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## Asian Development Bank: A catalyst in the field of economic development

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# INTERVIEW

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## Asian Development Bank

### A Catalyst in the Field of Economic Development

The Asian Development Bank (ADB) is an international development finance institution established for the purpose of lending funds, promoting investment and providing technical assistance to developing member countries, and generally for fostering economic growth and cooperation in the Asian region. The ADB was conceived by the United Nations Economic Commission for Asia and Far East (ECAFE). Over 60 per cent of the ADB's capital has been subscribed by 19 countries within the ECAFE region; the President and seven of the ten Directors come from the region. At the same time, the membership of the ADB extends beyond the region, and capital contributions, as well as Directors and staff, have been drawn from a number of countries outside Asia. We asked Mr. Takeshi Watanabe, President of the ADB, to give us his comment on certain aspects of economic development within the region.

#### Interview with Takeshi Watanabe, President of the ADB, Manila

**QUESTION:** On November 24, 1966, the "Asian Development Bank" (ADB) was inaugurated. Its main purpose is to help the 19 associated countries in Asia and the Far East to expand their economic growth and to increase their industrial production. To achieve these long term aims the ADB in a first step wants to develop the productivity of the agricultural sector. With regard to the, relatively speaking, small financial and technical help the Bank can give these countries, what do you consider are the chances for this region to solve the food problem?

**ANSWER:** The main purpose of the Asian Development Bank is to lend funds, promote investment and provide technical assistance to developing member countries, and generally to foster economic growth and cooperation in the Asian region. Of the 19 regional members mentioned by you, Japan, Australia and New Zealand figure in the list of developed countries; as such, on the basis of its current membership, the Bank's resources are directed toward the economic development of 16 regional developing member countries.

As for the efforts to raise agricultural productivity, the ADB does not view its activities in isolation. Several international organisations, bilateral aid agencies, private foundations and corporations, and above all, developing countries themselves have been active in the agricultural field. Certain countries have attained near self-sufficiency in food and others have significantly stepped up yields by resorting to the use of better seeds, more fertilisers and pesticides, modern tools and implements and improved practices of cultivation. The ADB's efforts are being aimed at promoting

this process of innovation and modernisation in the field of agriculture. Despite the complexities and the formidable nature of the challenge, the solution of the food problem in Asia is well within the realm of achievement in the foreseeable future.

### **The Asian Agricultural Survey**

**QUESTION:** The ADB has completed an Asian Agricultural Survey. Could you tell us something about the projected long-term agricultural policy the Bank is planning to carry through?

**ANSWER:** The Asian Agricultural Survey, which was completed in February 1968, has provided us with a frame of reference that will profoundly influence our operational activities in the agricultural sphere. In more than one sense this was a unique survey which has furnished the Bank with clear-cut guidelines to accelerate the tempo of agricultural development.

The Bank has been active in recent months in considering specific courses of action as a follow-up to the Survey. The ADB's technical assistance to the Philippines in the field of water management, for instance, represents a type of activity which has received considerable emphasis in the Survey Report. Again, the Bank has undertaken a major technical assistance program in Indonesia in the sphere of food production, which constitutes one of the critical factors in the Indonesian Government's efforts to stabilise and rehabilitate the economy. Agricultural credit also plays a key role in any effort to achieve a breakthrough in farming, and

the Bank is currently engaged in studying the problem of streamlining rural credit in Indonesia, Nepal and Viet-Nam.

Similarly, the Bank hopes to play an important role in the integrated development of the Vientiane Plain in Laos; it has also been active in providing technical assistance for fisheries development in Korea and the Philippines, a sector that has received considerable attention in the Survey Report. The ADB has also started discussions with individual countries, starting with Thailand, as a follow-up to the Survey.

I may add that we have decided to hold a Regional Seminar on Agriculture during the Bank's annual meeting in Sydney in April 1969. This Seminar will enable the developing member countries to discuss the policy implications of the Survey Report, with special reference to the Bank's potential role in action programs in the field of agriculture.

### **A Flexible Approach**

**QUESTION:** The ADB also wants to help increase the exports of the countries of its region. In order to achieve this goal not only the agricultural sector must be developed, but also the industrialisation process has to be encouraged through financial aid and technical assistance. Can the time-process of industrialisation be reduced by the ADB, or will much bigger development aid programs be necessary?

**ANSWER:** The question of stepping up exports is closely linked with the problems of toning up productive efficiency, whether in the field of agricul-

ture or industry. The ADB's loan of \$ 2 million to Ceylon, although modest in size, will assist the country in raising the output and improving the quality of tea, the country's largest single source of foreign exchange.

To a specific country, agriculture may be priority number one; to another, like Singapore, industry and trade may constitute the major sinews of development; in yet another country, the Bank's technical assistance may be as critically important as its lending activities. On balance, the Bank has to maintain a flexible approach in responding to the needs of developing member countries.

Apart from its efforts in these specific directions, the Bank hopes to play a larger role by promoting capital formation; by improving the climate for the inflow of foreign capital and technical skills; and by generally functioning as a catalyst in the field of economic development. In this process, it is legitimate to expect that the ADB's activities will help in accelerating the pace of industrial development and in preparing the region to support progressively larger development programs.

### **A Realistic Program of Industrialisation**

**QUESTION:** Which are the main factors that will have to be considered in planning a long-term industrialisation strategy for Asia and the Far East?

**ANSWER:** As I mentioned earlier, there is no single prescription that can be universally applied to such a vast region like Asia, with its diverse historical backgrounds and different levels of economic development.

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But any realistic, long-term program of industrialisation will have to take into account: (1) long-term projections of needs based on the pace and pattern of growth in incomes, (2) the availability of physical resources, including raw materials, manpower and capital and (3) scale of production that will facilitate efficient use of available resources.

It should also be emphasised that a successful industrialisation in any developing country will require sufficient markets, domestic and/or international, which can absorb the industrial products. In this connection, it may be pointed out that agricultural development could enlarge domestic markets for industrial goods, through the enhancement of the income of farmers. Also, regional or sub-regional economic cooperation, even in a limited scale, could help enable larger industrial production and marketing.

The experience of several countries in recent years has shown that the process of industrialisation calls for not merely capital, equipment and technology, but also entrepreneurial skills and modern methods of business organisation and management. In the final analysis, the whole strategy of industrialisation will have to be governed by a realistic assessment of priorities based on each country's needs and resources.

### **The Current Lending Rate**

**QUESTION:** The interest rate for ADB loans is nearly 7 per cent. We believe this rate to be quite high, considering the state of economic development in most of these countries and the fact that the Bank wants to facilitate development aid. Has the ADB considered differentiating the rate of interest, depending on the level of development the country has achieved?

**ANSWER:** There is no reason to feel that the Bank's current lending rate of 6-7/8 per cent

for ordinary loans is "quite high". It is a realistic rate that compares favorably with the general scheme of interest rates — a rate at which the Bank has been finding no difficulty in attracting sound projects for financing. The Bank's interest rate has been fixed by taking into account the cost of replacing funds from the capital markets, the lending rates of similar international organisations and other relevant factors. Any organisation that has to raise funds from the capital markets has to build up its creditworthiness by pursuing sound banking principles, a policy which is precisely what our Charter expects the institution to adopt.

At the same time, the Bank recognises that balance of payments difficulties and other major economic problems may render our conventional lending rate rather burdensome for certain developing nations. It is to meet this specific requirement that our Charter visualises the mechanism of "Special Funds" to be used primarily for the purpose of concessional lending. Special Funds can be established by the Bank either by securing contributions from member and non-member countries or by setting aside funds from the Bank's paid-in capital within specified limits.

On the basis of indications available so far, contributions to the Bank's Special Funds will total \$128.1 million, of which Japan and Canada have already placed at the Bank's disposal their first year's contributions of \$20 million and \$5 million, respectively. These contributions have enabled the Bank to open a parallel soft window, though the scale of operations at this counter in the immediate future will necessarily be governed by the quantum of resources available for the time being.

**QUESTION:** The promotion of foreign trade is one of the aims of the ADB. Do you think the Bank can pressure the regional

members to the formation of an "Asian and Far Eastern Economic Community" which would in the long run lead to an improvement in trade between its members?

### **Promotion of Intra-regional Trade**

**ANSWER:** The promotion of the "orderly expansion" of the foreign trade of developing member countries, in particular, intra-regional trade is an important function of the Bank that will demand growing attention as the Bank's activities expand. But even the Bank's modest portfolio of loans made in 1968 indicates some of the directions in which the ADB hopes to promote foreign trade. The Ceylon loan, to which a reference has been made earlier, is a typical example.

Yet another example, with potentially wider significance for the region, is the Bank's \$10.2 million loan to the Chinese DMT (petrochemicals) project. Under the proposed scheme, both the Republic of China and the Republic of Korea will seek to develop economic and mutually complementary productive capacity in respect of intermediates for synthetic fibres and develop joint markets for these products between the two countries. This cooperative effort represents the outcome of the initiative and foresight of the two countries concerned. It is precisely this type of cooperation and initiative calculated to promote intra-regional trade that the ADB will actively encourage, instead of attempting to create a hardly realistic "Asian and Far Eastern Economic Community".

**QUESTION:** The ADB is an unprecedented institution, since it includes 16 of the world's most advanced nations, which have subscribed about one third of the total capital of the Bank. Hypothetically, these non-regional members could try to slow down the activities of the ADB, if they see that their export possibilities to this region

decrease. Could this hypothesis become a reality one day?

ANSWER: If you include the capital subscribed by Japan, Australia and New Zealand, the amount subscribed by the more advanced nations works out at over \$662 million out of the Bank's subscribed capital of \$970 million.

The theory that economic development spells a shrinkage of export markets has no basis in experience. In the wake of economic development, a country's capacity to export may no doubt improve; but with that, its capacity to import also increases. The establishment of numerous channels of multilateral and bilateral aid and the yearly appropriations of sizable amounts by the more advanced countries by way of foreign aid clearly suggest that the developed countries take a constructive view of the role of economic development.

QUESTION: Up to now the governments of the most developed countries have preferred

to give bilateral development aid, since by this method they had a more direct control over the project and had a chance to demand that the project should be carried through by a firm of the donor country. Do you think you will be able to convince the non-regional members to contribute more funds during the next years to the ADB, so as to improve the efficiency of the Bank and of development aid as a whole?

ANSWER: It is true that developing countries prefer untied aid to tied aid, irrespective of whether it is provided through bilateral or multilateral agencies. But very often balance of payments problems and other vital considerations compel aid giving countries to impose such restraints.

In the case of the ADB, financing from the ordinary capital is subject to no such constraints; but in respect of Special Funds contributions, the wishes of the donor countries have necessarily to be respected. But even

in respect of such tied contributions, if the Bank is able to attract a wider list of donors the area of shopping for goods and services will correspondingly broaden. As an international organisation, the ADB will constantly endeavor to secure more aid — and on better terms; but such efforts will naturally have to be tempered with realism.

QUESTION: Many regional associates (India, Laos, Cambodia, Pakistan) do receive substantial aid from the Eastern-Bloc Countries. Is there a possibility that in the near future bigger projects will be financed with the help of ADB and the Eastern-Bloc countries, or has the time not yet come for such mixed development aid?

ANSWER: This is an aspect which will have to be studied on a case by case basis. Broadly speaking, the Bank may be able to consider for possible financing specific and clearly identifiable sections of projects involving assistance from other sources as well.

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# **ECONOMIC INTEGRATION IN ASIA**

**by Shin Joe Kang**

During the last years, integration policy has become a central topic of economic policy in Asia. Under the impression of European and Latin American moves towards integration, several organisations were founded in the sixties, and plans were discussed, which aim at intensifying Asiatic integration. The present volume gives a comprehensive survey on the hitherto made integration efforts and their results. Moreover, the author develops concrete plans for creating an efficient Asiatic integration area.

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