank, against the other reserves, surplus and capital available to the Bank.

3. Whenever necessary to meet contractual payments of interest, other charges or amortization on borrowings of the Bank in its ordinary operations, or to meet its liabilities with respect to similar payments in



respect of loans guaranteed by it, chargeable to its ordinary capital resources, the Bank may call an appropriate amount of the uncalled subscribed callable capital in accordance with paragraphs 6 and 7 of Article 6 of this Agreement.

4. In cases of default in respect of a loan made from borrowed funds or guaranteed by the Bank as part of its ordinary operations, the Bank may, if it believes that the default may be of long duration, call an additional amount of such callable capital not to exceed in any one (1) year one (1) per cent of the total subscriptions of the members to such capital, for the following purposes:

(i) To redeem before maturity, or otherwise discharge, the Bank's liability on all or part of the outstanding principal of any loan guaranteed by it in respect of which the debtor is in default; and

(ii) To repurchase, or otherwise discharge, the Bank's liability on all or part of its own outstanding borrowing.

5. If the Bank's subscribed callable capital stock shall be entirely called pursuant to paragraphs 3 and 4 of this Article, the Bank may, if necessary for the purposes specified in paragraph 3 of this Article, use or exchange the currency of any member without restriction, including any restriction imposed pursuant to paragraphs 2 (i) and (ii) of Article 24.

#### ARTICLE 19. SPECIAL FUNDS

1. The Bank may:

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

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

2. Special Funds established by the Bank pursuant to paragraph 1(i) of this Article may be used to guarantee or make loans of high developmental priority, with longer maturities, longer deferred commencement of repayment and lower interest rates than those established by the Bank for its ordinary operations. Such Funds may also be used on such other terms and conditions, not inconsistent with the applicable provisions of this Agreement nor with the character of such Funds as revolving funds, as the Bank in establishing such Funds may direct.

3. Special Funds accepted by the Bank under paragraph 1(ii) of this Article may be used in any manner and on any terms and conditions not inconsistent with the purpose of the Bank and with the agreement relating to such Funds.

4. The Bank shall adopt such special rules and regulations as may be required for the establishment, administration and use of each Special Fund. Such rules and regulations shall be consistent with the provisions of this Agreement, excepting those provisions expressly applicable only to ordinary operations of the Bank.



## ARTICLE 20. SPECIAL FUNDS RESOURCES

As used in this Agreement, the term "Special Funds resources" shall refer to the resources of any Special Fund and shall include:

(a) resources set aside from the paid-in capital to a Special Fund or otherwise initially contributed to any Special Fund;

(b) funds accepted by the Bank for inclusion in any Special Fund;

(c) funds repaid in respect of loans or guarantees financed from the resources of any Special Fund which, under the rules and regulations of the Bank governing that Special Fund, are received by such Special Fund;

(d) income derived from operations of the Bank in which any of the aforementioned resources or funds are used or committed if, under the rules and regulations of the Bank governing the Special Fund concerned, that income accrues to such Special Fund; and

(e) any other resources placed at the disposal of any Special Fund.

*Chapter IV. Borrowing and Other Miscellaneous Powers*

## ARTICLE 21. GENERAL POWERS

In addition to the powers specified elsewhere in this Agreement' the Bank shall have the power to:

(i) borrow funds in member countries or elsewhere, and in this connexion to furnish such collateral or other security therefor as the Bank shall determine, provided always that:

(a) before making a sale of its obligations in the territory of a country, the Bank shall have obtained its approval;

(b) where the obligations of the Bank are to be denominated in the currency of a member, the Bank shall have obtained its approval;

(c) the Bank shall obtain the approval of the countries referred to in sub-paragraphs (a) and (b) of this paragraph that the proceeds may be exchanged for the currency of any member without restriction; and

(d) before determining to sell its obligations in a particular country, the Bank shall consider the amount of previous borrowing, if any, in that country, the amount of previous borrowing in other countries, and the possible availability of funds in such other countries; and shall give due regard to the general principle that its borrowings should to the greatest extent possible be diversified as to country of borrowing;

(ii) buy and sell securities the Bank has issued or guaranteed or in which it has invested, provided always that it shall have obtained the approval of any country in whose territory the securities are to be bought or sold;

(iii) guarantee securities in which it has invested in order to facilitate their sale;

(iv) underwrite, or participate in the underwriting of, securities issued by any entity or enterprise for purposes consistent with the purpose of the Bank;



- (v) invest funds, not needed in its operations, in the territories of members in such obligations of members or nationals thereof as it may determine, and invest funds held by the Bank for pensions or similar purposes in the territories of members in marketable securities issued by members or nationals thereof;
- (vi) provide technical advice and assistance which serve its purpose and come within its functions, and where expenditures incurred in furnishing such services are not reimbursable, charge the net income of the Bank therewith; in the first five (5) years of its operations, the Bank may use up to two (2) per cent of its paid-in capital for furnishing such services on a non-reimbursable basis; and
- (vii) exercise such other powers and establish such rules and regulations as may be necessary or appropriate in furtherance of its purpose and functions, consistent with the provisions of this Agreement.

#### ARTICLE 22. NOTICE TO BE PLACED ON SECURITIES

Every security issued or guaranteed by the Bank shall bear on its face a conspicuous statement to the effect that it is not an obligation of any Government, unless it is in fact the obligation of a particular Government, in which case it shall so state.

### *Chapter V. Currencies*

#### ARTICLE 23. DETERMINATION OF CONVERTIBILITY

Whenever it shall become necessary under this Agreement to determine whether any currency is convertible, such determination shall be made by the Bank after consultation with the International Monetary Fund.

#### ARTICLE 24. USE OF CURRENCIES

1. Members may not maintain or impose any restrictions on the holding or use by the Bank or by any recipient from the Bank, for payments in any country, of the following:

(i) gold or convertible currencies received by the Bank in payment of subscriptions to its capital stock, other than that paid to the Bank by members pursuant to paragraph 2(b) of Article 6 and restricted pursuant to paragraphs 2 (i) and (ii) of this Article;

(ii) currencies of members purchased with the gold or convertible currencies referred to in the preceding sub-paragraph;

(iii) currencies obtained by the Bank by borrowing, pursuant to sub-paragraph (i) of Article 21 of this Agreement, for inclusion in its ordinary capital resources;

(iv) gold or currencies received by the Bank in payment on account of principal, interest, dividends or other charges in respect of loans or investments made out of any of the funds referred to in sub-paragraphs (i) to (iii) of this paragraph or in payment of fees in respect of guarantees made by the Bank; and

(v) currencies, other than the member's own currency, received by the member from the Bank in distribution of the net



income of the Bank in accordance with Article 40 of this Agreement.

2. Members may not maintain or impose any restriction on the holding or use by the Bank or by any recipient from the Bank, for payments in any country, of currency of a member received by the Bank which does not come within the provisions of the preceding paragraph, unless:

(i) a developing member country, after consultation with and subject to periodic review by the Bank, restricts in whole or in part the use of such currency to payments for goods or services produced and intended for use in its territory; or

(ii) any other member whose subscription has been determined in Part A of Annex A hereof and whose exports of industrial products do not represent a substantial proportion of its total exports, deposits with its instrument of ratification or acceptance a declaration that it desires the use of the portion of its subscription paid pursuant to paragraph 2(b) of Article 6 to be restricted, in whole or in part, to payments for goods or services produced in its territory; provided that such restrictions be subject to periodic review by and consultation with the Bank and that any purchases of goods or services in the territory of that member, subject to the usual consideration of competitive tendering, shall be first charged against the portion of its subscription paid pursuant to paragraph 2(b) of Article 6; or

(iii) such currency forms part of the Special Funds resources of the Bank available under paragraph 1(ii) of Article 19 and its use is subject to special rules and regulations.

3. Members may not maintain or impose any restrictions on the holding or use by the Bank, for making amortization payments or anticipatory payments or for repurchasing in whole or in part the Bank's own obligations, of currencies received by the Bank in repayment of direct loans made out of its ordinary capital resources, provided, however, that until the Bank's subscribed callable capital stock has been entirely called, such holding or use shall be subject to any limitations imposed pursuant to paragraph 2(i) of this Article except in respect of obligations payable in the currency of the member concerned.

4. Gold or currencies held by the Bank shall not be used by the Bank to purchase other currencies of members or non-members except:

(i) in order to meet its obligations in the ordinary course of its business; or

(ii) pursuant to a decision of the Board of Directors adopted by a vote of the Directors representing not less than two-thirds of the total voting power of the members.

5. Nothing herein contained shall prevent the Bank from using the currency of any member for administrative expenses incurred by the Bank in the territory of such member.

#### ARTICLE 25. MAINTENANCE OF VALUE OF THE CURRENCY HOLDINGS OF THE BANK

1. Whenever (a) the par value in the International Monetary Fund of the currency of a member is reduced in terms of the dollar defined in Article 4 of this Agreement, or (b) in the opinion of the Bank, after consultation with the International Monetary Fund, the foreign



exchange value of a member's currency has depreciated to a significant extent, that member shall pay to the Bank within a reasonable time an additional amount of its currency required to maintain the value of all such currency held by the Bank, excepting (a) currency derived by the Bank from its borrowings and (b) unless otherwise provided in the agreement establishing such Funds, Special Funds resources accepted by the Bank under paragraph 1(ii) of Article 19.

2. Whenever (a) the par value in the International Monetary Fund of the currency of a member is increased in terms of the said dollar, or (b) in the opinion of the Bank, after consultation with the International Monetary Fund, the foreign exchange value of a member's currency has appreciated to a significant extent, the Bank shall pay to that member within a reasonable time an amount of that currency required to adjust the value of all such currency held by the Bank excepting (a) currency derived by the Bank from its borrowings, and (b) unless otherwise provided in the agreement establishing such Funds, Special Funds resources accepted by the Bank under paragraph 1(ii) of Article 19.

3. The Bank may waive the provisions of this Article when a uniform proportionate change in the par value of the currencies of all its members takes place.

### *Chapter VI. Organization and Management*

#### ARTICLE 26. STRUCTURE

The Bank shall have a Board of Governors, a Board of Directors, a President, one or more Vice-Presidents and such other officers and staff as may be considered necessary.

#### ARTICLE 27. BOARD OF GOVERNORS: COMPOSITION

1. Each member shall be represented on the Board of Governors and shall appoint one Governor and one alternate. Each Governor and alternate shall serve at the pleasure of the appointing member. No alternate may vote except in the absence of his principal. At its annual meeting, the Board shall designate one of the Governors as Chairman who shall hold office until the election of the next Chairman and the next annual meeting of the Board.

2. Governors and alternates shall serve as such without remuneration from the Bank, but the Bank may pay them reasonable expenses incurred in attending meetings.

#### ARTICLE 28. BOARD OF GOVERNORS: POWERS

1. All the powers of the Bank shall be vested in the Board of Governors.

2. The Board of Governors may delegate to the Board of Directors any or all its powers, except the power to:

- (i) admit new members and determine the conditions of their admission;
- (ii) increase or decrease the authorized capital stock of the Bank;
- (iii) suspend a member;



- (iv) decide appeals from interpretations or applications of this Agreement given by the Board of Directors;
- (v) authorize the conclusion of general agreements for co-operation with other international organizations;
- (vi) elect the Directors and the President of the Bank;
- (vii) determine the remuneration of the Directors and their alternates and the salary and other terms of the contract of service of the President;
- (viii) approve, after reviewing the auditors' report, the general balance sheet and the statement of profit and loss of the Bank;
- (ix) determine the reserves and the distribution of the net profits of the Bank;
- (x) amend this Agreement;
- (xi) decide to terminate the operations of the Bank and to distribute its assets; and
- (xii) exercise such other powers as are expressly assigned to the Board of Governors in this Agreement.

3. The Board of Governors shall retain full power to exercise authority over any matter delegated to the Board of Directors under paragraph 2 of this Article.

4. For the purposes of this Agreement, the Board of Governors may, by a vote of two-thirds of the total number of Governors, representing not less than three-fourths of the total voting power of the members, from time to time determine which countries or members of the Bank are to be regarded as developed or developing countries or members, taking into account appropriate economic considerations.

#### ARTICLE 29. BOARD OF GOVERNORS: PROCEDURE

1. The Board of Governors shall hold an annual meeting and such other meetings as may be provided for by the Board or called by the Board of Directors. Meetings of the Board of Governors shall be called, by the Board of Directors, whenever requested by five (5) members of the Bank.

2. A majority of the Governors shall constitute a quorum for any meeting of the Board of Governors, provided such majority represents not less than two-thirds of the total voting power of the members.

3. The Board of Governors may by regulation establish a procedure whereby the Board of Directors may, when the latter deems such action advisable, obtain a vote of the Governors on a specific question without calling a meeting of the Board of Governors.

4. The Board of Governors, and the Board of Directors to the extent authorized, may establish such subsidiary bodies as may be necessary or appropriate to conduct the business of the Bank.

#### ARTICLE 30. BOARD OF DIRECTORS: COMPOSITION

1. (i) The Board of Directors shall be composed of ten (10) members who shall not be members of the Board of Governors, and of whom:
- (a) seven (7) shall be elected by the Governors representing regional members; and
  - (b) three (3) by the Governors representing non-regional members.



Directors shall be persons of high competence in economic and financial matters and shall be elected in accordance with Annex B hereof.

(ii) At the Second Annual Meeting of the Board of Governors after its inaugural meeting, the Board of Governors shall review the size and composition of the Board of Directors, and shall increase the number of Directors as appropriate, paying special regard to the desirability, in the circumstances at that time, of increasing representation in the Board of Directors of smaller less developed member countries. Decisions under this paragraph should be made by a vote of majority of the total number of Governors, representing not less than two-thirds of the total voting power of the members.

2. Each Director shall appoint an alternate with full power to act for him when he is not present. Directors and alternates shall be nationals of member countries. No two or more Directors may be of the same nationality nor may any two or more alternates be of the same nationality. An alternate may participate in meetings of the Board but may vote only when he is acting in place of his principal.

3. Directors shall hold office for a term of two (2) years and may be reelected. They shall continue in office until their successors shall have been chosen and qualified. If the office of a Director becomes vacant more than one hundred and eighty (180) days before the end of his term, a successor shall be chosen in accordance with Annex B hereof, for the remainder of the term, by the Governors who elected the former Director. A majority of the votes cast by such Governors shall be required for such election. If the office of a Director becomes vacant one hundred and eighty (180) days or less before the end of his term, a successor may similarly be chosen for the remainder of the term, by the Governors who elected the former Director, in which election a majority of the votes cast by such Governors shall be required. While the office remains vacant, the alternate of the former Director shall exercise the powers of the latter, except that of appointing an alternate.

#### ARTICLE 31. BOARD OF DIRECTORS: POWERS

The Board of Directors shall be responsible for the direction of the general operations of the Bank and, for this purpose, shall, in addition to the powers assigned to it expressly by this Agreement, exercise all the powers delegated to it by the Board of Governors, and in particular:

- (i) prepare the work of the Board of Governors;
- (ii) in conformity with the general directions of the Board of Governors, take decisions concerning loans, guarantees, investments in equity capital, borrowing by the Bank, furnishing of technical assistance and other operations of the Bank;
- (iii) submit the accounts for each financial year for approval of the Board of Governors at each annual meeting; and
- (iv) approve the budget of the Bank.

#### ARTICLE 32. BOARD OF DIRECTORS: PROCEDURE

1. The Board of Directors shall normally function at the principal office of the Bank and shall meet as often as the business of the Bank may require.



2. A majority of the Directors shall constitute a quorum for any meeting of the Board of Directors, provided such majority represents not less than two-thirds of the total voting power of the members.

3. The Board of Governors shall adopt regulations under which, if there is no Director of its nationality, a member may send a representative to attend, without right to vote, any meeting of the Board of Directors when a matter particularly affecting that member is under consideration.

#### ARTICLE 33. VOTING

1. The total voting power of each member shall consist of the sum of its basic votes and proportional votes.

(i) The basic votes of each member shall consist of such number of votes as results from the equal distribution among all the members of twenty (20) per cent of the aggregate sum of the basic votes and proportional votes of all the members.

(ii) The number of the proportional votes of each member shall be equal to the number of shares of the capital stock of the Bank held by that member.

2. In voting in the Board of Governors, each Governor shall be entitled to cast the votes of the member he represents. Except as otherwise expressly provided in this Agreement, all matters before the Board of Governors shall be decided by a majority of the voting power represented at the meeting.

3. In voting in the Board of Directors, each Director shall be entitled to cast the number of votes that counted towards his election which votes need not be cast as a unit. Except as otherwise expressly provided in this Agreement, all matters before the Board of Directors shall be decided by a majority of the voting power represented at the meeting.

#### ARTICLE 34. THE PRESIDENT

1. The Board of Governors, by a vote of a majority of the total number of Governors, representing not less than a majority of the total voting power of the members, shall elect a President of the Bank. He shall be a national of a regional member country. The President, while holding office, shall not be a Governor or a Director or an alternate for either.

2. The term of office of the President shall be five (5) years. He may be re-elected. He shall, however, cease to hold office when the Board of Governors so decides by a vote of two-thirds of the total number of Governors, representing not less than two-thirds of the total voting power of the members. If the office of the President for any reason becomes vacant more than one hundred and eighty (180) days before the end of his term, a successor shall be elected for the unexpired portion of such term by the Board of Governors in accordance with the provisions of paragraph 1 of this Article. If such office for any reason becomes vacant one hundred and eighty (180) days or less before the end of the term, a successor may similarly be elected for the unexpired portion of such term by the Board of Governors.

3. The President shall be Chairman of the Board of Directors but shall have no vote, except a deciding vote in case of an equal division. He may participate in meetings of the Board of Governors but shall not vote.



4. The President shall be the legal representative of the Bank.
5. The President shall be chief of the staff of the Bank and shall conduct, under the direction of the Board of Directors, the current business of the Bank. He shall be responsible for the organization, appointment and dismissal of the officers and staff in accordance with regulations adopted by the Board of Directors.
6. In appointing the officers and staff, the President shall, subject to the paramount importance of securing the highest standards of efficiency and technical competence, pay due regard to the recruitment of personnel on as wide a regional geographical basis as possible.

#### ARTICLE 35. VICE-PRESIDENT(S)

1. One or more Vice-Presidents shall be appointed by the Board of Directors on the recommendation of the President. Vice-President(s) shall hold office for such term, exercise such authority and perform such functions in the administration of the Bank, as may be determined by the Board of Directors. In the absence or incapacity of the President, the Vice-President or, if there be more than one, the ranking Vice-President, shall exercise the authority and perform the functions of the President.
2. Vice-President(s) may participate in meetings of the Board of Directors but shall have no vote at such meetings, except that the Vice-President or ranking Vice-President, as the case may be, shall cast the deciding vote when acting in place of the President.

#### ARTICLE 36. PROHIBITION OF POLITICAL ACTIVITY: THE INTERNATIONAL CHARACTER OF THE BANK

1. The Bank shall not accept loans or assistance that may in any way prejudice, limit, deflect or otherwise alter its purpose or functions.
2. The Bank, its President, Vice-President(s), officers and staff shall not interfere in the political affairs of any member, nor shall they be influenced in their decisions by the political character of the member concerned. Only economic considerations shall be relevant to their decisions. Such considerations shall be weighed impartially in order to achieve and carry out the purpose and functions of the Bank.
3. The President, Vice-President(s), officers and staff of the Bank, in the discharge of their offices, owe their duty entirely to the Bank and to no other authority. Each member of the Bank shall respect the international character of this duty and shall refrain from all attempts to influence any of them in the discharge of their duties.

#### ARTICLE 37. OFFICE OF THE BANK

1. The principal office of the Bank shall be located in Manila, Philippines.
2. The Bank may establish agencies or branch offices elsewhere.

#### ARTICLE 38. CHANNEL OF COMMUNICATIONS, DEPOSITORIES

1. Each member shall designate an appropriate official entity with which the Bank may communicate in connexion with any matter arising under this Agreement.



2. Each member shall designate its central bank, or such other agency as may be agreed upon with the Bank, as a depository with which the Bank may keep its holdings of currency of that member as well as other assets of the Bank.

#### ARTICLE 39. WORKING LANGUAGE, REPORTS

1. The working language of the Bank shall be English.

2. The Bank shall transmit to its members an Annual Report containing an audited statement of its accounts and shall publish such Report. It shall also transmit quarterly to its members a summary statement of its financial position and a profit and loss statement showing the results of its operations.

3. The Bank may also publish such other reports as it deems desirable in the carrying out of its purpose and functions. Such reports shall be transmitted to the members of the Bank.

#### ARTICLE 40. ALLOCATION OF NET INCOME

1. The Board of Governors shall determine annually what part of the net income of the Bank, including the net income accruing to Special Funds, shall be allocated, after making provision for reserves, to surplus and what part, if any, shall be distributed to the members.

2. The distribution referred to in the preceding paragraph shall be made in proportion to the number of shares held by each member.

3. Payments shall be made in such manner and in such currency as the Board of Governors shall determine.

#### *Chapter VII. Withdrawal and Suspension of Members, Temporary Suspension and Termination of Operations of the Bank*

#### ARTICLE 41. WITHDRAWAL

1. Any member may withdraw from the Bank at any time by delivering a notice in writing to the Bank at its principal office.

2. Withdrawal by a member shall become effective, and its membership shall cease, on the date specified in its notice but in no event less than six (6) months after the date that notice has been received by the Bank. However, at any time before the withdrawal becomes finally effective, the member may notify the Bank in writing of the cancellation of its notice of intention to withdraw.

3. A withdrawing member shall remain liable for all direct and contingent obligations to the Bank to which it was subject at the date of delivery of the withdrawal notice. If the withdrawal becomes finally effective, the member shall not incur any liability for obligations resulting from operations of the Bank effected after the date on which the withdrawal notice was received by the Bank.

#### ARTICLE 42. SUSPENSION OF MEMBERSHIP

1. If a member fails to fulfil any of its obligations to the Bank, the Board of Governors may suspend such member by a vote of two-thirds of the total number of Governors, representing not less than three-fourths of the total voting power of the members.



2. The member so suspended shall automatically cease to be a member of the Bank, one (1) year from the date of its suspension unless the Board of Governors, during that one-year period, decides by the same majority necessary for suspension to restore the member to good standing.

3. While under suspension, a member shall not be entitled to exercise any rights under this Agreement, except the right of withdrawal, but shall remain subject to all its obligations.

#### ARTICLE 43. SETTLEMENT OF ACCOUNTS

1. After the date on which a country ceases to be a member, it shall remain liable for its direct obligations to the Bank and for its contingent liabilities to the Bank so long as any part of the loans or guarantees contracted before it ceased to be a member is outstanding; but it shall not incur liabilities with respect to loans and guarantees entered into thereafter by the Bank nor share either in the income or the expenses of the Bank.

2. At the time a country ceases to be a member, the Bank shall arrange for the repurchase of such country's shares by the Bank as a part of the settlement of accounts with such country in accordance with the provisions of paragraphs 3 and 4 of this Article. For this purpose, the repurchase price of the shares shall be the value shown by the books of the Bank on the date the country ceases to be a member.

3. The payment for shares repurchased by the Bank under this Article shall be governed by the following conditions:

(i) Any amount due to the country concerned for its shares shall be withheld so long as that country, its central bank or any of its agencies, instrumentalities or political subdivisions remains liable, as borrower or guarantor, to the Bank and such amount may, at the option of the Bank, be applied on any such liability as it matures. No amount shall be withheld on account of the contingent liability of the country for future calls on its subscription for shares in accordance with paragraph 5 of Article 6 of this Agreement. In any event, no amount due to a member for its shares shall be paid until six (6) months after the date on which the country ceases to be a member.

(ii) Payments for shares may be made from time to time, upon surrender of the corresponding stock certificates by the country concerned, to the extent by which the amount due as the repurchase price in accordance with paragraph 2 of this Article exceeds the aggregate amount of liabilities on loans and guarantees referred to in subparagraph (i) of this paragraph, until the former member has received the full repurchase price.

(iii) Payments shall be made in such available currencies as the Bank determines, taking into account its financial position.

(iv) If losses are sustained by the Bank on any guarantees or loans which were outstanding on the date when a country ceased to be a member and the amount of such losses exceeds the amount of the reserve provided against losses on that date, the country concerned shall repay, upon demand, the amount by which the repurchase price of its shares would have been reduced if the losses had been taken into account when the repurchase price was



determined. In addition, the former member shall remain liable on any call for unpaid subscriptions in accordance with paragraph 5 of Article 6 of this Agreement, to the same extent that it would have been required to respond if the impairment of capital had occurred and the call had been made at the time the repurchase price of its shares was determined.

4. If the Bank terminates its operations pursuant to Article 45 of this Agreement within six (6) months of the date upon which any country ceases to be a member, all rights of the country concerned shall be determined in accordance with the provisions of Articles 45 to 47 of this Agreement. Such country shall be considered as still a member for purposes of such Articles but shall have no voting rights.

#### ARTICLE 44. TEMPORARY SUSPENSION OF OPERATIONS

In an emergency, the Board of Directors may temporarily suspend operations in respect of new loans and guarantees, pending an opportunity for further consideration and action by the Board of Governors.

#### ARTICLE 45. TERMINATION OF OPERATIONS

1. The Bank may terminate its operations by a resolution of the Board of Governors approved by a vote of two-thirds of the total number of Governors, representing not less than three-fourths of the total voting power of the members.

2. After such termination, the Bank shall forthwith cease all activities, except those incident to the orderly realization, conservation and preservation of its assets and settlement of its obligations.

#### ARTICLE 46. LIABILITY OF MEMBERS AND PAYMENT OF CLAIMS

1. In the event of termination of the operations of the Bank, the liability of all members for uncalled subscriptions to the capital stock of the Bank and in respect of the depreciation of their currencies shall continue until all claims of creditors, including all contingent claims, shall have been discharged.

2. All creditors holding direct claims shall first be paid out of the assets of the Bank and then out of payments to the Bank on unpaid or callable subscriptions. Before making any payments to creditors holding direct claims, the Board of Directors shall make such arrangements as are necessary, in its judgment, to ensure a *pro rata* distribution among holders of direct and contingent claims.

#### ARTICLE 47. DISTRIBUTION OF ASSETS

1. No distribution of assets shall be made to members on account of their subscriptions to the capital stock of the Bank until all liabilities to creditors shall have been discharged or provided for. Moreover, such distribution must be approved by the Board of Governors by a vote of two-thirds of the total number of Governors, representing not less than three-fourths of the total voting power of the members.

2. Any distribution of the assets of the Bank to the members shall be in proportion to the capital stock held by each member and shall be effected at such times and under such conditions as the Bank shall deem fair and equitable. The shares of assets distributed need not be



uniform as to type of asset. No member shall be entitled to receive its share in such a distribution of assets until it has settled all of its obligations to the Bank.

3. Any member receiving assets distributed pursuant to this Article shall enjoy the same rights with respect to such assets as the Bank enjoyed prior to their distribution.

### *Chapter VIII. Status, Immunities, Exemptions and Privileges*

#### ARTICLE 48. PURPOSE OF CHAPTER

To enable the Bank effectively to fulfill its purpose and carry out the functions entrusted to it, the status, immunities, exemptions and privileges set forth in this Chapter shall be accorded to the Bank in the territory of each member.

#### ARTICLE 49. LEGAL STATUS

The Bank shall possess full juridical personality and, in particular, full capacity:

- (i) to contract;
- (ii) to acquire, and dispose of, immovable and movable property; and
- (iii) to institute legal proceedings.

#### ARTICLE 50. IMMUNITY FROM JUDICIAL PROCEEDINGS

1. The Bank shall enjoy immunity from every form of legal process, except in cases arising out of or in connexion with the exercise of its powers to borrow money, to guarantee obligations, or to buy and sell or underwrite the sale of securities, in which cases actions may be brought against the Bank in a court of competent jurisdiction in the territory of a country in which the Bank has its principal or a branch office, or has appointed an agent for the purpose of accepting service or notice of process, or has issued or guaranteed securities.

2. Notwithstanding the provisions of paragraph 1 of this Article, no action shall be brought against the Bank by any member, or by any agency or instrumentality of a member, or by any entity or person directly or indirectly acting for or deriving claims from a member or from any agency or instrumentality of a member. Members shall have recourse to such special procedures for the settlement of controversies between the Bank and its members as may be prescribed in this Agreement, in the by-laws and regulations of the Bank, or in contracts entered into with the Bank.

3. Property and assets of the Bank shall, wheresoever located and by whomsoever held, be immune from all forms of seizure, attachment or execution before the delivery of final judgment against the Bank.

#### ARTICLE 51. IMMUNITY OF ASSETS

Property and assets of the Bank, wheresoever located and by whomsoever held, shall be immune from search, requisition, confiscation, expropriation or any other form of taking or foreclosure by executive or legislative action.



## ARTICLE 52. IMMUNITY OF ARCHIVES

The archives of the Bank and, in general, all documents belonging to it, or held by it, shall be inviolable, wherever located.

## ARTICLE 53. FREEDOM OF ASSETS FROM RESTRICTIONS

To the extent necessary to carry out the purpose and functions of the Bank effectively, and subject to the provisions of this Agreement, all property and assets of the Bank shall be free from restrictions, regulations, controls and moratoria of any nature.

## ARTICLE 54. PRIVILEGE FOR COMMUNICATIONS

Official communications of the Bank shall be accorded by each member treatment not less favourable than that it accords to the official communications of any other member.

## ARTICLE 55. IMMUNITIES AND PRIVILEGES OF BANK PERSONNEL

All Governors, Directors, alternates, officers and employees of the Bank, including experts performing missions for the Bank:

(i) shall be immune from legal process with respect to acts performed by them in their official capacity, except when the Bank waives the immunity;

(ii) where they are not local citizens or nationals, shall be accorded the same immunities from immigration restrictions, alien registration requirements and national service obligations, and the same facilities as regards exchange regulations, as are accorded by members to the representatives, officials and employees of comparable rank of other members; and

(iii) shall be granted the same treatment in respect of travelling facilities as is accorded by members to representatives, officials and employees of comparable rank of other members.

## ARTICLE 56. EXEMPTION FROM TAXATION

1. The Bank, its assets, property, income and its operations and transactions, shall be exempt from all taxation and from all customs duties. The Bank shall also be exempt from any obligation for the payment, withholding or collection of any tax or duty.

2. No tax shall be levied on or in respect of salaries and emoluments paid by the Bank to Directors, alternates, officers or employees of the Bank, including experts performing missions for the Bank, except where a member deposits with its instrument of ratification or acceptance a declaration that such member retains for itself and its political subdivisions the right to tax salaries and emoluments paid by the Bank to citizens or nationals of such member.

3. No tax of any kind shall be levied on any obligation or security issued by the Bank, including any dividend or interest thereon, by whomsoever held:

(i) which discriminates against such obligation or security solely because it is issued by the Bank; or

(ii) if the sole jurisdictional basis for such taxation is the place or currency in which it is issued, made payable or paid, or the location of any office or place of business maintained by the Bank.



4. No tax of any kind shall be levied on any obligation or security guaranteed by the Bank, including any dividend or interest thereon, by whomsoever held:

(i) which discriminates against such obligation or security solely because it is guaranteed by the Bank; or

(ii) if the sole jurisdictional basis for such taxation is the location of any office or place of business maintained by the Bank.

#### ARTICLE 57. IMPLEMENTATION

Each member, in accordance with its juridical system, shall promptly take such action as is necessary to make effective in its own territory the provisions set forth in this Chapter and shall inform the Bank of the action which it has taken on the matter.

#### ARTICLE 58. WAIVER OF IMMUNITIES, EXEMPTIONS AND PRIVILEGES

The Bank at its discretion may waive any of the privileges, immunities and exemptions conferred under this Chapter in any case or instance, in such manner and upon such conditions as it may determine to be appropriate in the best interests of the Bank.

#### *Chapter IX. Amendments, Interpretation, Arbitration*

#### ARTICLE 59. AMENDMENTS

1. This Agreement may be amended only by a resolution of the Board of Governors approved by a vote of two-thirds of the total number of Governors, representing not less than three-fourths of the total voting power of the members.

2. Notwithstanding the provisions of paragraph 1 of this Article, the unanimous agreement of the Board of Governors shall be required for the approval of any amendment modifying:

(i) the right to withdraw from the Bank;

(ii) the limitations on liability provided in paragraphs 6 and 7 of Article 5; and

(iii) the rights pertaining to purchase of capital stock provided in paragraph 2 of Article 5.

3. Any proposal to amend this Agreement, whether emanating from a member or the Board of Directors, shall be communicated to the Chairman of the Board of Governors, who shall bring the proposal before the Board of Governors. When an amendment has been adopted, the Bank shall so certify in an official communication addressed to all members. Amendments shall enter into force for all members three (3) months after the date of the official communication unless the Board of Governors specifies therein a different period.

#### ARTICLE 60. INTERPRETATION OR APPLICATION

1. Any question of interpretation or application of the provisions of this Agreement arising between any member and the Bank, or between two or more members of the Bank, shall be submitted to the Board of Directors for decision. If there is no Director of its nationality on that Board, a member particularly affected by the question under consideration shall be entitled to direct representation in the Board of Directors during such consideration; the representa-



tive of such member shall, however, have no vote. Such right of representation shall be regulated by the Board of Governors.

2. In any case where the Board of Directors has given a decision under paragraph 1 of this Article, any member may require that the question be referred to the Board of Governors, whose decision shall be final. Pending the decision of the Board of Governors, the Bank may, so far as it deems it necessary, act on the basis of the decision of the Board of Directors.

#### ARTICLE 61. ARBITRATION

If a disagreement should arise between the Bank and a country which has ceased to be a member, or between the Bank and any member, after adoption of a resolution to terminate the operations of the Bank, such disagreement shall be submitted to arbitration by a tribunal of three arbitrators. One of the arbitrators shall be appointed by the Bank, another by the country concerned, and the third, unless the parties otherwise agree, by the President of the International Court of Justice or such other authority as may have been prescribed by regulations adopted by the Board of Governors. A majority vote of the arbitrators shall be sufficient to reach a decision which shall be final and binding upon the parties. The third arbitrator shall be empowered to settle all questions of procedure in any case where the parties are in disagreement with respect thereto.

#### ARTICLE 62. APPROVAL DEEMED GIVEN

Whenever the approval of any member is required before any act may be done by the Bank, approval shall be deemed to have been given unless the member presents an objection within such reasonable period as the Bank may fix in notifying the member of the proposed act.

### *Chapter X. Final Provisions*

#### ARTICLE 63. SIGNATURE AND DEPOSIT

1. The original of this Agreement in a single copy in the English language shall remain open for signature at the United Nations Economic Commission for Asia and the Far East, in Bangkok, until 31 January 1966 by Governments of countries listed in Annex A to this Agreement. This document shall thereafter be deposited with the Secretary-General of the United Nations (hereinafter called the "Depository").

2. The Depository shall send certified copies of this Agreement to all the Signatories and other countries which become members of the Bank.

#### ARTICLE 64. RATIFICATION OR ACCEPTANCE

1. This Agreement shall be subject to ratification or acceptance by the Signatories. Instruments of ratification or acceptance shall be deposited with the Depository not later than 30 September 1966. The Depository shall duly notify the other Signatories of each deposit and the date thereof.

2. A Signatory whose instrument of ratification or acceptance is deposited before the date on which this Agreement enters into force,



shall become a member of the Bank on that date. Any other Signatory which complies with the provisions of the preceding paragraph, shall become a member of the Bank on the date on which its instrument of ratification or acceptance is deposited.

#### ARTICLE 65. ENTRY INTO FORCE

This Agreement shall enter into force when instruments of ratification or acceptance have been deposited by at least fifteen (15) Signatories (including not less than ten [10] regional countries) whose initial subscriptions, as set forth in Annex A to this Agreement, in the aggregate comprise not less than sixty-five (65) percent of the authorized capital stock of the Bank.

#### ARTICLE 66. COMMENCEMENT OF OPERATIONS

1. As soon as this Agreement enters into force, each member shall appoint a Governor, and the Executive Secretary of the United Nations Economic Commission for Asia and the Far East shall call the inaugural meeting of the Board of Governors.

2. At its inaugural meeting, the Board of Governors:

(i) shall make arrangements for the election of Directors of the Bank in accordance with paragraph 1 of Article 30 of this Agreement; and

(ii) shall make arrangements for the determination of the date on which the Bank shall commence its operations.

3. The Bank shall notify its members of the date of the commencement of its operations.

DONE at the City of Manila, Philippines, on 4 December 1965, in a single copy in the English language which shall be brought to the United Nations Economic Commission for Asia and the Far East, Bangkok, and thereafter deposited with the Secretary-General of the United Nations, New York, in accordance with Article 63 of this Agreement.

#### ANNEX A

INITIAL SUBSCRIPTIONS TO THE AUTHORIZED CAPITAL STOCK FOR COUNTRIES WHICH MAY BECOME MEMBERS IN ACCORDANCE WITH ARTICLE 64

##### Part A. Regional Countries

#### I

| Country                    | Amount of<br>subscription<br>(in million<br>U.S. dollars) | Country                       | Amount of<br>subscription<br>(in million<br>U.S. dollars) |
|----------------------------|-----------------------------------------------------------|-------------------------------|-----------------------------------------------------------|
| 1. Afghanistan.....        | 3.36                                                      | 12. Nepal.....                | 2.16                                                      |
| 2. Australia.....          | 85.00                                                     | 13. New Zealand.....          | 22.56                                                     |
| 3. Cambodia.....           | 3.00                                                      | 14. Pakistan.....             | 32.00                                                     |
| 4. Ceylon.....             | 8.52                                                      | 15. Philippines.....          | 35.00                                                     |
| 5. China, Republic of..... | 16.00                                                     | 16. Republic of Viet-Nam..... | 7.00                                                      |
| 6. India.....              | 93.00                                                     | 17. Singapore.....            | 4.00                                                      |
| 7. Iran.....               | 60.00                                                     | 18. Thailand.....             | 20.00                                                     |
| 8. Japan.....              | 200.00                                                    | 19. Western Samoa.....        | 0.06                                                      |
| 9. Korea, Republic of..... | 30.00                                                     |                               |                                                           |
| 10. Laos.....              | 0.42                                                      | Total.....                    | 642.08                                                    |
| 11. Malaysia.....          | 20.00                                                     |                               |                                                           |



## II

The following regional countries may become Signatories of this Agreement in accordance with Article 63, provided that at the time of signing, they shall respectively subscribe to the capital stock of the Bank in the following amounts:

| <i>Country</i>   | <i>Amount of<br/>subscription<br/>(in million<br/>U.S. dollars)</i> |
|------------------|---------------------------------------------------------------------|
| 1. Burma-----    | 7.74                                                                |
| 2. Mongolia----- | 0.18                                                                |
| Total-----       | 7.92                                                                |

## Part B. Non-Regional Countries

## I

| <i>Country</i>                       | <i>Amount of<br/>subscription<br/>(in million<br/>U.S. dollars)</i> | <i>Country</i>         | <i>Amount of<br/>subscription<br/>(in million<br/>U.S. dollars)</i> |
|--------------------------------------|---------------------------------------------------------------------|------------------------|---------------------------------------------------------------------|
| 1. Belgium-----                      | 5.00                                                                | 6. Netherlands-----    | 11.00                                                               |
| 2. Canada-----                       | 25.00                                                               | 7. United Kingdom----- | 10.00                                                               |
| 3. Denmark-----                      | 5.00                                                                | 8. United States-----  | 200.00                                                              |
| 4. Germany, Federal Republic of----- | 30.00                                                               | Total-----             | 296.00                                                              |
| 5. Italy-----                        | 10.00                                                               |                        |                                                                     |

## II

The following non-regional countries which participated in the meeting of the Preparatory Committee on the Asian Development Bank in Bangkok from 21 October to 1 November 1965 and which there indicated interest in membership in the Bank, may become Signatories of this Agreement in accordance with Article 63, provided that at the time of signing, each such country shall subscribe to the capital stock of the Bank in an amount which shall not be less than five million dollars (\$5,000,000):

1. Austria
2. Finland
3. Norway
4. Sweden

## III

On or before 31 January 1966, any of the non-regional countries listed in Part B (I) of this Annex may increase the amount of its subscription by so informing the Executive Secretary of the United Nations Economic Commission for Asia and the Far East in Bangkok, provided, however, that the total amount of the initial subscriptions of the non-regional countries listed in Part B (I) and (II) of this Annex shall not exceed the amount of three hundred and fifty million dollars (\$350,000,000).

## ANNEX B

## ELECTION OF DIRECTORS

## SECTION A. ELECTION OF DIRECTORS BY GOVERNORS REPRESENTING REGIONAL MEMBERS

(1) Each Governor representing a regional member shall cast all votes of the member he represents for a single person.

(2) The seven (7) persons receiving the highest number of votes shall be Directors, except that no person who receives less than ten (10) per cent of the total voting power of regional members shall be considered as elected.

(3) If seven (7) persons are not elected at the first ballot, a second ballot shall be held in which the person who received the lowest 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 this Section, to have raised the votes cast for that person above eleven (11) per cent of the total voting power of regional members.

(4) (a) In determining whether the votes cast by a Governor shall be deemed to have raised the total number of votes for any person above eleven (11) per cent, the said eleven (11) per cent 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 eleven (11) per cent is attained.

(b) Any Governor, part of whose votes must be counted in order to raise the votes cast for any person above ten (10) per cent, shall be considered as casting all his votes for that person even if the total number of votes cast for that person thereby exceeds eleven (11) per cent.

(5) If, after the second ballot, seven (7) persons are not elected, further ballots shall be held in conformity with the principles and procedures laid down in this Section, except that after six (6) persons are elected, the seventh may be elected— notwithstanding the provisions of paragraph (2) of this Section—by a simple majority of the remaining votes of regional members. All such remaining votes shall be deemed to have counted towards the election of the seventh Director.

(6) In case of an increase in the number of Directors to be elected by Governors representing regional members, the minimum and maximum percentages specified in paragraphs (2), (3), and (4) of Section A of this Annex shall be correspondingly adjusted by the Board of Governors.

#### SECTION B. ELECTION OF DIRECTORS BY GOVERNORS REPRESENTING NON-REGIONAL MEMBERS

(1) Each Governor representing a non-regional member shall cast all votes of the member he represents for a single person.

(2) The three (3) persons receiving the highest number of votes shall be Directors, except that no person who receives less than twenty-five (25) per cent of the total voting power of non-regional members shall be considered as elected.

(3) If three (3) persons are not elected at the first ballot, a second ballot shall be held in which the person who received the lowest 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 this Section, to have raised the votes cast for that person above twenty-six (26) per cent of the total voting power of non-regional members.

(4) (a) In determining whether the votes cast by a Governor shall be deemed to have raised the total number of votes for any person above twenty-six (26) per cent, the said twenty-six (26) per cent 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 twenty-six (26) per cent is attained.

(b) Any Governor, part of whose votes must be counted in order to raise the votes cast for any person above twenty-six (26) per cent, shall be considered as casting all his votes for that person even if the total number of votes cast for that person thereby exceeds twenty-six (26) per cent.

(5) If, after the second ballot, three (3) persons are not elected, further ballots shall be held in conformity with the principles and procedures laid down in this Section, except that after two (2) persons are elected, a third may be elected— provided that subscriptions from non-regional members shall have reached a minimum total of \$345 million, and notwithstanding the provisions of paragraph (2) of this Section—by a simple majority of the remaining votes. All such remaining votes shall be deemed to have counted towards the election of the third Director.

(6) In case of an increase in the number of directors to be elected by Governors representing non-regional members, the minimum and maximum percentages specified in paragraphs (2), (3) and (4) of Section B of this Annex shall be correspondingly adjusted by the Board of Governors.



- For Afghanistan: \_\_\_\_\_.
- For Australia: \_\_\_\_\_.
- For Belgium: \_\_\_\_\_.
- For Burma: \_\_\_\_\_.
- For Cambodia: \_\_\_\_\_.
- For Canada: \_\_\_\_\_.
- For Ceylon: \_\_\_\_\_.
- For China: \_\_\_\_\_.
- For Denmark: \_\_\_\_\_.
- For the Federal Republic of Germany: \_\_\_\_\_.
- For India: \_\_\_\_\_.
- For Iran: \_\_\_\_\_.
- For Italy: \_\_\_\_\_.
- For Japan: \_\_\_\_\_.
- For Laos: \_\_\_\_\_.
- For Malaysia: \_\_\_\_\_.
- For Mongolia: \_\_\_\_\_.
- For Nepal: \_\_\_\_\_.
- For the Netherlands: \_\_\_\_\_.
- For New Zealand: \_\_\_\_\_.
- For Pakistan: \_\_\_\_\_.
- For the Philippines: \_\_\_\_\_.
- For the Republic of Korea: \_\_\_\_\_.
- For the Republic of Viet-Nam: \_\_\_\_\_.
- For Singapore: \_\_\_\_\_.
- For Thailand: \_\_\_\_\_.
- For the United Kingdom of Great Britain and Northern Ireland: \_\_\_\_\_.
- For the United States of America: \_\_\_\_\_.
- For Western Samoa: \_\_\_\_\_.



1 December 1965  
Original: English

ECONOMIC COMMISSION FOR ASIA AND THE FAR EAST

CONFERENCE OF PLENIPOTENTIARIES ON ASIAN DEVELOPMENT BANK

2-4 December 1965

Manila, Republic of the Philippines

PROVISIONAL LIST OF PARTICIPANTS

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AFGHANISTAN

*Representative*

His Excellency Mr. Abdul Wahab Haider, Deputy Minister of Plan, Kabul.

*Alternate*

Mr. Habibulla Habib, Director of Plan, Kabul.

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Mr. G. N. Upton, Assistant Secretary, Department of External Affairs, Canberra.

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Mr. Hak Hem Say, Directeur Credit Banque Nationale.

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 Mr. Nikorn Phankongsay, Secretary-General, National Bank, Vientiane.  
 Mr. Oukeo Souvanavong, Commissioner-General for Planning, Vientiane.  
 Mr. Nivong Souvanheune, Director of Commerce, Vientiane.

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 Mr. Abdul Rahman Bin Hamidon, Deputy Controller of Trade, Ministry of Commerce and Industry, Kuala Lumpur.  
 Mr. Zainal Abidin Bin Sulong, Ministry of External Affairs, Kuala Lumpur.  
 Mr. Ali Bin Abdullah, Malaysian Consul in Manila, Kuala Lumpur.

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Hon. Medina Laeson de Leon, Undersecretary of Commerce.

Hon. Tomas Benitez, Acting Undersecretary of Foreign Affairs.

Hon. Placida Mapa, Jr., Undersecretary of Finance.

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*Advisers*

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Mr. Manuel J. Marquez, President, Banker's Association of the Philippines.

Mr. Rafael Recto, President, Philippine National Bank.

Mr. Jose Fernandez, Jr., President, Far East Bank & Trust Company.

Mr. Miguel Cuaderno, President, M. Cuaderno, Inc.

Dr. Manuel Lim, President, ECAFE Association of the Philippines.

*Experts*

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Director Roman L. Kintanar, Weather Bureau.

Commissioner Manuel B. Feliciano, Bureau of Public Highways.

Mr. Wilfredo V. Vega, Acting Executive Officer, Office of Economic Affairs, Department of Foreign Affairs.

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Mr. Ruben Alvarez, Foreign Trade Promotion Attaché, Department of Commerce and Industry.

*Secretary*

Mr. Jose Ma. Zarate, Foreign Trade Promotion Attaché, Department of Commerce and Industry.

*Assistant Secretary*

Mr. Domingo Capistrano, Foreign Trade Promotion Attaché, Department of Commerce and Industry.

## REPUBLIC OF VIETNAM

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*Alternates*

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 Mr. Pandit Bunyapana, Secretary to the Minister of Finance.  
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 Mr. M. H. N. Geoghegan, Third Secretary, British Embassy, Manila.

## UNITED STATES OF AMERICA

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*Alternate*

- Mr. Joseph W. Barr, Under Secretary of the Treasury.

*Advisers (Congressional)*

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 Mr. John Sherman Cooper, Committee on Public Works, U.S. Senate.  
 Mr. Abraham J. Multer, Committee on Banking and Currency, House of Representatives.  
 Mr. William B. Widnall, Committee on Banking and Currency, House of Representatives.  
 Mr. William A. Barrett, Committee on Banking and Currency, House of Representatives.  
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 Mrs. Leonor K. Sullivan, Committee on Banking and Currency, House of Representatives.  
 Mr. Seymour Halpern, Committee on Banking and Currency, House of Representatives.  
 Mr. Henry S. Reuss, Committee on Banking and Currency, House of Representatives.  
 Mr. James Harvey, Committee on Banking and Currency, House of Representatives.  
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 Mr. Robert G. Stephens, Jr., Committee on Banking and Currency, House of Representatives.  
 Mr. Charles L. Weltner, Committee on Banking and Currency, House of Representatives.  
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## U.S. TREASURY DEPARTMENT SPECIAL REPORT ON THE PROPOSED ASIAN DEVELOPMENT BANK

## I. SUMMARY AND RECOMMENDATION

This special report strongly recommends that the United States promptly accept membership in the proposed Asian Development Bank. Early Congressional action in the 1966 session is required if the United States is to play its proper role in the formation of the Bank this year. The Bank springs from Asian needs and desires. It is enthusiastically supported by the Asian nations themselves, and has received pledges of financial support from a broad range of non-Asian countries as well.

The Bank is to have an authorized capital of \$1 billion; its membership will number thirty or more countries including many capital-contributing developed countries as well as the developing countries of Asia. The Bank will make sound loans on conventional terms similar to World Bank loans. The U.S. subscription of \$200 million will be equalled by that of Japan; the combined subscriptions of the other developed countries far exceed our own. The U.S. subscription should have a minimal effect on our balance of payments.

The Bank will be Asian in character and multilateral in form. Its operations will benefit both short- and long-range policy objectives of the United States. As a nucleus around which Asian cooperation can grow, the Bank can promote closer ties within the region which the United States has long sought; as a financial vehicle, the Bank can spread the burden of foreign assistance more broadly, serving as a channel for special funds which other donor countries may provide on special terms to meet special needs of the region; and, in its day-to-day operations the Bank can complement and thereby make more effective the extensive



U.S. bilateral programs in the Asian region. U.S. membership is, therefore, fully in our national interest. Establishment of the Asian Bank is a vital element in current efforts to offer the peoples of Asia a reason to hope for a better future and for an opportunity to enjoy the fruits of peaceful economic progress. It points toward those works of peace which are the true need of Asia and the center of the purpose and hope of the United States, there and everywhere.

## II. BACKGROUND

### *A. History and origin of the proposal*

In a broad sense, the concept underlying the Asian Development Bank goes back at least to the early postwar years, when 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 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 with the developmental problems of that major region. The Asian Bank would take its place along with the latter two institutions, as a regional development bank for a great continental land mass of the developing world.

In addition to the general evolution of the institutions of financial cooperation, several encouraging areas of regional cooperation were taking root at the same time among the Asian countries. Since 1947, the United Nations Economic Commission for Asia and the Far East (ECAFE) has provided a forum for discussions and analysis of the economic problems and outlook for the broad area stretching from Iran to the Pacific Islands. The technical scope of ECAFE's concerns has broadened progressively, and its initiatives are increasingly resulting in specific cooperative actions being undertaken by the nations involved. Similarly, the activities of the nations cooperating under the Colombo Plan have, since 1950, contributed substantially to the spirit of regional cooperation. As one feature under the Colombo Plan technical assistance for key growth projects is made available not only from sources outside the region but from one regional country to another as well.

The more specific and immediate antecedents of the Asian Development Bank date from late 1963, when an ECAFE Expert Group on Regional Economic Cooperation first formally proposed the establishment of a regional bank for Asia. This proposal was quickly endorsed by ministers representing Asian nations at the ECAFE Ministerial Conference on Asian Economic Cooperation in Manila in December 1963. During 1964, detailed technical investigations were made by a Working Group of experts and a comprehensive report was made available to governments at the end of that year. In March 1965, the twenty-first session of ECAFE, meeting in Wellington, unanimously agreed to further efforts toward realization of the Bank project. It was agreed that a Consultative Committee drawn from nine Asian nations would meet to review the principal issues involved. The Consultative Committee held its first meeting in June in Bangkok. Mr. Eugene Black—the President's Advisor on Southeast Asian Development and former President of the World Bank—was invited to consult with the Committee. In July and August, members of the Committee visited capitals, including Washington, in order to gain the benefit of views from each of the governments interested in the establishment of the Bank. The Consultative Committee then met again in August in Bangkok to draw up a preliminary charter for the institution.

The decisive event ensuring that the proposal would have major support from outside the Asian region was President Johnson's announcement in April, 1965, that the United States would be prepared to become a member of a properly conceived Asian Bank.

The main negotiations on the Charter of the Bank took place at the meeting of the Preparatory Committee on the Asian Development Bank in Bangkok, Thailand, October 21–November 1, 1965. The United States delegation was headed by Assistant Secretary of the Treasury, Merlyn N. Trued.

In its final form, the Agreement establishing the Asian Development Bank was signed at Manila at a Conference of Plenipotentiaries held December 2–4, 1965.



The Agreement was signed on behalf of the United States by Eugene R. Black, Advisor to the President on Southeast Asia Economic and Social Development, and Joseph W. Barr, Under Secretary of the Treasury, Head and Alternate Head, respectively, of a U.S. delegation which included members of both Houses of Congress.

#### *B. Need for an Asian institution*

The proposal for an Asian Development Bank arose as an Asian initiative, and the Bank will be a predominantly Asian institution in location, in finance, and in management.

President Johnson summarized the advantages of establishing an Asian Development Bank in the following terms:

"I regard the organization of this great new institution as one of the most hopeful events of our times because the Asian Development Bank has been put together by Asians, and because they themselves are contributing the greater part of its capital and will direct its lending for development in Asia.

"But, most of all, it is an important and hopeful event, because the Asian Development Bank will bring so many of Asia's diverse peoples, who so long have gone their ways alone, together in a cooperative effort for peaceful development and human betterment in Asia."

The Asian Bank can, as could no institution either with extra-regional concerns or of sub-regional size, accomplish the following objectives:

- Bring an explicitly Asian viewpoint to bear on the problems of complementary growth in the region.
- Satisfy the widespread desire among countries of the region for an institution attuned specifically to meeting Asian economic needs.
- Point toward that peaceful cooperation in Asia which is the region's most pressing need.
- Offer an institution with its own tangible and constructive purpose to serve as a nucleus around which broader forms of economic and possibly political cooperation could grow. Asia as a whole enjoys no history of common political institutions comparable to the Organization of American States in Latin America. The political infrastructure must be built out of positive acts of economic cooperation such as the Bank would provide in its daily operations.
- Elicit significant amounts of capital from the Asian countries themselves for use elsewhere in the Asian region, with a concomitant assumption of the responsibility for sound fiscal operations.
- Stimulate a flow of public and private capital into Asia from outside the region.
- Provide an administrative channel through which Governments interested in national and regional development in Asia as a whole, or in specific subregions of Asia, could make potentially large sums available for special purposes or on special terms. A major contribution to Southeast Asian development by the United States and other capital-providing countries, for instance, could be administered by the Bank, giving an appropriate Asian imprint to the funds thus provided.

#### *C. Relationship to U.S. programs in Asia.*

The proposed Asian Development Bank can play a key role in the over-all U.S. economic assistance strategy for Asia at the same time it is fulfilling the need of the Asians themselves for new cooperative institutions. In much the same manner, the Inter-American Development Bank is already serving successfully as a major vehicle through which U.S. funds are made available to support long-range development goals of the Alliance for Progress in Latin America.

Substantial U.S. bilateral development assistance in the form of loans and grants to Asian countries is now extended to many of the developing countries eligible for membership in the Asian Development Bank. A large porportion of this assistance is concentrated in a relatively few major program countries. The Asian Bank will not have the subscribed resources to replace any significant portion of current U.S. programs, nor is there reason to expect that its pattern of financing will necessarily reflect the same country emphasis as U.S. programs now have. Nevertheless, the Bank can be expected to complement U.S. programs in a number of important ways: through lending in conjunction with the United States and other donors for projects too large for any single donor to finance; through furnishing technical assistance which will improve the effectiveness with which U.S. and other external assistance is utilized; through financing of surveys and assistance in project formulation which will provide the Agency



for International Development and other bilateral lenders with a better basis for assistance decisions; through eliciting contributions to its own capital; and through serving as a coordinating mechanism for numerous bilateral programs in particular countries. In addition to contributing to greater effectiveness of aid, these functions would help to spread the aid burden more widely.

The creation of a regional development bank by and for the Asian nations is particularly important in relation to the \$1 billion program of expanded U.S. economic and social development assistance in Southeast Asia announced by President Johnson in his speech at Johns Hopkins University on April 7, 1965. The President's design calls for a great international cooperative effort that would lift the hopes and spirits of the peoples of Asia by offering a promising alternative to the destruction of wars and the oppression of adverse economic circumstances.

The Asian Bank, with its authority to administer special funds made available over and above subscribed capital by member or non-member donor nations, is well suited to serve as a channel for the President's Southeast Asia program. Special funds handled in this manner through the Bank could by agreement with the donor be lent on concessional repayment terms appropriate to the country or project concerned. The extent to which the United States makes funds available to the Bank for administration would depend first, of course, on Congressional approval of the necessary resources, but also on the indications from other donor countries of their intention to do likewise. Subject to these two conditions, U.S. representatives have already indicated U.S. willingness to consider a substantial contribution to a Southeast Asia Regional Development Fund. The earlier a sound, strong Asian Development Bank can be brought into being, the earlier plans can move forward for the Bank to receive and utilize such special fund contributions.

### III. THE PROPOSED BANK

The form and functions of the proposed Asian Development Bank are laid down in its Articles of Agreement. These Articles were negotiated at the Meeting of the Preparatory Committee on the Asian Development Bank in Bangkok, Thailand, October 21–November 1, 1965. Along with two annexes subsequently completed and agreed at the Manila meeting, the Articles form the body of the "Agreement Establishing the Asian Development Bank". This Agreement was signed by representatives of governments at a Conference of Plenipotentiaries in Manila, Philippines, December 2–4, 1965, subject to approval by legislatures. In broad outline and in many details, the Articles themselves and the institution to be established under their authority follow the outstandingly successful pattern set by the World Bank.

#### A. Financial structure

The financial resources of the Bank consist of its paid-in capital, special funds, and funds it may raise in the future through borrowing in private capital markets. The Bank would also add to its resources through its earnings.

1. *Authorized, paid-in and callable capital.*—The authorized capital stock of the Bank is \$1 billion, divided into 100,000 shares of \$10,000 each. The Board of Governors of the Bank by a special majority vote may increase the authorized capital. Of the \$1 billion authorized capital, \$650 million is available for subscription by the Asian regional members, while the remaining \$350 million is reserved for subscription by non-regional member countries.

Half of the authorized capital consists of paid-in shares and half consists of callable shares; the subscription of each member country to the capital stock of the Bank will consist of equal parts of paid-in and of callable shares.

Payment for subscriptions to the Bank's paid-in capital stock is to be in five equal installments of 20 percent each. If a country deposits its instrument of ratification before the Agreement enters into force, then its first installment payment is due within thirty days after the entry into force. If a country deposits its instrument of ratification after the Agreement has already entered into force, then its first installment payment is due on or before the date of deposit. The second and subsequent installments fall due at annual intervals after the date of entry into force of the Agreement.

Not all of a member's subscription to paid-in capital is to be paid in cash at the outset. The Articles require the Bank to accept non-interest bearing demand notes or similar obligations in lieu of 50 percent of any installment on paid-in capital, provided the Bank does not need the cash for its operations.

Callable capital stock amounting to one-half a country's total subscription would be subscribed at the time of the first installment on paid-in capital. The function of the callable capital in the Asian Development Bank is the same as



that of the callable capital in the World Bank and the Inter-American Development Bank, i.e., to provide a backing against which the Bank would be able in the future to sell bonds in the capital markets of the world. Payments would be made on callable capital only if at some future time it became necessary to call these shares in order to make good on borrowings by the Bank or on guarantees it had issued. Such calls must be ratable on all such shares.

2. *Special funds.*—The Bank's Articles (Arts. 19–20) provide that the Bank may establish Special Funds by earmarking up to 10 percent of its paid-in capital for that purpose, and by accepting resources—outside the subscribed capital stock—from member governments or other sources for administration by the Bank. Special Funds derived from such earmarking of a portion of the Bank's resources may be used to guarantee or make loans of high developmental priority, with longer maturities, longer deferred commencement of repayment and lower interest rates than ordinary Bank loans.

Special Funds received from members may be used as flexibly as the Agreement between the Bank and the member permits, so long as the purpose is consistent with the purpose of the Bank.

3. *Borrowed funds.*—That Bank's subscribed funds may be supplemented by borrowings in the name of the Bank in member countries or elsewhere (e.g., Switzerland) against the backing of its callable capital. No borrowing may take place in the territory of a member or in the currency of a member, however, without the prior approval of that member. The Bank may also add to its lendable resources by selling portions of loans from its portfolio, with or without its own guarantee, provided again that the prior approval of the member in whose territory the securities are sold is obtained.

#### *B. Administrative aspects*

The Articles of Agreement of the Asian Development Bank establish it as a regional international organization with full juridical personality. The Bank's members would be national states and their territories, and its structure would consist of a Board of Governors, a Board of Directors, and a Management consisting of international civil servants.

1. *Membership.*—The Bank is open to membership by members and associate members of the United Nations Economic Commission for Asia and the Far East (ECAFE) and by other regional countries and non-regional developed countries which are members of the United Nations or of any of its specialized agencies. Thus, Communist China, North Korea and North Vietnam are not eligible for membership.

Countries eligible for membership as charter members are listed in Annex A to the Articles. Any of those countries that have failed to sign by January 31, 1966, and countries not mentioned in Annex A desiring to become members can only be admitted after the Bank is organized. Admission to membership then will require an affirmative vote of two-thirds of the total number of Governors representing not less than three-fourths of the total voting power. The subscription of a new member would be fixed by the Governors at the time of admission.

2. *Board of Governors.*—The senior policy-making body of the Bank is to be its Board of Governors, consisting of one Governor and one alternate for each member. Governors would normally be ministers of finance or central bank heads; the Board of Governors would normally meet annually and conduct its other business by mail. The fundamental powers of the Bank—including the power to admit new members, to change the authorized capital stock, to elect Directors and choose a President, and to amend the Articles are reserved exclusively to the Governors.

3. *Board of Directors.*—The day-to-day supervision of the general operations of the Bank rests with the Board of Directors. The Board is to consist of ten Directors, seven to represent the Asian regional countries and three to represent non-regional members. Each Director may appoint an Alternate to act in his absence. The size of its subscription entitles the United States to elect its own Director from the three allocated to the non-regional countries.

Directors are elected for two-year terms in accordance with procedures shown in Annex B of the Articles, and may be re-elected. With regard to the three Directors for non-regional members, Annex B provides that the third Director shall be elected when non-regional subscriptions total \$345 million. It is hoped that this provision will be fulfilled at an early date. Article 30(1)(ii) provides that, after two years, the size and composition of the Board of Directors shall be reviewed by the Board of Governors. The reason for this subsection is the desire of the smaller developing countries for representation on the Board by the crea-



tion of one or more regional Directorships. Any such change, however, would require approval by a majority of the total number of Governors having at least two-thirds of the total voting power. Moreover, a change in the number of Directors would not affect the number of votes cast by the United States or other countries, since voting strength is related to size of subscription.

The Board of Directors would pass on all loan or guarantee applications, oversee financial operations and approve the Bank's budget. Unlike the Governors, the Directors would meet at frequent intervals as demanded by the pace of the Bank's operations.

4. *Voting*.—Like the other multilateral development financing institutions of which the United States is a member, the Asian Development Bank embodies the broad principle that voting strength is related to size of subscription. In recognition of the strong opinion among the Asian nations that a large proportion of total votes should be distributed equally among members without reference to size of subscription, it was agreed during negotiations leading up to the charter that 20 percent of total votes—so-called "basic votes"—would be distributed equally among the members and the remainder would be proportional to subscriptions.

On the basis of full subscription of the \$1 billion authorized capital, the U.S. share of total voting strength would be approximately 16 percent. Ordinary voting in both the Board of Governors and the Board of Directors would be by a majority of the votes cast. On specified major matters, however, the Articles require qualified majorities of two-thirds or three-fourths of total votes.

5. *Management*.—The principal executive officer of the Bank is to be its President, who will be responsible for the organization of the Bank's staff and who will, under the supervision of the Board of Directors, conduct the Bank's current business. The President will be an Asian national, who will be elected by the Board of Governors, probably at the Inaugural Meeting. The President serves as Chairman of the Board of Directors, but would not vote except in the case of an even division.

The President will serve for a renewable 5-year term and will be assisted by one or more Vice-Presidents, whom the Directors would appoint on the basis of the President's recommendation. In keeping with the Asian character of the Bank, the bulk of its staff is expected to come from the Asian countries themselves. The Articles (Art. 36) on the one hand prohibit the President, Vice-President and staff of the Bank from either interfering in the political affairs of members or taking non-economic considerations into account in their decisions, and on the other hand, prohibit member countries from attempting to influence them in the discharge of their duties.

6. *Privileges and immunities*.—The Articles of the Charter relating to status, immunities, exemptions and privileges (Arts. 48–58) are similar to those embodied in the charters of the World Bank and the Inter-American Development Bank. With respect to salaries or emoluments paid by the Bank to Directors, Alternates, officers or employees, including experts performing missions for the Bank, the Charter provides that such payments to the nationals of a member may be taxed by that member only upon deposit of a declaration by it at the time of ratification that it intends to do so. It is intended that the United States would deposit such a declaration with its instrument of acceptance.

7. *Site of the Bank*.—The site of the Bank is to be at Manila, Philippines, where the Philippine Government has indicated it will provide an appropriate building. The choice of Manila as site of the Bank was made by the Asian nations themselves just prior to the Conference of Plenipotentiaries in early December 1965. The United States maintained an attitude of strict neutrality throughout the discussion of the site question.

### C. Operations

All of the lending and financial operations of the Bank are aimed at fulfilling the purposes set forth in Article 1 of its charter, i.e., to foster economic growth and cooperation in the Asian region and to contribute to the acceleration of the process of economic development of the developing member countries in the region, collectively and individually.

The principal functions of the Bank toward fulfilling its purposes are (1) the promotion of public and private development capital inflow to the region and (2) the use of resources available to it for development financing in the region. In the latter connection, the Bank is to give priority to regional and sub-regional as well as national projects that will promote harmonious regional growth, and is to keep especially in mind the needs of smaller or less developed countries in the region.



In addition to these direct financing activities, the Bank is expected to assist members in the coordination of development policies so as to enhance complementary trade and other relations in the region and in development planning and project formulation. The Bank would cooperate with other international and national institutions in order to stimulate a maximum flow of funds to the region.

The Bank's lending operations are divided into two major categories: ordinary operations and special operations. Resources used for each category are entirely separate and distinct, and must be separately accounted for. Ordinary capital resources may not be charged with any losses or liabilities arising from special operations.

1. *Ordinary lending and guarantee operations.*—The Bank's hard loan operations will normally take the form of direct loans from capital funds or funds borrowed in private markets, on terms similar to those of World Bank loans to developing countries. World Bank loans are presently made on terms of 5½ percent with maturities normally up to 25–30 years. The Bank's Articles also confer authority to guarantee loans made by others and, at a future time to be decided, to invest in equity capital of entities or enterprises.

Ordinary loans would normally cover the foreign exchange costs of specific projects. In special cases, the Bank may provide financing for a reasonable portion of the local costs involved. In addition to its direct loans for particular projects, the Bank could lend to national development banks which would sub-lend for smaller projects. No loan could be made in a country if the government of the country objects. The guarantee of the government is not required if the loan is not to the government itself. The Bank may, however, if it deems it desirable, require such a guarantee. The Bank must pay due regard to the ability of the borrower to find financing elsewhere on reasonable terms before it approves a loan.

The Articles do not specify any particular types of development projects for emphasis in the Bank's ordinary lending operations. Loans may be expected for the usual infrastructure projects such as roads, ports, power and the like, for agricultural projects such as irrigation systems and agricultural credit institutions, and for private enterprise activities in manufacturing and service industries. While specific loan terms are not prescribed, the Bank is required in its first five years of operation to charge a commission on its ordinary loans of 1 percent, the proceeds of which must be held in a special liquid reserve to meet possible future liabilities of the Bank. Such a special reserve was a feature of the Charters of both the World Bank and the Inter-American Bank.

2. *Special lending operations.*—Loans made from special funds earmarked from the Bank's own capital must be of high developmental priority and must conform to the same general operating guidelines as ordinary loans. Such funds shall be provided on a revolving fund basis and may be extended with longer maturities, longer grace periods and lower interest rates than those established for ordinary operations. Loans made with special funds given to the Bank for administration by donor nations may be for any purpose and on any terms not inconsistent with the over-all purpose of the Bank.

3. *Borrowing by the Bank.*—It is not expected that the Bank will be in a position in its early years to obtain funds in significant amounts from private capital markets. Accordingly, the Bank will rely for its initial period of operations on its subscribed capital. When the Bank does commence borrowing, the Articles require it to follow the principle of spreading its borrowing equitably among the various financial markets, thus avoiding undue concentration on any one financial center. As already noted, no borrowing may take place in any member country or in any member's currency without prior approval by that member.

4. *Procurement.*—Article 14(ix) of the Charter prescribes the basic rule that the Bank's subscribed resources—whether for ordinary lending or special lending—be used only for procurement in any member country of goods and services produced in member countries. Thus no industrial country can expect to enjoy the benefits of Bank-financed procurement from its suppliers without making a contribution to the Bank's resources in the form of capital subscriptions. In special circumstances, as in the case where a non-member country, e.g., Switzerland (which is not a member of the World Bank but is eligible to provide goods and services for World Bank-financed projects) permits the Asian Development Bank to raise a significant amount of capital in its markets, the Directors may allow procurement for a particular loan to take place in that non-member country, or the goods of that non-member country to be purchased in a member country. Such permission by the Directors could only be given, however, by a special majority of two-thirds of total votes.



5. *Currency provisions.*—All member countries, developed and developing alike, are required to make at least 50 percent of their subscriptions available in convertible currencies, and no member may make restrictions on the use by the Bank or its payees of this portion of its paid-in subscription. A developing country may restrict the other 50 percent of its subscription, which is payable in national currency, to payments for goods and services which it produces and which will be used in its territories. A developed country, on the other hand, is required to make the second 50 percent of its subscription, also payable in national currency which in most cases would already be convertible, available on the same restriction-free basis as the first 50 percent. In short, developed country subscriptions may be thought of as generally convertible. (Among the regional members, Japan, Australia and New Zealand are considered developed; all of the non-regional members are likewise considered developed.)

Article 24(2)(ii) permits a developed country in the Asian region, if its exports of industrial products are not a substantial portion of total exports and it is therefore not in a position to compete effectively for Bank-financed business, to restrict the 50 percent portion paid in national currency—which therefore would normally have to be convertible—to purchase of national goods. Any country wishing to exercise this option must do so at the time it deposits its instrument of acceptance, and the continuation of the restriction is subject to periodic review by and consultation with the Bank. A country opting to restrict its subscription in this fashion would, however, be required to finance such national goods out of the portion of the subscription that would otherwise remain in cost-free non-interest bearing notes. Only Australia and New Zealand will be in a position to take advantage of this provision of the Articles.

The currency of each member is always freely available to the Bank to meet administrative expenditures in the country. Currency made available to the Bank for administration as a Special Fund, however, may be restricted in any manner specified in the relevant Special Fund agreement.

In the event of depreciation or appreciation of a member's currency, the member must pay to or may receive from the Bank a payment sufficient to maintain the original foreign exchange value of the Bank's holdings of the currency, other than holdings derived from borrowings or administered Special Funds.

#### *D. Entry into force and interim arrangements*

The entry into force of the Agreement Establishing the Asian Development Bank will take place after a two-stage procedure consisting of (a) signature and (b) ratification or acceptance. The United States and twenty-one other nations signed the Agreement at Manila, and the remaining nations listed in Annex A may do so until January 31, 1966. Signature, however, is an *ad referendum act* by an executive power, requiring in most governments—including the United States—approval by the legislative power. Ratification or acceptance by a signatory takes place by deposit of an instrument of ratification or acceptance with the depository (the Secretary-General of the United Nations) after any necessary legislative approval has been obtained. Instruments of ratification must be deposited not later than September 30, 1966. The Articles of Agreement make no provision for extension of this deadline. A signatory which has deposited its instrument of ratification becomes a member on the date of deposit or the date the Agreement enters into force, whichever occurs later.

The Agreement enters into force when fifteen signatories having subscriptions of at least \$650 million have deposited their instruments of ratification or acceptance. In order to ensure broad support for the Bank within the Asian region, the Articles require that not less than ten of the necessary fifteen signatories be regional members. The inaugural meeting of the Board of Governors, the election of the Board of Directors, the formal organization of the Bank management and the fixing of the date for commencement of operations would promptly follow entry into force of the Agreement.

Since the subscription of the United States is to be \$200 million and total anticipated subscriptions are in excess of \$950 million, it is clear that unless the United States moves forward rapidly with the deposit of its instrument of acceptance, the Agreement may enter into force prior to deposit by the United States. Although the United States could still become a charter member by subsequently depositing its instrument prior to the September 30, 1966, deadline, failure to participate in the inaugural meeting of Governors and its important work of organizing the Bank would both damage the idea of the United States as a supporter of the Bank and impair the ability of the United States to play an appropriate role in the important early period when the Bank's operating policies and procedures will be developed. Accordingly, legislation permitting final accept-



ance of the Agreement by the United States should be obtained as early as possible in the spring of 1966.

In order to facilitate the early establishment of the Bank on a fully operational basis, the Conference of Plenipotentiaries established a fourteen-nation Committee on Preparatory Arrangements, twelve members of which are Asian countries and the remaining two (United States and Germany) are non-regional. This "steering committee" will supervise the operations of a small staff whose principal tasks will be to prepare for the Bank's inaugural meeting, make preliminary plans for acquiring and training staff, initiate arrangements for facilities and services at the Bank's permanent headquarters and otherwise promote an efficient commencement of Bank activities.

#### IV. U.S. PARTICIPATION IN THE PROPOSED BANK

As was the case with existing international financial institutions, U.S. participation in the Asian Development Bank will be pursuant to specific authorizing legislation to be passed by both houses of Congress. Appropriations will be sought in the years required. U.S. representation in the Bank will likewise follow the general pattern established for existing institutions.

##### A. U.S. subscription

The U.S. subscription to the capital stock of the Bank is \$200 million. The United States and Japan, each with subscriptions of \$200 million, are the largest subscribers of capital. The subscriptions of the nations whose pledges for joining the Bank were indicated at the Manila meeting are shown below in Table 1. The United States subscription represents 21.3 percent of such total subscriptions including the developing countries and 33.1 percent of the subscriptions of the developed countries alone.

Table 2 compares the paid-in portion of the U.S. subscription in the Asian Development Bank with U.S. paid-in subscriptions to the other international development financial institutions both as a percentage of total capital and as a percentage of the subscriptions of the advanced countries. The U.S. share in the Asian Bank represents a lesser relative burden on the United States than does the U.S. share in the institutions established earlier.

| Country       | Subscription (\$ million) | Percentage of Total (\$ million) |
|---------------|---------------------------|----------------------------------|
| United States | 200                       | 21.3                             |
| Japan         | 200                       | 21.3                             |
| Philippines   | 100                       | 10.6                             |
| South Korea   | 100                       | 10.6                             |
| Indonesia     | 100                       | 10.6                             |
| Malaysia      | 100                       | 10.6                             |
| Thailand      | 100                       | 10.6                             |
| Singapore     | 100                       | 10.6                             |
| Brunei        | 100                       | 10.6                             |
| Myanmar       | 100                       | 10.6                             |
| Laos          | 100                       | 10.6                             |
| Cambodia      | 100                       | 10.6                             |
| Vietnam       | 100                       | 10.6                             |
| Sumatra       | 100                       | 10.6                             |
| Java          | 100                       | 10.6                             |
| Borneo        | 100                       | 10.6                             |
| Sulawesi      | 100                       | 10.6                             |
| Moluccas      | 100                       | 10.6                             |
| Maluku        | 100                       | 10.6                             |
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| Moluccas      | 100                       | 10.6                             |
| Maluku        | 100                       | 10.6                             |
| Sumatra       | 100                       | 10.6                             |
| Java          | 100                       | 10.6                             |



TABLE 1.—*Subscriptions to Asian Development Bank capital stock (based on pledges as of Dec. 4, 1965, as shown in Annex A of Articles of Agreement)*

| Country                           | Million dollars | Percent of total subscriptions | Percent of developed-country subscriptions | Percent of regional country subscriptions |
|-----------------------------------|-----------------|--------------------------------|--------------------------------------------|-------------------------------------------|
| <b>Regional:</b>                  |                 |                                |                                            |                                           |
| Afghanistan.....                  | 3.36            | 0.4                            |                                            | 0.5                                       |
| Australia.....                    | 85.00           | 9.1                            | 14.1                                       | 13.2                                      |
| Cambodia.....                     | 3.00            | .3                             |                                            | .5                                        |
| Ceylon.....                       | 8.52            | .9                             |                                            | 1.3                                       |
| Republic of China.....            | 16.00           | 1.7                            |                                            | 2.5                                       |
| India.....                        | 93.00           | 9.9                            |                                            | 14.5                                      |
| Iran.....                         | 60.00           | 6.4                            |                                            | 9.3                                       |
| Japan.....                        | 200.00          | 21.3                           | 33.1                                       | 31.1                                      |
| Korea.....                        | 30.00           | 3.2                            |                                            | 4.7                                       |
| Laos.....                         | .42             |                                |                                            |                                           |
| Malaysia.....                     | 20.00           | 2.1                            |                                            | 3.1                                       |
| Nepal.....                        | 2.16            | .2                             |                                            | .3                                        |
| New Zealand.....                  | 22.56           | 2.4                            | 3.7                                        | 3.5                                       |
| Pakistan.....                     | 32.00           | 3.4                            |                                            | 5.0                                       |
| Philippines.....                  | 35.00           | 3.7                            |                                            | 5.5                                       |
| Vietnam.....                      | 7.00            | .7                             |                                            | 1.1                                       |
| Singapore.....                    | 4.00            | .4                             |                                            | .6                                        |
| Thailand.....                     | 20.00           | 2.1                            |                                            | 3.1                                       |
| Western Samoa.....                | .06             |                                |                                            |                                           |
| Subtotal.....                     | 642.08          | 68.2                           | 50.9                                       | 100.0                                     |
| <b>Nonregional:</b>               |                 |                                |                                            |                                           |
| Belgium.....                      | 5.00            | .5                             | .8                                         |                                           |
| Canada.....                       | 25.00           | 2.7                            | 4.1                                        |                                           |
| Denmark.....                      | 5.00            | .5                             | .8                                         |                                           |
| Germany, Federal Republic of..... | 30.00           | 3.2                            | 5.0                                        |                                           |
| Italy.....                        | 10.00           | 1.1                            | 1.7                                        |                                           |
| Netherlands.....                  | 11.00           | 1.2                            | 1.8                                        |                                           |
| United Kingdom.....               | 10.00           | 1.1                            | 1.7                                        |                                           |
| United States.....                | 200.00          | 21.3                           | 33.1                                       |                                           |
| Subtotal.....                     | 296.00          | 31.6                           | 49.0                                       |                                           |
| Grand total.....                  | 938.08          | 100.0                          | 100.0                                      | 100.0                                     |

NOTE.—Totals may not add due to rounding.

TABLE 2.—*U.S. subscription in Asian Development Bank compared with subscriptions in other international development finance institutions<sup>1</sup>*

(In millions of dollars)

|                                                                                                 | IBRD    | IDA   | IFC  | IDB<br>(ordinary capital) | ADB <sup>1</sup> |
|-------------------------------------------------------------------------------------------------|---------|-------|------|---------------------------|------------------|
| Total paid-in subscriptions of all members.....                                                 | 2,166.3 | 995.7 | 99.0 | 850.0                     | 938.08           |
| Total paid-in subscriptions of developed-country members.....                                   | 1,580.1 | 751.3 | 81.1 |                           | 603.56           |
| U.S. paid-in subscription.....                                                                  | 635.0   | 320.3 | 35.2 | 350.0                     | 200.0            |
| U.S. paid-in subscription as percent of subscriptions of all members.....                       | 29.3    | 32.1  | 35.6 | 41.2                      | 21.3             |
| U.S. paid-in subscription as percent of paid-in subscriptions of developed-country members..... | 40.2    | 42.6  | 43.4 |                           | 33.1             |

<sup>1</sup> Based on pledges as of Dec. 4, 1965, as shown in Annex A of Articles of Agreement.*B. Form and timing of payments*

As indicated in Chapter III, section A of this report, half of a country's subscription is to be paid in five installments and the other half is to remain callable.

For the United States therefore, only \$100 million is scheduled to be paid in, and \$100 million will remain callable. Five payments, of \$20 million each are due on the paid-in portion, the first at the outset and the remaining four at approximately annual intervals thereafter. Further, of the amounts to be paid in only one-half—amounting to \$10 million per installment or \$50 million in the aggregate—need be paid in cash. The remaining \$10 million of each installment—aggregating \$50 million in all—may be made in “promissory notes or other obligations.” For this portion, the United States will issue irrevocable



letters of credit to the Bank which will not be drawn on until cash is actually required by the Bank. The letter of credit technique has already been adopted in connection with our participation in the International Monetary Fund, the International Development Association, and the Inter-American Bank.

The U.S. callable capital subscription of \$100 million must be made at the time of the first paid-in installment. This \$100 million subscription represents only a contingent liability on the part of the United States. Similar callable subscriptions by the United States in the World Bank and the Inter-American Development Bank have been on the books for twenty years with little prospect of being called. With prudent management in the Asian Development Bank, there is no reason to expect that its callable capital need be drawn on.

Table 3 summarizes, by fiscal year, the subscription obligations undertaken by the United States in joining the Bank. The first payments would be required during the spring of 1966, and accordingly a supplemental appropriation will be necessary in FY 1966. Regular appropriations will then be sought in each of the fiscal years 1967-70 inclusive.

### C. Legislative aspects

A draft "Asian Development Bank Act" is being submitted by the President for consideration by the Congress early in the 1966 session. The principal provisions of the draft legislation are those authorizing the acceptance of membership in the Bank by the President and the appropriation and payment of the U.S. subscription. In addition, the draft legislation provides for the appointment by the President, by and with the advice and consent of the Senate, of the U.S. Governor, Alternate Governor and Director. The draft legislation further provides, *inter alia*, for periodic reports to the Congress on the policies and operations of the Bank, for reference to the Congress of any change in the Bank's articles and for such amendments to other legislation as are necessary and appropriate to facilitate the sale of the Bank's obligations in the United States at such future time as that may become feasible and desirable.

TABLE 3.—*Appropriations required for U.S. subscription obligations in Asian Development Bank*

(In millions of dollars)

|                       | Paid-in capital |                         | Callable<br>(no payment<br>required) | Total |
|-----------------------|-----------------|-------------------------|--------------------------------------|-------|
|                       | In cash         | In letters<br>of credit |                                      |       |
| Fiscal year 1966----- | 10              | 10                      | 100                                  | 120   |
| Fiscal year 1967----- | 10              | 10                      | -----                                | 20    |
| Fiscal year 1968----- | 10              | 10                      | -----                                | 20    |
| Fiscal year 1969----- | 10              | 10                      | -----                                | 20    |
| Fiscal year 1970----- | 10              | 10                      | -----                                | 20    |
| Total-----            | 50              | 50                      | 100                                  | 200   |

## V. PARTICULAR QUESTIONS FOR CONSIDERATION

### A. U.S. participation in the Bank in relation to the U.S. balance of payments

The need to achieve and maintain equilibrium in the U.S. balance of payments remains an urgent one. The initial impact on the U.S. balance of payments of the U.S. subscription to the Asian Bank, however, will be minimal at most, and the longer-range probability is for no net balance-of-payments cost.

As described earlier in this report, the structure of required subscription payments to the Bank is such that the cash portion of our \$200 million subscription—the only portion which enters the balance-of-payments accounts at the time of payment—amounts to only 5 percent of the total, or \$10 million, in the first year. In view of the substantial advantages accruing from the successful establishment of the Bank, this level of balance-of-payments cost, even if fully realized, would be entirely justified. There is reason to believe, however, that some or all of even the minimal short-term balance-of-payments effects will be offset. Moreover, dollars held by the Bank do not represent a potential claim on gold.

Over a somewhat longer term the prospects are favorable that there will be no net balance-of-payments cost to the United States. Procurement by the Bank will be limited to member countries and the Bank will mainly finance capital



goods imports of which the United States is a major international supplier. Further, the group of countries in which the bulk of Bank financing will likely take place includes many in which the United States enjoys a strong competitive position. The United States share of the convertible currency resources of the proposed Bank is about one-fourth, whereas the factors just enumerated offer the possibility that U.S. procurement could come close to or even exceed this proportion of total Bank-financed procurement with its convertible resources. Any U.S. funds supplied to the Bank as special funds over and above our capital subscriptions could, in accordance with the Articles of Agreement, be explicitly tied to U.S. procurement.

#### *B. U.S. voting rights*

The United States will enjoy sufficient voting strength in the Asian Bank to insure itself of a permanent seat on the Board of Directors and hence a continuing important voice in the Bank's affairs. It is characteristic of the international financial institutions that formal voting issues are extremely infrequent, and agreement is usually reached on the basis of consensus, taking into account the essential interests of the institution and the member nations concerned.

Table 4 shows the approximate voting strength in the Board of Governors (on which the voting power of Directors is based) computed on the basis of memberships and subscriptions known as of December 4, 1965. Since the United States share of paid-in capital is substantially lower in the Asian Bank than in the other international financial institutions, U.S. voting power is correspondingly lower than in such institutions. As a minority shareholder, the United States cannot expect to exercise a veto by itself. Our percentage of total votes in the Asian Bank further reflects the fact that twenty percent of total votes are distributed among the members without regard to size or subscription, while the remaining eighty percent are weighted proportionately to subscriptions. The non-weighted votes represent a substantially higher proportion of total votes than in other institutions.

TABLE 4.—*Voting strength in Asian Development Bank*<sup>1</sup>

| Country                       | Subscription amount | Proportionate votes | Basic votes   | Total votes    | Percent of total |
|-------------------------------|---------------------|---------------------|---------------|----------------|------------------|
| <i>Millions</i>               |                     |                     |               |                |                  |
| <b>Regional:</b>              |                     |                     |               |                |                  |
| Afghanistan.....              | \$3.36              | 336                 | 869           | 1,205          | 1.03             |
| Australia.....                | 85.00               | 8,500               | 869           | 9,369          | 7.99             |
| Cambodia.....                 | 3.00                | 300                 | 869           | 1,169          | .99              |
| Ceylon.....                   | 8.52                | 852                 | 869           | 1,721          | 1.47             |
| China.....                    | 16.00               | 1,600               | 869           | 2,469          | 2.11             |
| India.....                    | 93.00               | 9,300               | 869           | 10,169         | 8.67             |
| Iran.....                     | 60.00               | 6,000               | 869           | 6,869          | 5.86             |
| Japan.....                    | 200.00              | 20,000              | 869           | 20,869         | 17.79            |
| Korea.....                    | 30.00               | 3,000               | 869           | 3,869          | 3.29             |
| Laos.....                     | .42                 | 42                  | 869           | 911            | .78              |
| Malaysia.....                 | 20.00               | 2,000               | 869           | 2,869          | 2.45             |
| Nepal.....                    | 2.16                | 216                 | 869           | 1,085          | .93              |
| New Zealand.....              | 22.56               | 2,256               | 869           | 3,125          | 2.66             |
| Pakistan.....                 | 32.00               | 3,200               | 869           | 4,069          | 3.47             |
| Philippines.....              | 35.00               | 3,500               | 869           | 4,369          | 3.73             |
| Singapore.....                | 4.00                | 400                 | 869           | 1,269          | 1.08             |
| Thailand.....                 | 20.00               | 2,000               | 869           | 2,869          | 2.45             |
| Vietnam.....                  | 7.00                | 700                 | 869           | 1,569          | 1.34             |
| Western Samoa.....            | .06                 | 6                   | 869           | 875            | .75              |
| <b>Total regional.....</b>    | <b>642.08</b>       | <b>64,208</b>       | <b>16,511</b> | <b>80,719</b>  | <b>68.84</b>     |
| <b>Nonregional:</b>           |                     |                     |               |                |                  |
| Belgium.....                  | 5.00                | 500                 | 869           | 1,369          | 1.17             |
| Canada.....                   | 25.00               | 2,500               | 869           | 3,369          | 2.87             |
| Denmark.....                  | 5.00                | 500                 | 869           | 1,369          | 1.17             |
| Germany.....                  | 30.00               | 3,000               | 869           | 3,869          | 3.29             |
| Italy.....                    | 10.00               | 1,000               | 869           | 1,869          | 1.59             |
| Netherlands.....              | 11.00               | 1,100               | 869           | 1,969          | 1.68             |
| United Kingdom.....           | 10.00               | 1,000               | 869           | 1,869          | 1.59             |
| United States.....            | 200.00              | 20,000              | 869           | 20,869         | 17.79            |
| <b>Total nonregional.....</b> | <b>296.00</b>       | <b>29,600</b>       | <b>6,952</b>  | <b>36,552</b>  | <b>31.15</b>     |
| <b>Grand total.....</b>       | <b>938.08</b>       | <b>93,808</b>       | <b>23,463</b> | <b>117,271</b> | <b>100.00</b>    |

<sup>1</sup> Based on pledges as of Dec. 4, 1965, as shown in Annex A of Articles of Agreement.

NOTE.—Totals may not add due to rounding.



Notwithstanding the differences in the voting arrangements between the Asian Bank and other institutions, the basic form and purpose of the Asian Bank is so similar to the other institutions that no significant difference in its basic policy framework or in the soundness with which it is operated need be anticipated. The Asian nations have given ample evidence—particularly through their subscriptions totaling \$642 million—of their intention to have a bank that would command the highest respect in financial circles. There is every reason for confidence that a capable and prudent management will be selected, and that the Board of Directors will endorse policies that will give the Bank the stature its sponsors seek. It is safe to conclude, therefore, that U.S. interests and those of the developed countries as a group will be adequately protected in the operations of the Bank.

*C. Consistency of Bank's operations with legislative guidelines on U.S. foreign aid program*

The policies and operations of the existing international financial institutions of which the United States is a member have been fully consistent with the legislative guidelines laid down for the bilateral aid program of the United States. Inasmuch as the Asian Bank is to be a new institution, it is not possible to evaluate it in this regard on the basis of experience. It is possible to say, however, that the new Bank gives every promise of following the same satisfactory policies that have characterized the existing financial institutions. The Bank's Articles call for it to promote private as well as public investment for developmental purposes, to give priority to projects that contribute most effectively to regional economic growth, to cooperate with international and national entities concerned with the investment of development funds in the region, to pay due regard to the prospects of repayment, to ensure that financing is used for the purposes intended, and to be guided by sound banking principles.

*D. Membership of the Soviet Union*

In his April 1965 speech at Johns Hopkins University, President Johnson specifically welcomed participation by the Soviet Union in an expanded program of Southeast Asian development. As far as can presently be determined, however, the Soviet Union does not now intend to become a member of the Asian Development Bank, despite attendance by its representatives at the Bangkok Conference. The Soviet Union has indicated that it may be interested in exploring other ways of cooperating with the Bank.

## VI. CONCLUSION

The establishment of an Asian Development Bank along the lines described in this report would be a hopeful and important event in the long and troubled history of the Asian region. Such a Bank could contribute greatly to a new spirit of cooperation among the nations of that area. The proposed Bank would have a capital of \$1 billion and enjoy broad membership among the countries of the region as well as widespread support among capital-exporting countries. The Bank could not only provide needed new capital of its own but also administer funds made available to it by developed countries on special terms and for special purposes, as for example a portion of the President's Southeast Asian multilateral program for economic and social development.

The U.S. participation in the capital subscription in the Bank would be \$200 million, of which only one-half would have to be paid in, and that half would be spread over five annual installments. The benefits to U.S. political and economic objectives in Asia would be substantial, especially in comparison with the costs involved. The advantages of U.S. participation in such international lending institutions as the World Bank, its affiliates, and the Inter-American Bank have been amply demonstrated over the last two decades. Prompt action by the United States to join the Asian Development Bank would be in United States short- and long-term interest. Early enactment of legislation to make membership in the Bank possible is therefore strongly recommended.

HENRY H. FOWLER,  
*Secretary of the Treasury.*









