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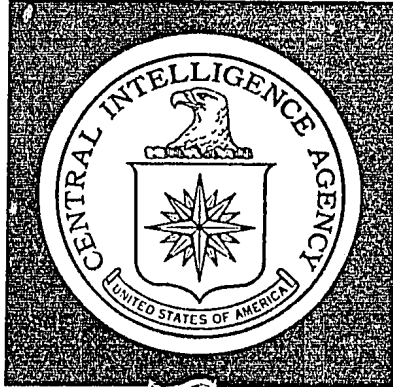
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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

Progress of the Asian Development Bank

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
February 1968

INTELLIGENCE MEMORANDUM

Progress of the Asian Development Bank

Summary

The Asian Development Bank (ADB), capitalized at \$965 million and conceived as the principal center for finance and regional economic planning in Asia, has made impressive progress since its inception two years ago. In January 1968, the ADB made its first loan of \$5 million to the Industrial Finance Corporation of Thailand, and in February the Bank extended a small technical-assistance grant to a newly formed South Korean development corporation. The loan to the Thai corporation will be used to finance industrial projects in the private sector, and the technical-assistance grant to the South Korean institution will finance an ADB mission to provide managerial advice. Activities initiated during 1967 included an agricultural technical-assistance mission to Indonesia, completed in January 1968, and extensive survey missions still underway in several countries to determine potentialities for development that would merit loans.

The comparatively rapid activation of the ADB augurs well for its intended role as a key financial institution in Asian economic development. It has moved ahead as rapidly as the Inter-American Development Bank in its early stages and somewhat faster than the smaller African Development Bank. The ADB not only will channel capital to small-scale development projects in Asia on

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both conventional and more liberal financial terms but also will attempt to promote regional economic planning. Although the loan operations of the ADB probably will have a significant financial impact on economic development in Asian countries, the greatest contribution of the Bank may be the impetus it gives to regional economic integration.

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Organization and Functions

1. The Asian Development Bank grew out of a proposal by a group of experts of the Economic Commission for Asia and the Far East (ECAFE)* on regional economic cooperation. This proposal was endorsed by ministers representing Asian countries at the ECAFE Ministerial Conference on Asian Economic Cooperation in Manila in December 1963. After detailed technical investigations were completed by ECAFE and a comprehensive report was made available, the agreement establishing the ADB was signed in December 1965 and January 1966 by 30 countries, including all regional ECAFE members except Burma, Iran, Mongolia, and Indonesia (which joined in 1967); three nonregional ECAFE members -- the United States, the United Kingdom, and the Netherlands; and eight European countries and Canada. The Soviet Union and France, both members of ECAFE, have not joined the ADB. Membership in the ADB is open to members and associate members of ECAFE and to other regional and nonregional countries that are members of the United Nations or any of its specialized agencies. Thus, Communist China, North Korea, and North Vietnam are not eligible for membership.

2. The ADB, to which the United States and Japan have each subscribed \$200 million,** is expected to serve as a principal center for finance

** Member nations of ECAFE are Afghanistan, Australia, Burma, Cambodia, Ceylon, Nationalist China, India, Indonesia, Iran, Japan, Laos, Malaysia, the Mongolian People's Republic, Nepal, New Zealand, Pakistan, the Philippines, South Korea, South Vietnam, Singapore, Thailand, Western Samoa, France, the Netherlands, the Soviet Union, the United Kingdom, and the United States. Brunei and Hong Kong are associate members.*

*** The ADB is capitalized at \$965 million (see the Table). One-half of the authorized capital subscribed by each member country consists of paid-in shares and one-half of callable shares. Payment of the paid-in shares (in the form of cash or non-interest-bearing demand Footnote continued on p. 47*

CONFIDENTIAL

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and regional economic planning in Asia. It will fulfill this role by providing not only capital and technical and managerial assistance for projects and plans but also by assisting Asian countries in procuring loans from other financial institutions. In addition, the Bank will seek to coordinate development projects of member nations in order to establish the basis for regional integration. The ADB will attempt to supplement the financial assistance of other international institutions, such as the World Bank, by providing funds for feasible small-scale projects that have not been adequately supported by existing institutions.

3. Most of the authorized capital stock of the ADB will be used to make loans to less developed countries on terms similar to those of the International Bank for Reconstruction and Development -- that is, internationally competitive interest rates with maturities of up to 25 to 30 years. Part of the capital of the ADB (10 percent of paid-in capital) may be designated as a special fund, which can be used to guarantee or to extend development loans of high priority having longer maturities, longer deferred commencement of repayment, and lower interest rates than ordinary ADB loans. Capital from this special fund apparently will be augmented by additional grant contributions from more developed member countries. Japan has suggested to the US and other governments the establishment of a Southeast Asia Agricultural Fund in the amount of \$300 million, to be administered

deposits) is being made in five equal annual installments between 1966 and 1971. The entire subscription of the developed countries can be used freely for purchases from all member countries. The less developed countries are required to provide only one-half of their paid-in shares in convertible currencies for unrestricted use among member countries. They may provide the remainder of their subscription in domestic currency to cover local currency costs of projects within the subscribing country. The callable capital will be used as backing for the sale of the ADB's bonds in principal world bond markets.

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by the ADB, to which Japan already has committed \$100 million, with the understanding that the United States will contribute \$100 million and all other countries the balance. The United States is considering a total contribution of \$200 million to ADB special funds, and Japan has indicated that its allocation of \$100 million for the agricultural fund can be considered a minimum contribution.

Recent Activities

4. The ADB's first loan, an extension of \$5 million to the Industrial Finance Corporation of Thailand (IFCT) in January 1968, will meet over half of the IFCT's projected foreign-exchange requirements of \$9.7 million during 1967-71. The IFCT, established in 1959, is a relatively small but rapidly growing corporation that makes medium and long-term loans to Thai industrial enterprises. As of 30 September 1967, all funds available to the IFCT totaled only \$10.5 million and outstanding loans were only \$8.8 million, or the equivalent of about 1 percent of the total annual investment in Thailand. In contrast, the IFCT plans to disburse \$38.6 million during 1967-71, of which \$9.7 million would be in foreign exchange. The loan from the ADB, which will facilitate this expansion of IFCT activities, requires repayment over 15 years at whatever ADB interest rates prevail at the time each part of the loan is credited to the account of the IFCT.* An advantage of the ADB loan is that it is not tied to commodity procurement in any one country** and will therefore make it possible for

* The President of the ADB has proposed that the initial interest rate for conventional loans be set at 6-7/8 percent. This rate will vary over time according to changes in the market rate of interest.
** Recipients of ADB loans from ordinary capital are limited to procuring goods and services in regional and nonregional member countries.

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the recipient of IFCT aid to shop for capital equipment at prices that are internationally competitive.

5. Early in February 1968, the ADB approved a technical-assistance grant to the Agriculture and Fishery Development Corporation (AFDC) of South Korea. The grant is to cover an estimated \$66,000 in foreign exchange costs that will be incurred by an ADB advisory team in South Korea. The AFDC, formally opened in December 1967, is expected to devote its resources initially to developing the food processing industry in Korea. The ADB mission is expected to provide managerial advice to the AFDC and to assist in identifying and formulating projects and preparing loan applications to the ADB and other financial institutions.

6. ADB activities during 1967 included a similar technical-assistance grant to Indonesia for the purpose of examining Indonesian agriculture and survey missions to several less developed member countries for the purpose of pinpointing barriers to development. The surveys, scheduled to be completed early in 1968, involved two teams of experts from the ADB regular staff. These teams, one of which was for industry and one for agriculture, were each to spend 7 to 10 days in several less developed member countries. The technical-assistance mission to Indonesia, requested by Indonesia and composed of contract agricultural specialists from the Netherlands, the United States, the United Kingdom, and Indonesia, had the primary objective of identifying short-run (two years or less) food production problems. The recommendations of the ADB mission to Indonesia included the rehabilitation of the irrigation system, an acceleration in the testing of new seeds, a substantial increase in imports of fertilizer, the implementation of an air spray program, and the implementation of a pricing policy that would increase prices to farmers. In addition, the ADB report on Indonesian agriculture indicated what the financial and technical-assistance requirements would be if the above recommendations were implemented. Thus, it is very likely that the report will be used as

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a basis for obtaining assistance from developed countries. The Indonesians may also be more willing to implement recommendations that emanate from an international organization.

Performance and Prospects

7. The early progress of the Asian Development Bank augurs well for its efficiency as an Asian development institution. The accomplishments of the ADB in its first two years of existence match those of the Inter-American Development Bank, which came into being in 1959, began operations in 1960, and made its first loan in 1961. Compared with the smaller African Development Bank, however, the ADB's performance has been more impressive. The African Bank, voted into existence on 10 September 1964, did not open for business until July 1966 and did not make its first loan until June 1967.

8. The ADB probably will have a significant financial impact on Asian economic development, but its greatest contribution may very well be its effect on regional economic integration. Most less developed Asian countries have extremely limited domestic markets and cannot build industrial plants large enough to utilize economies of scale fully unless access to larger markets is assured. To this end, the ADB will attempt to coordinate national development plans so as to encourage economic complementarity in the region, probably by discouraging both the construction of high-cost industrial units and the duplication of investment in large-scale industrial plants. For example, the ADB might encourage the establishment of large-scale petroleum refining and petrochemical production in Indonesia, which has large petroleum reserves, and discourage investment in these industries by countries that are heavily dependent on imports of petroleum products. The attainment of such coordination would be a major step toward freer trade between developing Asian countries. Moreover, the Bank probably will prove to be very useful as a financial agent for regional projects such as the Mekong River Basin Program, progress on which appears to have been slowed by the necessity of extensive multilateral negotiations.

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