REGIONAL ECONOMIC COOPERATION AND INTEGRATION MOVEMENTS AND THE ASIAN DEVELOPMENT BANK — HOPE OF THE LESS DEVELOPED

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ASIA, UNLIKE EUROPE, IS COMPOSED OF COUNTRIES WIDEly scattered. Some areas are also disjointed by seas. The countries of Asia comprising 29.5% of the world's landmass, are inhabited by two billion people, almost two-thirds of the world's population, having no common language, custom, tradition and history. Most of these countries still suffer from the hangover of past colonization by West European powers, who had planted their own educational pattern and legal and commercial systems in these countries to suit their own requirements. West European colonial powers rearranged Asia according to their heart's desire and till now the process had not ended. The economic, political and social set-up of the Asian countries are widely divergent from each other and effective communications in between them at vital levels are still lacking.

Historical Experiences

Political aspirations of the countries of Asia are unique but not uniform. Even after two decades of development experiences, the Asian countries, except a few, cannot hope to attain the take-off stage which is still far off and the Asian political leaders are more concerned with confrontations rather than cooperation. As a result, the expectations of the rising generations have only met with mounting frustration. Historical experience showed that groups of Asian countries came closer in the past towards some sort of political integration under dynasties and empires but not towards economic integration. Asia witnessed periods of rising and falling civilization and empires. From these experiences, we hardly get any encouragement of the possibilities of a successful economic integration. There had never been any regional harmonization based on economic cooperation.

Recent talks of Asian Common Market are only superficial and piecemeal. There is hardly any strong desire among the Asian leaders towards a common purpose and they are not yet ready to take up the necessary hard decision essential for the attainment of regional harmonization. The establishment of the European Economic Community under the Treaty of Rome was possible due to the existence of some measures of political understanding and unity as well as common political aspirations. Moreover, unlike Asia, various countries in Europe developed since the Industrial Revolution on the basis of division of labour and comparative advantage principle. Between them there is a considerable degree of complementarity. The socio-economic conditions in Europe, which were responsible for the creation of regional economic groupings, are lacking in Asia where majority of the people live below the subsistence level. Economic development in this region is below the rate of growth of population. Over and above this, economic disparity and illiteracy are also increasing at an alarming rate with the fast rise in population.

Traditionalism and Colonial Hangover

The transfer of technology and science from the developed to the developing countries of Asia is still very slow and unplanned. As a result, the traditional technological and entrepreneural gaps in Asia are not narrowing down. Under such circumstances, it is rather difficult to say that regional economic integration in the true sense is the logical and likely outcome in Asia. There are also outstanding political disputes in between the Asian countries, such as the Philippines' claim to North Borneo, Vietnam War, unfriendly relation between Cambodia and Thailand and so on. The Asian countries, except Japan, depend largely on agriculture as between 65% to 70% of the people of these countries are involved in agricultural occupations. Agriculture provides basic sources of food supplies and capital to these countries and 85% of their export items are agricultural products. Before World War II, Asia was the net exporter of food but the position has reversed since then. Asian agriculture is still far from satisfactory in so far as productivity and yield are concerned. With the exception of a few countries, potentiality of Asian agriculture is vast. But this has yet to be exploited so as to bring about economic emancipation of Asia. Assistance and attention rendered by national governments for effecting a "green revolution" in Asia is still small and spasmodic. There are many factors that have tied down Asian agriculture to the low production level. Apart from the problems of capital, know-how, agragrian structure, supply of essential agricultural inputs and agricultural infra-structure, the farmers are exposed very often to natural calamities, such as flood, droughts and typhoons, etc. Traditionalism, which had been institutionalized under the long colonial rule, continued to hold back progress in farms. Long colonial rule and the Industrial Revolution in Europe, at a time when Mercantilism was the order of the day, necessitated the establishment of feudal estates and specialization of some particular agricultural crops and products in the Asian countries, thereby making the colonies of Asia suppliers of raw materials and dumping grounds of finished products from the metropolitan colonial powers of Europe. Thus, the whole of Asia became producers of only primary products. This resulted in the ever-widening ditch in the income levels of the Western developed and the Asian developing countries. While the present per capita income of the developed countries increased by $60 per year, the per capita income of the Asians increased by only $12 per year.

Regionalist Ideas and Movement

So, any discussion on the problems and possibilities of regional economic cooperation and integration in Asia must not overlook the basic background and the present socio-political situation in Asia. Despite various misgivings and doubts among the Asian leaders and economists on economic integration plans, there is growing understanding that regional economic cooperation among the Asian countries will not only enhance their competitive strength vis-a-vis the West but will also hasten their own economic development. Gunnar Myrdal in his recently published book, "Asian Drama, An Enquiry into the Poverty of Nations" expressed his pessimism of any regional economic cooperation in Asia. Myrdal wrote," . . . . . nothing has yet been accomplished in regard to the wider problem of regional integration." But Myrdal's study of Asia did not include the period which saw the gradual evolution and establishment of the Asian Development Bank and regionalist movements which have opened the flood-gate of optimism on the prospect of regional economic cooperation.

Viewed from this, any study on the incubation and birth of the Asian Development Bank, its present problems and possibilities is interesting. Such studies would necessitate some enquiries on the growth and experiences of other regional economic cooperation movements in various parts of the world. Regional economic integration may take different forms. It could be (1) a payments union, (2) a free trade area, (3) a customs union, (4) a broad-based economic community like the E.E.C., (5) regional governmental scientifc research and technical cooperation, (6) regional non-governmental institutional cooperation like the Asian Chamber of Commerce, (7) regional governmental cooperation in augmenting developmental finance and (8) regional cooperation among the private sector industrialists in providing invesment funds.

Economic integration would mean absence of various forms of discriminations and barriers between economic units of different nation states. Total integration may not be possible in the near future as it presupposes common monetary, fiscal and socio-economic policies and standards for the member-states which must also transfer some of their traditional sovereignty to a supra-national authority of their own creation to achieve such complete economic integration.

Regional economic groupings of the European developed countries provided special privileges and facilities to the members and helped their economies to ensure a fuller and more rational utilization of their economic resources and thus initiated the process of fuller technical maturity. Regional economic groupings have been defined as "economic groupings, including multi-national arrangements which aim to comply with the GATT definition of free trade areas or customs union. Naturally, the term also includes groupings which promote economic ingration not only through the dismantling of tariffs but also through other measures designed to reduce or eliminate the influence of national borders on economic relations betwen their members. For example, the E.E.C. envisages the free movement of labour and capital within the Community as well as adoption of a common policy in various other fields." (UN Trade and Development, Vol. I).

Economic Groupings in Asia

The movement towards regional economic cooperation and integration started in Asia only after World War II and with the decolonization process. In Asia, concepts of mutual economic cooperation and integration developed since the formation of the Colombo Plan and the United Nations Commission of Asia and Far East (ECAFE). The ECAFE was set up for the economic reconstruction and developments of Asia and the Far East, "for raising the level of economic activity in this region and for maintaning and strengthening the economic relations of these countries both among themselves and with other countries of the world."

Some countries of Asia tried and are still trying to establish some kind of economic cooperation and integration in this region. Pakistan, Iran and Turkey formed the Regional Cooperation for Development (RCD). The RCD has already taken up some projects for the production of aluminium, ship-building and some heavy industry projects through equity-sharing schemes and the products of the RCD joint projects would be sold to the member-countries at competitive international prices so as to enable the projects to attain high standards of international efficiency. The RCD case is an unique example of economic harmonization and integration process in this region. There are also other examples in this direction, for example, the Pakistan-Indonesian Cultural and Economic Cooperation Agreement, Association of South-East Asia (ASA) and subsequent ASEAN formed by Philippines, Indonesia, Malaysia, Singapore, Thailand in August, 1967, Asian and Pacific Council (ASPAC) of nine Asian and Pacific countries, Mekong Valley Project which has involved Laos, Cambodia, Thailand, Vietnam and the Asian Institute for Economic Development and Planning and the Regional Industries Promotion and Planning Centre etc. The main objective of ASEAN is to develop industries, agriculture, transport, communication, education on South-East Asian Studies and trade of the member-countries through mutual co-operation and assistance. Various Expert Committees have also been set up to undertake surveys and feasibility studies on some projects with a view to put into effect the objectives of the ASEAN. Strained relation between Philippines and Malaysia on North Borneo issue has, however, slowed down the pace of working of ASEAN. Moreover, doubts among some governments on the usefulness of regional integration projects have dampened regionalist movements in South-East Asia. Recently one newspaper reported the following findings on an unpublished official survey in Philippines:

> "Under a programme of regional harmonization of industrial production the resultant specialization among the individual Asian countries could not be expected to benefit the Philippines. . . . . Indonesia being the largest supplier of crude oil, would become the site of all oil processing industries to the exclusion of all the other four countries, including the Philippines. In the case of rubber, Malaysia being the major source of rubber in the region, would become the site of similar industries." (Manila Bulletin).

The Mekong River Project is by far the most significant as not only Asian countries but also some European countries are working together in taming the Mekong River which belongs to no single Asian country but flows through many of them. The Mekong Co-ordination Committee, which sponsored this project, was assured of a total aid pledge of $110 million, out of which nearly 40% was committed by Cambodia, Laos, Thailand and Vietnam. Some 21 countries, various U.N. agencies and private organizations are actively working for the completion of the project. The Asian Chamber of Commerce in its annual meeting at Seoul also decided to create a $200 million fund to help private sector industrial projects by extending credits on easier terms. The Pacific Basin Economic Cooperation Committee, comprised of bankers and industrialists from Japan, Australia, New Zealand and America, after a recent meeting held at Hawaii, formed in November, 1968 a Private Investment Corporation for Asia to provide medium and long-term investment funds for private sector development projects in Asian Pacific area. The Committee is also likely to help project study and preparation, train skilled workers and business executives of the developing areas in newer techniques of production and management by giving them short-term employment in companies of the sponsoring countries. Japanese businessmen first mooted the idea of setting up such a private investment company in 1965 with the hope that it would foster the establishment of a free trade area in the Pacific region.

Latin American Experience

Various countries in Europe and Latin America and Africa formed regional economic organizations to safeguard the interests of member States. The Latin American countries also entered into such economic cooperation agreements and formed the Inter-American Development Bank (IDB) under the programme of "Alliance for Progress," a 10-year project intended for the socio-economic development of the western hemisphere. The Latin American countries and U.S.A. started the IDB which was personally initiated by the late President Kennedy. At the beginning, the capital of the IDB was $1000 million but this was substantially increased afterwards. The Central American Clearing House was established in 1961 on a voluntary basis for achieving a closer cooperation of the central banking institutions of member-countries.

The General Treaty on Central American Economic Integration which was signed in 1960 established the Central American Bank for Economic Integration (CABEI) to finance the integration projects of the five member-countries who compose the Common Market of Central America. It also serves as an instrument to pipe in external aids to the Common Market member-countries which are under-developed. The CABEI lays much stress on the regional economic integration and balanced economic development of the region. This is the reason why it invested its resources substantially to the development of the poorest member States.

The Latin American countries except the countries in Carribean areas also established the Latin American Free Trade Association (LAFTA). The countries in the Carribean area will very soon establish a Regional development bank and they recently adopted a free trade area agreement. The role played by the Inter-American Development Bank in the field of promoting integration in Latin America is very important. The Inter-American Development Bank provided integration loans in multi-national projects, particularly in the infra-structural and heavy industrial sectors. The infra-structural projects included intra-regional roads development, feasibility study on joint telecommunication system, development of River Plate basin, hydro-electricity, irrigation and water supply and also joint air-cargo services.

The Bank gets all cooperation from the Organization of American States, Economic Commission for Latin America and the U.N. Development Programme (UNDP). The Bank also concentrated its attention in the development of agriculture in Latin America and is presently making studies on the total requirement of fertilizers, farm equipments, insecticides etc. by the member-countries of the region so that the Bank might embark on an integration loan scheme for the setting up of regional fertilizer plants, agricultural machinery factories and insecticide manufacturing projects based on economies of scale. Since 1964, IDB started providing export finance for the export promotion of the region. The Bank with a view to initiate sustained studies on the problems and possibilities of integration of Latin American countries founded the Institute for Latin American Integration in Buenos Aires in 1965. In 1966, the Bank created a Pre-investment Fund for Latin American Integration. The Institute for Latin American Integration was set up (1) to train management personnel in the public and private sectors involved in integration planning and implementation, (2) to advise the member-countries and the Inter-American Development Bank, (3) to hold seminars and conferences on integration ideas as well as to supply necessary information through publications and (4) to promote and conduct research on various aspects of Latin American integration. The Institute has provided a platform for theoretical and practical studies and for disseminating information among the Government officials, teachers, industrialists and others concerned in the integration process. The Pre-Investment Fund for Latin American Integration is operated by the Bank for making feasibility studies and preparation of detailed project reports of multi-national infra-structural projects for which funds are available either on reimbursible or non-reimbursible basis according to the nature of the project and also for providing technical assistance. The projects are selected on a priority basis and on regional interest consideration.

It seems Latin America, unlike Asia and Africa, is somewhat more advanced in the field of regional economic cooperation and integration but the Latin American example cannot be considered as a model for Asian economic cooperation and integration.

African Awakening

Ideas of regional economic cooperation also got roots in Africa where the African Development Bank and the African Common Market were set up to promote mutual economic cooperation. The African Development Bank was set up with a capital of $250 million in September 1964 by the 30 member States of the Organization for African Unity. The African Development Bank and the African Common Market undertook several programmes of mutual cooperation and self-help in the economic develpoment of the region. Three East African countries, for example, Uganda, Tanzaniya and Kenya, also started the East African Common Market from 1st December 1967 and the East African Development Bank with a capital of £6 million, subscribed equally by the respective governments in four installments. The total authorized capital is £12 million. As among these countries Kenya is comparatively industrialized, it was decided to invest nearly 77 per cent of the total fund of the East African Development Bank in Uganda and Tanzaniya to raise their level of development. The main objectives of the East African Development Bank are (1) to provide technical and financial assistance to member States with top priority for industrial development and (2) to finance the projects designed to make the economies of the partner States complementary to each other in the industrial field. These three countries will jointly supervise and guide the Common Market Council. These States even before the setting up of the East African Common Market had been working jointly in several fields such as East African Common Services Organization — customs and excise, income-tax, post and telecommunication, railroads and harbours.

It was hoped that the setting up of the Common Market will eventually harmonize their individual tax structures by abolishing some undesirable tariffs and import restrictions on goods produced in these countries. The East African Monetary Union and the Equatorial African Monetary Union are also functioning in Africa where foreign reserves of member-countries are promoted and protected and their financial, trade and industrial policies are co-ordinated for mutual benefit.

Four African 'mini-States' — Guinea, Mauritania, Mali and Senegal — with a combined population of only 14 million and with a landmass larger than that of the European Common Market, formed an inter-State Committee in 1964, subsequently named as Organisation des Etats Riverian du Senegal (OERS), to jointly exploit the basin of the 400-mile Senegal river. The river which originating from Guinea flows through the west of Mali and forms common border between Mauritania and Senegal, has a vast potentiality of producing electricity sufficient to meet the demands of all the four States and this could help exploit the vast iron-ore deposits in Mali. The UNDP allocated $5 million in 1965 for feasibility studies.

The Arab Payments Union was proposed in the Middle East with a view to (1) facilitate regional payments for trade promotion, (2) strengthen national currencies and (3) increase the foreign exchange reserves and to reduce the imbalances in external payments position.

Beginners in Europe

The post-war Europe was facing difficulties in the convertibility of European currencies due to active bilateral trade agreemeents among themselves. To remedy this they entered into regional economic cooperation agreements. The European Payments Union was set up to facilitate the implementation of trade liberalization provisions of the OEEC. The EPU increased the intra-regional trade among the European Economic Community by three-fold from 1959 to 1966 whereas the trade to and from non-OEEC countries also increased during the period.

The European Investment Bank, which was established in 1958 by the same Treaty of Rome which created the European Common Market (ECM), is not primarily concerned with the development of each individual member-State but is required to contribute to the balanced and smooth development of the Common Market in the interest of the Community. The EIB gives credit and other assistance, sometimes at concessional terms to members and associate members of the EEC (like the former colonies of France in Africa), the development of which is essential to accelerate the process of regional economic integration and orderly expansion of the ECM trade. The EIB has given more attention to the under-developed pockets of the EEC member-countries. For example, Southern Italy alone received 60% of the total EIB credit resources. It can even finance projects in non-member countries.

This is in brief to show how regional banking and trade organizations in other parts of the world are working to promote regional harmonization and integration.

In Asia, the Asian Development Bank was established to promote regional cooperation and integration. The Central American Bank for Economic Integration as well as the European Investment Bank were established more or less simultaneously with the start of the Common Market organizations in those regions. But in the case of Asia, the Asian Development Bank is expected to initiate the process of Asian Common Market. The ADB like the Central American Bank for Economic Integration (CABEI) is also expected to channel in external aid from the advanced countries to the Asian countries. However, the ADB cannot, under its charter, finance projects in non-member countries and unlike the EIB and CABEI, the ADB will not work, at least in the initial period, for the promotion of balanced regional growth through development of the poorest member-countries. The ADB is also at the moment working on the possibility of establishment of an Asian Payments Union in South-Eeast Asia.

Case for Asian Payments Union

While inaugurating the first annual meeting of the ADB at Manila, the President of the Philippines, Ferdinand E. Marcos, suggested the establishment of an Asian Payments Union. At present, foreign trade payments within and outside the region are made individually by the countries concerned. As a result, all countries are required to meet some expenses by way of transfer cost attached to international payments. It is likely that the magnitude of such expenses will be very small if there is a clearing union for offsetting debits and credits and for the settlement in foreign currency merely on the basis of net deficit or surplus of the countries at the end of each specified accounting period. This would reduce the foreign transaction cost and conserve the foreign exchange of the member-countries. It will also help the member-countries to reduce the opportunity cost of imports. The establishment of such a Payments Union will not necessarily mean reduction in tariffs, though tariff reduction will help more movement of goods from one country to another and will expand intra-regional trade and increase the competitive efficiency of the industries. This would also remove some of the discriminatory trade practices in intra-regional trade and help in rational allocation of resources of the region. Though such a payments union might reduce the customs revenue of individual governments due to relaxation of trade barriers and infant domestic industries of some countries might face difficulties due to competition of products from other developed countries, yet such a payments union would no doubt conserve the scarce foreign exchange resources of the developing countries. In a payments union there are also built-in credit facilities for member-countries.

After the establishment of the payments union in Latin America and in Europe, the intra-regional groups of countries increased by several folds. Intra-regional trade in the ECAFE region is only 35 per cent of the total trade of the region. So, it is expected that the establishment of an Asian Payments Union would result in substantial increase in intra-regional trade. On payments union, Takashi Watanabe, President of the ADB, said, "It is an interesting proposal and the Bank would make official consultations with all the member-countries about its establishment" and "would also make representations with the IMF on its mechanics since they are more knowledgeable than we are at the Bank." The IMF is presently engaged in conducting a study for organizing a payments union for the countries of this region. The idea of setting up an Asian Payments Union was not warmly received by the representatives of the developed countries like U.S.A., West Germany and Canada. The U.S. delegate expressed preference for a customs union or a free trade zone arrangement rather than a payments union.

Birth of Asian Development Bank

The Asian Development Bank started functioning from December 19, 1966 with an authorized capital of $1.1 billion, of which $965 million was actually subscribed by 19 regional members and 12 non-regional members. The Bank started operation with an unencumbered organizational structure — operational department, economic and technical assistance department, administrative department and accounts department. The Bank has at present about 80 professional experts in different fields drawn from various countries of the world apart from other non-professional employees in its pay-roll. The ADB gets close cooperation from various international organizations like the World Bank, IMF etc. Of the regional members, Cambodia resigned from the Bank in September, 1967 but no action has yet been taken in this regard. Switzerland joined the ADB as a non-regional member from January, 1968 on payment of the first installment of its paid-in capital of 5 million dollars. Membership of the Bank is open to the members and associate members of the ECAFE and other non-regional countries who are members of the U.N. For membership of the Bank an affirmative vote of two-thirds of the total members is necessary.

The ECAFE Expert Group on Regional Economic Cooperation had proposed the setting up of a regional financing institution. The Asian Economic Ministers' conference on Asian economic cooperation in December, 1963 accepted the ECAFE Expert Group report and decided to establish the Asian Development Bank. The ECAFE Expert Group had also recommended various regional cooperation schemes on trade liberalization, stabilization of export prices of primary commodities, air transport co-ordination, rationalization of freight rates and establishment of industrial projects. The Consultative Committee composed of 9 Asian countries which met in 1965, also approved the setting up of Asian Development Bank.

The available paid-in fund reserves of the ADB is now $300 million, of which $240 million is in convertible currency. In the first year, the ADB collected $70 million as the first installment (paid-in capital is to be remitted in 5 equal annual installments and 50 per cent of each annual installment must be paid in convertible currency by the member-countries). The total available funds (out of paid-in subscriptions) are not enough to meet the financial requirements of the projects already in the pipe-line as well as those for which applications were submitted by regional member-countries. The Bank did not disburse any loan fund in 1967. So, the capital of the Bank was invested in money markets of the member-countries (in short term government securities and in time deposits) and was earning about 6 per cent interest per annum. From November 1966 to December 1967, the Bank invested a total of $103 million in various member-countries — $55 million or 53.4 per cent of the total, in government treasury bills and the rest, i.e. $48 million or 46.6 per cent, in time deposit with commercial banks. The ADB from this operation earned a net income of $2,098,471. However, it was temporary arrangement as it is prohibited by the Articles of Agreement to use its capital in such fashion. The Bank, according to its Articles of Agreement, cannot use its investable funds solely for the purpose of "seeking more attractive interest rate structures". The ADB, till now, has set up accounts relationship with 45 banks throughout the world.

The ADB after considerable discussions adopted the 'Guidelines for Procurement under ADB loans". The Bank requires its borrowers to obtain goods and services on an international competitive basis, except in special cases where the Bank can waive international competition. And the Bank will be concerned with the management of a project financed by it, not only at the construction stage but also in the working stage in order to be sure that the project is working efficiently and economically. The ADB has been described sometimes as Asia's family doctor — this expression though not very appropriate, yet has something to do to remedy a project with ADB fund.

Controversy on Special Fund

Development of agriculture with the controversial debt financiang is very difficult for the Asian countries. The development of agriculture would require soft-loan financing. So the Board of Directors of the Bank accepted the idea of setting up a $400 million Special Fund to be administered by the Bank. The operation of the Special Fund will be different from that of the ordinary fund of the Bank. The charter of the Bank limited the Special Fund resources to only 10 per cent of the Bank's paid-in capital, which could be used for extending loans of longer maturities, longer deferred commencement of repayment and lower interest rates. The Special Fund will, however, be used only for agricultural development, technical assistance to agriculture or training facilities for agriculturists. This is undoubtedly a good step though the total amount set apart for this purpose is very insignificant in comparison with the total need. Japan expressed its willingness to make a sizable contribution to the Asian agricultural development which was first suggested in a joint communique of the Conference on Agricultural Development in South-East Asia held in Tokyo in 1966. The ADB will, however, adopt some amount of care and efficiency criteria in testing the soundness of projects seeking special fund. The policies regarding the operation of the Special Fund will depend on the authorization of the Board of Governors.

At the first annual meeting of the ADB, the representative of the Government of Taiwan said that the use of the ADB Special Fund should not be specified too strictly by the donor country but should be applied for general use by all the regional members. It was urged that the ADB should adopt a policy by which the requirements of the borrower-country is not reconciled with the conditions set down by the donor-country with regards to the use of the Special Fund. It seems now that the operation of the Special Agricultural Fund will depend on the conditions imposed by the donor countries of such special funds. The prospective donor countries wanted to put down conditions mainly on the grounds of their own balance of payments difficulties. The total pledge to the Special Fund now amounts to $328.5 million.

In the first meeting, the ADB Board of Governors unanimously decided to leave the matter of finalization of the mechanism of Special Fund operation as well as the question of realization of the funds pledged by U.S.A., Japan, Canada, Denmark and Netherlands, in the hands of the Board of Directors.

Canada announced on April 3, 1968 that she will contribute $25 million to the Special Fund in the form of interest-free advances over the next five years in five equal installments. However, actual release of the fund will have to be passed by the Canadian Parliament and an agreement will have to be negotiated with the ADB on its use. (Incidentally, Canada also made a grant of $100,000 to aid the financing of some urgent technical assistance projects of the ADB). Denmark pledged $2 million and Netherlands promised $1.2 million for the Special Fund. Japanese Diet approved 7.2 billion yen ($20 million) in March 1968 as initial Japanese contribution to the Special Fund. Japan originally pledged $100 million to the Special Fund if the use of the fund was earmarked for agricultural development and "if countries other than the U.S.A and Japan would make contributions on a matching basis with Japan."

The United States pledged $200 million to the Special Fund. But the representative of the U.S. Government said at the first annual meeting of the ADB that under the present difficult conditions of the U.S. balance of payments situation with an all-time high deficit of $3.5 billion the United States cannot help but tie up Special Fund contribution with the procurement of U.S. goods and services. The U.S. delegation chief at the A.D.B. meeting Joseph W. Barr, U.S. Secretary of the Treasury, said that at present the U.S. could not afford to give outright dollar contribution to the Special Fund. "While it would not be a disaster (to the borrower nation) if we give tractors instead of dollars, it will definitely be more advantageous if the borrower gets dollars instead." The U.S. Director of the ADB, Bernard Zagorin, however, informed that the ADB, in the interest of the borrower-country, will always insist on competitive bidding for the goods and services.

The Canadian delegation chief said that "the Canadian contribution of $25 million to the Special Fund is tied up with the Canadian goods for the first round of utilization of $25 million, after which the Canadian contribution will be a revolving fund." He said that Canada would release this fund despite her own budgetary strain and also without any interest rate. Both Germany and Netherlands, however, advocated untied assistance to the Special Fund. The regional members suggested that special funds be made available to the ADB without any condition.

It is hard to say when the ADB Special Fund will start operating. Recently, the U.S. Assistant Treasury Secretary, John Petty, while testifying before the U.S. House Appropriation Committee's Sub-Committee on Foreign Operations, said that the ADB will not make unnecessary the bilateral U.S. foreign aid to South East Asia and in fact, the need for continued U.S. direct assistance will be more and more important. The U.S. administration-backed bill to provide $200 million to the ADB Special Fund was criticized severely by the Democratic Party representative, Otto E. Passman of Louisiana in the U.S. Congress on July 24, 1968. Passman said that the Bank which had been opened in December, 1966, spent on an average $2,875 for travel expenses for each of its 200 employees during one year.

Opening of a New Era

The ADB was exposed to various criticisms on its shortcomings since its establishment. Japan in the beginning had not been very enthusiastic in setting up any regional development bank in Asia. However, Japan suggested that a regional development bank should help those countries which had not been getting fund from the World Bank and the International Development Association. Such a suggestion has enough justification. The 22-year old 110-member World Bank (set up in 1946) which even preceded the launching of the Marshall Plan (set up in 1948 and disbursed nearly $12 billion, 90% of which was outright grants to war-ravaged European countries) has provided till now nearly $11 billion, mostly to developing countries. But the World Bank, whose lending rate was raised from 6 per cent to 6-1/4 per cent in January, 1968 on grounds of rise in interest rate in world money market, was not so attractive to the less developing countries because of its less liberal interest and repayment structure. However, one of its sister organizations, i.e. the International Development Association (set up in 1960) is more suitable to such trailing-behind economies because of its low service charges and easier conditions of repayment. But the IDA also failed to help the less developing and smaller countries of Asia. The IDA provided only 109 loans worth $1.69 billion since its inception India was the highest recipient of IDA credits of $889 million and then Pakistan with $459 million till the end of 1966-67. However, the countries like Philippines, Malaysia, Thailand and others did not receive any credit. The World Bank approved for the first time a loan to Indonesia in 1968. Presently, the World Bank's soft-loan affiliate is facing difficulties because its fund has been depleted seriously and the member-countries' response for replenishing the same is not very encouraging. The IDA had only $40 million at its disposal on June 30, 1968. So, unless the IDA fund is replenished soon, it cannot be expected to make any new lending commitments.

U.S.A. welcomed the formation of the ADB and decided along with some other western countries to contribute funds to the ADB. America subscribed $200 million to the ADB. The western countries and America had decided to contribute funds to the ADB mainly on the grounds that solution of the economic problems in Asia would guarantee new initiative, democracy and freedom. The U.S. President in his message, while transmitting agreement establishing theADB, observed, "Political infrastructure must be built out of positive acts of economic cooperation such as the Bank would provide in its daily operations.".

The contracting parties of the ADB while agreeing to the establishment of the Bank "recognized the importance of closer economic cooperation as a means for achieving the most effective utilization of resources and for accelerating the economic development of the region. The preamble to the ADB charter also recognized "the desirability of promoting harmonized growth of the economies of the region and the expansion of external trade of member-countries." The Prime Minister of Japan, while inaugurating the ADB on 24th November 1966, said, "This is an event which marks the opening of a new era in the history of Asia." It was sincerely believed by the founding members that regional cooperation could solve many of the outstanding issues and national interest could best be served through collective endeavours and interchange of ideas. The economic enlightenment of Asia will to a great extent depend on the people's desire to move unitedly and to reduce the ever-widening gap between population bulge and the growth of g.n.p. in each of the countries.

The economic hurdles and problems may not be the same in all countries which are now at different stages of economic elevation. So, one set of policy or solution cannot be the answer in all cases. But regional economic cooperation is essential for accelerating economic growth of the region. Article I of the ADB charter, while defining the purpose of the Bank, said, "it would contribute to the acceleration of the purpose of economic development of the developing member-countries in the region, collectively and individually." Article 2(ii) of the charter strengthened the integration-oriented approach of the Bank as it categorically mentioned of "giving priority to those regional and sub-regional as well as national projects 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." Article 2 sub-section (iii) mentioned about assisting and coordinating developmental policies and plans of member-countries for "making their economies more complimentary and promoting orderly expansion of their foreign trade, in particular intra-regional trade."

The ADB charter also provides that in future expansion of representation in the Board of Directors, special regard has to be given to augment the representation of smaller countries. These provisions in the charter are not wishful thinking. It would be an obligation on the Bank Administration to give effect to such provisions.

But the present policies adopted by the Bank have somewhat dampened the ideas contained in Article 2, sub-section (ii). The Bank has decided to concentrate only on those projects which are likely to yield maximum returns.

Plight of the Less Developed

The Bank believes that it should not, at this stage, provide assistance to the smaller or less developed countries of the region, because it would be "unwise to follow too literally the requirements imposed by the charter." Supply of credits to smaller and less developed member-countries, it is argued, might create an unfavourable impression in the international capital market as these countries are considered as "bad risks". The Bank, like the World Bank, has decided to concentrate initially on conventional credit financing requirements to make the Bank's foundation strong. With regard to ordinary capital resources, the Bank will adopt "wise and frugal methods of investing such funds". Even Takeshi Watanabe after his election as President of the ADB, in his first speech, remarked that "it behooves us in our infancy to step cautiously exerting every effort for establishing a high credit standing and providing the worthiness of this Institution." It has also been argued by some that ADB is not an Integration Bank even though its charter contains regionalist objectives.

The Bank will soon enter the world capital market for raising funds through sale of Bonds. Two leading U.S. Investment Banks — Kuhn, Loeb & Co. and the First Boston Corporation — have been appointed as joint managing underwriters for ADB Dollar Bonds to be issued in the U.S. money market making New York the first place. The Governor of New York signed a Bill on 3rd April, 1968 permitting investment of its own State Funds, Trust Funds, Savings Bank Funds and those of domestic insurance companies in obligations of the ADB. Five other American States have also recently passed legislations qualifying the ADB Bonds as legal investments. The ADB had previously represented to these governments for the enactment of such a law. The Bank has also decided to sell bonds in West Germany. It is expected that through sale of Bonds the Bank can bring in much foreign capital into the ECAFE region. The ADB would also consider the prospect of sales of short-term maturities to commercial banks from the ADB portfolio for enlarging its own fund, and many private banks in the developed nations have assured their cooperation to the ADB in this regard. The Bank officials stated that the Bank would mobilize adequate resources for helping member-countries in conducting pre-investment studies and project preparation and cooperate with the international agencies in initiating projects in the member-countries. It is also expected to provide necessary assurance to the foreign private investors. The participation of the Bank in joint-ventures with the private foreign investors would remove some of the mistrusts of the recipient countries on the role of foreign private capital. But for all these it was argued, the Bank must stress on maximization of returns and strict criteria of investment so as to gain confidence of foreign investors as well as other international organizations.

But this too much reliance on maximization of returns criteria and the conventional mercantile yardstick of appraising the less developed countries "as bad risks" cannot be accepted always. Because initial investments in poverty-soaked economies would take a long time before the impact of such investments could be realized and maximum returns obtained. All developed and developing countries faced the same experience in the initial stages of growth and they are no longer considered as "bad risks". These countries, unlike the less developed countries, now can secure funds on favourable terms from public and private organizations and consortium countries.

On the role of the Bank, the Executive Secretary of the ECAFE, U. Nyun, said at the inaugural ceremony of the Bank, "Furthermore, the Bank is expecting to make an important contribution through its lending operation to the harmonization of the national development plans of its less developed members in the region who are very much capital-hungry and problem-ridden and thus, it could eventually lead to increasing regional economic integration." It was hoped that the ADB could lift the more handicapped nations of the region whose contribution to the ADB capital meant substantial sacrifice of their already scarce resources. The Asian countries which are still in the midst of economic instability and semi-stagnation demonstrated their eagerness to generate economic development in the whole region, irrespective of size and status, religion, race and culture by making a predominant contribution to the authorized capital of the Bank (about 65 per cent).

So, any deviation from its declared objectives will only breed the ideas of disintegration, dismay and distrust. It is, however, appreciated that the ADB cannot meet the gigantic credit needs of all member-countries with its present meagre resources. It is, of course, true that the ADB funds should not be used in projects having no desirable economic results. But the main thing should be how to make the projects of the less developed countries economically useful and viable.

The less developed countries lack adequate administrative and technical know-how to make feasibility studies or to draw project reports which they must submit before expecting fund from international financial institutions and even from the ADB. So, the ADB should help these countries by extending all-out cooperation in the preparation of bankable projects.

Even the Central Banks in practically all Asian countries remodelled their banking policies, interest structures and repayment schedules to meet the development requirements of the agricultural and other depressed sectors of the economy. So, the ADB should give credit priority for some infra-structural projects in the backward and less developed areas and should not concentrate in providing development funds to the better-off countries, simply because these can guarantee maximum safety of returns, irrespective of regional harmonization contents of such investments.

Lessons of the Development Decade

In this Development Decade which was designated by the United Nations, nothing tangible was achieved by way of regional integration and international cooperation in the Asian developing countries, except the establishment of the ADB. Very soon the Development Decade will come to an end, yet the annual growth rate of income of a large number of the ECAFE countries were not able to reach the minimum target of 5 per cent set by the United Nations. The U.N. General Assembly resolution proposing the channelling of at least 1 per cent of the g.n.p. of the developed countries to the developing countries was not given any consideration by the privileged nations except by one or two. Even the percentage of aid flow from the developed countries to the developing ones declined. The recent U.N. studies revealed that while the total outflow of long-term capital from the developed to the developing countries remained more or less the same ($8 billion in 1965, as it was in 1961), the percentage contribution of the long-term foreign capital to the combined gross national production actually declines (from 0.83 per cent in 1961 to 0.63 per cent in 1965). According to the World Bank studies, the g.n.p. of all the high-income countries together totalled around $1500 billion and it would be more than $6000 billion by the end of this century. At the annual meeting of the Board of Governors of the World Bank held at Washington on September 30, 1968, Robert McNamara, President of the World Bank, said that since 1960, the rich nations had added to their real income about $400 billion which was far greater than the total annual income of the poor nations of Asia, Africa and Latin America.

In this Development Decade, the average gross domestic product per capita of the developed countries increased (at constant prices) by $200 (from $1407 to $1607) between 1960 and 1965. In the case of developing countries, however, the increase during the same period was only $14 (from $131 to $145) and the increase in the case of less developed countries on an average was only $6. So, while the developed countries were getting more and more rich, the developing countries were having a very slow progress and the percentage of foreign capital flow to these countries from the affluent nations relatively declined. The former World Bank President, George Wood, said that about 7/8th of the foreign aid and credits donated by the developed countries find their way back to the donor countries from the recipient developing countries under the headings of profit and royalty repatriation of foreign capital, debt servicing and repayment as well as domestic capital flight. (Finance for Developing Countries — A Time for Decision: Gabriel Memorial Lecture at the Colombo University). Such a "reverse flow" of scarce resources of developing countries is quite high in comparison with the gross inflow of such resources to them.

The terms of international trade also continued to remain unfavourable for the developing countries and in the case of less developed countries the situation was far from satisfactory. For example, while the export prices of manufactured and capital goods of the developed countries increased substantially each year, the export prices of primary goods of the developing countries declined. (The export price of Philippine hemp declined from $22.30 per 100 lbs. in 1951 to only 10.75 in 1966, the export price of Indian burlap declined from 27.22 per 100 yards in 1951 to only $14.55 in 1966 and so on). As a result, the relative share of the developing naions has been continuously declining. Though the exports of the developing countries increased from $27 billion in 1959 to $42 billion in 1966, yet their share in the world exports declined from 27 per cent to 23 per cent during the period. During the first half of the Development Decade (1960-65), the share of the less developing primary producing countries declined from 21.8 per cent to 20.7 per cent.

The UNCTAD II of 121 nations, which ended its New Delhi meeting on March 29, 1968, revealed that the developed countries due to their rigid attitude were reluctant to increase their trade and aid to the developing countries. The UNCTAD II tried to establish a system of general and non-discriminatory preferences for stimulating the economic growth of the less developed countries. The developing countries also were not prepared to introduce changes and reforms in their economic structures and policies as desired by the developed countries. The Kennedy Round Trade Agreement which provided some cuts, though not very deep and wide, in tariff rates in favour of the less developed countries' primary and essential products, has not yet been implemented fully by all developed countries.

Hopes of the Soft States

Gunar Myrdal in his book, "Asian Drama: An Enquiry into the Poverty of Nations", said, ". . . the old competitive international private capital market, particularly for long-term capital at fixed interest rates, has almost disappeared . . . the unstable international political situation has discouraged private loans to foreign countries and the political and economic uncertainties in newly independent countries such as those of South-East Asia have weakened confidence that obligations to foreign capitalists will always be honoured." Even the interest rates of international lending institutions as well as of other highly industrialized countries were enhanced and the payment conditions became more rigid to the detriment of the backward economies. The ADB Board of Governors at the first Annual Meeting unanimously fixed the Bank's lending rate at 6-7/8 per cent on the loans actually reimbursed and not on the total loan committed. However, there is a small commitment charge on the total loans committed but not yet reimbursed. Though this interest rate is quite high for the less developed countries of the region yet these countries would seek ADB funds as it is difficult for them to get any funds from other international agencies.

With the establishment of the ADB, the less developed countries of the region expressed much hope with regard to the possibility of getting some capital because the prospect of loan finance for these countries had been really gloomy. So, any disillutionment of these countries will, at this stage, lead to the dying down of the ideas of mutual cooperation and economic integration in Asia. Viewed in this wide context, the participating countries jointly and individually agreed and inserted Article 2, sub-section (ii) in the ADB charter.

Most of these developing countries have problems of national defence, maintenance of law and order, and development of basic infrastructure. They have also problems of creation and preservation of stable currency, provisions of welfare needs, education, and a system of communication. The active resources of these countries are very much limited and technical attainment is also low. It is not always true that these countries do not seriously try to generate domestic economic surplus or to raise their export earnings. Governments of these countries have been continuously enforcing thrift on their economies and gearing the tax machinery for forced savings as well as systematically curtailing undesirable domestic consumption. (In the case of India, domestic saving was raised from 5 per cent of the national income in 1950-51 to

11 per cent in 1965-66 but the rate of investment increased from 5 per cent to 14 per cent of the national income during the same period). But this does not mean that they are pessimistic about economic development.

So, unless some external credits are made available to these less developed countries which have tremendous amount of untapped markets for the products of developed and more developing countries, they would not be able to lift their economies and also to help promote further development of the developing countries.

Development credits to these countries would not only guarantee political and economic stability in Asia but would also open up the possibility of more international trade, cooperation and integration. The political insecurity in this region arises mainly from existing economic insecurities within the countries. Active internal insurgencies in almost all the Asian countries are mainly due to economic ills and rampant poverty. Military alliances and bases might check communist agression from outside but not internal Mao-oriented insurgencies which are now plaguing Burma, Thailand, Malayasia, Indonesia, Philippines and even India. Political security in this region could better be achieved through the development of individual economies, as otherwise political insecurity would lead to chaos and confusion in some of these countries and result in the loss of such markets to other developed countries. So, it is in the interest of the developed areas that the backward regions should be developed.

These less developing countries cannot generate developmental activities without the inflow of foreign savings as they were for a long period under colonial rule when most of their developmental nutrients were taken away by the colonial masters. So, any probable and prospective economic planning in this region would require the development of social infra-structure. Adequate foreign aids, either official or private, were not forthcoming to these less developed countries. Moreover, the high interest rates as well as unfavourable conditions of repayment stood in the way of these developing countries to avail of such international loan facilities. It was hoped by these countries that the ADB would come to the help of these countries by providing long-term credit under liberal terms and conditions.

All are aware of the role and usefulness of foreign aid in the capital-hungry developing countries. Marshall wrote, "If a community cannot itself create capital it must either borrow or receive it as a gift." (A. Marshall — Principles of Economics — London 1928). External assistance by way of grants has now become almost a thing of the past. Foreign aids are predominantly in the nature of loans or equity participation, in which case the basic considerations of the aid-givers are either political or economic gains in return.

Truly speaking, there is nothing spectacular in foreign aid which is mostly tie-ups, either project-tied or resource-tied, so as to increase the share of international trade in favour of the donor countries. As the recipients of such tied foreign aids do not enjoy any freedom of shopping in the most advantageous markets other than the donor countries' markets, the fixed costs as well as recurring costs of the projects increase. On this aspect, one ECAFE survey revealed that "The weighted average price for a sample of 20 development projects in Pakistan was found to be 51 per cent higher in the lowest quotations from the tied source than in the lowest quotations obtainable through international bidding . . . This same phenomenon occurs where shipments must be made by donor's flag ship." (ECAFE — Economic Survey of Asia and the Far East, 1966). So, such aid in the ultimate analysis becomes a normal commercial transaction and involves no transfer of foreign exchange. Restrictions on the use of foreign aid were imposed in various ways to the detriment of the economic and technical advantages of the recipient countries. Moreover, in many cases external assistance, due to political motivations of both donor and recipient countries, were not used strictly for the purpose of a viable process of socio-economic development.

Over and above this, the staggering repayment burden of the foreign loans, interests payment and dividend on foreign capital have nearly strangulated the economies of the developing countries. The terms of lending by the international financial organizations have changed and there is at present very little difference between them and those imposed by the foreign private capital with regard to maturity period and interest rates. So, a growing number of resource-hungry countries which depend very much on foreign savings and which also very often face serious economic strains and imbalances due to frequent uncertainty and pauses in the flow of foreign funds, because of political considerations, now favour softer terms of international lending. It is no doubt true that late-comers in economic development must take more care and efficiency in resource-utilization but the main problem confronted by them is resource-creation. Their own domestic resources are either scanty or require continuous and expensive excavation operations which left to themselves, these labour-abundant countries can hardly afford to dig up sufficient indigenous resources.

The developing countries, because of the lack of adequate inflow of official foreign aid are now eager to attract more and more private foreign capital by extending various liberalized terms and conditions. Even then, private foreign capital flow from the developed nations to the developing countries has declined. As official assistance in recent years has been more or less in the form of loan rather than grant, private foreign capital also came by way of equity participation rather than portfolio investment. It must be made very clear that private foreign capital crosses its domestic boundary mainly because of economic necessity and compulsion. While multi-lateral and bilateral official credits carry with it the obligation of interest payment and amortization, private foreign capital seeks guarantee of not only safety or security of its investment but also a rate of return which must be much higher than the investment of the same in its own country. Though foreign private capital is expected to bring with it latest technical know-how, capital goods and managerial skill, yet in most cases due to policy reason, domestic workers are not trained to know the operational technicalities by foreign technicians and investors who demand high technical service charges and royalty payment apart from high profits and high dividends which are remitted back to home countries in foreign exchange.

Moreover, most of the foreign private capital are invested in anti-export biased, import-biased and low-priority projects which can hardly earn any foreign exchange. Imports of turn-key projects and setting up of projects not suited to local situation as conditions for utilization of foreign private capital, also necessitated recurring imports of raw materials, components and spare parts by hard currency. This works against the ideas of self-reliance and import substitution. As private foreign capital requires assurance of maximum concession and returns, developing countries, due to their balance of payment contraints and other nationalistic considerations cannot attract it to any appreciable extent. Despite that, private foreign capital investment is welcomed by the developing countries because, unlike the case of foreign official loans, its effect on the balance of payment is less problematic.

However, direct investment of foreign private capital in the developing countries did not register any substantial increase. The developed countries as well as the Latin American countries have attracted more U.S. direct investment than the Asian developing countries. While the U.S. direct investment in Canada increased from $11,804 million in 1961 to $16,840 million in 1966, in Europe from $7,655 million to $16,200 million, in Australia from $951 million to 1,918 million, in the case of Asia the increase was from $2,482 million to only $3,891 million during the same period. U.S. direct investment in India increased from $189 million in 1961 to only $237 million in 1966 and that in Philippines which has special relation with U.S.A., the increase was from $439 million to $577 million during the same period.

Pioneering Role of America

United States was by far the largest aid-giver to the developing countries. The flow of aids and credits from the colonial mother countries of Western Europe to the newly independent development countries in Asia either stopped or declined sharply in the post-war period. The pioneering role of the United States after the World War II as a major aid-giver not only to the war-ravaged Europe but also subsequently to the developing and emerging nations, under encouraging terms and conditions, generated much hopes and aspirations among such nations. United States' Point-Four Programme was announced in 1949, i.e., a year before the launching of the Colombo Plan for South-East Asia in the field of technological and allied cooperation. The United States started the PL-480 Programme in 1954 and estabilshed U.S. Development Loan Fund in 1957 to bring into reality the ideas of economic cooperation and development. Subsequently, towards the end of 1950's, America helped to organize the different Consortium Clubs and Aid Clubs of developed countries. The Organization for Economic Cooperation & Development (OECD) formed the Development Assistance Committee (DAC) in 1960 for pooling up and raising the volume of bilateral aid for distribution to the developing countires. Of all the DAC countries, United States provided largest and diversified aids, on an average, with lowest interest rate and longest period horizon (while the average annual interest rate of US aid (in 1963) was 1.75 per cent with 36 years of maturity the Canadian aid carried, on an average, annual interest rate of 6.50 per cent with maximum 13 years maturity period). In subsequent years, however, the terms and conditions of US aid flow also stiffened due to her own balance of payment difficulties and motivational shift. Moreover, despite continuous rise in its already high g.n.p., her external assistance did not catch up 1 per cent of the g.n.p. and has been actually falling. Recently the US Congress sanctioned $300 million to the Inter-American Development Bank as soft loan, while it rejected the US Administration Bill for channelling $200 million to the ADB Special Fund.

It has been suggested by many that the United States is gradually losing interest in the development activities in Asia. In 1968, the US President signed into law the $1.7 billion Foreign Aid Bill — the lowest ever since the start of the Marshall Plan. It is, therefore, likely that US aid to the developing countries in Asia will be reduced to a large extent.

The present President of the World Bank also said that the World Bank from now on will concentrate its loan activities in African and Latin American countries and less in Asia. This would mean that the developing countries in the region will face difficult times in getting development funds from these well-established sources. So, it is natural that the less developing countries will fall back on the Asian Development Bank for the much-needed capital resources.

Accomplishment of the Bank

The progress of the Asian Development Bank since its inception is not at all discouraging. However, the Bangkok Bank, Thailand's outstanding private bank, in its monthly review (August 1968) commented that ADB lacks understanding of Asian problems and it has been going slow to lend money. It is true that the ADB has been following a restrained policy of financial commitments. But its activities during this short period should be mentioned so as to understand it fully. The Bangkok Bank Review reported, "Apart from having made just one loan to the Industrial Financial Corporation of Thailand, the ADB has otherwise made little notable contribution directly towards the economic development of its regional members." The ADB provided $5 million loan to the Industrial Financial Corporation of Thailand in 1967. But the Bank also sent Technical Assistance Missions to Indonesia, Korea, Philippines, South Vietnam and also Nepal. In June 1968, the ADB approved a Philippine Government request for technical assistance to the National Irrigation Administration. The Bank, towards the end of July 1968, approved a loan of $325,000 to the Government of Philippines to help build up a modern port-terminal facility for the fishing industry in Manila Bay. The lack of fishing port with up-to-date facilities has hindered the growth of fishing industry in that country. The Bank also approved a drinking water supply project for the Greater Manila area. In July 1968, the ADB approved a 15-year loan of US $2 million to the Central Bank of Ceylon for the purpose of modernizing tea factories under the Tea Rehabilitation Programme of the Government. The Bank also decided to support a project for the establishment of an Asian Vegetable Research Centre in Taiwan. In 1967, the Bank received and apprised 12 loan applications on various projects, such as deep-sea fisheries project, transport, petro-chemical and fertilizer project of member-countries. The ADB approved in September, 1968, a 20-year loan of $7.2 million to the Government of Malaysia towards the foreign exchange cost of the M$42 million public sector Penang Water Supply Project. This loan which will carry an interest rate of 6-7/8 per cent per annum, will be used for designing and construction of a barrage across the river "Muda", a storage reservoir, transmission lines etc. for the supply of water to the 0.8 million population of Penang province where population increases by 4 per cent per year.

For assisting the Government of Laos in preparation of an integrated agricultural development programme for the Vientiane Plain, the ADB has also recently decided to send technical assistance mission to Laos, a landlocked country with a population of 2.8 millions, 90 per cent of which is engaged in subsistence agriculture. Laos is a food grains deficit country and it is estimated that an integrated agricultural development programme can effectively turn 32,000 hectares of land into fertile land to wipe out the recurring food deficit.

The Bank successfully completed an Asian Agricultural Survey which contains extensive and intensive information on the Asian agriculture. This will enable the Bank to fully understand the problems and possibilities of Asian agriculture and to develop it. Presently the Bank has initiated two studies, on Asian Payments Union and the Asian Transport & Communication Survey on a sub-regional basis, sponsored by the Conference of South-East Asian officials on Transport and Communications.

Conclusions

It is difficult to say how the ADB can really establish "a new era" in Asia. But it is likely that through regional cooperation the Asian countries can wage a common struggle to lift the people of Asia from the ruts of poverty and want. It is hoped that the Asian Development Bank will not develop any selfish motives and it will strengthen the economic integration movement in Asia. It is also hoped, the Bank would act as a catalyst for Asian development by exploring hitherto unchartered fields of development banking activities. However, the Bank must maintain closer relationship with the regional members, particularly the less developing countries. Philosophy of the Bank on Asian economic development must not create a situation when it would widen the gap between the relatively rich and poor nations among the developing countries in the region. The Bank must make a happy compromise between the imperatives of balanced regional development and the safe principles of banking orthodoxy.

In this development task, the Bank must get greater cooperation from the developed non-regional members who should put more reliance on mutilateral aids. Multilateral aids through the ADB can influence the States to promote regional integration projects and discourage uncoordinated national projects which do not ensure economies of scale or complementarity.