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Central Intelligence Agency



Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

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China and the Asian Development Bank

Summary

China's recent decision to request membership in the Asian Development Bank--and to demand Taiwan's expulsion--injects another note of contention into US-China relations. Beijing appears in no mood to compromise. Indeed, by publicly scoring the US stand on the issue, the Chinese seem intent on pressing the United States and other ADB members to demonstrate their adherence to a one China policy. [redacted]

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Taiwan will not withdraw from the bank voluntarily. It has even indicated it is willing to remain a member if Beijing joins--the first time Taipei has acceded, even in principle, to dual membership in any international political or financial institution. If that ploy fails, Taiwan is likely to invoke the Taiwan Relations Act increasingly to induce the United States to support its position against China. [redacted]

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Japan and other bank members, meanwhile, are temporizing. Although they have told Beijing they will support China's bid for ADB membership, we believe they hope the United States will devise a means for Taiwan to remain in the bank. If Beijing rejects a reasonable US compromise proposal, we believe some bank

This memorandum was prepared by [redacted] the China Division and [redacted] the Northeast Asia Division of the Office of East Asian Analysis. [redacted]

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members might reduce or drop their support for Beijing's membership. [redacted]

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Background

The ADB was established in 1966 to provide financial and technical assistance to the developing countries of the Asian and Pacific region. Korea, Pakistan, and the ASEAN countries have been the bank's major borrowers. There are now 31 regional and 14 non-Asian member states (see annex). The bank is set up like the World Bank to provide both hard and soft loans. A subsidiary, the Asian Development Fund (ADF), for example, provides 40-year loans to the region's poorest countries with a service charge of only 1 percent. The bank's ordinary loans are currently offered at an 11 percent interest rate. As of 31 December 1982 the bank's authorized capital was \$8 billion while the fund had \$3.6 billion in cumulative resources. Since its founding the bank has provided \$8 billion in hard loans and \$3.5 billion in soft loans. The US contribution to the bank last year was \$134 million. [redacted]

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Taiwan is a founding member of the bank and last borrowed from it in 1971. In fact, it currently owes the bank only \$42 million and last year contributed \$2 million to the ADF. Unlike its previous membership in the UN and the World Bank, Taipei's membership, capital share, vote, and loans at the ADB are based generally on Taiwan's economy and population, rather than all of China's. [redacted]

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Why China Wants to Join

Beijing initially sought ADB membership to gain access to additional international financing and to remove Taiwan from the bank. We believe it thought it could simply replace Taiwan as it had in the World Bank. When it became clear by January, however, that Taiwan would fight to retain its seat and that other ADB members were not in favor of Taiwan's expulsion, the matter took on increased political importance for Beijing. Indeed, we believe the Chinese now view their quest for membership primarily as a way of forcing the United States and other key ADB members to demonstrate their commitment to a one-China policy. To win support and allay concern that China could become a drain on the bank's resources, Beijing has begun to reassure some bank members that it will take the ADB's limited assets into account in applying for loans. [redacted]

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China's inability to obtain adequate World Bank assistance influenced its original decision to join the ADB. Beijing joined the World Bank in 1980, too late to take advantage of the last replenishment of the bank's soft loan subsidiary--the International Development Association (IDA). As a result, it has obtained only \$460 million in World Bank loans so far. [redacted]

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China's growing rivalry with India for international development loans also played a part in a gentlemen's agreement with the ADB not to seek ADB funds. [redacted]

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To avoid the problems it encountered at the World Bank, Beijing decided to apply for ADB membership before the bank approved its next general capital increase for the 1983-87 period. As a result, China began sounding out ADB members last fall and on the basis of a generally favorable reaction made formal demarches to bank members in November. In January, when the United States and Japan expressed only qualified support for China's position--i.e., refused to support explicitly China's demand for Taiwan's ouster--and Taiwan began to campaign for support, Beijing demanded Taiwan's expulsion as a precondition for China's joining the bank. [redacted]

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In early February, Chinese officials told Secretary Shultz that they were disappointed with the United States for not issuing a clear unequivocal statement of support for China's membership and Taiwan's expulsion. On 8 March China went further and for the first time publicly criticized the United States position as being inconsistent with the Sino-US communiques of 1978 and 1982. The Chinese Foreign Ministry's press spokesman accused the US of "laying obstacles" to China's admission. Several days later, a Foreign Ministry official used a meeting with US embassy officials on another topic to underscore Chinese unhappiness with the US position. [redacted]

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In late February, China formally notified the ADB of its plans to join the bank and requested the bank take immediate action to terminate Taiwan's membership. Chinese officials have indicated that they would like to begin consultations with the bank, but have suggested that the ADB initiate this move. The ADB's president indicated that he would have to seek the guidance of the bank's board of directors. The board is scheduled to meet informally with its general counsel on 22 March to discuss the issue before possibly taking up the request at its annual meeting in early May. [redacted]

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Taiwan's Gamble

The ADB is the only remaining international financial or political organization of which Taiwan is a member. [redacted]

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[redacted] Taiwan has raised no objections to China joining the ADB, presumably banking on a Chinese refusal to accept joint membership. At the same time, Taipei is trying to enlist US support, arguing that the Taiwan Relations Act precludes US recognition of Beijing from being used as a basis for expelling Taiwan from any international organization. [redacted]

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Thus far, officials in Taiwan have refused to entertain other compromise solutions, such as changing its name in the ADB

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to "China, Taipei," as it did in order to remain a member of the International Olympics Committee. In late January, following an emergency Taiwan cabinet meeting, Taiwan officials also told US representatives in Taipei that Taiwan would not accept unofficial association with the bank. [redacted]

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Regional Reactions

Japan and most other ADB members have told Beijing that they will support China's request for admission, despite their concern that China could become a drain on the bank's resources. [redacted]

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[redacted] Most bank members appear to be hoping the United States will be able to devise a compromise that would allow Taiwan to remain in the bank. [redacted]

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Japan, which is the ADB's leading contributor, faces an especially uncomfortable dilemma. In our opinion, Tokyo does not want to damage its recently improved relations with Beijing, which soured briefly last year during the textbook controversy. But neither does it want to anger Taiwan, with which Japan has lucrative trading ties, or upset the pro-Taiwan lobby in the Diet. [redacted]

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Korea, Australia, and Canada also have expressed their support for China's membership in the bank to Beijing but they would like to see Taiwan continue to play a role if that can be arranged. Korea has assured Taiwan of its support but added it will not lobby other ADB members on Taiwan's behalf. Like Japan, Australia has avoided taking a position on Taiwan's expulsion. Canada has suggested that it might work out a joint approach with the United States to handle China's admission. [redacted]

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Is Compromise Possible?

The current atmosphere in US-China and US-Taiwan relations makes the working out of any compromise more difficult than in the past. Beijing is convinced that the United States is only paying lip-service to a one China policy, while Taipei is more confident of US support than it has been in years. Having turned the ADB issue into yet another test of US policy, therefore, the Chinese are unlikely to agree quickly to a compromise, if at all. Nor will Taiwan easily accede to a downgrading of its

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status in the bank--the only way we can see for both to belong to the ADB. [redacted]

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Still, a compromise may be possible. The Chinese have stressed that their main concern is that the ADB--and especially the United States--acknowledge that Beijing represents China. Hence, they will almost certainly demand, at a minimum, that Taipei lose its official voting status. Beijing might then be more amenable to Taiwan's continued participation in the bank in a noncountry status, similiar to Hong Kong. Although Taiwan has publicly rejected such a solution, it has hinted [redacted] it might agree to an arrangement similiar to the one that permitted Taiwan to remain in the IOC as "China, Taipei." [redacted]

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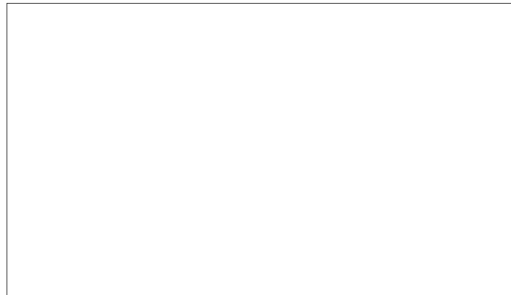
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ADB Subscriptions and Voting Power by Country

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<u>Country</u>	<u>Subscribed Shares</u>	<u>Percent of Total Voting Power</u>
Afghanistan	1,195	0.578
Australia	49,937	6.024
Bangladesh	8,812	1.429
Bhutan	110	0.457
Burma	4,700	0.969
Cambodia	875	0.542
China, Republic of	9,400	1.494
Cook Islands	23	0.447
Fiji	587	0.510
Hong Kong	4,708	0.969
India	54,637	6.549
Indonesia	47,000	5.696
Japan	117,500	13.573
Kiribati	35	0.448
Korea, Republic of	43,475	5.302
Laos	246	0.472
Malaysia	23,500	3.070
Maldives	35	0.448
Nepal	1,269	0.586
New Zealand	13,254	1.926
Pakistan	18,800	2.545
Papua New Guinea	810	0.535
Philippines	20,562	2.742
Singapore	2,937	0.773
Solomon Islands	58	0.451
Sri Lanka	5,005	1.003
Thailand	11,750	1.757
Togo	35	0.448
Vanuatu	58	0.451
Viet Nam	6,038	1.119
Western Samoa	58	0.451
TOTAL REGIONAL	447,401	63.764

NON-REGIONAL

United States	117,500	13.573
Austria	2,937	0.773
Belgium	2,937	0.773
Canada	45,143	5.488
Denmark	2,937	0.773
Finland	1,175	0.576
France	14,687	2.085

<u>Country</u>	<u>Subscribed Shares</u>	<u>Percent of Total Voting Power</u>
Germany, Fed. Rep. of	37,334	4.615
Italy	11,750	1.757
Netherlands	6,462	1.166
Norway	2,937	0.773
Sweden	1,175	0.576
Switzerland	4,037	0.895
United Kingdom	17,625	2.413
TOTAL NON-REGIONAL	268,636	36.236
TOTAL	716,037	100.000



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