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CLAUSEN'S - Country Files: Asian Development Bank



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A1990-013 Other #: 3 209486B

Country Files: Asian Development Bank - Correspondence 01



## Biographical Information

FUJIOKA, Masao  
President, Asian Development Bank

### Career

- Since November 24, 1981 - President, Asian Development Bank
- 1977-81 - Executive Director of the Export-Import Bank of Japan
- 1973-77 - Ministry of Finance: Director General, International Finance Bureau (1975-77), Deputy Director (1973-75)
- Before 1973 - Varied experience in international finance area
- 1966 - Director of the Department of Administration, Asian Development Bank
- 1960 - International Monetary Fund, Economist in Far Eastern Division.

### Publications

- Japan's International Finance: Today and Tomorrow, December 1979. This book is a collection of his articles and speeches, giving the view from Japan of developments on international finance.
- "Appraisal of Japan's Plan to Double Income," IMF Staff Paper, Volume X No. 1, March 1963.

### Education

Master of Law from Tokyo University. Studied at the University of Chicago.

### Personal

Born in 1924. Married with one daughter and two sons.  
Hobbies: Golf and gardening.  
Field of interest: Balance of payments, international finance, international investment and foreign aid.

March 1982

ROUTING SLIP		DATE:
NAME		9/30/83
Mr. Clausen		E1227
APPROPRIATE DISPOSITION		NOTE AND RETURN
APPROVAL		NOTE AND SEND ON
CLEARANCE		PER OUR CONVERSATION
COMMENT		PER YOUR REQUEST
FOR ACTION		PREPARE REPLY
INFORMATION		RECOMMENDATION
INITIAL		SIGNATURE
NOTE AND FILE		URGENT
REMARKS: Please substitute this memo for the one distributed on Sept. 28. The second sentence in para. 4 has been added.  <i>OK</i>		
FROM:	Attila Sönmez <i>AS</i>	ROOM NO.:
	A617	EXTENSION:
		72433



## OFFICE MEMORANDUM

DATE: September 30, 1983

TO: Memorandum for the Record

FROM: Attila Sönmez (Chief, AEADB) AS.

EXTENSION: 72433

SUBJECT: ADB -- Mr. Clausen's Meeting with Mr. Fujioka, President,  
Asian Development Bank

1. Mr. Clausen met on September 24, Saturday, at 6 p.m. in his office with Mr. Masao Fujioka, President, Asian Development Bank (ADB), accompanied by Messrs. Akira Tsusaka, Director, Development Policy Office and Yasushi Kamihara, Personal Assistant to the President. Present from the Bank staff were Messrs. A. Karaosmanoglu, D. Hopper, E.V.K. Jaycox, R. Southworth and A. Sönmez.
2. At Mr. Clausen's request, Mr. Fujioka discussed the ADB's plans for lending to India. He mentioned that they were likely to present their first loan to India to their Board next year, to be financed entirely out of their ordinary resources. Because of their lack of experience in India, ADB's first few operations will be for simple and obvious projects such as development banking (ICICI or IDBI) or power, but even with this, they would like to draw upon the Bank's long India experience, especially its economic and sector knowledge. Mr. Clausen assured ADB of our full cooperation, and explained that the Bank's lending to India would continue at the present level, although, due to the IDA VII prospects and China's share in it, the mix that can be made available to India will change.
3. Mr. Fujioka mentioned that the question of China's membership in ADB was at a standstill.
4. On Pacific Islands, Mr. Clausen thanked the ADB for assuming the lead role in project preparation and appraisal in the area, and for the opportunity they gave us to co-finance some of these operations. Mr. Fujioka mentioned that, for the projects being co-financed, the ADB may raise the issue of sharing the operational costs. Mr. Fujioka said the ADB is envisaging establishing a resident office in one of the Islands in order to expedite their operations and reduce their operational costs.
5. In response to Mr. Fujioka's question regarding the Bank's operations in Laos, Mr. Karaosmanoglu said that we were working on one project but that it was unlikely to go to our Board this year. As for Viet Nam, he noted that we have a weak relationship due to the fact that we are not able to lend to this country without a consensus to lend in our Board. Mr. Fujioka said that ADB was in the same position vis a vis Viet Nam.

6. Mr. Fujioka pointed out that their experience so far this year with co-financing with commercial banks had been disappointing and enquired about ours. Mr. Clausen said that the picture was not yet clear as our experience with the new co-financing instruments was too recent to be conclusive.

Distribution: Messrs. Clausen, Southworth, E. Stern, Karaosmanoglu, Hopper, Jaycox, Dutt, Hermans, Robless, Koch-Weser

ASUnmez:dat



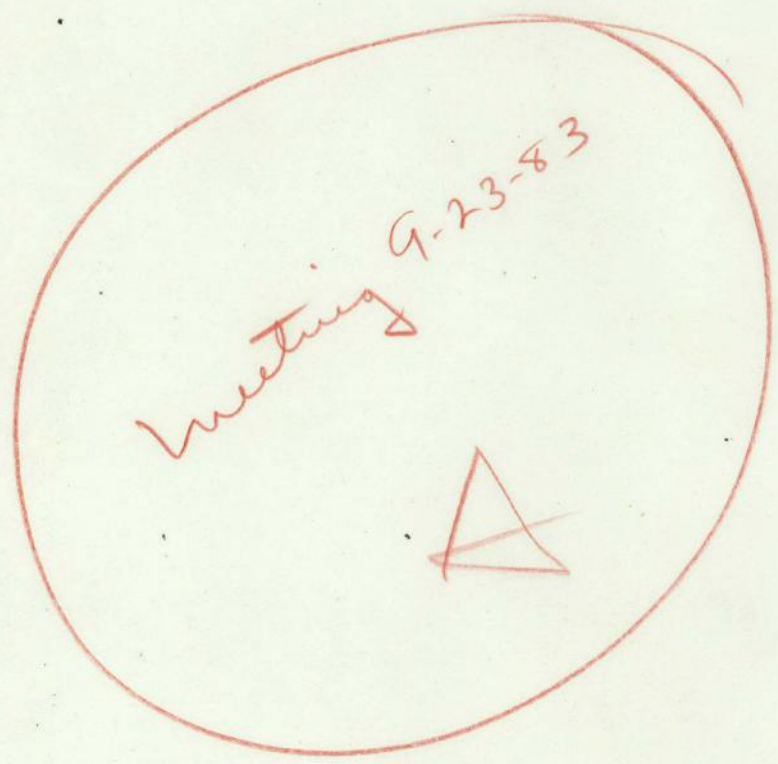
1983 ANNUAL MEETING  
ASIAN DEVELOPMENT BANK

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1983 ANNUAL MEETING  
ASIAN DEVELOPMENT BANK

MATTERS LIKELY TO BE RAISED BY THE ADB DELEGATION

1.01 Joint Consultation Meetings between World Bank and ADB Staff. The fifth of these annual consultation meetings was held in May of this year. At that time, Bank staff suggested that the next meeting be held in Washington immediately before or after ADB's next Annual Meeting, to be held in Amsterdam, taking advantage of the presence of ADB's senior staff in Europe. This proposal got a lukewarm reception from ADB, and they may wish to make a counter suggestion as to time and venue. If the ADB delegation does not raise this, it would be useful, for our planning purposes, if you could discuss the timing and venue of the next meeting.

1.02 Pacific Islands. The ADB delegation may ask whether the Bank can make arrangements to process Bank/ADB co-financed projects more rapidly than hitherto, and more in line with ADB's typical processing schedule. In the Vanuatu Agricultural Extension and Training Project, for example, ADB's appraisal was in February/March 1983, with Board approval in early August. Similarly, the proposed Solomon Islands Agricultural Development Project preparation/appraisal mission took place in July 1983; Board presentation is scheduled for October 1983. We should take the opportunity to express our overall satisfaction with the way in which this collaboration is working, and our support for accelerated processing and timely help for these island economies. We should, however, be clear that we need to allow adequate time for internal Bank review of ADB's documents.

Matters to be Raised by Mr. Karaosmanoglu or Mr. Jaycox

2.01 Thailand and Lao PDR. We have had difficulties in achieving our lending objectives in both Thailand and the Lao PDR during the past year. We understand that ADB has found itself in a similar position. In Thailand, this is a result of the new Government's reviewing its external borrowing program, combined with the higher interest rates on Bank and ADB loans than on loans from other financial sources. In the case of the Lao PDR, it is because of the Government's reviewing its borrowing program and its desire to seek grants to the degree possible. It is important that our institutions' inability to meet our lending targets does not lead to increased competition but rather to increased cooperation between us, particularly on policy issues and on loan conditionality. There have been a series of visits between staff and management of both institutions during the past year concerning the two countries. This type of dialogue will need to continue and perhaps even intensify in the future. You may like to mention that we would very much appreciate it if each ADB mission visiting the Lao PDR or Thailand would visit our regional office in Bangkok to exchange views on current activities.

2.02 Thailand-Specific Issues. Most of our discussions with ADB concern the industrial, agricultural and energy sectors in Thailand. You may want to



note that our Financial Sector Report, which has just been issued in grey cover, was designed specifically with a long-term perspective for the purpose of providing a frame of reference for our lending and policy dialogue over a number of years. We plan to use its recommendations as a basis for the "apex" approach to lending in both the agricultural and industrial sectors which we plan to continue discussing with Government. We have sent a green cover version of the report to ADB and will be discussing the final report with them later in the fall. We will also take steps to keep ADB fully informed of the studies we have been undertaking and plan to undertake on the irrigation sector. You may also note that the ADB-sponsored Energy Master Plan Study, over which some controversy had developed between the two institutions, has been completed. We are now pleased with ADB's cooperation in continuing to improve the energy planning process through the Energy Strategy Formulation Study initiated under SAL.

2.03 Lao PDR-Specific Issues. Our lending pipeline to the LPDR is extremely weak, as is ADB's. We hope to be able to cooperate with ADB in carrying out the recommendations of the Industrial Sector Survey that was undertaken last year by the UNIDO/World Bank Cooperative Programme. We also look forward to supporting the Southern Electrification Project next fiscal year, and plan to discuss issues such as appropriate tariffs with ADB during our preparation of that project. You may also mention that we have just issued our grey cover Country Economic Memorandum on the Lao PDR. We feel that we have been able to establish a good relationship on economic and sector work with ADB in the LPDR, and we hope that there will be scope for participating in joint missions in the future.

2.04 Pacific Islands. You may mention that the Bank/IDA wants to participate more actively in the preparation phase of Pacific Island projects to be recommended by ADB for co-financing. This might involve selective Bank/IDA participation in project preparation missions, discussions in Manila of feasibility reports, etc. It might be useful to ask how ADB sees us providing a more effective intellectual input without necessarily delaying ADB's own programming.



1983 ANNUAL MEETING BRIEFING PAPER  
ASIAN DEVELOPMENT BANK

Key Points

A general capital increase of 105% became effective in May 1983, and a third replenishment of the Asian Development Fund, of \$3.2 billion, covering the years 1983-86, in April 1983. ADB's Board is currently considering an application for membership by the People's Republic of China; China is insisting that, if membership is granted, Taiwan's membership be revoked. ADB intends to start lending to India and has earmarked \$1.5 billion for lending over five years, beginning in Calendar year 1984. The Bank has now relinquished to ADB all direct project activities in the small Pacific island countries, and provides funds to these countries as cofinancier with ADB in the lead.

ADB's Resources

1. After lengthy negotiations, a general capital increase (GCI) of 105%, with a paid-in portion of 5%, became effective in May 1983, and a third replenishment of the Asian Development Fund (ADF IV) a month earlier. Both were lower than hoped for: the original proposal for the GCI, in February 1982, was for an increase of 125%, with a paid-in portion of 10%. For ADF IV, the target was originally \$4.1 billion.

ADB's Operations

2. ADB's lending during 1982 amounted to \$1,730.6 million for 57 projects, of which about one-third was concessional lending. As in past years, agriculture and agro-industry accounted for the largest share of lending (about 36%), followed by energy (about 30%). Technical assistance grants and loans provided \$18 million for 80 projects. ADB's interest rate has stood at 11.0% since January 1982.

Cofinancing

3. General. During 1982, 25 of ADB's projects involved cofinancing amounting to \$699 million, mostly with bilateral and multilateral sources. Cofinancing with commercial sources increased significantly, however, providing 37% of cofinancing funds in 1982, compared with 14% in 1981.

4. Pacific Islands. To date we have co-financed three projects with ADB in the lead, in Western Samoa, the Solomon Islands, and Vanuatu. During your meeting, ADB may seek reconfirmation of the Bank's interest in continuing this cofinancing arrangement, with ADB assuming primary responsibility for project appraisal and supervision. You should indicate that we are very pleased with this arrangement, and wish to continue it provided the countries



are satisfied. A consultant study on the role of ADB in the Pacific Islands is being prepared for submission to their management by the end of August. It is expected that, as in an earlier draft of the report, the final report will recommend the establishment of a regional office in the Pacific, perhaps in Suva, Fiji.

5. Projects to be co-financed with ADB in the lead over the next three years include an agricultural development project in the Solomon Islands (FY84-\$3.5 million credit), and two as yet unidentified agricultural projects in Fiji (FY85 and 86, \$15 million and \$19 million loans respectively).

#### People's Republic of China

6. Earlier this year, China applied formally for ADB membership, with a condition that if the application was granted, Taiwan's membership be revoked. This is an extremely difficult issue for ADB. A founding member of ADB, Taiwan has fulfilled all its obligations, and is a member in good standing by any standards. No longer a borrower, it has voluntarily contributed funds to the Technical Assistance Special Fund and, more recently, to the Asian Development Fund. No decision with regard to China's application had been made at the time of the ADB Annual Meeting in May of this year, and negotiations are still continuing.

#### India

7. At ADB's Annual Meeting in May, the Indian Government announced its intention to borrow from ADB's ordinary funds with effect from 1983. This matter had been discussed by ADB's management and Board in connection with the latest General Capital Increase, when doubts were raised as to the feasibility of ADB's administering a lending program to India given ADB's resource constraints. We now understand that ADB intends to lend to India \$1.5 billion over five years, beginning in Calendar year 1984. (We have learned that during Secretary Shultz' recent visit to India, USA agreed to drop its objection to ADB's lending to India.) In order to minimize staff cost, ADB intends to limit its operations in India for the time being to the DFC and power sectors. For the power sector, in particular, ADB intends to draw heavily on the Bank's sector work.

#### ADB/IBRD Coordination Meeting

8. The fifth annual high level (vice president) coordination meeting was held in Manila in May of this year. This year's meeting was used by the ADB participants mainly to seek information from the Bank on the agenda topics, such as oil price development, economic and sector work, special assistance programs, cofinancing, etc. Both institutions agreed that duplication in economic and sector work should be avoided, as should conflicting advice to governments on lending for specific projects. ADB representatives did not show much enthusiasm for cofinancing with the Bank, other than for the Pacific Islands and for those very large projects which exceed the lending capacity of individual lenders.



DELEGATION/BIOGRAPHICAL SKETCH

The Delegation

Mr. Masao FUJIOKA - President of ADB (observer)

Biographical Sketch

Mr. Fujioka was elected President of ADB for a five-year term in August 1981, and took office in November, succeeding Mr. Taroichi Yoshida. Born in Tokyo in 1924, Mr. Fujioka graduated from Tokyo University (Department of Law) in 1947 and joined the Ministry of Finance during the same year. He also studied at the University of Chicago in 1950/51, majoring in Public Finance and Economics. From 1960 to 1964, Mr. Fujioka was an economist with the IMF. In 1966, he assisted the UN Economic Commission for Asia and the Far East in preparatory work for the establishment of ADB. Mr. Fujioka served until 1969 as ADB's Director of Administration, after which he became Director of Japan's official aid agency, OECF. He then successively held the positions of Deputy Director-General (1970-75) and Director-General (1975-1977) of the Japanese International Finance Bureau. From 1977 to 1981, Mr. Fujioka served as Executive Director to the Export-Import Bank of Japan, and, concurrently, Executive Director of the Japan International Cooperation Agency. Mr. Fujioka has represented Japan in numerous international conferences, and participated as Temporary Alternate Governor at the IMF/World Bank Annual Meetings in 1975 and 1976, and at ADB's 1977 Annual Meeting.

59 years old.



ASIAN DEVELOPMENT BANK

The Asian Development Bank Group is composed of the Bank (AsDB), and the Fund (AsDF). The Bank, established in 1966, administers a Technical Assistance Special Fund.

1. Comparative Lending Terms (as of September 15, 1983)

	<u>AsDB</u> (Fixed at Commitment)	<u>IBRD</u> (Variable)
Current Lending Rate (%)	10.50	10.47 a/
Commitment Fee (%)	0.75	0.75
Other Service Charge (%)	-	0.25
Maturity (years)	13-27	15-20
Grace Period (years)	3-7	3-5

a/ Applicable for the period July 1 - December 31, 1983.

2. Expansion of Ordinary Capital Base. An increase of approximately \$8.1 billion in the ADB's authorized capital stock was approved by the Bank's Board of Governors on April 25, 1983 in resolution 158. Under the resolution, capital will increase from \$7.7 billion in 1982 to \$15.8 billion by 1987. This will allow ADB lending to grow in nominal terms at 15% per annum. The proposed 105% increase in member share subscriptions consists of both callable and paid-in shares. The paid-in portion of 5% contributes to the sound financial position of the ADB. The callable capital shares, comprising 95% of the total, provides backing for ADB borrowings.

The US share of the increase amounts to \$1,323 million consisting of \$66.2 million paid-in and \$1,256.8 million callable capital. Appropriation for payment of five equal annual subscriptions of \$264.6 million (\$13.2 million paid-in and \$251.4 million callable capital) will be requested beginning in FY 1984.

The US Administration succeeded in achieving several key objectives as part of the capital increase. First, the paid-in portion (\$13.2 million per year) is substantially less than the \$20.4 million annual share of the United States for paid-in capital under the Bank's first and second general capital increases, respectively.

Second, the ADB agreed to undertake a comprehensive examination of its financial policies with a view to making more effective use of its available resources. For example, the ADB plans to increase its leveraged use of convertible callable capital so that the Bank can borrow and then lend out more resources without additional capital and without adversely affecting its financial standing.





Third, the US Administration emphasized the importance of certain policy initiatives such as increased co-financing with commercial targetting assistance of the poorest groups. Progress was made in each of these areas.

3. Replenishment of Concessionary Resources. On July 30, 1982 the ADB Board of Governors adopted Resolution 154 which called for a \$3.2 billion basic replenishment to finance ADF lending from 1983 through 1986. The US share of \$520 million (\$130 million annually) represents 16.2 percent of the replenishment. The proposed legislation was sent to the House and Senate on March 28, 1983. The legislation will go to the Senate floor on September 22; a Conference is expected shortly thereafter.

In accordance with the principle that contributions to the ADF should be shared more equitably among donors, the US share is 16.2 percent, a significant reduction from the 20.7 percent overall US share of the second ADF replenishment (ADF III) and the 22.25 percent share of the first replenishment (ADF II). In an unprecedented move, Asian developing countries contributed to the replenishment, thus demonstrating the progress their economies have made. Other developing countries, including Indonesia, Philippines and Thailand "graduated" from ADF lending.

The overall financial framework for these resource increases is as follows:

Proposed Capital Increase and ADF Replenishment  
(US \$ million)

	<u>Current Amount</u>	<u>Proposed Increases</u>	<u>New Total</u>	<u>US Share</u> <sup>1/</sup>
1. Authorized Capital of which US	\$7,965.1 1,296.2	\$8,093.5 1,322.9	\$16,058.6 2,619.1	16.3%
2. Asian Development Fund of which US	3,419 775 <sup>2/</sup>	3,209 520	6,628 1,295	19.5%

<sup>1/</sup> Cumulative US share after proposed increases. US share of the ADF IV replenishment alone is 16.2 percent.

<sup>2/</sup> Including US unfunded contributions of \$28 million for ADF II and \$3 million for ADF III. Appropriations have been requested in the Administration's FY84 budget for \$14 million for ADF II and \$3 million for ADF III. The remaining \$14 million for ADF II is expected to be requested in FY85.

Current Policy Reviews. The current President, Masao Fujioka, has recognized that the internal structure and methodology of the Asian Development Bank for responding to marketplace changes may be inefficient. In this respect, AsDB has been undertaking a major review of its financial policies with the use of an external consultant. A report from Dr. Irving S. Friedman, relating to such purpose was presented for information of the Board on April 1983. In this context, a move towards variable lending rate is being considered.

Biographical Information

Masao FUJIOKA  
President, Asian Development Bank

Experience

- Since November 1981 - President, Asian Development Bank.
- 1977-81 - Executive Director for the Export-Import Bank of Japan.
- 1973-77 - Ministry of Finance; Director General, International Finance Bureau (1975-77), Deputy Director (1973-75).
- Before 1973 - Varied experience in international finance area.
- 1966 - Director of the Department of Administration, Asian Development Bank.
- 1960 - International Monetary Fund, Economist in Far Eastern Division.

Publications

- Japan's International Finance: Today and Tomorrow, December 1979. This book is a collection of his articles and speeches, giving the view from Japan of developments on international finance.
- "Appraisal of Japan's Plan to Double Income," IMF Staff Paper, Volume X, No. 1, March 1963.

Education

Master of Law from Tokyo University. Studied at the University of Chicago.

Personal

Born in 1924.  
Married with one daughter and two sons.  
Hobbies: golf and gardening.


September 1983



## OFFICE MEMORANDUM

1939  
DATE June 6, 1983

TO Files

FROM Attila Karaosmanoglu 

EXTENSION 72647

SUBJECT Sixteenth Annual Meeting of the Board of Governors of the Asian Development Bank

1. The Sixteenth Annual Meeting of the Board of Governors of the Asian Development Bank (ADB) was held in Manila from May 4 to 6, 1983. The meeting was chaired by the Governor for Nepal, the Honorable Yadav Prasad Pant. Delegates from all 45 member countries attended the meeting. Together with ADB's President Fujioka, the Secretary and Vice Presidents Bambawale and Katz, the newly-appointed Vice President for Projects, Mr. Guenther Schulz, was also present at the meeting. The Bank delegation consisted of myself, Mr. Michael Wiehen (ASA), Mr. Sundaram Sankaran (IPA), Ms. Kazuko Ogawa (Tokyo Office) and Ms. Lesley Davis (AEA).

2. The Annual Meeting was preceded, on May 3, by an International Symposium on Development Strategies in Asia, which was organized by ADB and chaired by Professor John P. Lewis of Princeton University. Topics discussed included the development strategy and future growth prospects of Asia; finance and development; and resource constraints, financial and human. Guest speakers were drawn from governments, universities, development institutes and commercial banks from around the world.

Statement by the President of the Republic of the Philippines

3. The meeting was opened by the President of the Republic of the Philippines, His Excellency Ferdinand E. Marcos. In his opening statement, President Marcos reviewed the adverse global economic situation and the implications of an unusually severe recession on the economies of the developing nations. While he felt that the world economy was now showing signs of recovery, he cautioned against overconfidence. There is still much to be done, he felt, to combat the threats to peace and stability in the region brought about by poverty, and foremost is the need to abolish the protectionist policies of the developed world and what he described as "their increasing miserliness in their foreign assistance programs."

4. President Marcos went on to call for more vigorous action to arrest the deterioration in the global situation. Referring to the many international meetings that had been convened to exchange ideas on economic issues, trade and industrialization, he said that, although the results of these meetings had been disappointing, dialogue should be maintained and a concerted effort made to establish a "New International Economic Order." While he supported the developing countries' plea to the developed nations for the dismantling of protectionist barriers, he urged the developing countries



themselves to make serious efforts to expand their domestic markets, a policy which would contribute to their own internal stability. President Marcos suggested that attention be given to the agribusiness sector, proposing the establishment of agro-industrial estates, linking the professional know-how and financial resources of business to the labor and land of farmers. Such a program should be linked to the development of labor-intensive and export-oriented industries, and to the accelerated development of agricultural research. All of these measures would, however, require a more generous flow of finance from the more advanced nations of the world and from international institutions like ADB. President Marcos expressed the hope that ADB would raise its sights towards becoming the biggest lending institution in Asia. He closed his statement by wishing President Fujioka and the staff of ADB well in exploring the new approaches emerging from ADB's Study of Priorities and Plans for the 1980s.

#### Chairman's Statement

5. In his opening address, the Chairman also expressed concern about the development prospects of the least developed countries in the region, in the face of the prevailing adverse economic environment. To help these countries tackle the problems caused by the global economic recession, the Chairman called on the major industrial nations to liberalize trading relations with the developing countries. He urged developing countries to improve the efficiency of their domestic resource use, and said that developed countries should be prepared to increase the volume of their official aid. Lastly, he called on the international aid agencies to maintain a steady growth rate in loan commitments and to devise innovative measures for assisting the developing countries. Summarizing ADB's activities during 1982, the Chairman said that, although 1982 had been a difficult year, both the developing member countries (DMCs) and ADB were to be congratulated for successfully meeting the challenges that had emerged. Looking to the future, the Chairman expressed the hope that the successful implementation of plans identified in ADB's Study of Priorities and Plans for the 1980s would make ADB's involvement in the development process even more relevant.

#### Statement of ADB's President Fujioka and Comments by Governors

6. In his statement, President Masao Fujioka reviewed the economic setting of the past year, ADB's operations in 1982, the financial and operational policy decisions that had been taken during the year, and future prospects for ADB's operations. The responses of Governors to these topics are also included under the respective headings below.

7. The Economic Setting. President Fujioka spoke of 1982 as "a year of uncommon difficulties in the world economy". The year was characterized by continuing recession in the industrialized countries, leading to depressed commodity prices and increasing protectionism. Real economic growth rates in ADB's developing member countries were the lowest in twenty years. Because of low export growth and increased interest rates, external debt indicators worsened over the year. Despite all of this, the developing countries of the



region achieved growth rates that were fairly satisfactory by international standards, and it was noteworthy that not a single Asian country registered a negative growth rate in 1982. This, he said, was a reflection of the competence of the region's policy-makers in pursuing outward-looking, market-oriented policies. However, a cause for concern is the continuing economic stagnation in the industrialized countries, which is eroding development efforts in the region, forcing governments to cut back on sound development projects. In the current era of growing economic and financial interdependence, however, as the economies of the major industrialized countries improve, growth rates of most developing countries will also improve, which, in turn, will provide expanding markets for exports and investment opportunities for industrialized countries.

8. President Fujioka was glad to see the signs of recovery already in evidence, particularly in the United States and Japan, the region's major trading partners. However, he cautioned that it will be some time before a favorable impact is felt in the region, and DMCs will continue to suffer from severe balance of payments difficulties, budgetary deficits and mounting external debt. The year 1983, he said, will be a crucial one for DMCs, and will be a test of ADB's ability to respond to their needs.

9. In their statements, Governors generally deplored the unfavorable economic conditions which have led to sluggish exports, deteriorating terms of trade, increasing current account deficits and accumulating external debts in the region's DMCs. Many Governors, however, expressed their satisfaction that, even though growth rates declined during 1982, they are still higher than those of developing countries in other regions, and that prices have risen more slowly in the region's DMCs than elsewhere.

10. ADB's Operations. Reviewing ADB's activities during 1982, President Fujioka noted that 57 loans had been approved, amounting to \$1.7 billion, an increase of 3.2% over 1981 - considerably lower than the past average growth rate of over 15% per year. This low growth rate was due mainly to the depressed economic situation in Asia, the uncertainties regarding the availability of Asian Development Fund (ADF) resources, and cut-backs in development expenditures by some of the DMCs. Lending for agriculture - mainly irrigation, supporting services and farm-to-market roads - accounted for the largest share (36%) of ADB's lending, followed by energy, which accounted for about 30%. Loan disbursements, at \$795 million, showed a significant improvement over the 1981 level.

11. President Fujioka outlined the special financing arrangement approved by ADB's Board early in 1983 to help DMCs speed up the implementation of ADB-financed projects in times of local fund shortages. This program will provide up to 100% financing of local cost shortfalls for high priority projects over the next two years, and the financing, he said, will be consistent with stabilization and structural adjustment programs being undertaken by DMCs in agreement with the IMF and the World Bank.



12. ADB's 1982 co-financing seminar and follow-up missions have succeeded in generating additional commercial bank co-financing; in 1982, the amount of co-financing with commercial sources doubled. Another mechanism designed to attract private funds to fill investment gaps is ADB's equity investment operations, approved by the Board in March 1983.

13. A concern commonly expressed by most Governors was the drop in the rate of growth of ADB's lending operations which, they observed, represented a decline in real terms and a contributing factor to the first real decline in resource transfer to DMCs for many years. This, they felt, pointed to an urgent need to augment ADB's resources, particularly now, in view of the serious difficulties confronting DMCs. Governors generally expressed support for ADB's continuing emphasis on lending to the agriculture and energy sectors, but some were concerned at the decline in lending for social infrastructure projects, which they felt were crucial to upgrading the living standards of the poorest of the region. In spite of the relatively good disbursement performance registered during 1982, several governors felt that this was an area where improvements were still badly needed, and made suggestions for modifying ADB's procedures to assist with this. The special assistance initiative was welcomed, but some Governors felt that these funds should be additional to regular financing, rather than part of a country's regular lending program. On the subject of co-financing, ADB's success at mobilizing commercial funds was praised by Governors, with cautionary notes being added, however, that commercial funds should be additional to and not a substitution for ADB's funds, that commercial funds increase the cost of debt servicing and that the need for such funds can be a reflection of inadequate concessional assistance to DMCs. Equity financing, it was felt, is a positive step, and recognizes the importance of the growing private sector in the DMC's economies. It was to be regretted, some felt, that the resources allocated to this kind of financing (\$10 million) were so small.

14. Financial and Operational Policies. President Fujioka advised the Governors that a general capital increase (GCI III) of 105% became effective the previous week. This followed the third replenishment of the Asian Development Fund (ADF IV) of \$3.2 billion, which became effective the previous month. Over the next four to five years an average annual increase in lending of 15% is possible, with a doubling of total lending over the next five years.

15. Turning to ADB's policy reviews, President Fujioka reported the recent submission of a comprehensive study of ADB's financial resources, prepared by a highly regarded international consultant. To address issues raised by the study, a new Financial Policy Division has been established within ADB. During 1982, a study of ADB's operational priorities and plans for the 1980s was also completed, which made wide-ranging recommendations for policy review and revision. Included in these was a proposal to provide more concessional assistance to the poorest DMCs, which would mean that loans to middle-income DMCs would be on less concessional terms. Also recommended in the report are: more liberal local cost financing, a wider use of program lending, a streamlining of loan administration, and closer policy dialogue with DMC governments.



16. Comments by Governors were generally positive with regard to both the review of financial policies and the study of operational policies and plans for the 1980s. However, most Governors, while congratulating President Fujioka on his successful negotiations for the GCI and the replenishment of the ADF in times of economic stringency, were greatly disappointed at the overall size of both. Some Governors were concerned that the low paid-in portion of the GCI would generate upward pressures on lending rates at a time when DMCs were suffering severely from adverse debt situations. Referring to the painful process of negotiations which had led to these increases, some Governors called for attention to be given to ways and means of improving the process. References were made to the proposals of some of the non-regional members to provide Special Capital Increases, and Governors hoped that these badly-needed expressions of support for ADB would not get delayed by lengthy negotiations. Most Governors responded positively to the proposals for more liberal policies for local cost financing, program lending, etc. but some called, in addition, for financing of cost overruns, and financing of the full cost of projects. There was some feeling that, in view of dropping interest rates, ADB should also review its lending rate with a view to lowering it. Most Governors endorsed the recommendation for closer policy dialogue with member governments, which they felt was an important advance from ADB's purely project lending approach in the past. However, there were strong warnings against trying to achieve too much all at once, and many Governors felt that an important prerequisite to an increased role in policy dialogue was a strengthening of ADB's analytical capabilities and a build-up of staff, particularly of country economists.

17. Future Prospects. Turning to the future, President Fujioka said that ADB will need to play a much greater developmental role than hitherto, and that the changing regional and global circumstances now call for new development strategies. Measures that ADB plans to take to assist DMCs in achieving their developmental objectives include the establishment of closer links with DMCs through resident offices; strengthened policy dialogues with member governments; a new approach to project lending, focusing more on the specific needs of individual countries; and closer consultation with member countries in the formulation of country strategies and programs. Coupled with this would be increased emphasis on the development of human resources to enable DMCs to maximize capital investments. In addition, ADB's lending over the next four to five years will double from \$10 billion to \$20 billion, with more diversification of operations.

18. Recognizing the importance for economic development of an understanding by policymakers of the development process, President Fujioka announced his intention to convene, in August 1983, the first in what he hoped would become an annual series of ADB Round Tables, at which senior officials of developing and developed countries, and of ADB, could discuss relevant topics.

19. In conclusion, President Fujioka acknowledged the proven growth potential of the Asian-Pacific region and expressed the hope that, once DMCs get through the current crucial period, this economic growth would be resumed. ADB, he felt, would have an important role to play in that process.



20. Several Governors expressed support for the establishment of more resident offices in member countries, but all agreed that these offices must have a sufficient degree of authority for decision-making and must therefore be staffed by high quality personnel. Governors from the South Pacific Island countries all welcomed the prospect of the proposed South Pacific Regional Office, and the Governor from Cook Islands invited ADB to establish the office in his country.

#### Other Country-Specific Issues

21. China. An initial application for membership had recently been submitted to ADB by the People's Republic of China, whose Government stipulated, as one of the conditions of its membership, that Taiwan's membership be revoked. At the time of the Annual Meeting, no decision had been made on this question. Governors for Bangladesh, France, Nepal, Pakistan and the Philippines all endorsed China's membership. ADB should, they felt, become a development resource center for the region as a whole, without excluding any one country, and the People's Republic of China should take its rightful place in the institution. The Republic of China, on the other hand, stressed that it has every right to remain a member of ADB. A founder member of ADB in 1966, it has fulfilled all its obligations and is a member in good standing by any standards. No longer a borrower, the Republic of China has voluntarily contributed funds to the Technical Assistance Special Fund and, more recently, to the Asian Development Fund.

22. India. At ADB's Annual Meeting in April 1981, the Governor for India announced his Government's intention to borrow from ADB's ordinary funds with effect from 1983. This matter was discussed by ADB's management and Board in connection with the recent General Capital Increase, when doubts were raised as to the feasibility of ADB's administering a lending program to India given ADB's resource constraints. The Governor for India, in putting forward a case for ADB's providing funds for his country, described the effective measures taken by his Government to sustain investment levels and reduce inflation. To continue to sustain these efforts and bring about the necessary structural adjustments without going in for large commercial borrowings, however, he said that India would have to look to multilateral and bilateral sources of development assistance. The Governors for Denmark and Viet Nam supported India's request, which they said was fully legitimate.

23. Viet Nam and Afghanistan. Governors for both Viet Nam and Afghanistan again called on ADB to resume lending to their countries.

24. South Pacific. Governors for most of the South Pacific Island countries generally felt that their countries should receive special treatment by ADB, with increased flexibility in the application of lending criteria, due to the small size and scattered geography of their islands. As applied now, they felt that ADB's criteria discriminated against them. The Governor for the Solomon Islands, commenting on the arrangement between ADB and the World



Bank for co-financed operations with ADB in the lead, said that he wanted the World Bank to continue to develop its own knowledge of the region and its needs; his Government did not like the idea of the World Bank abdicating this role to ADB.

25. Hong Kong. The Governor for Hong Kong announced that his Government was in the process of identifying capital projects which might be suitable for ADB financing. Hong Kong has not borrowed from ADB since 1980, and any future requests for assistance would not be on a large scale or over a long period, but would be intended to help Hong Kong get "over the hump."

26. Singapore. Although Singapore did not borrow in 1981/82, the Governor for Singapore stressed his country's position as a developing member country with full borrowing rights.

27. Pledges. The Governor for Germany announced his Government's pledge of Dm 2 million (generally untied) to the Technical Assistance Special Fund. The Governor for the United Kingdom also announced a pledge to the Technical Assistance Special Fund, of £ 200,000, reciprocally untied, to be disbursed by March 31, 1984.

#### Closing Remarks

28. Chairman Pant observed that the common theme throughout the meetings had been how to cope with the difficult economic situation facing the region, and said that he was encouraged by the members' commitment to adopting a cooperative approach to solving their problems. Governors, he felt, had highlighted the relevance of ADB as a development institution, and reaffirmed the soundness of the approach to development issues being pursued by ADB. Mr. Pant acknowledged the excellent management of President Fujioka and his management team, to which could be attributed ADB's high credit rating in international capital markets. He concluded by offering his congratulations to the Governor for the Netherlands on his election as Chairman of ADB's Board.

29. In a brief statement, Chairman-Elect H.O. Ruding, Governor for the Netherlands, said that his Government was honored that ADB's Board of Governors had accepted the Netherland's invitation to hold the Seventeenth Annual Meeting in Amsterdam. He said that Europe is showing an increasing interest in ADB, not only through its non-regional members, but also through the commercial and financial communities. Commercial banks are showing more interest in co-financing with ADB, which should result in additional funds being channelled to DMCs. Mr. Ruding endorsed the recommendation made in the report on ADB's financial policies that ADB should become much more visible if its good financial reputation, critical for a strong ranking in capital markets, is to be understood by the financial community. He also endorsed the establishment of an ADB office in Europe.



Next Meeting

30. The Seventeenth Annual Meeting of ADB will be held in Amsterdam from April 25 to 27, 1984.

cc: Messrs. Clausen, Stern, Karaosmanoglu, Hopper, Kirmani, Thalwitz,  
Jaycox, Wiehen, Vibert, Sankaran, Ms. Ogawa, Davis  
East Asia and Pacific Division Chiefs  
South Asia Division Chiefs

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June 6, 1983

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Next Meeting

The Seventeenth Annual Meeting of ADS will be held in Amsterdam from April 25 to 27, 1984.

For Names: Glendon, Brian, Karosmanoglu, Hopper, Kirman, Thelma, Jaycox, William, Albert, Sakasun, Mr. O'Quinn, Davis  
East Asia and Pacific Division Chairs  
South Asia Division Chairs

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February 24, 1983

Dear Mr. Fujioka:

I am writing to you in connection with the forthcoming visit to the Asian Development Bank of Mr. Warren C. Baum, who is a Vice President of the World Bank and Chairman of the Consultative Group on International Agricultural Research. I understand that Mr. Baum has an appointment with you on March 28, to discuss the work of the CGIAR and the role of the regional banks in supporting the international agricultural research centers. Mr. Baum will be joined by Dr. Swaminathan, the Director General of the International Rice Research Institute. They will subsequently be going to Beijing where IRRI is to be awarded the Third World Prize for its contribution to agricultural production in Asia.

As you may know, the World Bank provides the Secretariat of the CGIAR and has been contributing roughly 10% of the total funding. The Inter-American Development Bank is a major contributor to the centers in Latin America.

While I recognize that each of the regional banks is unique, I very much hope that the Asian Development Bank will find it possible to make a larger and more sustained contribution to the work of the Group. The budgets of the international research centers are under pressure because of inflation. While most of the present donors are increasing their contributions each year, these increases are not sufficient to meet the essential needs of the centers. There are very few potential donors remaining outside the Group. The vital contribution that the centers have made and continue to make to agricultural productivity in Asia directly supports the objectives of the Asian Development Bank. May I therefore invite you to use the occasion of Mr. Baum's visit to consider whether the Asian Development Bank can take a more active participation, both financial and scientific, in the work of the CGIAR.

With best wishes,

Sincerely,



A. W. Clausen

Mr. Masao Fujioka  
President  
Asian Development Bank  
P. O. Box 789  
Manila, Philippines



THE WORLD BANK

ROUTING SLIP		DATE: July 29, 1982
NAME		ROOM NO.
Mr. Clausen		
APPROPRIATE DISPOSITION		NOTE AND RETURN
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COMMENT		PER YOUR REQUEST
FOR ACTION		PREPARE REPLY
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NOTE AND FILE		URGENT
REMARKS: EDI has been trying for some years to work more closely with the Asian Development Bank. The new ADB President is apparently devoting some attention to ADB training activities. Mr. Mozoomdar believes there may now be more receptivity to cooperative undertakings, and that this would be encouraged by some words from you.		
FROM: Shirley Boskey Acting VPE	ROOM NO.: E-823	EXTENSION: 72173

*S.B.*



AWC

July 29, 1982

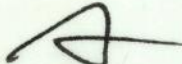
Dear Mr. Fujioka:

I have been told that you are taking a new look at the training policies and programs of your institution. As you will have learned, the Asian Development Bank and The World Bank's Economic Development Institute have cooperated in training officials of Asian countries, but only occasionally. It would, I believe, be to the advantage of our common developing country membership if that cooperation could be expanded. It could be especially beneficial for the Pacific island countries whose capacities for economic management and for project planning and implementation are limited.

As you may know, staff of the Bank and of EDI visited the Asian Development Bank in the spring and had useful discussions with your staff. They took the occasion to explain EDI's new regional approach, and the greater emphasis it is now placing on assistance to strengthen regional and national training institutions. As a follow-up to that visit, EDI is sending information on its current and FY84 programs, at headquarters and overseas, to the Chief of your Development Policy Office. We have some ideas for specific joint activity which we would be glad to explore with you. And if there is any way in which EDI can be helpful to you and your staff in the review which you are undertaking, I hope you will be in touch with EDI's Director, Ajit Mozoomdar.

I take this occasion to welcome you to the fraternity of international financial institutions, and to wish you success in your new post.

Sincerely,



A. W. Clausen

Mr. Masafusa Fujioka  
President  
Asian Development Bank  
P.O. Box 789  
Manila, Philippines

Cleared with and cc: Mr. Mozoomdar  
cc: Mr. Clausen's Office (2)

AMozoomdar:SEBoskey:di



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Y. KAMIHARA, PERSONAL ASSISTANT TO PRESIDENT, ASIANBANK  
MANILA, PHILIPPINES  
IN REPLY YOUR CABLE MARCH 19, PLEASED TO INFORM THAT MEETING  
PRESIDENT FUJIOKA WITH MR. CLAUSEN SCHEDULED FOR APRIL ONE AT  
FOUR P.M. STOP WOULD APPRECIATE YOUR CONFIRMING SUITABILITY THIS  
ARRANGEMENT REGARDS O. LAFOURCADE, ASSISTANT TO THE PRESIDENT

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SUBJECT: Meeting w/President ADB	DRAFTED BY: OLafourcade
CLEARANCES AND COPY DISTRIBUTION: Messrs. Husain, Benjenk, Qureshi	AUTHORIZED BY (Name and Signature): Olivier Lafourcade <i>O. Lafourcade</i>
	DEPARTMENT: Office of the President
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PERSONAL ASSISTANT TO PRESIDENT  
W.A. CLAUSEN  
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COMMUNICATIONS DIVISION

ASIAN DEVELOPMENT BANK PRESIDENT MASAO FUJIOKA  
WILL BE IN WASHINGTON APRIL AND WOULD VERY MUCH  
LIKE TO CALL ON PRESIDENT CLAUSEN ON 1 APRIL.  
WOULD GREATLY APPRECIATE RECEIVING REPLY WHETHER  
POSSIBLE AND IF SO AT WHAT TIME.

Y. KAMIHARA  
PERSONAL ASSISTANT TO THE PRESIDENT  
ASIANBANK  
MANILA

☒  
248423 WORLDBANK  
40571 ADB PM))))  
REPLY VIA ITT



## Biographical Information

MASAO FUJIOKA  
Incoming President, Asian Development Bank

### Experience

- 11/24/81 - Will take office as President, Asian Development Bank
- 1977-11/81 - Executive Director of the Export-Import Bank of Japan
- 1973-77 - Ministry of Finance: Director General, International Finance Bureau (1975-77), Deputy Director (1973-75)
- Before 1973 - Varied experience in international finance area.
- 1966 - Director of the Department of Administration, Asian Development Bank
- 1960 - International Monetary Fund, Japan Desk

### Other

Several publications on Japan's international economy, e.g. "The North-South Issue and Japan."

### Education

Master of Law. Tokyo University

### Personal

Born in 1924. Married with one daughter and two sons.  
Hobby: golf and gardening.  
Fields of interest: balance of payments, international finance,  
international investment and foreign aid.

Attachment

September 1981



# Tokyo's liberal image

By Susumu Awanojara

Tokyo: For 30 years, the powerful monetary authorities here — the Finance Ministry and the Bank of Japan — stubbornly maintained the country's financial seclusion. Even while the Japanese economy made a dramatic comeback from wartime devastation, and its exports penetrated every corner of the world, the financial sector remained in isolation. But recently sweeping changes have been made to Japan's notorious foreign-exchange controls, and officials now insist that they have one of the most liberal systems in the world.

Those who remember Japan's so-called exchange liberalisation measures of the early 1970s, which were swiftly replaced by renewed rigid controls in the wake of the oil crisis, remain unimpressed by the new moves. The sceptics see them only as attempts to encourage capital outflows and reduce exchange reserves in the face of mounting international pressure. Once Japan's balance-of-payments position deteriorates, they argue, the policy pendulum will swing the other way.

Others are somewhat kinder. They consider that even if the new moves are an *ad hoc* response to a particular situa-

tion, and even if they were introduced reluctantly, they nevertheless reflect real changes in policy. These observers see them as a speeding-up of the official retreat from Japan's Foreign Exchange Law, enacted in 1949. The law basically prohibits all external transactions, all exceptions being discretionary. Over the years, the law has become progressively anachronistic. The authorities have been too conservative and jealous of their powers to revise the law itself. But they have made substantial relaxations through ordinances and administrative guidance — although they remain arbitrary and their ordinances and guidances are purposely terse and vague.

Only history will tell how serious the monetary authorities now are about "internationalising" the yen and the Tokyo financial market through easing controls. In the short term, however, the Japanese private sector will have to learn to take exchange risks, and non-residents will find it much easier than in the past to raise funds in Tokyo.

The most significant change made recently was the relaxation of restrictions on conversion of foreign currency into yen. Enacted in 1968, primarily to pre-

vent a rapid inflow of short-term capital into Japan, these restrictions have in the eyes of foreign critics become the symbol of the country's strict exchange controls. Under the regulations, the total of spot foreign currency liabilities and free yen holdings (yen which the non-resident depositor can always convert into a foreign currency) of a domestic bank could not exceed its spot foreign currency assets. For foreign banks operating in Japan, the authorities set their respective spot foreign currency oversold positions: in other words, liabilities could exceed assets but only by amounts determined by the authorities.

Tokyo has decided to abolish the yen conversion restrictions and replace them with restrictions on spot foreign currency holdings. The latter represents a relaxation for domestic banks because they do not necessitate foreign currency holdings against free yen holdings and because the authorities may eventually allow domestic banks to take oversold positions. Presumably the new regula-



Fujioka: Prudence.

## Prime mover of the freer yen

Tokyo: A key figure in Japan's recent series of exchange control relaxations was Masao Fujioka, the director-general of the Finance Ministry's International Finance Bureau. In a ministry noted for the stiffness of its officials, Fujioka stood out as one of the more open and "internationalised" figures. (He recently moved to the Export-Import Bank as an executive director.)

Fujioka has long been a proud proponent of exchange liberalisation and internationalisation of the yen. In late 1960, he was sent to the International Monetary Fund (IMF) to sit at the Japan desk, and he paved the way for the country's adoption in 1964 of article eight of the IMF agreement, which prohibits direct restrictions on payments accompanying current transactions. After returning to Tokyo for two years, he spent time in Bangkok and Manila helping to establish the Asian Development Bank. He stayed on in the Philippines to become the bank's first director of administrations.

As director-general of the International Finance Bureau since 1975, Fujioka pushed for the internationalisation of the yen through various means. Internationalisation, according to Fujioka, was a natural result of Japan's economic growth and exchange liberalisation. "Foreigners began to want to hold yen assets and to use yen in their transactions. And we've tried to comply," he says. But, like a good Finance Ministry official, Fujioka moved slowly — "making sure that conditions were right."

His prudence is reflected by his admission that the reserve requirement on foreign currency liabilities was activated largely to induce domestic banks to repay short-term borrowings. There are three alternatives for a country with a strong balance-of-payments position, Fujioka says. One is to keep accumulating exchange reserves, another is to revalue its currency, and the last alternative is to reduce short-term external liabilities, which for its own good a country should not have in too large a quantity.

The authorities did not get very far in inducing the last alternative — not only because of the gap in interest rates but

because the dollar has enjoyed a privileged position in Japan since the war, according to Fujioka. The imposition of the reserve requirements has finally put the dollar and the yen on an equal footing, he says.

INTERVENTION: At the ministry, Fujioka had to contend with international — particularly American — criticism that Tokyo was resisting the upward pressure on the yen by intervening in the market. He says the criticism was based partly on misunderstanding, and partly on prejudice. "Intervention to prevent violent fluctuations was sanctioned at Rambouillet and by the IMF. The Americans have a thing about the 'clean' float, but it is by no means an international consensus. When I explained to the Americans exactly what we were doing they understood and accepted our position," he says.



ns would be implemented in such way that they would mean a relaxation for foreign banks too.

For a start, they will be allowed slightly greater oversold positions. Of course, the authorities are moving very cautiously. At first, only one-third of the free yen holdings of domestic and foreign banks alike was exempted from balancing foreign-exchange holdings. And the authorities are maintaining the restrictions on the banks' overall (spot plus forward) exchange positions. But the authorities are convinced that the new regulations are quite similar to those of other advanced economies and that they are an improvement on the former restrictions on yen conversion — although how much so will depend on implementation.

**INTEREST-FREE DEPOSITS:** One catch is that, before abolishing the restrictions on conversion into yen, the authorities for the first time used the reserve deposit requirement for banks' foreign currency liabilities. Interest-free reserve deposits were required for yen deposits and at various points in the past also for banks' free yen holdings — but the latter were not in effect in the recent past. Now the banks must deposit 0.25% of their foreign currency liabilities and free yen holdings with the Bank of Japan, interest free.

The reserve requirement decision was in the works for some time as the authorities searched for ways to reduce the

domestic banks' enormous short-term foreign currency liabilities. These banks were engaged in what experts call "maturity transformation" activities, borrowing short-term and lending long, when the shock oil price hike and embargo came. They were badly burned in the Eurodollar crisis that followed, but when things returned to normal and funds were made available at low cost again, the Japanese banks continued to depend on dollar financing, at least for imports. (Long-term lending offshore by domestic banks was suspended by the authorities.)

The solicitous authorities did not like this and began a campaign for the "internationalisation" of the yen, which means, simply, giving the yen a greater role in the country's current and capital transactions. The wide gap between domestic and foreign interest rates — foreign rates being lower — and the potential loss of handling fees from exchange transactions made the banks reluctant to shift into yen for import financing. Reserve requirements for foreign currency liabilities, provided for in 1972 but never put into effect, were considered by the authorities an effective means to induce the yen shift.

It also occurred to the authorities that these requirements, which constitute an additional policy instrument to regulate capital inflows, would enable them to lift the much-criticised restrictions on conversion into yen.

If there is too large or quick an in-

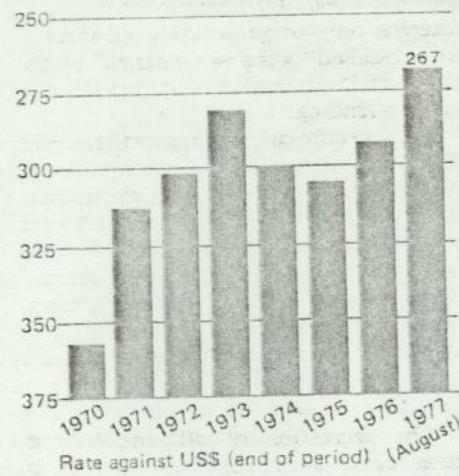
major industrial countries Japan now has the most liberal exchange policy after West Germany. (The US, of course, is excepted, because the dollar is universally accepted as the international currency.) Even Switzerland, which is often thought to have a fairly liberal system, actually has "extremely severe" controls such as negative interest and partial freezing of deposits by non-residents.

But will not Japan revert to strict controls once the balance-of-payments turns against it again? Fujioka says he hopes that that would not be the case — although he has left the Finance Ministry and has no say in the matter. Violent reversals of policy, he believes, are damaging to the country's reputation — particularly now that Japan must take on international responsibility as an industrial giant.

There will be times when authorities will be tempted to resort to the direct (and effective) restrictions of the past. But Fujioka believes Japan should keep its doors open, because the merits of liberalisation outweigh its possible adverse influence on domestic financial or exchange policy.

— SUSUMU AWANOHARA

## HISTORY OF THE YEN



flow, the reserve requirement could be raised to discourage it indirectly. (The authorities prefer indirect restrictions to direct ones through holding limits because they are more general and less discretionary.) Another attraction of applying reserve requirements for foreign currency liabilities as well as for domestic deposits is that it would provide a link between the ordinary yen and foreign currency markets — the lack of which has been criticised.

**OFFSHORE LENDING:** The second relaxation was in domestic banks' offshore lending (REVIEW, Sept. 9). During the Eurodollar market crisis of 1974 and the emergence of high "Japan rates" for Eurodollar borrowings, the authorities prohibited Japanese banks from making new medium- and long-term commitments and also set ceilings for their short-term dollar lendings. As a result, outstanding dollar lendings of Japanese banks began to decline rapidly from around mid-1975, and to their great consternation, their market shares dropped, too. The banks clamoured for a lifting of the ban and the authorities began moving slowly at the end of last year, allowing the banks to make new medium- and long-term commitments to match the reduced outstanding loans.

Recently, the authorities carried the relaxation much further. Now the domestic banks can make as many medium- and long-term commitments as they like, as long as they are made against medium- and long-term borrowings: that is, the authorities are still wary of a repeat of excessive maturity transformations and want maturities matched. And to help the banks raise medium- and long-term capital, the authorities have been generous in allowing specialised long-term credit banks and Bank of Tokyo to float Eurodollar bonds. For commercial banks, which are not allowed to place bonds, a new in-

But, he claims, some Americans are jealous and get emotional about Japan's export success in cars, steel and television sets. Since they feel US products are superior, they suspect that the Japanese must be cheating, Fujioka contends. He also claims that there is a lot of misunderstanding behind foreign criticism of Japan's exchange controls.

Admitting that some procedures demanded by the authorities were complicated, he insists that since the authorities have normally approved all applications, the system must be said to be free. The remaining restrictions on residents issuing bonds overseas and drawing in foreign loans must be maintained — "otherwise domestic tight money policy won't be effective and a rush of Japanese borrowers into the US and European markets could disrupt these markets as well."

The restrictions on residents' convertibility are said to be necessary to prevent currency "speculation." The Japanese Finance Ministry has yet to explain convincingly how speculation, which it opposes, differs from investment (for capital gains), of which it approves.

All in all, Fujioka claims that of



strument – the floating-rate certificate of deposit (CD) – has been created.

At the same time, the authorities are pushing longer-term lending in yen, and there is only one restriction on these – the so-called “window guidance” by the Bank of Japan, which limits banks’ overall yen lending.

The specific ceilings on short-term yen lending have been abolished – although the situation remains vague and the authorities say they do not want to see “drastic increases,” implying that they are still thinking in quasi-ceiling terms. For medium- and long-term loans, banks must operate within the quarterly limits laid down, but no distinction is drawn between whether these are domestic or foreign yen loans.

The relaxation of offshore lending rules came about only as a result of pressure from domestic banks. As the financial plight of the non-oil-producing developing countries became an international issue, and as the developed nations pledged efforts to induce flows of funds into these countries through official as well as private institutions, Tokyo could not very well maintain its strict restrictions on offshore loans by commercial banks. Obviously, however, the new reserve deposit requirements of foreign currency liabilities can be activated to slow offshore dollar lendings by domestic banks should they start moving too quickly for the conservative tastes of the authorities.

The third set of relaxations also concerned capital transactions. Hitherto there have been three types of yen account: free, “fifth-clause,” and ordinary. Free yen are the holdings of non-residents, whatever currency they were originally in. They can be converted into other currencies unconditionally. Fifth-clause accounts, so called because they are based on the fifth clause of the Foreign Exchange Ordinance, derived from sales of bonds by non-residents which have been held for less than six months. Funds from these accounts could only be converted or remitted on a limited basis. Ordinary yen accounts are the only accounts permitted to residents, and lack convertibility and transferability. (A continuous stay of six months in Japan makes a person a resident.)

The fifth-clause account was specifically designed to prevent non-residents from speculating in the yen or in short-term interest rate movements. Clearly, they would not engage in short-term transactions on a significant scale if they could not remit the funds. This naturally put a major damper on short-term capital movements in and out of the Tokyo market – to the satisfaction of the authorities and the irritation of foreign investors.

The fifth-clause account has now been completely abolished, so that non-

residents can put the proceeds of short-term transactions into free yen accounts and remit them. Some restrictions on non-residents remain, but the Tokyo market should be a lot freer.

The third set of relaxations included breaks for residents too. Residents, including individual investors, are now allowed to acquire short-term (less than one-year) paper in foreign markets. Also, the limit on residents’ foreign currency savings has been lifted. These relaxations only represent a return to past levels of restriction. (Acquisition of short-term securities and foreign currency savings had been liberalised in the early 1970s, but were severely curtailed after the oil crisis.)

**FOREIGN CURRENCY:** As well as the liberalisation in capital transactions, the authorities introduced substantial simplifications and relaxations in non-trade current transactions and accompanying payments. The list of liberalisations is extensive, but the most important ones are: an increase from US\$1,000 to US\$3,000 in the amount of foreign cur-

mitted), but the applications themselves have been extremely cumbersome. Now a good part of the procedural requirements have been abolished or simplified.

In addition to these relaxation measures, the monetary authorities are discussing with the Ministry of International Trade and Industry the possibilities for corresponding simplification of controls and monitoring of visible trade transactions. This is partly in response to the mounting foreign criticism that complicated import procedures here constitute a non-tariff barrier against foreign products. The Japanese banks, saddled with enormous paperwork for the authorities, would welcome such changes. But measures involving more than one ministry are normally slow to materialise, and bankers and traders here are not expecting sudden improvements.

How the recent relaxation measures are evaluated depends on whether the observer sees them more as *ad hoc* and cyclical, prompted by the country’s current strong balance-of-payments position, or as steps in Tokyo’s secular ef-



Foreign-exchange transactions: Controls eased.

rency which can be remitted freely without official permission; virtual lifting of limits on foreign currency purchases for foreign travel; simplification of contracts for such services as shipping, insurance, performances, copyright and market research; and an increase from US\$1,000 to US\$3,000 in the amount of re-exchange allowed automatically to non-residents leaving Japan.

Significant common denominators of these relaxations are that now beneficiaries need not make trips to the Finance Ministry or the Bank of Japan and go through cumbersome and sometimes humiliating procedures before obtaining permission for the transactions, but can finish their business at the private banks. Stringent requirements for producing evidence of transactions have also largely been eliminated. Tokyo has long claimed that it had completely liberalised current transactions (and it is true most applications have been automatically approved once they were sub-

mitted). In the immediate post-war years, foreign-exchange transactions were basically banned, with a few officially-sanctioned exceptions. The emphasis was on inducing inflows and discouraging outflows. But when the European currencies restored convertibility among themselves, the Japanese followed modestly by establishing the free yen account for the non-resident. That was in 1960.

In the mid-1960s, Japan began assuming the obligations of article eight of the International Monetary Fund Agreement, prohibiting direct restrictions on payments accompanying current transactions. And, in the late 1960s, Japan became a trade and current-account surplus nation, increasing the black figure year by year. Even after the “Nixon shock” – a forced revaluation of the yen from 360 to 308 to the US dollar – the country’s surplus continued to rise, forcing the monetary authorities to take counteracting measures much like those



recently introduced. They included diverse means to reduce (and hide) exchange reserves, restrict inflows, induce outflows of capital, and to liberalise imports.

Then came the oil shock and there was another 180-degree reversal of policy. But despite their sense of crisis, the Japanese were among the first to recover from the confusion that followed the oil shock, once again building up a trade surplus and becoming an attractive market for foreigners to raise funds in. Its growing surplus generated envy and resentment, and Japan has willy-nilly taken on a new role as "one of the three engines" of the world economy. Part of the new burden was to play a more active financial role in the international market.

How permanent the most recently-introduced moves are meant to be will not be known until the country's for-

tunes once again reverse themselves. Meanwhile, many critics - particularly foreigners - remain sceptical. Foreign banks, of course, do not like the new reserve requirements, being almost totally dependent on overseas sources of funds. Some foreigners also suspect that the Japanese authorities are trying to keep the value of the yen down by encouraging a greater outflow of capital.

There is worry, too, that the reserve requirements could discourage imports (which are still financed through dollar usances) and come into conflict with Tokyo's overall policy of balancing its trade and inducing capital outflows. Finally, determined critics point out that some important activities by residents (bond flotations overseas, acceptance of "impact" loans - ones which lack a specified purpose - and free conversion of yen for unspecified purposes) are still prohibited and that Tokyo's

controls are not as liberal as West Germany's.

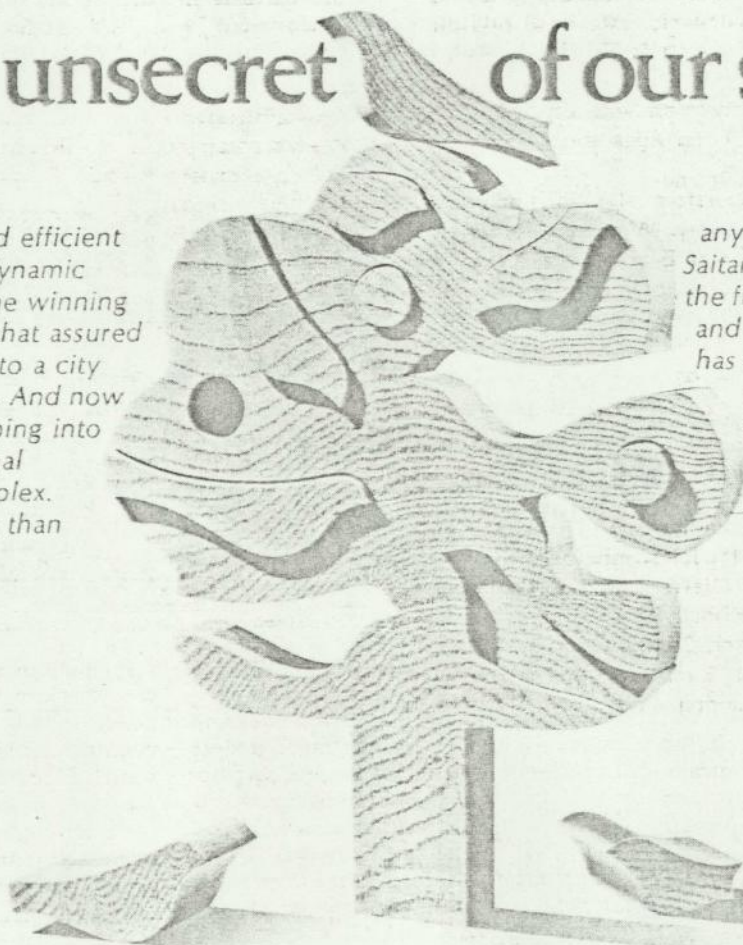
Stringent official controls have protected the Japanese public from exchange risks in the past. An inevitable effect of liberalisation would be to pass on some of the risk burden to domestic private interests. Another effect would be a closer relationship between Tokyo and international financial (particularly short-term) markets. This, in turn, would induce a rationalisation of the domestic financial markets, both for yen and dollars, which have been rigidly controlled by the authorities.

And since domestic and international markets are no longer separated by a thick wall, officials would have to relearn how to carry out effective monetary and fiscal policies domestically while at the same time maintaining acceptable trade and exchange policies within the changed framework.

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1978

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PRAEGER SPECIAL STUDIES



# Japan's Policy on International Finance

FUJIOKA MASAO

**S**INCE THE LATTER HALF of the 1960s, Japan's international balance of payments has been characterized by a surplus, representing a sharp departure from the previous trend of deficits. During this same period, Japanese policy on international finance has also gradually evolved, reflecting this era of surplus. There was a temporary halt to the trend after the so-called "oil crisis" of late 1973, which increased Japan's oil payments alone by more than \$13 billion in 1974. After an adjustment period of two years or so, however, Japan's external payments position improved, and since 1976 has again registered a sizeable current account surplus.

Japan's domestic economy, on the other hand, has not fully recovered from the recession triggered by the oil crisis, and economic activities—particularly in the private sector—have remained virtually stagnant. Various fiscal and monetary measures to stimulate domestic demand have been implemented during the past few years. But the effect of these stimuli was not sufficient to prevent a large current account surplus in 1977, which amounted to \$11 billion. The continuing surplus into 1978 has created a vicious circle. A situation has been created in which the balance of payments surplus raises the value of the yen, which cools off the impetus of economic recovery from the recession, which in turn makes reduction of the surplus a very difficult task.

The postwar exchange rate of Y360 to the dollar lasted until 1971. The current value of the yen is around Y220. In the course of last year alone, the yen was revalued by more than 25 percent. Broadly speaking, three factors account for the wide and rapid appreciation of the yen. First, there is the strong surplus trend in Japan's external payments. The second factor is the weakness of the dollar itself, reflecting disequilibrium in the US balance of payments, which in 1977 had a \$20.2 billion current account deficit. Thirdly, it should be pointed out that under

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the present floating system, exchange rates are highly susceptible to speculative capital movements.

Recovery of the Japanese economy from the recession will certainly contribute to the growth of the world economy and, therefore, should be mutually beneficial to both the United States and Japan. No one disagrees with this. But the point is often overlooked in the United States that a more stable yen-dollar exchange rate would greatly facilitate Japan's recovery from the recession. In this context, better understanding of the exchange rate issue by American leaders is greatly to be hoped for.

In addition to the expansionary policy at home, Japan has—as a responsible nation—pursued a liberal trade and exchange policy toward the world economy. It was the oil crisis that reduced world trade, and led to a serious global recession. The lesson of this experience is that the expansion of global trade, based on the principle of free trade, is essential to the sound and steady growth of the world economy. In order to support the ongoing Tokyo Round of tariff reduction negotiations aimed at checking emerging protectionist sentiment in many countries, as well as to increase its own imports, Japan reduced import duties on 124 items on March 4 of this year. Such products as automobiles, electronic computers, color films, and whiskey are included in the 124 items. Japan's foreign exchange control has also been almost completely liberalized, and there is virtually no direct control over international payments flows. All of these developments are a reflection of Japan's basic philosophy to seek more active international economic interchanges, not only in trade but also in investment and finance.

## II

In what follows, I should like to elaborate on Japan's policy on international financial transactions. Capital outflows have increased recently. In the Fall of 1976, restrictions on external lending activities by Japanese banks were relaxed. Since then, substantial loans have been made to a number of middle-income countries, such as Brazil, Argentina, Mexico, and others. Issuance of yen-denominated bonds in the Tokyo capital market by nonresidents is also encouraged. During April 1978 alone, the aggregate amount of issues by foreign entities is expected to exceed Y100 billion, or \$500 million, for the first time. This policy of encouraging free flows of capital shows Japan's willingness to



cooperate with the industrial countries on the balance of payments problem. It also ensures a greater transfer of resources from Japan to the developing countries. It is certain that Japan will strengthen this form of international economic cooperation in the future.

The basic policy stance of Japan has been to cooperate positively with the deficit countries in financing until such time as the adjustment process is completed. When a balance of payments disequilibrium occurs, altering the exchange rate functions as a corrective adjustment up to a certain point. But as corrective measures for balance of payments deficits, appropriate fiscal and monetary steps are just as important as adjusting the exchange rate. At any rate, the adjustment process—whether through a change in the exchange rate or in economic policy—requires a certain amount of time before the effects begin to show.

The question of financing the balance of payments deficit during the adjustment period cannot be ignored. This is why Japan supports the Supplementary Financing Facility of the International Monetary Fund. This scheme calls for the IMF to assist a country with external deficits by extending supplementary balance of payments financing through additional resources made available by surplus countries. Thus, Japan is willing to cooperate financially with the world through both official and private channels.

### III

There are various ways in which a country can cooperate in the international economy, and in particular with the developing countries. The first—a very important form of cooperation—is Official Development Assistance. Notwithstanding a large budget deficit and a situation where even domestic needs cannot be met, the Japanese government has pledged to double its ODA within the next five years, and efforts are being made even to surpass this goal.

Another means of international economic cooperation is to contribute toward the expansion of world trade. Approximately 80 percent of the development funds of developing countries come from their export earnings. This clearly demonstrates the crucial nature of an expansion of world trade for the developing world. Furthermore, since their exports are predominantly primary commodities, it is very important to ensure the stabilization of the export earnings of these commodities. Still another means of cooperation is through direct investments in the

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developing countries. This would contribute to increased employment opportunities, the domestic substitution of imports, expanded exports, and so forth. But in this connection, it must be recognized that there may be an unfavorable investment climate in many countries, which makes investors hesitate until such conditions improve.

Although trade and investment are very important ways of cooperating with the developing countries, too large a presence often leads to conflicts of interests with host countries, as both the United States and Japan have learned in the past. In contrast, capital and financial cooperation is comparatively free from such potential friction, and there is ample room to increase financial cooperation with the developing world. But how should we do this?

One way is by affording the developing countries broader access to the international capital markets in order to procure funds. As previously mentioned, the Tokyo capital market is now very open to them.

Direct loans by commercial banks is another answer. Loans by Japanese commercial banks to the developing countries were severely restricted after the Euromarket crisis of 1974. This was because the banks were lending on medium- or long-term, but the funds were borrowed on a short-term basis from the Euromarket. The Japanese government, quite rightly, saw the risk involved in such operations. But since Japanese banks have now succeeded in diversifying their sources of lendable funds, as well as the maturities of such funds, the restrictions have been relaxed since the Fall of 1976. A noticeable trend in these bank loans is the increase in yen-denominated loans. Since this does not involve short-term borrowing from abroad to finance the long-term lending, the kind of risk mentioned earlier is not involved. And since this serves the same purpose of providing foreign exchange to the developing countries, it should be further encouraged.

Another means of cooperation is trade financing by commercial banks. Various international and domestic financing facilities, which are taken for granted in the industrial world, are not always available in the developing countries. When the economies of these countries reach a certain stage of development, these facilities will gradually come into existence. But in the meantime, the financial institutions of the industrial countries have an important role to play. Japanese security companies and banks have now gained a very broad international experience. I am convinced that they will be willing to put that experience to



good use by cooperating with the countries that wish to raise funds in the Tokyo market, or to utilize other financial facilities available in Japan.

#### IV

I turn now to the internationalization of the yen. As a country with a strong economy, and hence a strong currency, internationalization of the yen has become an important issue for Japan. The internationalization of a currency may be measured, first of all, by the extent to which it is used in external trade. Only about one percent of Japan's exports was denominated in yen before the oil crisis. This has now risen to more than 20 percent. Imports denominated in yen, on the other hand, accounted for less than one percent in the early 1970s, and the share has not changed significantly.

Secondly, the international nature of a currency is measured by the possession of that currency by foreigners. The outstanding amount of free yen accounts, which are the freely convertible yen deposits in Japan held by nonresidents, was around \$500 million in 1970. This is estimated to have grown by ten times since then. The portfolio of Japanese stocks and bonds purchased by foreigners has increased remarkably in the past several years. Leaving aside stocks which are traded for various reasons, the purchase of bonds by nonresidents exceeded sales by Y644 billion, or nearly \$3 billion. The purchase trend of bonds with fixed yields is considered to be a more reliable indicator of foreign preference for the yen. It is reported that the monetary authorities of many nonresidents hold yen assets as a part of their official reserves. It is unfortunate that, in order to eliminate speculative purchases, acquisition by nonresidents of bonds with maturities shorter than five years and one month was banned in March of this year. When the exchange market stabilizes, this restriction should and will be removed.

Yet another reflection of the internationalization of a currency is borrowing in that currency by nonresidents, as mentioned earlier. Many international organizations and foreign governments have floated yen-denominated bonds in the Tokyo market since 1970. The first issue was pioneered by the Asian Development Bank in December 1970. As of the end of March this year, 44 public issues amounting to Y715 billion, which is equivalent to \$3.25 billion, have been floated in the Tokyo market.

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Biographical Information

TAROICHI YOSHIDA  
President, Asian Development Bank

You will meet Mr. Yoshida  
on Sunday Sept 27 at  
11:45 a.m. He is the  
outgoing President.  
Mr. Fujioka is the new  
President, taking office on  
or about November 1, 1981.

Experience

- Since 1976 - President, Asian Development Bank
- 1944-76 - Ministry of Finance as Director of Banking Bureau and  
later as Vice Minister for International Affairs and  
Special Adviser to Minister.

Education

Tokyo Imperial University,

The biodata on Mr.  
Fujioka will be with you  
by 12 noon on Friday,  
September 25 -  
of.  
9/24

Personal

Born December 24, 1919 in Kyoto. Married with two sons.

Hobbies: painting, horticulture and wood carving.

September 1981



## ASIAN DEVELOPMENT BANK

President - Mr. Tarochi Yoshida  
Vice Presidents - Mr. A. T. Bambawale  
                  Mr. S. Stanley Katz

### I. General Information

A. Functions. The Asian Development Bank (ADB) began operations on December 19, 1966, with the aim of promoting investment of private and public capital in the Asia and Pacific regions, financing projects for economic development of the region which at present are not financed or not adequately financed through existing shares, and acting as a stimulus to other measures for regional economic cooperation.

At the end of 1980, ADB's total authorized capital stood at \$9.21 billion of which \$8.83 billion had been subscribed by the Bank's 43 member countries. <sup>1/</sup> ADB is authorized to borrow on the international capital market and sell bonds to central banks or monetary authorities of its member countries.

The resources of the Bank available for financing concessional loan commitments are administered in the Asian Development Fund (ADF) which was established in 1974. Total resources under administration in ADF at the end of 1980 amounted to \$2,916 million. Loans from ADF resources are made to the poorer and less developed of ADB's members.

Each member country is represented on the Board of Governors by a Governor and an Alternate Governor. The Board of Governors elect the president of ADB and the Executive Directors.

B. Volume and Range of Operations. Over the period 1967-1980, ADB extended 455 loans for a total of \$8.093 billion <sup>2/</sup>. In 1980, ADB lending reached \$1,436 million for 59 projects. The average size of a loan stood at \$24.3 million. The total cost of projects approved for ADB financing in 1980 was estimated at \$3,561 million, of which about 33.4% was met by direct ADB lending.

ADB activities include the extension of (i) ordinary loans and special funds loans; (ii) grants for technical assistance; and (iii) grants for regional activities.

<sup>1/</sup> ADB's membership is composed of 29 regional countries and 14 non-regional countries. Regional countries: Afghanistan, Australia, Bangladesh, Burma, Republic of China, Cook Island, Fiji, Hong Kong, India, Indonesia, Japan, Democratic Kampuchea, Kiribati, Nepal, New Zealand, Pakistan, Papua New Guinea, Philippines, Singapore, Solomon Islands, Sri Lanka, Thailand, Tonga, Vietnam, Western Samoa. Non-regional countries: Austria, Belgium, Canada, Denmark, Finland, France, Federal Republic of Germany, Italy, Netherlands, Norway, Sweden, Switzerland, U.K., U.S.A.



## II. Operational Policies

A. Terms and conditions of lending. Terms and conditions of lending differ according to whether the loans are OCR (Ordinary Capital Resources) loans or SF (Special Funds) loans (including ADF loans).

In its choice of borrowers, ADB in its OCR operations prefers to lend directly to the entity carrying out the projects, and in its SF operations to the Government of the member country where the project is located.

OCR loans. In 1980 the interest rate on OCR loans stood at 8.1% for the period January - June and 9% for the period July - December. The final maturity of an OCR loan is determined by project considerations, especially the economic life of the project, but due account is also taken of country considerations. The grace period is determined mainly by the time needed before the project conceived becomes operational and starts to yield returns. (exceptions to this method of determining final maturity and grace period are OCR loans to Hong Kong and Singapore, and technical assistance loans).

ADF loans. Two criteria for determining the access of countries to ADF lending are per capital GNP and debt repayment capacity. Countries are classified into three groups:

ADF loans carry standard terms of 40 year maturity, including a grace period of 10 years, and a service charge of 1% per annum.

<u>Group A:</u>		<u>Group B:</u>	<u>Group C:</u>
Afghanistan	Nepal	Indonesia	Republic of China
Bangladesh	Pakistan	Papua New Guinea	Fiji
Burma	Solomon Islands	Philippines	Hong Kong
Kampuchea	Sri Lanka	Thailand	Korea
Cook Islands	Tonga		Malaysia
Kiribati	Vietnam		Singapore
Laos	Western Samoa		
Maldives			

Countries in group A are given just priority in the allocation of ADF resources with special attention given to the least developed. In general group A countries receive few OCR loans.

Countries in group B may be provided for modest amounts of ADF resources for financing of projects having a high social content. Indonesia is no longer provided access to ADF resources. The total amount of ADF lending of lending to the other three countries in group B may not exceed 10% of total annual ADF loans.

Group C countries do not have access to ADF loans.

In 1980, the share of concessional loans to the poorer countries was about 33% of total ADB lending.

B. Procurement Procedures. Procurement procedures for goods and services are subject to international competitive bidding from suppliers of member countries.

C. Local Cost Financing. ADB finances mainly foreign exchange costs.

2/ Refer to table 1.1 for detailed breakdown.



D. Technical Assistance. ADB administers the Technical Assistance Special Fund, which is the principal vehicle for mobilization of resources for financing ADB's technical assistance activities. The total resources under administration in the Fund at the end of 1979 amounted to \$41.1 million, of which \$23.8 million has been utilized. ADB also administers technical assistance grants through their channels. In 1980, ADB provided technical assistance for 56 projects. Project preparation technical assistance was extended to 43 projects and advisory and operational assistance for 13 projects. On a sector basis, 69.3% of the total amount of technical assistance approved was for agriculture and agro-industry, 7.3% for energy, 7.1% for industry, 3.1% for transport and communication, and the rest for water supply, education and health (refer to table 1.3).

Under a number of cooperation agreements, ADB administers technical assistance funds for the EEC, Switzerland and other countries.

E. Sectoral Distribution. ADB's activities emphasized sectors related to their Basic Needs Strategy, with the agriculture and agro-industry sector receiving highest priority. The record major sectoral forces has been on the development of the energy sector, particularly on the increased utilization of indigenous energy resources. Another important area of activity is the development of social infrastructure such as potable water, urban development, health care and education. Refer to table 1.4 attached for sectorial breakdown of loan approvals.

Sector lending was introduced in 1980. Two sector loans have been granted: one for the water sector in Indonesia and one for the Highway sector in Thailand.

F. Regional and Country Distribution. ADB extends loans to its member countries. Table 1.2 (attached) details loan approval by country and by source of funds.

### III. Cooperation between ADB and the Bank

A. Volume of Co-financing. As of July 1981, ADB has contributed a total of \$590.6 million of co-financing for 16 Bank group projects in 11 countries. The co-financing has been undertaken on a parallel basis.

B. Special Arrangements. In 1980, the Bank and ADB reached an understanding on co-financing projects in Fiji, Solomon Islands and Western Samoa, whereby the ADB will carry out project appraisal on behalf of the Bank and administer the Bank's fund and monitor the overall project implementation. This co-operation agreement has been applied to the projects in Solomon Islands and Western Samoa in 1980.



Summary of Operations

Table 1.1

(amounts in \$ million)

	1967-1971	1972-1976	1976	1977	1978	1979	1980	1967-1980 <sup>a</sup>
<b>OPERATIONAL ACTIVITIES</b>								
<b>Loan Approvals</b>								
Number of Projects <sup>b</sup>	83	168	34	41	51	54	58	455
Amount of Loans <sup>c</sup>	639.4	2,721.5	775.9	886.4	1,158.7	1,251.6	1,435.7	8,093.3
<b>Ordinary Loans</b>								
Number of Loans	59	115	21	24	31	29	29	287
Amount of Loans <sup>c</sup>	532.2	1,934.0	540.0	614.6	778.2	835.2	958.5	5,652.7
Disbursements	68	879	263	273	295	361	428.7	2,304.7
<b>Special Funds Loans</b>								
Number of Loans	28	89	16	21	22	29	30	219
Amount of Loans	107.2	787.5	235.9	271.8	380.5	416.3	477.2	2,440.6
Disbursements	7	204	63	84	167	125	150.3	737.7
<b>Technical Assistance (Grants)<sup>d</sup></b>								
Number of Projects	55	119	24	42	47	57 <sup>e</sup>	56	376
Amount of Grants	8.0	20.3	4.6	7.2	11.1	13.9 <sup>e</sup>	14.2	75.2 <sup>f</sup>
<b>Regional Activities (Grants)<sup>d</sup></b>								
Number of Projects	11	25	6	7	11	6	15	75
Amount of Grants	4.1	2.4	0.9 <sup>g</sup>	0.9	0.9	1.0	1.6	10.3
<b>RESOURCES AND FINANCES</b>								
<b>Authorized Capital (at end of period)</b>								
In terms of current US dollar	1,327	3,707	3,707	8,711	9,407 <sup>h</sup>	9,512 <sup>h</sup>	9,209 <sup>h</sup>	--
(In terms of 1966 US dollar)	(1,100)	(3,073)	(3,073)	(7,221)	(7,221)	(7,221)	(7,221)	--
<b>Subscribed Capital (at end of period)</b>								
In terms of current US dollar	1,213	3,688	3,688	6,961	8,741 <sup>h</sup>	8,861 <sup>h</sup>	8,828 <sup>h</sup>	--
(In terms of 1966 US dollar)	(1,005)	(3,057)	(3,057)	(5,770)	(6,709)	(6,727)	(6,922)	--
Borrowings (gross) <sup>i</sup>	160	983	529	117	390	348	458	2,455
Outstanding Debt (at end of period)	159	1,084	1,084	1,205	1,610	1,777	1,872	--
Ordinary Reserve (at end of period)	20.0	101.6	101.6	142.2	196.8	298.8	391.2	--
Special Reserve (at end of period)	1.0	18.7	18.7	28.8	42.5	59.3	78.6	--
Gross Income	71.3	346.7	128.3	168.6	213.2	260.8	309.6	--
Net Income after Appropriation of Commission to Special Reserve	37.0	118.4	40.6	72.4	106.4	83.0	131.8	--
Special Funds Resources (at end of period)	192.5	931.9	931.9	1,285.2	1,846.7	2,065.4	2,916.1 <sup>k</sup>	--
Member Countries (at end of period)	36	42	42	42	43	43	43	--
Professional Staff (at end of period)	191	288	288	304	334	360	418	--

<sup>a</sup> Cumulative amounts in last column may not tally due to rounding.

<sup>b</sup> Projects financed from both Ordinary Capital Resources and Special Funds are counted only once; excludes on-going projects for which supplementary loans to meet cost overruns were approved during the year.

<sup>c</sup> Includes refinanced amounts of technical assistance loans.

<sup>d</sup> Includes projects financed from sources outside the Bank, mainly UNDP, EEC and Switzerland; Technical Assistance financed on loan basis are included under loans.

<sup>e</sup> Original total approvals was \$14.1 million for 56 projects. Figures are adjusted to exclude two projects, namely, Smallholders Dairy Development, Malaysia (\$150,000) and Forestry Development, Fiji (\$24,000) which were withdrawn in 1980.

<sup>f</sup> Cumulative total adjusted to include subsequent additional financing of projects, namely, Jute Seed Project (\$154,943), Agriculture Credit (\$60,500), both in Bangladesh; Forestry Development Project (\$191,447), Lao People's Democratic Republic, Muigai Hydropower Project (\$270,000), Nepal, all financed by UNDP; and Lungga Hydropower Project (\$2,624) Solomon Islands, Bank financing.

<sup>g</sup> Original total was \$275,000, of which \$21,000 for updating the Asian Agricultural Survey (Phase II) was reallocated in 1977.

<sup>h</sup> For purposes of the financial statements, capital stock amounts for 1978-1980 have been valued in terms of the SDR, at the value in current United States dollars as computed by IMF. As of 31 December 1980, the SDR was valued at \$1.27541.

<sup>i</sup> Gross contracted borrowings converted in US dollars at exchange rates prevailing at the end of the year of each borrowing. Of the 1980 borrowings, one borrowing in the amount of \$57 million equivalent was signed in February 1981.

<sup>j</sup> Comprises contributions available for loan commitments, resources set aside from capital, net income (expense) and other credit of the Agricultural Special Fund (prior to 1973), the Multi-Purpose Special Fund (prior to 1980) and the Asian Development Fund (after 1973), but excludes resources of the Technical Assistance Special Fund.

<sup>k</sup> Commitments from these resources, after allowing for exchange rate adjustments, cancellations and repayments, totalled \$2,478 million as of 31 December 1980.

Source: Annual Report, 1980.



Table 1.2

**LOAN APPROVALS BY COUNTRY AND BY SOURCE OF FUNDS, 1973, 1980, 1987-1990**  
 (amounts in \$ million)

Country	1973			1980			1987-1990			%
	OCR	SF	Total	OCR	SF	Total	OCR	SF	Total	
Afghanistan	—	20.10	20.10	—	—	—	—	95.10	95.10	1.18
Bangladesh	—	115.10	115.10	—	150.90	150.90	11.40	619.93	631.33	7.80
Burma	—	38.80	38.80	—	50.50	50.50	6.60	283.66	290.56	3.59
Cambodia	—	—	—	—	—	—	—	1.67	1.67	0.02
China, Rep. of	—	—	—	—	—	—	100.39	—	100.39	1.24
Cook Islands	—	—	—	—	1.00	1.00	—	1.00	1.00	0.01
Fiji	7.00	—	7.00	—	—	—	29.90	—	29.90	0.37
Hong Kong	—	—	—	20.00	—	20.00	101.50	—	101.50	1.25
Indonesia	210.40	25.00	235.40	284.60	—	284.60	1,068.98	162.28	1,231.26	15.21
Kiribati	—	—	—	—	—	—	—	1.75	1.75	0.02
Korea, Rep. of	160.10	—	160.10	174.53	—	174.53	1,168.33	3.70	1,172.03	14.48
Lao People's Dem. Rep.	—	7.00	7.00	—	10.15	10.15	—	36.84	36.84	0.46
Malaysia	79.20	—	79.20	83.75	—	83.75	589.95	3.30	593.25	7.33
Nepal	—	30.88	30.88	—	38.50	38.50	2.00	217.72	219.72	2.71
Pakistan	—	113.60	113.60	56.30	122.00	178.30	479.37	525.95	1,005.32	12.42
Papua New Guinea	6.25	6.00	12.25	12.00	8.00	20.00	35.95	61.94	97.89	1.21
Philippines	207.40	15.00	222.40	158.30	20.00	178.30	1,067.05	64.30	1,131.35	14.00
Singapore	15.10	—	15.10	19.00	—	19.00	178.08	3.00	181.08	2.24
Solomon Islands	—	2.00	2.00	—	3.65	3.65	—	14.85	14.85	0.18
Sri Lanka	—	25.20	25.20	—	47.80	47.80	14.13	210.11	224.24	2.77
Thailand	149.80	15.00	164.80	150.00	20.00	170.00	795.18	57.10	852.28	10.53
Tonga	—	1.20	1.20	—	—	—	—	4.37	4.37	0.05
Viet Nam, Soc. Rep. of	—	—	—	—	—	—	3.93	40.67	44.60	0.55
Western Samoa	—	3.45	3.45	—	4.74	4.74	—	31.03	31.03	0.38
<b>TOTAL</b>	<b>835.25</b>	<b>418.33</b>	<b>1,251.58</b>	<b>958.48</b>	<b>477.24</b>	<b>1,435.72</b>	<b>5,652.74<sup>a</sup></b>	<b>2,440.57</b>	<b>8,093.31</b>	<b>100.00</b>

<sup>a</sup> Cumulative total includes refinanced technical assistance loans.

Source: Annual Report 1980.



Table 1.3.

TECHNICAL ASSISTANCE APPROVALS BY SECTOR, 1979, 1980, 1987-1980<sup>a</sup>  
(amounts in \$ thousand)

Sector	1979			1980			1987-1980		
	No.	Amount	%	No.	Amount	%	No.	Amount	%
Agriculture and Agro-Industry	30	7,870.0	55.4	30	9,810.08	69.2	188	41,210.54	55.3
Agriculture	27	7,382.0 <sup>b</sup>	53.2	28	9,632.08	67.9	165	38,243.84	50.8
Agro-Industry	3	308.0	2.2	2	178.00	1.3	23	3,366.70 <sup>c</sup>	4.5
Energy	6	2,519.0	18.2	4	1,024.00	7.2	38	8,709.84 <sup>d</sup>	11.6
Industry and Non-Fuel Minerals	—	—	—	6	939.00	6.6	18	3,107.90	4.2
Development Banks	1	130.0	0.9	1	75.00	0.5	23	3,017.60	4.0
Transport and Communications	7	1,085.5	7.8	4	443.00	3.1	50	8,228.30	10.9
Water Supply	4	687.0	5.0	3	375.00	2.7	23	4,649.50	6.2
Urban Development	2	799.0	5.8	—	—	—	3	899.00	1.2
Education	3	472.0	3.4	3	626.00	4.4	15	2,351.20	3.1
Health	2	250.0	1.8	4	824.00	5.8	6	1,074.00	1.4
Multiproject	1	70.0	0.5	1	70.00	0.5	2	140.00	0.2
Others	1	170.0	1.2	—	—	—	10	1,451.70	1.9
<b>TOTAL</b>	<b>57</b>	<b>13,852.5</b>	<b>100.00</b>	<b>56</b>	<b>14,186.08</b>	<b>100.00</b>	<b>378</b>	<b>75,239.58</b>	<b>100.00</b>

<sup>a</sup> Excluding Regional Projects and technical assistance loans.

<sup>b</sup> Two projects which were subsequently withdrawn, namely, Forestry Development Project, Fiji (\$29,000) and Smallholders Dairy Development Project, Malaysia (150,000) have been excluded.

<sup>c</sup> Adjusted to include UNDP additional financing of \$21,497 in July 1979 and \$100,000 in January 1980 for the Forestry Development Project in Lao People's Democratic Republic which was approved in 1978.

<sup>d</sup> Adjusted to include UNDP additional financing of \$270,000 for Mulghat Hydropower Project, Nepal in 1980.

Source: Annual Report 1980.



table 1.4

## LOAN APPROVALS BY SECTOR: THREE-YEAR MOVING AVERAGES, 1968-1970 — 1978-1980

	Total Lending	Agriculture and Agro-Industry	Energy	Industry and Non-Fuel Minerals	Development Banks	Transport and Communications	Water Supply	Urban Development Education and Health
Average during (US \$ million)								
1968-1970	128.4	25.0	15.4	19.3	30.0	30.9	6.8	1.0
1969-1971	199.3	40.8	50.6	17.3	39.0	43.2	7.4	1.0
1970-1972	271.9	42.7	89.9	13.7	38.0	58.4	27.0	2.2
1971-1973	330.5	52.1	106.4	1.4	51.2	78.9	37.1	3.4
1972-1974	428.4	80.4	114.4	17.2	64.5	91.4	57.1	3.4
1973-1975	543.2	151.3	125.1	23.1	90.9	96.0	49.8	7.0
1974-1976	661.3	193.6	141.2	36.2	115.3	109.9	59.9	5.2
1975-1977	774.2	236.2	170.5	32.4	119.7	131.4	65.2	18.8
1976-1978	940.4	257.9	202.5	68.2	135.2	150.2	84.3	42.1
1977-1979	1,098.9	328.1	264.0	61.7	129.8	133.4	95.7	86.2
1978-1980	1,282.0	396.7	319.0	50.3	140.5	159.5	103.2	112.8
Cumulative (1968-1980) <sup>a</sup>	8,093.3	2,264.4	1,963.3	362.2	1,106.1	1,283.6 <sup>b</sup>	705.8	407.9
Percentage Distribution								
1968-1970	100.0	19.5	12.0	15.0	23.4	24.1	5.3	0.7
1969-1971	100.0	20.5	25.4	8.7	19.5	21.7	3.7	0.5
1970-1972	100.0	15.7	33.1	5.0	14.0	21.5	9.9	0.8
1971-1973	100.0	15.8	32.2	0.4	15.5	23.9	11.2	1.0
1972-1974	100.0	18.8	26.7	4.0	15.1	21.3	13.3	0.8
1973-1975	100.0	27.9	23.0	4.2	16.7	17.7	9.2	1.3
1974-1976	100.0	29.3	21.3	5.5	17.4	16.6	9.1	0.8
1975-1977	100.0	30.5	22.0	4.2	15.5	17.0	8.4	2.4
1976-1978	100.0	27.4	21.5	7.2	14.4	16.0	9.0	4.5
1977-1979	100.0	30.0	24.0	5.6	11.8	12.1	8.7	7.8
1978-1980	100.0	30.9	24.9	4.0	11.0	12.4	8.0	8.8
Cumulative (1968-1980)	100.0	28.0	24.3	4.5	13.6	15.9	8.7	5.0

<sup>a</sup> Inclusive of refinanced Technical Assistance loans.<sup>b</sup> Inclusive of Multiproject loans.

Source: Annual Report 1980.



SUMMARY OF OPERATIONS WITH ADB BY COUNTRY  
FY73-81

COUNTRY	NO.	AMOUNT
SUDAN	1	7.2
LIBERIA	2	13.0
MAURITANIA	1	12.0
FIJI	1	11.5
INDONESIA	1	139.0
PHILIPPINES	2	143.1
SOLOMON ISLANDS	1	2.0
THAILAND	2	152.6
WESTERN SAMOA	1	3.0
BANGLADESH	2	55.0
PAKISTAN	2	52.0
TOTAL	16	590.4

SUMMARY OF OPERATIONS WITH ADB BY FISCAL YEAR  
FY73-81

FY	NO.	AMOUNT
74	3	53.8
75	1	30.0
78	1	11.5
79	3	130.3
80	5	226.8
81	3	138.0
TOTAL	16	590.4

SUMMARY OF OPERATIONS WITH ADB BY SECTOR  
FY73-81

SECTOR	NO.	AMOUNT
AGRICULTURE & RURAL DEVT	3	16.0
IDF	1	2.0
INDUSTRY	4	94.0
POWER	4	308.5
TRANSPORTATION	1	7.2
WATER SUPPLY & SEWERAGE	3	162.7
TOTAL	16	590.4



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Briefing Paper

Meeting with Mr. Masao Fujioka  
April 1, 1982

Table of Contents

Key Points

Biographical Information

*Stephen O'Brien (Region)  
attended*

*D*

March 1982



Meeting with Mr. Masao Fujioka  
President, Asian Development Bank

Key Points

The World Bank has agreed to allow its facilities to be used by the Asian Development Bank (ADB) for holding the Fourth Replenishment of the Asian Development Fund (ADF) donor's meeting. Thus, there is a protocol obligation for Mr. Fujioka, as well as a genuine interest, in meeting you.

COOPERATION BETWEEN THE ADB AND THE BANK

Cofinancing

1. As of July 1981, ADB has contributed a total of US\$590.6 million of cofinancing for 16 Bank group projects in 11 countries. The cofinancing has been undertaken on a parallel basis.

Special Arrangements

2. In 1980, the World Bank and ADB reached an understanding on cofinancing projects in Fiji, Solomon Islands and Western Samoa, whereby the ADB will carry out project appraisal on behalf of the Bank, administer the Bank's funds, and monitor project implementation.

ASIAN DEVELOPMENT BANK

Fourth Replenishment ADF

3. The ADF is concluding negotiations of its Fourth Replenishment. The proposed size of the replenishment was US\$3.2 billion; however, given the current position of the US, it is expected that the amount will be reduced to US\$2.3 billion.

4. In 1981, lending by the ADF totalled US\$531 million against the original planned level of US\$575 million. Nevertheless, the 1981 level represent an 11.3% increase over 1980. For 1982, the programmed level of lending is US\$670 million; however the ultimate size is expected to be less than originally envisaged.



Terms and Conditions of the ADF and IDA

5. The following table shows terms and conditions of credits extended by the ADF and IDA:

	<u>ADF</u>	<u>IDA</u>
Service Charge	1	3/4
Other Charges	-	1/2 (Commitment Fee)
Maturity	40	50
Grace	10	10

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Third General Capital Increase

6. The subject of ADB's prospective third General Capital Increase (GCI) might come up. The third GCI is to cover OCR (Ordinary Capital Resources) lending during 1983-87. In 1981, lending operations under the OCR totalled US\$1,147 million, a 19.6% increase over 1980. The aggregate OCR lending requirement during 1983-87 is estimated to be about US\$12 billion.

7. Some major issues still need to be worked out for the ADB's third GCI. These include: (i) level of paid-in capital; (ii) borrowing amounts against its convertible callable capital; and (iii) rate of growth of the Bank's lending program.

Terms and Conditions of the ADB and IBRD

8. The following table shows terms and conditions of loans extended by the ADB and IBRD:

	<u>ADB</u>	<u>IBRD</u>
Current Lending Rate	11.00	11.60
Commitment Fee	0.75	0.75
Other Service Charges	-	1.50 (Front-end Fee)
Maturity	(Varies)	(Varies)
Grace	(Varies)	(Varies)



## THE WORLD BANK

### General Capital Increase

9. In connection with the ADB's proposals for a third GCI, Mr. Fujioka may be interested in IBRD's experience with the GCI, particularly as regards the paid-in portion.

10. The final agreement on 7-1/2% paid-in capital represented a compromise between divergent views. The US initially wanted zero paid-in for domestic budgetary reasons; the Germans and certain others favored 10% paid-in, to maintain the financial strength of the Bank. Management's position was that 10% paid-in was the best option from the point of view of the Bank and its borrowers, but that the Bank's financial ratios would not be materially impaired if the paid-in element remained substantial, but was less than 10%. It was considered that bondholders assessed the Bank against broader criteria than just its financial ratios, namely, degree of support from the major shareholders, the guarantees from callable capital and the statutory limit on lending, and the quality of the Bank's management and staff.

11. With regard to use of the paid-in portion, Mr. Fujioka may know that under the IBRD's Articles, unlike the ADB, the Bank has to seek consent from all members, developed and developing alike, before it can use the national currency portion of subscriptions in its lending operations and that there is no schedule for encashment of promissory notes. It has been the general practice in the past for members to release their national currency portion for lending by the Bank, if they are in a position to do so. We have urged members to take up their GCI subscriptions quickly, and to release the local currency portion in full. We have been informed that the US's present intention is to release their local currency portion over FY86-89.

### Cofinancing

12. You may wish to tell Mr. Fujioka that although World Bank cofinancing with commercial banks has been growing in recent years, it is still at a relatively modest level. In the past two years, private lenders have participated with the World Bank in some 40 projects, and have committed a total of more than US\$3.5 billion (11 projects amounting to about US\$510 million were with ADB member countries).



## Biographical Information

FUJIOKA, Masao  
President, Asian Development Bank

### Career

- Since November 24, 1981 - President, Asian Development Bank
- 1977-81 - Executive Director of the Export-Import Bank of Japan
- 1973-77 - Ministry of Finance: Director General, International Finance Bureau (1975-77), Deputy Director (1973-75)
- Before 1973 - Varied experience in international finance area
- 1966 - Director of the Department of Administration, Asian Development Bank
- 1960 - International Monetary Fund, Economist in Far Eastern Division.

### Publications

- Japan's International Finance: Today and Tomorrow, December 1979. This book is a collection of his articles and speeches, giving the view from Japan of developments on international finance.
- "Appraisal of Japan's Plan to Double Income," IMF Staff Paper, Volume X No. 1, March 1963.

### Education

Master of Law from Tokyo University. Studied at the University of Chicago.

### Personal

Born in 1924. Married with one daughter and two sons.  
Hobbies: Golf and gardening.  
Field of interest: Balance of payments, international finance, international investment and foreign aid.

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Biographical Information

YULIYKA, Masao  
President, Asian Development Bank

Career

- Since November 24, 1981 - President, Asian Development Bank
- 1977-81 - Executive Director of the Export-Import Bank of Japan
- 1973-77 - Ministry of Finance: Director General, International Finance Bureau (1975-77), Deputy Director (1973-75)
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OFFICE MEMORANDUMTO: Mr. A. W. Clausen  
(Through Mr. E. Stern) *ES*

DATE: March 23, 1982

FROM: S. Shahid Husain *SH*SUBJECT: Visit of Mr. Masao Fujioka, President of the Asian Development Bank - April 1/82

1. The following brief notes are intended as background information for your forthcoming meeting with Mr. Fujioka.

Mr. Masao Fujioka

2. Mr. Fujioka was elected President of ADB for a five year term in August 1981, and took office in November, succeeding Mr. Taroichi Yoshida. Born in Tokyo in 1924, Mr. Fujioka graduated from Tokyo University (Department of Law) in 1947 and joined the Ministry of Finance during the same year. He also studied at the University of Chicago in 1950-51, majoring in Public Finance and Economics. From 1960 to 1964, Mr. Fujioka was an economist with the IMF. In 1966 he assisted the UN Economic Commission for Asia and the Far East in preparatory work for the establishment of ADB. Mr. Fujioka served until 1969 as ADB's Director of Administration, after which he became Director of Japan's official aid agency, OECF. He then successively held the positions of Deputy Director-General (1970-75) and Director-General (1975-77) of the Japanese International Finance Bureau. From 1977 to 1981, Mr. Fujioka served as Executive Director to the Export-Import Bank of Japan, and, concurrently, Executive Director of the Japan International Cooperation Agency. Mr. Fujioka has represented Japan in numerous international conferences, participated as Temporary Alternate Governor at the IMF/World Bank Annual Meetings in 1975 and 1976, and at ADB's 1977 Annual Meeting.

ADB/IBRD Coordination

3. As part of our efforts to strengthen relations between the Bank and ADB, joint annual consultation meetings have been held for the past three years, chaired jointly by the Vice President of ADB and Regional Vice Presidents for South and East Asia for the Bank. The fourth such meeting will take place in Manila on May 3-4 immediately following ADB's forthcoming Annual Meeting, scheduled for April 28-30, also in Manila. Topics on the proposed agenda for this year's two-day meeting include the international economic situation and the climate for development assistance, the two institutions' organizational and policy issues, and areas of mutual cooperation. In addition to these annual consultation meetings, ADB's President attends each World Bank Annual Meeting, and a high-level Bank delegation, headed by an RVP or a Regional Department Director, attends ADB's Annual Meetings. I shall be leading the Bank's delegation to both the ADB Annual Meeting and the consultation meetings this year.

4. The Bank and ADB are also cooperating to an increasing extent in economic and sector work. An example is the close coordination between the two institutions on energy-related matters, including ADB's recently-published Regional Energy Survey and the coordination of energy-related technical assistance in Asian countries.



ADB/IBRD Cofinancing

5. In the past three fiscal years (1979-81) six projects were cofinanced with ADB. In addition, the two institutions have an informal agreement for the Pacific Islands that the World Bank will cofinance projects for these small countries on the basis of ADB's appraisals. Based on our experience with the first two such projects, we feel that the arrangement works well and should be continued.

ADB's Operations

6. During 1981, ADB's lending amounted to \$1,678 million, compared with \$1,436 million in 1980 and \$776 million in 1976. Cofinancing for ADB-assisted projects provided by external sources reached \$627 million, compared with \$391 million in 1980. As in past years, ADB continued to accord highest priority to three major sectors: agriculture and agroindustry (particularly food production), energy (especially the increased use of indigenous energy resources) and social infrastructure. ADB's interest rate on ordinary loans was increased to 10.10% in July 1981, and has remained unchanged since then.

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ADB/IBRD Collaborations

5. In the past three fiscal years (1979-81) six projects were cofinanced with ADB. In addition, the two institutions have an informal agreement for the Pacific Islands that the World Bank will cofinance projects for these small countries on the basis of ADB's approvals. Based on our experience with the first two projects, we feel that the arrangement works well and should be continued.

ADB's Operations

6. During 1981, ADB's lending amounted to \$1,678 million, compared with \$1,436 million in 1980 and \$776 million in 1976. Cofinancing for ADB-assisted projects provided by external sources reached \$627 million, compared with \$391 million in 1980. As in past years, ADB continued to accord highest priority to three major sectors: agriculture and agroindustry (particularly food production), energy (especially the increased use of indigenous energy resources) and social infrastructure. ADB's interest rate on ordinary loans was increased to 10.10% in July 1981, and has remained unchanged since then.

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MR. O. LAFOURCADE

ASSISTANT TO THE PRESIDENT  
WORLD BANK USA

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COMMUNICATIONS DIVISION

Copy to Mr. Benjenk - *to Paris*  
Mr. Husain - *Hershey*  
Mr. Stern - *not avail.*  
Mr. Qureshi

MANY THANKS URCABLE 19 MARCH.

PLEASED TO CONFIRM THAT MEETING PRESIDENT FUJIOKA  
WITH MR. CLAUSEN ON APRIL ONE AT FOUR P.M. SUITABLE.  
REGARDS

KAMIHARA  
ASIANBANK

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## OFFICE MEMORANDUM

TO: For the Record  
 FROM: <sup>WST</sup> William S. Humphrey  
 SUBJECT: Annual Meetings: Meeting with Asian Development Bank Delegation (ADB)  
 Tuesday September 7, at 7:00 pm

DATE: September 16, 1982

Present: <u>Asian Development Bank</u>	<u>The World Bank</u>
Mr. M. Fujioka, President	Mr. Clausen
Mr. A. Tsusaka, Director, Development Policy Office	Mr. Stern Mr. Humphrey

Messrs. Clausen and Fujioka, after agreeing that the relationship between the two institutions was working well, went on to discuss ADB's prospective capital increase. Mr. Fujioka said that ADB was now proposing a 125% increase in capital starting next year. The United States having originally supported 75% now looked as though it would agree to 100%. However, it had indicated that it would be hard for the US to approve the increase if ADB decided to lend to India. Mr. Fujioka felt it would be hard to justify a refusal to lend to India and inquired about the Bank's policy towards India.

Mr. Clausen outlined the level of gross IBRD and IDA commitments to India in FY81 and FY82. He said that in FY83 with more IDA funds available than in FY82 India should have a less harsh blend. Total commitments from IBRD and IDA together would probably be in the region of \$2.1-2.2 billion. FY84 was more difficult to forecast since China would be eligible for a larger share of total IDA funds. Looking ahead to IDA 7 with the further buildup in the China program, the bulk of the adjustment would inevitably fall on India. Thus, at best, the absolute level of commitments to India from IBRD and IDA together would not rise and India's share would fall. The blend between IBRD and IDA in India and China might be different but the total China program would probably be gradually built up to comparable levels to India. Mr. Fujioka commented that the US felt that India should borrow on the commercial market rather than from ADB. Mr. Stern mentioned that under the IMF agreement with India there was a ceiling of \$1.5 billion on commercial borrowing which we thought was about right.

In response to a question from Mr. Fujioka, Mr. Clausen explained the Bank's graduation policy. He also mentioned the new variable rate borrowing and lending policy and the fact that we borrowed Yen 320 billion last year in the Japanese market. Mr. Fujioka said that ADB had recently gone to the New York market for the first time.

Mr. Clausen mentioned CGIAR and the fact that some of the countries contributing were having to cut back. He hoped ADB would continue its contributions to CGIAR and if possible increase them.

Mr. Fujioka asked whether commercial bank cofinancing lengthened the project cycle. Mr. Stern said that private cofinancing seldom affected the project cycle and indeed was frequently arranged after the Executive Directors had approved the project. Official cofinancing could lengthen the cycle because of the time taken to complete the formalities of the different institutions.

cc: Messrs. Clausen, Qureshi, Stern, Baum, Hopper, Husain, Jaycox, Vibert.



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ASIAN DEVELOPMENT BANK

OFFICE OF THE PRESIDENT

12 August 1982

Mr. A. W. Clausen  
President  
The World Bank  
Washington, D.C. 20433  
U. S. A.

Dear Mr. Clausen:

Thank you for your letter of 29 July 1982 suggesting a further strengthening of cooperation between our two institutions in the area of training policies and programs. I fully share your view that expanded cooperation in this area would be beneficial to the developing countries who are members of both the IBRD and the ADB.

As you know, the ADB has largely directed its training activities to the project and sector levels of its borrowing countries. Such training has for the most part been provided through project-specific technical assistance or through technical seminars organized and sponsored by the ADB or co-sponsored with other development organizations active in this region.

While we believe this remains both a necessary and effective means of providing needed technical training in our developing member countries, the Bank is, as you have noted, in the process of assessing its training activities with a view to sharpening their focus and expanding their scope and impact. For this reason, your suggestion for improving our cooperation and coordination is most timely and welcome.

I have accordingly instructed our Chief Economist, Seiji Naya, who is supervising the current review of ADB training activities, to pursue this matter further with EDI's Director, Ajit Mozomdar.

Thank you also for your welcome to the fraternity of international financial institutions. I know I will benefit greatly from the opportunity to discuss personally with you the many common problems we face, both in terms of resource constraints and economic development issues, and I look forward to an early opportunity to meet you. I know that your schedule in Toronto will be extremely heavy, but if possible, I would look forward to a very brief meeting with you at that time.

Sincerely,

*Masao Fujioka*  
Masao Fujioka  
President

Scheduled for 5:45 P.m. Sept. 5  
Roy 8/26



ASIAN DEVELOPMENT BANK



OFFICE OF THE PRESIDENT

12 August 1982

Mr. A. W. Clausen  
President  
The World Bank  
Washington, D.C. 20433  
U. S. A.

Dear Mr. Clausen:

Thank you for your letter of 19 July 1982 suggesting a further strengthening of cooperation between our two institutions in the area of training policies and programs. I fully share your view that expanded cooperation in this area would be beneficial to the developing countries who are members of both the IBRD and the ADB.

As you know, the ADB has largely directed its training activities to the project and sector levels of its borrowing countries. Such training has for the most part been provided through project-specific technical assistance or through technical seminars organized and sponsored by the ADB or co-sponsored with other development organizations active in this region.

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Thank you also for your welcome to the fraternity of international financial institutions. I know I will benefit greatly from the opportunity to discuss personally with you the many common problems we face, both in terms of resource constraints and economic development issues, and I look forward to an early opportunity to meet you. I know that your schedule in Toronto will be extremely heavy, but if possible, I would look forward to a very brief meeting with you at that time.

Office of the President  
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Masao Fujioka  
President  
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July 29, 1982

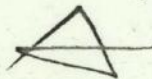
Dear Mr. Fujioka:

I have been told that you are taking a new look at the training policies and programs of your institution. As you will have learned, the Asian Development Bank and The World Bank's Economic Development Institute have cooperated in training officials of Asian countries, but only occasionally. It would, I believe, be to the advantage of our common developing country membership if that cooperation could be expanded. It could be especially beneficial for the Pacific island countries whose capacities for economic management and for project planning and implementation are limited.

As you may know, staff of the Bank and of EDI visited the Asian Development Bank in the spring and had useful discussions with your staff. They took the occasion to explain EDI's new regional approach, and the greater emphasis it is now placing on assistance to strengthen regional and national training institutions. As a follow-up to that visit, EDI is sending information on its current and FY84 programs, at headquarters and overseas, to the Chief of your Development Policy Office. We have some ideas for specific joint activity which we would be glad to explore with you. And if there is any way in which EDI can be helpful to you and your staff in the review which you are undertaking, I hope you will be in touch with EDI's Director, Ajit Mozoomdar.

I take this occasion to welcome you to the fraternity of international financial institutions, and to wish you success in your new post.

Sincerely,



A. W. Clausen

Mr. Masalface Fujioka  
President  
Asian Development Bank  
P.O. Box 789  
Manila, Philippines

Cleared with and cc: Mr. Mozoomdar  
cc: Mr. Clausen's Office (2)

AMozoomdar:SEBoskey:di



Letter dated July 29, 1982 from Mr. Clausen  
to President, Asian Dev. Bank re: EDI

Mr. MASAO FUJIOKA

The letter of Mr. Clausen to Mr. Fujioka  
was not in reply to any incoming letter.  
It was initiated by EDI (draft shows Mozoomdar/CBruce)  
which went through Mrs. Boskey's office, and was  
finalized there.

From the start, draft shows MASALFACE  
instead of MASAO.

8/17 (Mr. <sup>EMENA</sup> Murli informed) of  
(He saw ltr. by  
chance at the ADB  
& alerted Roy)

(O'Brien - Div. Chief  
ADB Division EA/AD)

He says they're always known at to be MASAO even before he (Fujioka) came to ADB. ← also informed.  
EDI (Colin Bruce's sec.) says she got name from a sec. in ADB division



1982 ANNUAL MEETING BRIEFING PAPERASIAN DEVELOPMENT BANK (ADB)Key Points

ADB is currently engaged in resource replenishment exercises, both of ordinary capital resources and special funds. This task has been the new President's major concern since he took office in November, 1981 and he may wish to inform Mr. Clausen of the status of both replenishments. ADB's cofinancing with commercial sources almost doubled in 1981. Relations between the Bank and ADB continue to be good with consultation meetings held annually. The Bank now plans to relinquish all direct project activities in the small Pacific Island countries to ADB, and provide funds to these countries as cofinancier with ADB in the lead.

ADB's new President

Mr. Masao Fujioka succeeded Mr. Taroichi Yoshida as ADB's President in November of last year. Since he took office, Mr. Fujioka has been concerned primarily with resource replenishment, both of the ordinary capital resources (a general capital increase) and of the Asian Development Fund (third replenishment). Once these exercises are completed, it is expected that Mr. Fujioka will turn his attention to operations policy, where areas of particular concern to him are administrative costs and the growth of staff.

Consultation Meetings between the World Bank and ADB

The fourth in a series of annual high-level (Vice President) joint consultation meetings was held in Manila in May of this year. Topics on the agenda included the international economic situation and the climate for development assistance, the two institutions' organizational and policy issues, and areas of mutual cooperation.

ADB's Resources

At the end of ADB's fiscal year, in December 1981, subscribed capital amounted to \$8,404.5 million. During the year ADB borrowed \$668.5 million. In April 1982, \$3.2 billion was pledged by members for a third replenishment of the Asian Development Fund covering the period from 1983 through 1986. This compares with the second replenishment (1979-1982) total of \$2.15 billion and the original target for the third replenishment of \$4.1 billion.



ADB's Operations

ADB's lending during 1981 amounted to \$1,678 million, of which nearly one-third was concessional lending. As in past years, agriculture and agro-industry (particularly food production) accounted for the largest share of lending (about one-third), followed by energy (over one-quarter). Technical assistance grants and loans provided \$14.8 million for 49 projects. ADB's interest rate was increased from 10.1% to 11.0% in January of this year.

Co-financing(a) Pacific Islands

ADB and the Bank have agreed in principle to an expansion of ADB's lead role in lending operations in the Pacific Islands. Under the new scheme, the Bank will relinquish project preparation, appraisal and supervision activities to ADB, and will provide funds as co-financier to ADB's projects. The Bank will, however, continue its economic work in these countries.

(b) Other

During 1981, 23 of ADB's projects involved co-financing of \$627 million, mostly with bilateral and multilateral sources. However, in 1981, the amount of co-financing with commercial sources was more than double that of 1980, amounting to about 14% of total co-financing. Recognizing the importance of substantially increased co-financing to meet the external resource requirements of its borrowers, ADB has recently established a co-financing unit and is considering the establishment of an equity financing facility.



## OFFICE MEMORANDUM

TO: Files

DATE: May 27, 1982

FROM: ~~S. Shahid Husain (VP, AEN)~~SUBJECT: Fifteenth Annual Meeting of the Board of Governors  
of the Asian Development Bank (April 28-30, 1982)

1. The Fifteenth Annual Meeting of the Board of Governors of the Asian Development Bank (ADB) was held in Manila from April 28 to April 30, 1982. The Honorable U Tun Tin, Governor for Burma and Chairman of the Board of Governors presided over the meeting. Delegates from 43 countries participated, including representatives from the Kingdom of Bhutan, which joined ADB earlier this year. Delegations from Cambodia and the Lao People's Democratic Republic were not present. The Bank delegation, which I led, included Mr. Michael Wiehen, Mr. Paul Gelli, Ms. Kazuko Ogawa (Tokyo office) and Ms. Nancy Cooke.

Address by President Marcos

2. His Excellency, President Ferdinand E. Marcos began his opening address by reviewing the impressive growth of ADB during the past 15 years. In particular, the President noted that the lending portfolio has grown to a total of about \$10 billion, financing some 503 development projects, which have led to additional investments of over \$15 billion. Further, ADB has fostered regional and subregional cooperation through its economic research, technical assistance and links with other institutions. Turning his attention to the world economic environment, President Marcos discussed the two major problems faced by ADB's developing member countries (DMCs): the need for increased food production and structural adjustments required to cope with higher oil prices. He noted that while agreement was reached at Cancun last year to eradicate widespread hunger, international food aid can only be a stop gap measure. National food production and distribution strategies must be implemented to address this need. Regarding energy, member countries are increasingly finding themselves in a situation where their export earnings are not sufficient to pay their import bills, of which 30 to 40% is for oil.

3. On the positive side, President Marcos cited the "economic dynamism" of the Asian DMCs which have, by and large, "out-performed in economic terms, developing countries in other regions of the world...". These Asian countries are now poised to lead the world to economic growth as recovery occurs in industrial countries. This optimism is based on the belief that progress has been and will continue to be made in the critical areas of population planning, food production and energy conservation and development.

4. Turning to the issue of resource requirements, President Marcos stressed the need for increases in Ordinary Capital Resources (OCR) and the third replenishment of the Asian Development Fund (ADF IV). While recognizing that some donor countries are suffering from "foreign aid fatigue" stemming from balance of payments and budgetary problems, he noted that these difficulties do not reflect adversely on either the development performance of the DMCs or the efficiency of the Multilateral Development Banks (MDBs). In



OFFICE MEMORANDUM

DATE May 17, 1982

TO: Chief

FROM: S. Shakti Bhattar (197-288)

SUBJECT: Fifteenth Annual Meeting of the Board of Governors of the Asian Development Bank (April 18-20, 1982)

1. The Fifteenth Annual Meeting of the Board of Governors of the Asian Development Bank (ADB) was held in Manila from April 18 to April 20, 1982. The Honorable U. Nu, Governor for Burma and Chairman of the Board of Governors presided over the meeting. Delegates from 43 countries participated, including representatives from the Kingdom of Bhutan, which joined ADB earlier this year. Delegations from Cambodia and the Lao People's Democratic Republic were not present. The bank delegation, which I led, included Mr. Wiswan, Mr. Paul-Geil, Mr. Karim Ghaw (Tokyo office) and Mr. Nancy Cooper.

Address by President Marcos

2. His Excellency, President Ferdinand E. Marcos began his opening address by reviewing the impressive growth of ADB during the past 15 years. In particular, the President noted that the lending portfolio has grown to a total of about \$10 billion, financing some 700 development projects, which have led to additional investments of over \$15 billion. Further, ADB has fostered regional and subregional cooperation through its economic research, technical assistance and links with other institutions. Turning his attention to the world economic environment, President Marcos discussed the two major problems faced by ADB's developing member countries (DMCs): the need for increased food production and structural adjustment required to cope with higher oil prices. He noted that while agreement was reached at Cancun last year to eradicate widespread hunger, international food aid can only be a stop gap measure. National food production and distribution strategies must be implemented to address this need. Regarding energy, member countries are increasingly finding themselves in a situation where their export earnings are not sufficient to pay their import bills, of which 30 to 40% is for oil.

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OFFICE OF THE PRESIDENT

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conclusion, President Marcos stated that the problems of poverty, the need for economic restructuring of industry, the amount of investment necessary for energy development and the problems relating to food security all provide powerful arguments for the continuation of development assistance through ADB and other MDBs.

Address by Chairman of the Board, U Tun Tin

5. The Chairman of the Board, Mr. U Tun Tin, Governor for Burma, reviewed ADB's achievements and prospects in his address to the Board of Governors. In this review, the significant improvement in the economic growth of the region and the need to provide continued support for ADB in the interest of peace and prosperity were highlighted. The speech also touched on the issues of great concern at the Annual Meeting: the need for a timely replenishment of the Asian Development Fund and a general capital increase. Lending achievements in agriculture and initiatives in the energy sector were also cited by the Chairman.

Address by ADB President Masao Fujioka

6. The new president of ADB, Masao Fujioka, emphasized the economic progress of the Asian DMCs in his first address to the Board of Governors. Mr. Fujioka commenced his speech with a welcome to the Kingdom of Bhutan which joined the Bank during the past year. He also thanked his predecessor, Mr. Yoshida, for leaving ADB a sound and efficient institution and noted his appreciation for the outstanding services of his two vice presidents and able and dedicated staff.

7. The Economic Setting. Mr. Fujioka then turned to the economic environment of the 1980s, citing the adverse effects of international currency crises and successive oil shocks. These factors, together with slow growth, rising inflation and balance of payments problems in both developed and developing countries have led to uneven economic performances of the DMCs. He noted that the Newly Industrializing Countries (NICs) and the quasi-NICs in Southeast Asia have sustained relatively high rates of economic growth while many of the populous low-income countries in South Asia have only managed to keep GNP growth marginally ahead of population growth. However, prospects appear somewhat more encouraging now as progress is being made in achieving food self sufficiency; population policies are proving effective; and industrialization is proceeding rapidly. Mr. Fujioka noted that the economic progress of many DMCs can, to a large extent, be attributed to market oriented strategies and liberal international trade and financial policies.

8. Mr. Fujioka outlined three major problems which DMCs are likely to face in the future: maintaining sufficient food supplies; reducing dependence on imported oil; and restructuring of their economies in order to alleviate balance of payments pressures. Although food grain production in the region has increased markedly through the use of high yielding varieties, chemical fertilizers and expanded irrigation, there is still much to be done. This includes multiple cropping, intensification of farm practices, rural




infrastructure investments and farm level water management. Regarding energy, more intensive efforts should be made in restraining demand and developing, where feasible, alternative energy sources such as coal, hydropower and geothermal power. Mr. Fujioka pointed to ADB's recently completed Regional Energy Survey and its plan to coordinate work in the energy sector being done in Asia by bilateral agencies and MDBs as examples of ADB initiatives in this area. Turning to structural adjustment, Mr. Fujioka stated that DMCs would need to expand manufactured exports and increase import substitution where feasible. This can only be done through resource mobilization and the acquisition of appropriate technology.

9. ADB Activities During 1981. Mr. Fujioka then turned to the review of ADB's activities in 1981. He noted that ADB had approved loans amounting to almost \$1.7 billion for 54 projects, an overall increase of 17% over 1980. Lending for agriculture, particularly food production and agro-industry, accounted for 32% of total lending, followed by energy with 29% and social infrastructure with 22%. Cofinancing was involved in 23 projects, with \$857 million provided by ADB, \$481 million, by official sources, and \$146 million, by commercial banks and export credit sources. ADB provided preparatory and technical assistance amounting to \$14.8 million. In addition, ADB supported several regional activities such as an Industrial Survey of the South Pacific and the establishment of a Genetic Resources Laboratory at the International Crop Research Institute for the Semi-Arid Tropics. ADB Directors approved the establishment of its first Resident Office, which will open in Dacca, Bangladesh later this year.

10. Tasks of ADB. Mr. Fujioka described two major tasks for ADB: narrowing the widening gap between the low income DMCs and the more rapidly growing NICs and quasi-NICs within ADB; and mobilizing adequate financial resources to assist DMCs. Until now, ADB has relied on the paid-in capital of its member countries, contributions to the ADF and borrowings from various capital markets to provide these financial resources. Mr. Fujioka noted that although the final resolution of the ADF IV replenishment was "satisfactory," the amount provided will not permit any "significant real increase in future levels of lending." Mr. Fujioka advocated a 125% increase in its general capital base (see Annex I for figures) in order to allow ADB to maintain a satisfactory level of loans from ordinary capital resources and to make up for the shortfall in ADF resources. ADB will continue to borrow in the international market in line with its reputation as a highly creditworthy institution, Mr. Fujioka pledged.

11. Challenges of the Future. Substantially expanded cofinancing will be necessary to meet the external resource needs of the DMCs, Mr. Fujioka emphasized. While ODA will continue to be indispensable for the development of the poorer countries, changes in the international financial environment suggest that the volume of funds required will necessitate more sophisticated and diversified forms such as bond issues, commercially syndicated loans, private direct investment and expanded trade. To facilitate this, ADB has established a Cofinancing Unit. The establishment of an equity financing facility has also been proposed by ADB management. Mr. Fujioka asserted that equity financing can play a catalytic role in attracting both domestic



and foreign capital as well as promoting and expanding the capital markets of the DMCs. Finally, Mr. Fujioka remarked that ADB's role should encompass more than the provision of financial assistance, in addition, it should aim at becoming the acknowledged center of expertise in identifying the problems and potentials of its DMCs. To this end, ADB has begun to build-up its research and analytical capacities. Mr. Fujioka concluded his speech by commending the "resilience and capacity" that ADB's developing member countries have displayed since the inception of ADB, and cautioned that the momentum for development must not be lost. 

#### Sessions of the Board

12. The Governors were unanimous in their commendation of the farsighted and creative leadership exhibited by President Masao Fujioka during his first year as president of ADB. All Governors expressed the commitments of their respective governments to ADB's activities. In particular, the Governors cited the positive role played by ADB both as a financial catalyst and as a source of technical, economic and policy advice. The Governors all expressed a warm welcome to the Kingdom of Bhutan which became a member of ADB during the last year. Appreciation was also expressed for the excellent arrangements and hospitality of the Government of the Philippines.

#### Major Issues

13. Several controversial issues were addressed by the Governors during the Annual Meeting. These included: the third replenishment of the ADF (ADF IV), private sector initiatives (particularly cofinancing and equity investment) and the parameters (size, gearing ratio and paid-in capital portion) of the 1983-87 General Capital Income (GCI).

14. The US position on the ADF IV replenishment generated much criticism from other Governors. The US pledged only \$520 million of the \$903 originally requested. Many Governors' statements indicated disappointment and concern over the size of the US commitment. Several donors agreed to make up part of the shortfall created by the US pledge, and the revised \$3.2 billion target (of the original proposal of \$4.1 billion) was met.<sup>/1</sup> A number of Governors urged that this downward trend in ADF contributions not be repeated.

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<sup>/1</sup> At the Donors Meeting held on April 26-27 in Manila, 17 ADF Donor Countries, namely Australia, Austria, Belgium, Canada, Denmark, Finland, France, Federal Republic of Germany, Italy, Japan, Netherlands, New Zealand, Norway, Sweden, Switzerland, United Kingdom and United States agreed on a replenishment of slightly over 3.2 billion dollars. In addition, four of ADB's DMCs - Taiwan (unspecified), Hong Kong (\$1 million), Indonesia (\$3 million), and Korea (unspecified)- also indicated their intentions to make modest contributions to ADF IV. The resolution of ADF IV is expected to be adopted by the Board of Governors in July, 1982 and the replenishment would become effective when 50 percent of the contributions are received by ADB. Final figures on contributions are not available at this time.



15. There was a wide range of opinions concerning the general capital increase (GCI). On the one hand, the US representative argued that no paid-in capital is necessary. Governors for such countries as Germany, Australia, Switzerland, India, Pakistan and Nepal favored 10% paid-in. The Governor for Austria proposed 7.5% and the Governor for the UK, 5%. The Governors for Canada, the Netherlands, Norway and Sweden favored a substantial paid-in portion. Belgium proposed a reduction in the paid-in portion. Concerning the gearing ratio, the Governor for Australia noted that 75% is conservative but adjustments should be gradual. The Governor for Austria supported a 100% gearing ratio and the Governors for Sri Lanka and Belgium stated that the gearing ratio should be reviewed.
16. There was a general consensus among the Governors on the desirability of initiatives in equity financing; however, many urged a cautious approach. Similar sentiments were expressed concerning cofinancing. Some Governors expressed concern that cofinancing would be used to substitute for official development assistance rather than to provide additional aid. Concern was also expressed that cofinancing might be imposed upon borrowers.
17. High administrative and staff costs were cited by some Governors as an issue of concern. It was noted that ADB's Operational Priorities and Plans for the 1980s Study, currently under preparation, will address these issues.
18. A cofinancing seminar was hosted by ADB on April 27 prior to the commencement of the Annual Meeting. It was attended by over 200 participants, primarily from the private sector. During the seminar ADB officials announced the establishment of a cofinancing unit within ADB which will pursue cofinancing opportunities more systematically. ADB officials also announced that they will be willing to restructure paybacks on loans to favor private cofinanciers. This resulted in a discussion of cross-default clauses. One commercial bank representative presented a plan for cofinancing in which both commercial and multilateral development banks would hold equity (see Annex II for full details provided by the World Bank observer at the seminar).
- Other Country Issues
19. Afghanistan. The Governor for Afghanistan stated that his country would be willing to contribute to the GCI when ADB resumes operational programs in Afghanistan.
20. Bangladesh. Individual country circumstances must be assessed when deciding on the use of 6.2(b) resources according to the Governor for Bangladesh. The demands for local currency vary by country and should be individually reviewed. (The issue of converting these funds into convertible currencies to augment ADB's operational funds is under discussion.)
21. Canada. The Governor urged that equity financing initiatives be made only after careful and considered review of a variety of mechanisms and policies.



22. Cook Islands/Fiji/Solomon Islands/Tonga/Vanuatu. The Governors urged the establishment of a subregional ADB office in the South Pacific. The Governor for the Cook Islands noted that a Pacific Islands Fund is being established to channel funds from nontraditional donors to the smaller South Pacific Islands. These countries are awaiting the ADB study of this proposal.
23. Denmark. The Governor commended the efficiency of the staff in achieving an 18% increase in disbursements from 1979-81.
24. Fiji. The Governor viewed the 32% (\$16.7 million) increase in ADB's internal administrative budget with concern.
25. Finland. While acknowledging the contribution ADB makes to the development of the poorest countries through financial assistance, the Governor called for ADB to pay increasing attention to policy guidance.
26. France. France is prepared to raise its share of ADB's capital by 3%, bringing it to a level of 5%, according to the Governor. It will also make a voluntary contribution of F 3.5 million to the Technical Assistance Special Fund.
27. Germany. It was announced that the German Government maintains its commitment to give favorable treatment to all capital requests by MDBs. The Governor noted that ADB has borrowed the equivalent of US\$500 million over the last 15 years in Germany.
28. Indonesia. The Governor noted that it would "be felt onerous" by the DMCs to convert part of the 6.2(b) funds into convertible currencies.
29. Japan. With respect to the Third GCI, Japan intends to retain its position as the larger shareholder in ADB, according to the Governor.
30. Korea. The Government is considering increasing its contribution to the Technical Assistance Special Fund to promote institution-building activities and training.
31. Malaysia. The Government of Malaysia will contribute \$1 million to the Technical Assistance Special Fund.
32. Nepal. The Governor stated that Nepal would have difficulty in accepting, as a matter of principle, the idea of sharing of development costs by DMCs through the utilization of 6.2(b) funds.
33. Pakistan. The Governor called for ADB to increase the share of local cost financing or alternatively to make enhanced provision for program lending. In addition, it was suggested that ADB consider allowing a preferential margin for domestic supplies and services under ICB.



34. Sri Lanka. The Governor called for more program loans and a review of local cost financing needs.
35. Sweden. A call for the resumption of lending to Viet Nam was made by the Governor for Sweden.
36. Switzerland. The Governor indicated his Government's satisfaction with ADB's initiatives in sectoral and program lending.
37. Thailand. Regarding cofinancing, the Governor expressed the view that ADB must not impose services not useful to its members. Cofinancing must be voluntary and additional.
38. Tonga. The Governor detailed the devastation caused by a cyclone on Tonga in March 1982. He estimated that an additional \$27 million will be required to rehabilitate the economy and requested that ADB consider assisting in this area.
39. United Kingdom. Mr. Buist strongly endorsed the activities of the Technical Assistance Special Fund and pledged an additional contribution of £ 210,000 to be spent by March 31, 1983.
40. United States. Mr. McNamar called for more stringent maturation/graduation policies and a tightening of conditionality. In addition, the US supported improving the MDBs as financial catalysts and strengthening the private sector focus of ADB. An executive summary of the US Treasury Department's study of the MDBs was provided to each delegation. Mr. McNamar noted that in this study ADB was singled out as ranking highest in institutional efficiency. Finally, Mr. McNamar announced support for a proposal to create a budget committee of the Board of Directors and offered a suggestion that the Chief of the Post Evaluation Office report directly to the Board rather than the Bank management. | N.B.
41. Viet Nam. The Governor called for ADB to pursue an evenhanded, nondiscriminatory approach in lending to Viet Nam. A request was made to resume implementation of two projects which have been suspended and to continue studies for future project possibilities.

#### Closing Remarks

42. Chairman U Tun Tin stated that both the formal and informal exchanges of the Annual Meeting had been useful and constructive. In his closing remarks, he noted that despite the great difficulties which lie ahead - economic, social and political, it is evident that ADB possesses the will and resourcefulness to respond to these challenges. The Chairman concluded by offering his sincere congratulations to the Governor for Nepal on his election as Chairman of the Board.



Next Meeting

43. The next ADB Annual Meeting will be held in Manila under the chairmanship of the Governor for Nepal.

cc: Messrs. Clausen, Stern, Hopper, Jaycox, Kirmani, Wiehen, Geli, Taylor,  
O'Brien  
Mss. Ogawa, Cooke

East Asia and Pacific Division Chiefs  
South Asia Division Chiefs

NCooke:mpd (D56)





# ADB AT A GLANCE

(As of 31 March 1982)

**1. DATE OF FORMAL OPENING FOR BUSINESS:**

19 December 1966

**2. ADDRESS:**

ASIAN DEVELOPMENT BANK  
P.O. Box 789, Manila  
2330 Roxas Boulevard, Metro Manila  
Philippines

**3. MEMBERS:**

Total Membership	45 <sup>a</sup>		
(i) Regional	31	(ii) Developing	28
Non-Regional	14	Developed	17

**4. RESOURCES**

	Amount	(US\$ Million)
<b>A. Ordinary Capital Resources</b>		
(i) Authorized Capital	8,037.1 <sup>b</sup>	
(ii) Subscribed Capital	7,977.9 <sup>b</sup>	
(iii) Capital Paid-in (subscription installments matured)	1,541.1 <sup>b</sup>	
(iv) Total Borrowings Outstanding	2,174.1 <sup>c</sup>	
(v) Ordinary Reserve	512.0 <sup>d</sup>	
<b>B. Special Funds Resources</b>	3,458.7 <sup>e</sup>	
(i) Asian Development Fund (ADF)	3,444.0 <sup>f</sup>	
(ii) Technical Assistance Special Fund Contributions		
Committed	52.3	
Amount Utilized	37.6	14.7

**5. BANK STAFF:**

	Number
<b>A. Total</b>	1,282 <sup>g</sup>
(i) Professional Staff	479
(ii) Supporting Staff	803
<b>B. Nationalities</b>	33

**6. LENDING ACTIVITIES**

	Number	Amount	(US\$ Million)
<b>A. Total Loans Approved<sup>h</sup></b>	566	9,816.3	
(i) Ordinary Loans	318	6,833.4	
(ii) ADF Loans	248	2,982.9	
<b>B. Number of Projects Financed</b>	512		
<b>C. Number of Countries Assisted</b>	25		
<b>D. Cumulative Lending by Sector</b>	% of Total Projects Approved		
	Number	Amount	
Agriculture & Agro-Industry	34.0	29.03	
Energy	18.3	24.89	
Industry & Non-Fuel Minerals	4.1	3.82	
Development Banks	12.7	13.36	
Transport & Communications	15.8	13.79	

Water Supply	7.8	8.45
Urban Development	1.8	2.44
Education	3.7	3.02
Health & Population	1.2	1.16
Multiproject	0.6	0.04

<b>E. (i) Estimated Total Cost of Projects directly financed (\$ Million)</b>	20,366.57	
(ii) Share of Bank loans in E (i) per cent	41.8	
(iii) Cost of projects indirectly financed through National Development Finance Institutions	4,257.6	
(iv) Share of Bank loans (based on subloans approved/credited) in E (ii) in per cent	24	
<b>F. Co-Financing with other sources<sup>l</sup></b>		
(i) No. of projects	112	
(ii) Amount of Bank loans (\$ Million)		2,977.1 <sup>l</sup>
(iii) Amount of co-financing (\$ Million)		2,542.3

**7. TECHNICAL ASSISTANCE ACTIVITIES**

	Number	Amount	(US\$ Million)
<b>A. Total T.A. Projects<sup>k</sup></b>	524	105.9	
(i) T.A. to Member Countries	434 <sup>k</sup>	92.9	
(ii) Regional Activities	90	13.0	
<b>B. Countries Assisted</b>	24		
<b>C. T.A. by Type of Service to DMCs</b>	Number <sup>l</sup>		
Advisory & Operational	141		
Project Preparation	294		
<b>D. Loans which have resulted from Bank T.A.</b>	196	3,626	
<b>E. Cumulative Sectoral Distribution of T.A.<sup>m</sup></b>	% of Total Projects Approved		
	Number	Amount	
Agriculture & Agro-Industry	50.2	54.96	
Energy	11.3	13.45	
Industry & Non-Fuel Minerals	4.8	4.16	
Development Banks	5.3	3.25	
Transport & Communications	12.9	10.71	
Water Supply	6.0	5.38	
Urban Development	1.2	1.70	
Education	4.1	3.53	
Health & Population	1.4	1.15	
Multiproject	0.5	0.15	
Others	2.3	1.56	
<b>F. T.A. Approvals funded from other sources</b>		41.29	
(i) Amount			

<sup>a</sup> Includes Bhutan, which became a member of the Bank on 15 April 1982.

<sup>b</sup> Valued in terms of SDR at the rate of US\$1.11309 per SDR.

<sup>c</sup> The Bank has borrowed funds in international capital markets including Austria, Belgium, Federal Republic of Germany, Italy, Japan, Kuwait, Luxembourg, Netherlands, Saudi Arabia, Switzerland, United Arab Emirates and United States. In addition, the Bank has borrowed funds by issuing two-year dollar-denominated bonds to central banks or monetary authorities of its members.

<sup>d</sup> Balance as of 31 December 1981.

<sup>e</sup> Equivalent to US\$ at rates of exchange adopted by the Bank as of 31 March 1982.

<sup>f</sup> Including capital set-aside, estimated accumulated net income, accumulated transition adjustments and other resources as of 31 March 1982, but excluding contributions to ADF which are not available for loan commitments.

<sup>g</sup> Including President and Vice Presidents.

<sup>h</sup> Includes technical assistance loans later refinanced in subsequent loans.

<sup>i</sup> Comprising official sources, both bilateral and multilateral, and export credit and private sources.

<sup>j</sup> Of this amount \$9.3 million was subsequently cancelled as a result of co-financing.

<sup>k</sup> T.A. projects with project preparation and advisory and operational components are counted as one.

<sup>l</sup> Including projects financed from sources other than the Bank.

<sup>m</sup> Excludes regional projects.



# OFFICE MEMORANDUM

ANNEX II  
Page 1 of 7

TO: Mr. H. Golsong, Vice President and General Counsel

DATE: May 3, 1982

FROM: John L. Taylor

*John L. Taylor*

SUBJECT: Back to Office Report: Asian Development Bank, Workshop on Co-Financing, Manila, April 27, 1982

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1. I visited Manila, Philippines, from April 24 to April 30, 1982. The principal purpose of my visit was to act as the Bank's observer to the "Workshop on Co-Financing with Commercial and Export Credit Sources" (the Workshop) convened by the Asian Development Bank (ADB) on Tuesday April 27, 1982. At the request of ADB, I arrived sufficiently in advance of the Co-Financing Workshop to exchange views on co-financing with ADB officials from April 24 to 26. I also attended a substantial part of ADB's Fifteenth Annual Meeting (April 28-30) and held consultations with some of the country and commercial banking/export credit agency delegations to that meeting. This memorandum will summarize the Co-Financing Workshop. Separate memoranda will describe the consultations held with ADB and others.

## I. GENERAL

2. The Workshop was attended by about 140 representatives of commercial banks, 12 representatives of export credit agencies, 22 participants from ADB's developing member countries, 23 observers from ADB's developed member countries, the Bank and the Inter-American Development Bank and a number of press representatives. The Program for the Workshop, which includes a list of persons attending, is attached.
3. Materials distributed at the Workshop included an attractively prepared brochure entitled "Asian Development Bank - Co-Financing with Commercial and Export-Credit Sources" (copy attached) and a compendium of the Statements prepared for the Workshop by the 11 guest speakers and commentators (also attached).
4. The Workshop began with an opening statement by ADB's new President (Mr. M. Fujioka) in which he stressed the need for ADB to substantially expand co-financing with commercial banks and export-credit agencies. In this connection, he contrasted the growth rates in ODA to ADB's developing member countries (from \$9.4 billion in 1973 to \$26.8 billion in 1980 or a 270% increase) with the growth rates in private capital inflows to those countries (from \$4.7 billion in 1973 to \$31.7 billion in 1980 or a 670% increase). He predicted that ODA was unlikely to expand further in the 1980's. Mr. Fujioka emphasized (as did other ADB officials throughout the day) the establishment by ADB of a new Co-Financing Unit within the Country



Mr. H. Golsong, VPC

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May 3, 1982

Department to coordinate and promote co-financing, and to serve as the contact point for all co-financiers. Heading this Unit is Mr. Eiichi Watanabe (at Manager, i.e., Assistant Director level) who has been with ADB for about six years after several years' experience as a commercial banker with the Sumitomo Bank, Ltd., Japan.

5. Speakers and commentators kept largely to their prepared texts. Highlights of the statements made at the Workshop are indicated below. While some speakers described their understanding of new techniques being developed by the World Bank, I was not invited to comment upon World Bank procedures (existing or planned) nor did I volunteer to comment, in view of the public nature of the Workshop and the Managing Committee's decision to delay issuance of the Board Paper on Co-Financing with Commercial Banks. I did however speak privately with some commercial bankers who expressed an interest in the current status of the World Bank's co-financing proposals. In response to specific questions posed privately to me (for example from Robert Owen, Executive Director of Lloyds Bank International London), I assured bankers that the delays in presenting proposals to the Bank's Board were for procedural reasons and not because management had decided to reject the proposed new techniques.

6. At the end of the Workshop, Mr. R.T. McNamar, Deputy Secretary U.S. Treasury, gave a short, unscheduled address in which he: (a) encouraged ADB and other multilateral development banks to develop new mechanisms of co-financing ("along the lines of the World Bank's staff paper"); (b) stated that regulations must be revised to reflect the "lower risks to commercial banks" when co-financing with multilateral development banks; and (c) urged that methods be found to tap fiduciary sources, such as pension funds and insurance companies, for development lending.

## II. COMMERCIAL BANK CO-FINANCING

### A. New Approaches Under Consideration By ADB

7. Mr. Song Chil Lee, Deputy Director of the Country Department, referred to the past practices of ADB, such as assisting borrowers in the selection of commercial bank co-financiers, the use of optional cross-default clauses (which will not be made mandatory) and the provision of billing services and information exchanges. He added that ADB is actively considering (a) the introduction of the IDB/IFC type complementary financing scheme and (b) an "early maturity arrangement" under which ADB would adjust the amortization schedule of its own loan so that the borrower's cash flow requirements are not strained during the repayment period of the commercial loan. Mr. Lee expressly rejected use by ADB of its guarantee power.



8. The "new" approaches suggested by Mr. Lee are more fully described in paragraphs 26 through 34 of the attached ADB Working Paper 1-82, dated March 22, 1982, a copy of which was given to me privately by ADB staff. The proposals discussed in the Working Paper are due to be considered by ADB's Board later this month.

B. Comments by Bankers

9. Mr. Yoh Kurosawa, Managing Director, The Industrial Bank of Japan, Ltd., in a positive statement, summarized four advantages in the ADB co-financing program namely, availability of information, preferential repayment scheduling, "management-agency" role through ADB billing and the optional cross default clause. He mentioned that although IDB's complementary scheme results in any default involving a default against the IDB itself, "it leaves something to be desired in terms of possible contacts between private lenders and the borrower." He added, however, that any declaration of default under any scheme would probably not assist commercial banks since, "if a borrower cannot repay then all roads lead to rescheduling!"

10. Mr. Kurosawa then gave a summary of "the new World Bank scheme" of A and B loans (see pp. 7-8 of Mr. Kurosawa's paper) which he mentioned had been described to him by Mr. Stern last September.

While Mr. Kurosawa's description of the Bank's position is somewhat outdated, the description of the Bank's recent thinking provided to the Workshop by Mr. Robert Owen (Lloyds Bank International Limited, London) (at page 5 of his paper) is more accurate. Mr. Owen commented that he was "personally considerably attracted to the A and B loan scheme". He added that the complementary financing scheme also had advantages, the "only disadvantage being that there is no direct contact between commercial banks and the borrowers". Mr. Owen commented that it was now time for developed country bank regulators to treat co-financed credits differently from normal credits by commercial banks to developing countries, "if the governments of developed countries are serious about encouraging co-financing".

11. Mr. Jonathan Colby (Vice President, First Boston (International) Ltd., New York) spoke about First Boston's proposal for a new, private-sector managed international Fund to utilize institutional investor funds particularly in the U.S. This proposal which was made to the Bank by First Boston in December 1981 is still under consideration. In response to questions, Mr. Colby confirmed that (a) the proposed Fund was intended to be an IFC-type body which would tap private sector sources not currently tapped by IFC; (b) the Fund would act world-wide, but be targetted on middle and upper income countries; and (c) the proposal was preliminary only.



12. Mr. Lloyd Bankson, Senior Vice President, Citibank (Hong Kong) made a very forceful statement to the Workshop in which he indicated:

- (a) Citibank is not interested in "soft loans" - "faced with today's financial problems, we have enough of them already";
- (b) Citibank is interested in co-financing, but only on commercial terms. Most Asian syndications are arranged in Hong Kong - "ADB should use its Hong Kong counsel to develop co-financing documentation which is familiar to us";
- (c) Citibank would welcome ADB using its power to guarantee part of commercial bank credits, so as to make co-financing more attractive;
- (d) Margins, which have been very low in Asia due to intense competition, "are headed up". In private conversations with me, Mr. Bankson commented that difficulties faced by some U.S. banks' customers in the U.S. domestic economy and in certain international lending (e.g., Poland and Romania) will "undoubtedly" lead to an increase in margins "soon".

13. Mr. Marcel Cassou, Ingenieur-Conseil, Société Générale, commented that co-financing will become more attractive when margins improve and when other types of co-financing (including the World Bank "B" loans and the provisions of guarantees) are instituted. "We prefer to work with mechanisms like export credits where we are assured of our normal profits", he added.

C. Comments by Borrowers.

14. Mr. T. Y. Hahm, President, Korea Long Term Credit Bank, commented upon the recent experience of KLB's co-financing with ADB and commercial sources. He suggested that ADB's procedures for the borrower's selection of commercial lenders be simplified. (ADB requested KLB to solicit bids from more than 30 potential lenders). He also commented that ADB and co-financiers should consult and attempt to agree upon covenants before negotiations were held with borrowers, with a view to ensuring consistency. In private discussions with me, Mr. Hahm stated that some competition among commercial lenders was beneficial to borrowers, but ADB's insistence that KLB seek solicitations from so many commercial banks was overly burdensome.



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15. Mr. K. Chatikavanij, General Manager, Electricity Generating Authority of Thailand, considered that co-financing along the lines suggested by ADB would be useful. Both Mr. Hahm and Mr. Chatikavanij remarked that they would like to see lower rates/margins, to the laughter of commercial bankers attending the Workshop.

16. Dato Sallehuddin Bin Mohamed, Deputy Secretary-General, Ministry of Finance, Malaysia, also suggested that co-financing should result in softer commercial co-financing terms (rates and maturities) and that ADB should increase co-financing by using new techniques.

17. Mr. Federico Puno, Vice President (Finance), National Power Corporation, Philippines, also considered that some "sweeteners" were needed to encourage more commercial bank co-financing. However, he stated that NPA was more interested in appropriate maturity scheduling rather than seeking any dramatic reduction in rates.

18. Mr. Vicente R. Jayme, President, Private Development Corporation of the Philippines, suggested that the increased costs resulting from co-financing with commercial sources might be reduced by changes in tax laws, especially by reduction in withholding taxes on interest payments.

### III. CO-FINANCING WITH EXPORT CREDIT AGENCIES

#### A. Approaches Being Taken By ADB

19. Mr. Song Chil Lee emphasized that ADB "would take a flexible and positive approach" by: (a) continuing to identify suitable projects and components for parallel financing; (b) offering standby or umbrella financing, to be cancelled if export credit funding became available; and (c) considering the use of lines of credit from export credit sources, if available.

20. The flexibility which ADB is prepared to adopt in the case of parallel financing is confirmed by the text of paragraphs 36 and 37 of the attached ADB Working Paper 1-82, dated March 22, 1982. Those paragraphs indicate that ADB will encourage developing member countries to arrange export credit co-financing on a parallel basis either before or soon after the ADB financing is approved, and that arrangements for the export credit co-financing be left to be made by the country concerned, "provided that the project's viability was maintained and this approach did not lead to significant delays in the project's implementation schedule".



21. Mr. Jean Arés, Senior Vice President, Export Development Corporation, Canada, welcomed ADB's flexible approach and described the "island of equipment arrangement" favored by EDC.

22. Mr. Robert Owen, Executive Director, Lloyds Bank International London, strongly urged ADB to tap export credit co-financing wherever possible. He explained that in his experience, export credit agencies were prepared to set up "Project Lines of Credit" independently of, and in advance of, particular supply contracts. Competitive tendering could then be undertaken between suppliers whose countries were prepared to offer such lines of credit and the terms of the export credits could be taken into account in bid evaluation.

23. Mr. Jacques Delmon, Vice President, BFCE, France, also welcomed ADB's suggested approaches. In addition, he indicated that ADB might consider refinancing its loans by the sale of early maturities to commercial banks and later maturities to export credit agencies.

24. Mr. W. Tsuji, Executive Director, The Export-Import Bank of Japan, commented that he expects an increasing use of preliminary commitments or early indications of availability of export credits. He also thought that the use by ADB of umbrella financing would be attractive.

25. Mr. R. T. Kemp, Under-Secretary, Export Credits Guarantee Department, U.K., in an excellent summary, made the following points, among others:

- (a) Past attempts to arrange export credit co-financing had been limited due to insufficient motivation;
- (b) Export credit agencies can provide early indications of interest (followed by firm commitments when contracts are awarded);
- (c) Although export credits are tied, "the bulk of our financing is made available after international competitive bidding". "Negotiated contracts are the exception";
- (d) Export credits are now generally offered in optional currencies;
- (e) General lines of export credit "have no future", but project-oriented lines may be workable.



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26. Mr. Sardjono, President Director, PLN, Indonesia, commented that PLN (a) preferred parallel financing; (b) would like to see greater coordination among co-financiers; and (c) suggested the removal of cross-reference and cross-default clauses.

Attachments

cc: Messrs. Scott  
Asser  
Cancio  
Heininger  
Vibert  
Cizauskas  
Strombom  
Ms. Zachrich

Co-Financing Coordinators:

Messrs. Ludvik  
Richardson  
El Rifai  
Kpognon  
Seung Hong Choi  
Takahashi  
Adams  
Woodford

JLTaylor:sm



ROUTING SLIP		DATE:
		June 11, 1982
NAME		ROOM NO.
MANAGING COMMITTEE		
MR. BURKI		
MR. D.R. CLARKE		
MR. MADDUX		
MR. BECKMAN		
<input type="checkbox"/>	APPROPRIATE DISPOSITION	NOTE AND RETURN
<input type="checkbox"/>	APPROVAL	NOTE AND SEND ON
<input type="checkbox"/>	CLEARANCE	PER OUR CONVERSATION
<input type="checkbox"/>	COMMENT	PER YOUR REQUEST
<input type="checkbox"/>	FOR ACTION	PREPARE REPLY
<input checked="" type="checkbox"/>	INFORMATION	RECOMMENDATION
<input type="checkbox"/>	INITIAL	SIGNATURE
<input type="checkbox"/>	NOTE AND FILE	URGENT
REMARKS:  I just came across this and thought the speech, including Mr. Haig's positive Third World views might be of interest.		
FROM:	ROOM NO.:	EXTENSION:
FRANK VOGL	E.828	72468



*Secretary Haig*

# American Power and American Purpose

April 27, 1982



United States Department of State  
*Bureau of Public Affairs*  
Washington, D.C.

*Following is an address by Secretary Haig before the U.S. Chamber of Commerce, Washington, D.C., April 27, 1982.*

A French philosopher captured the experience of the 20th century when he wrote that "a modern man—and this is what makes him modern—lives with many contraries." Modern science has enlightened us about ourselves and the universe as never before. It has also given us an unprecedented capacity for self-destruction. Modern technology has offered mankind a life of comfort and prosperity unknown to previous generations. But the same industrial processes harnessed to aggression have been used twice to plunge the world into the abyss of war.

The American people have participated to the full in these changes. We have known depression and prosperity, the ordeal of war and the tranquillity of peace. Long ago, Alexis de Tocqueville wrote that a "perpetual stir" prevailed in our society. Perhaps as Americans we were unusually well-suited to thrive in a century of "contraries," for our experiences have dulled neither our enthusiasm nor our desire for quick results.

Observers have questioned, however, whether this "perpetual stir" makes for sound international relations. Americans do not like to believe that problems are intractable or that achievements can only be very modest, despite the effort. It has been argued that the resulting national impatience makes American foreign policy a series of cycles, of strenuous engagements followed by disillusioned withdrawals.

In this century, we have lived through two such major periods of impatience in foreign affairs. For 20 years after the First World War, we pretended to be immune from the suffering of an interdependent world. The cost to other nations and to ourselves was enormous. Determined to avoid this mistake again, we threw ourselves eagerly after the Second World War into the creation of a new international order. As Dean Acheson described it, the task was "to create half a world, a free half . . . without blowing the whole to pieces in the process."

The successful application of American power to this purpose created the basic security framework within which we and our allies have prospered. Western Europe and Japan have recovered their economic health and political stability. A multitude of independent countries, free to pursue their own development, have emerged from the Western colonial empires. And the U.S.-Soviet rivalry had led neither to war nor to the yielding of essential Western interests.

American resources, American perseverance, and American wisdom provided the crucial underpinning of this international order. But our involvement in Southeast Asia and the denigration of executive authority in the Watergate scandal raised questions about our will and leadership. American foreign policy appeared beset by uncertainty, doubt, and division.



As a consequence, the United States found it difficult to deal with the complex international situation that has emerged over the past decade. The economic growth of Western Europe and Japan, the Sino-Soviet conflict, and the transfer of wealth to the oil producers have softened the sharp edges of American and Soviet dominance over the postwar world. The global military balance, however, is still the province of the superpowers.

### The Need for American Leadership

Today it has become essential for the United States and its allies to deal with the new realities. Three trends in particular raise crucial questions about the prospects for Western security—and international peace—for the remainder of the century.

#### First, lagging Western strength.

The United States has gradually lost many of the military advantages over the Soviet Union that once provided a margin of safety for the West—in some cases by choice, in others through neglect and error. Meanwhile, the Western alliance has suffered increasing political and economic strain. The cooperative impulse still exists, but it would be severely strained by another decade of relative military decline or sterile economic rivalry.

Second, the increasing interdependence of the West and the developing countries, many of which adopt a strident public stance against Western interests and ideals. The Third World has emerged, in all of its diversity, with its fragile unity already fragmented by regional conflict and global rivalry. At the same time, many developing nations are threatened by the increasing strain of sudden social, political, and economic change.

Third, the emergence of the Soviet Union as a global military power, increasingly bold in the use of its might to promote violence, notably in areas of strategic significance to the West. This trend has developed even as the Communist bloc, once the instrument of Soviet purposes, has been shaken by the Sino-Soviet schism and growing internal problems. Chronic economic failure has eroded the appeal of Marxist-Leninist ideology.

Let us ask ourselves, as others are surely asking about us, whether we can change these trends.

• Can we increase our strength and improve our collaboration with our allies?

• Can the West and the developing countries find common interests?

• Can we create a more constructive relationship with the Soviet Union marked by greater Soviet restraint?

I believe that we can do these things. We can safeguard the legacy of Western values and achievements. And we can go beyond the postwar vision of half a world free toward a whole world of greater liberty, more peaceful change, and increasing economic progress.

The American people have emerged from their recent experiences convinced anew that there is no substitute for American leadership if we are to live in a world hospitable to our society and our values. In the 1980s, this new American consensus for a more vigorous defense of our interests demand a new balance in the style of our foreign policy. If we forsake ideals to manipulate interests, then America's sense of right will be offended. If we forsake power in order to pursue pieties, then America's sense of reality will be challenged.

### Atlantic Alliance

A balanced American foreign policy, sustained by this consensus, will enable America to lead once again. But we must understand the complexities of our time if we are to move with the sureness and sensitivity that befits our historic responsibilities. There are opportunities to act, to navigate the sea of troubles to a safer and calmer water.

First, our relationship with our allies. We cannot pretend to lead unless we rally to our side those societies that share our values. The foundation of American foreign policy throughout the postwar era has been our partnership with the Atlantic alliance and Japan. Sheltered by common security arrangements and nourished by democratic values, we and our allies have created the most prosperous societies known to mankind. These historic achievements are the product of our joint labors, our sense of unity, and our strength.

We must recognize, however, that the trends of the past decade have contributed to a rising sense of frustration between the United States and its partners. U.S.-European relations, in particular, have been distressed by the convergence of several events:

• The loss of American strategic superiority and questions about the role of nuclear weapons in NATO strategy;

• Increasing European political and economic stakes in detente and East-West trade, despite aggressive Soviet actions in Afghanistan, Poland, and elsewhere;

• The recent record of low growth and high inflation among the industrial democracies leading to pressure for protectionist measures.

Angered by what they see as European reluctance to face the Soviet challenge, some Americans have been tempted to argue for withdrawal of American forces. Others, disturbed by persistent economic problems, have thought to retaliate by erecting protectionist barriers.

Those who advocate such actions ignore Churchill's admonition that "the only thing worse than fighting with allies is fighting without them." Not a single problem in the Atlantic relationship—diplomatic, military, or economic—can be resolved by unilateral American action. Let us ask ourselves—on both sides of the Atlantic—some fundamental questions. Does our alliance strengthen our security or weaken it? Do our ties increase our prosperity or diminish it? Do we improve the prospects for democracy and freedom in the world by working together or by going our separate ways?

Foundation of Our Security. The answer to these questions today is the same as that given over three decades ago by the generation whose lives were blighted by world war. The Atlantic alliance is the foundation of our security. It is still the basic building block of a more peaceful and prosperous world. And its breakdown would make disaster for the industrial democracies inevitable.

These are the stakes—and our opportunity—for the 1980s. Either the alliance goes forward together toward greater cooperation or the prospects of all its members will be darkened. But if we are to advance, it is high time that our dialogue proceeded on the basis of fact, especially the fact of who is doing what to sustain the common defense.

Arguments over burdensharing are second nature to any large alliance of sovereign nations. The current trans-Atlantic exchanges, however, must be put in historical perspective. Americans should not forget that our NATO allies substantially increased their defense spending over the past decade, while the United States was reducing its defense effort. Nor should we ignore that the European members of NATO supply a high percentage of the air, ground, and naval forces that constitute the conventional portion of deterrence in Europe. Even worldwide, the contributions of NATO allies and Japan are an important and growing component of defense.



This is not to underestimate the very serious problems we face. We all need to do more together. But our joint concern for the common defense, rather than finger pointing, should dominate the dialogue.

In the days ahead, as we and our allies discuss outstanding issues, the United States must exert not only strong but coherent leadership. The allies must know where we are going if we expect them to go with us. Their policies, especially in dealing with the Soviet Union, reflect not only differing perspectives of Soviet actions but also a tendency to hedge their bets against American swings between detente and confrontation.

The allies, for their part, must develop a broader vision and a sense of responsibility consonant with their interests and strength. They cannot expect the United States to carry the same share of the burden when our respective capabilities have changed and their own desire for influence has grown.

**Relations With the East.** Much of our agenda will be dominated by the search for more constructive relations with the East. This search, arms control, and the military balance are all interrelated, not independent and sometimes competing objectives. It is essential that we carry out NATO's two-track decision of 1979 to go forward with the modernization of intermediate-range nuclear systems while simultaneously pursuing arms control negotiations with the Soviet Union designed to limit these systems.

For too long, we have pretended that a relaxation of tensions in Europe would be immune to Soviet attempts to change the balance of power. For too long, we have imagined that the arms control process, in and of itself, could preserve that balance. Deterrence in the 1980s will require painful sacrifices by every member of the alliance; but if we fail to pay the price now, we shall have neither a lasting improvement of relations with the East nor a meaningful reduction of arms.

**Economic Well-being.** Our collective economic well-being also demands sacrifices from each nation. We cannot afford a repetition of those unresolved quarrels that so damaged the international economic system in the 1930s. In this area, as in others, if we do not progress together we shall each suffer separately.

### **Our Historic Responsibilities.**

Finally, we should be conscious of our historic responsibilities as free societies in a world where individual liberty is too often suppressed. There is a tendency in the West to use a double standard in our judgment of international behavior. The advocates of freedom and democracy are subjected to a supercritical standard while the advocates of totalitarianism are given the benefit of the doubt. How much energy is spent criticizing and impugning the democratic revolution while rationalizing and forgiving the assaults of its enemies. Let us be clear about the consequences of this attitude. An alliance divided in its moral purposes and corroded by distrust of its own motivations cannot long endure.

A stronger, more cooperative alliance is an objective surely within our reach. Over the past 30 years, we have grappled successfully with numerous political, economic, military, and moral problems. Our cooperative institutions still exist. But it is time for the United States and its allies to grasp the nettles that obstruct the future.

### **Relations With Developing Nations**

Let me turn now to another major area where we have a great opportunity for change: our relations with the developing nations. It is one of the ironies of our age that as nations have become more powerful their destinies have grown more interdependent. Together, we and the leaders of the developing countries have an opportunity to make sure that this interdependence is a source of mutual benefit, founded on the solid ground of common interest. The consequences of failure to cooperate would be disastrous for both America and the Third World. But such cooperation must be based on the diverse realities of the present not the slogans of the past.

The so-called Third World includes the oil-rich OPEC [Organization of Petroleum Exporting Countries] nations, the miracle growth rate Singapores, numerous countries utterly impoverished, and many that fit no category. Neither the fading memory of the struggle against imperialism nor the anti-Western tinge of many Third World pronouncements can suppress numerous differences in interests and perspectives. Beneath the surface, new opportunities for economic and political cooperation with the West are being seized by individual Third World states in ever more practical ways.

Such a situation calls for sensitivity and sophistication on our part if we are to expand our links with developing countries. We hold all sovereign states responsible for what they say and do. But we also must recognize the complex equations of economic and political survival in developing nations. Neither we nor they can afford ideological stereotypes in cases where they do not fit.

### **The Illusion of the Quick Fix.**

Another dimension of the Third World's diversity is violent conflict. Ethnic rivalries and territorial divisions, themselves potent sources of trouble, are being exploited by the Soviets and their allies. The United States, working with our Western and regional partners, can do much to help resolve such conflicts. But we should not succumb to the illusion that quick fixes are ready to hand.

The illusion of the quick fix is especially irrelevant to the vast economic crisis and tremendous economic potential that characterize so many of the developing nations. Both we and the nations of the Third World have learned that progress cannot simply be imported. Ultimately the productive forces of each society will make the difference between success and failure.

The leaders of the developing countries are, therefore, challenged today to deal with economic crises in the midst of economic potential by different and more pragmatic methods. The domestic economy, the international economic system, and political purposes must be brought into greater harmony. In part, this means that many leaders wedded to particular ideologies will have to recognize that their prescriptions are suffocating the chances for self-reliance and broad-based growth. But we in the developed world should also realize that growing economic insecurity is hardly conducive to either political stability or the fostering of democratic institutions.

The realities of diversity, conflict, and great potential are bringing about a crucial shift in the attitudes of many Third World nations. Their leaders face excruciating choices. Marxist-Leninist ideology has often been the locomotive that brought them to power, but it has not become an engine for progress. The challenges of economic and social change cannot be overcome perpetually by the resort to archaic slogans and brutal coercion.



**An Opportunity for the West.** As a consequence, many countries with direct experience of the Soviet embrace are quietly attempting to broaden their relations, to encourage foreign investment, and to reduce dependence on a patron who has little to offer but the tools and techniques of violence. There is growing awareness among erstwhile skeptics in the developing world that it is the West which holds the best hope of negotiating—and the most incentive to negotiate—peaceful solutions to regional conflicts.

Such a convergence of interests offers a unique opportunity to create more constructive and beneficial ties between the West and the developing countries. If we do not seize this opportunity, today's leaders in the search for better relations with the West could well become tomorrow's victims in a more poisonous atmosphere of recrimination, economic slide, and armed conflict. Only our adversaries would be the beneficiaries.

#### **U.S.-U.S.S.R. Relations**

Finally, our country faces an historic opportunity in dealing with the Soviet Union. The necessity to grasp the "contraries" and complexities of our era, even as we seek to pursue our purposes, is nowhere more critical than in relations between the two superpowers. This is nothing less than a challenge to our national survival—to the values that make life worth living as well as to our physical existence.

The politics of the late 20th century are still dominated by the struggle between two philosophies of justice and national power. In the name of a utopian ideal, Soviet totalitarianism imposes a single social model not only on its own people but on an expanding empire. In contrast, the forces of democracy seek to build national and international institutions based on diversity, individual choice, and peaceful change. The competition between these two approaches will continue.

This rivalry, however, is constrained by another central fact of our time—nuclear weapons. Total victory by military means has become a formula for mutual catastrophe. Even the use of conventional force risks unpredictable consequences.

Our enduring challenge is, therefore, to develop and to sustain a relationship with the Soviet Union which recognizes that the competition will proceed but constrains the use or threat of force. We can develop a lasting framework for this relationship if we avoid the extremes that have distorted American foreign policy over the postwar period:

**First**, that expressions of American goodwill and readiness to negotiate could somehow substitute for American strength and would move U.S.-Soviet relations from competition to cooperation;

**Second**, that a posture of confrontation, a refusal to negotiate would somehow lead to capitulation by the other superpower.

**Legacy of the Past.** We are living today with the consequences of this imbalanced approach, in particular, the legacy of a decade when negotiations often seemed to be a substitute for strength. Dominated by the psychology of Vietnam and rising domestic resistance to military programs, we fell into the easy belief that negotiations were not only an alternative to the balance of power but were also proof, in and of themselves, of an expanding community of interests with the U.S.S.R. Too few noticed and understood that detente did not alter Soviet priorities. Even as the West sought a reduction in tensions, the Soviet Union expanded its military forces.

The result of America's wishful thinking and profound national introspection has been swift and sure. Moscow has acted forcibly to expand its dominions. In Vietnam, in Kampuchea, in southern Africa and Ethiopia, in Afghanistan, and now in Central America, we have reaped the grim harvest of self-delusion.

As we rebuild our strength and seek once more to convince the Soviet Union that restraint is in our mutual interest, we must not allow ourselves the error of another extreme. We cannot claim that we are too weak to negotiate and at the same time insist that we are strong enough for a policy of all-out confrontation. Nothing is gained by appearing to fear diplomatic discussions—neither leverage over the Soviets nor the respect and confidence of our allies. We can no more solve our problems by avoiding the negotiating table than by resting our hopes upon it alone.

**A Balanced U.S. Approach.** An American approach to the Soviet Union that balances strength and negotiations offers the best hope of significant accomplishment. We must place our policy in the context of important changes that are taking place in the world and in the Soviet empire that may make Moscow more amenable to the virtues of restraint. The Soviet attempt to change the balance of power has produced a backlash of increasing international resistance. The American people have shown that they will not accept military inferiority. Moscow has earned the fear and enmity of many nonaligned states through aggression in Afghanistan and support for Vietnam's subjugation of Kampuchea.

This backlash comes when Soviet prospects have dimmed. Moscow's allies are in deep economic trouble and the Soviet growth rate itself is declining. Agricultural shortfalls persist. Above all, as Poland has shown, the Soviet model and Soviet ideology are increasingly rejected by the workers themselves.

Over the decade of the 1980s as the Soviet Union experiences a transition in leadership, it is likely to face greater economic difficulties and growing international isolation—a marked change from an era of unusual stability and expansion. This reality will contrast even more sharply than before with Moscow's carefully cultivated image of a progressive and peace-loving regime. The Soviet people themselves cannot remain entirely unaffected by the calls for peace and disarmament so avidly aimed by the Kremlin at the West. As a consequence, the Soviet leaders may find it increasingly difficult to sustain the status quo at home while exporting a failed ideology abroad.

During this sensitive and dangerous period of changing superpower relationships, the United States must make clear to the Soviet Union that there are penalties for aggression and incentives for restraint. We cannot conduct business as usual in the face of Soviet adventurism in Afghanistan or Soviet-instigated repression in Poland. But we have also held out the prospect of significant help for Poland if the reform process is renewed. And we are prepared to show Soviet leaders that international moderation can help them face painful domestic dilemmas through broader relations with the United States and other Western countries.



We must also create new realities in the military balance and in regions of crisis to encourage the Soviet Union to accept the need for moderation in its own interest. This is the objective of our new defense programs and of our diplomatic initiatives in areas such as southern Africa, the Middle East, and the Caribbean. Meanwhile, we will continue to probe Soviet willingness to engage in negotiations geared to achieve concrete results, recognizing that progress in all of these areas and arms control is inevitably affected by Soviet conduct and the climate of East-West relations.

An essential part of our strategy is to continue to differentiate among Communist countries themselves. This is a longstanding American policy that encourages autonomy and diversity. It responds not only to a natural sense of national independence but also the evolution of political pluralism.

Finally, just as the Soviet Union gives active support to Marxist-Leninist forces in the West and South, we must give vigorous support to democratic forces wherever they are located—including countries which are now Communist. We should not hesitate to promote our own values, knowing that the freedom and dignity of man are the ideals that motivate the quest for social justice. A free press, free trade unions, free political parties, freedom to travel, and freedom to create are the ingredients of the democratic revolution of the future, not the status quo of a failed past. We want the competition of democracy and communism to be conducted in peaceful and political terms, but we will provide other means if the Soviet Union insists upon violent methods of struggle. There must be a single standard.

In sum, the facts do not support the belief that there can be an early, sudden,

or dramatic reconciliation of Soviet and American interests. The competition will continue. But we can make the Soviets more cautious by our action. And as a new generation of Soviet leaders emerges, we can signal the benefits of greater restraint. A balanced and persistent American policy, cognizant of both Soviet strengths and weaknesses, can gradually reduce the dangers inherent in the struggle between the two superpowers.

As the end of the 20th century approaches, let us ask ourselves about the direction of events. Over the past decade, have we moved closer to our goal of a freer and more peaceful world? Unfortunately, many would answer no. Do we have the means, the will, and the skill to shape one? Surely the answer is yes.

To reach our goal is not only a matter of arms, though we need them. It is not only a matter of interests to defend, though defend them we must. And it cannot only be a matter of one framework or another, though our power must be disciplined. The most brilliant conception counts for little without the persistence to pursue it.

#### **Foreign Policy and the Nation's Character**

Ultimately, a foreign policy is the test of a nation's character. Today, the test of our character is whether we care enough about the values that make life worth living, the inner beliefs that have sustained Western civilization. Over the centuries, a certain idea of man has taken hold in our societies. The right of the individual, the responsibility of government to the governed, and the rule of law have distinguished our way of life. These ideals are the true source of our strength and the true source of the weakness of our adversaries.

A society where men are not free to speak their minds, where the dignity of the worker is denied, where the community's effort is poured into the weapons of war, is both unnatural and repugnant. In contrast, free expression by the one or by the many keeps our governments flexible and alert. Words, thoughts, and votes are the foundation of consent, not the police power of the state. And the resources reluctantly devoted to defense are subjected rightly to the most stringent examination and justification.

These ideals are by no means ours alone. They have universal appeal. Our material achievements are admired and emulated. But the power of Western science and technology comes from the power of ideas. The people of the world hunger for our ideas even as they seek the benefits of our machines. Yet if we do not care for our own values, we cannot expect others to respect them or to respect us.

History teaches us that progress is not inevitable. Liberty and democracy have often been denied, and peoples have been forcibly regimented to the dictates of mistaken philosophies. But if we have learned anything from this troubled century, it is, as Churchill declared, that only the swift gathering of forces to confront military and moral aggression can preserve the peace. Such a swift gathering of forces will enable us to create a whole world, a free world, without blowing it to pieces in the process. American power must be bent to this purpose. ■

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## ASIAN DEVELOPMENT BANK

The Asian Development Bank Group is composed of the Bank (AsDB), and the Fund (AsDF). The Bank, established in 1966, administers a Technical Assistance Special Fund.

### I. Comparative Lending Terms (as of July 31, 1982)

	<u>AsDB</u> (Fixed at Commitment)	<u>IBRD</u> (Variable)
Current Lending Rate (%)	11.00	11.43 <u>a/</u>
Commitment Fee (%)	0.75	0.75
Other Service Charge (%)	-	1.50
Maturity (years)	13-27	15-20
Grace Period (years)	3-7	3-5

a/ Applicable for the period July 1 - December 31, 1982.

### II. AsDB

#### (i) Third General Capital Increase (GCI)

The subject of AsDB's prospective third GCI might come up. By next year the current subscribed capital base of \$8.4 billion will need to be more than doubled. The third GCI is to cover OCR (Ordinary Capital Resources) lending requirements during 1983-87, estimated to be about \$12 billion.

#### (ii) Co-financing

As of July 1982, AsDB has contributed a total of \$729.80 of cofinancing for 16 Bank group projects.

You may wish to discuss with Mr. Fujioka his views on putting into effect his desire to substantially increase the cofinancing activities of the AsDB.

### III. AsDF

#### (i) Fourth Replenishment

The AsDF concluded negotiations of its Fourth Replenishment this last April. The AsDF donor countries agreed to a replenishment of \$3.2 billion in July 1982 which will just maintain, in real terms, its current level of ADF concessional lending during the four year period 1983-1986. This is against the originally envisaged \$4.1 billion. In an attempt to compensate for this shortfall caused by the US administration cuts and the



reluctance of the United Kingdom and Germany to maintain or increase their traditional percentage shares of contributions to the AsDF, increased contributions were provided by Japan, Australia and France.

#### Current Policy Reviews

The Asian Development Bank and its concessional loan window, the Asian Development Fund, are undergoing changes in organizational and operational structure. Although past policy reviews were directed towards capital increases and replenishments or external events, the current President, Masao Fujioka, recognizes that the internal structure and methodology for responding to marketplace changes may be inefficient.

In late April, the US Executive Director postulated that several policy issues in the financial management of AsDB need to be highlighted. In respect of this, AsDB has been undertaking a major review of their financial policies with the use of an external consultant. In particular, the World Bank Group has been solicited for ideas, comments and advice in the area of financial policy. The Controller's Department of AsDB has asked to send a representative to FPA to discuss the organizational system used in the World Bank's functional delineation in the area of overall financial policies. The representative is expected in mid-September.