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White, John - Articles and Speeches (1964)



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## THE ASIAN DEVELOPMENT BANK:

### A QUESTION OF STYLE

*John White*

IN the growth of debate concerning aid to developing countries, money has been the central feature. In spite of passing looks at education, technical skills, advice in the establishment of new institutions, even fundamental political and social analysis, what the developing countries have continued most urgently to seek, and what the developed countries have continued in the last resort to provide, is money.

But the money comes wrapped in a parcel tied with strings. So long as the strings did not bite too deep, requiring only manipulation of the tenets of big-Power politics or the provision of strategic facilities, the parcel could be unwrapped without too much difficulty, and the providers of aid, out of charity or ignorance, turned a blind eye. In recent years, however, 'political' strings of this kind have been discredited. In the new fashion, strings, like the slaps administered by a Victorian parent, are alleged to be for the recipient's benefit. Aid is the instrument by which the developing countries are to be taught to behave like adult developed countries. With the best will in the world, all that good men are saying now in the developed countries is 'Do it my way'.

The developing countries do not like it. They never have liked it. There has always been an undercurrent of resentment at the hectoring tone adopted by officials in the World Bank, or in the ministries of the more conscientious bilateral donors, even when that tone is intended merely to lend strength to the forces of common sense in the countries concerned.

So the developing countries have sought to set up their own institutions, to rid themselves of this dependence. In doing so, however, they have shown a tendency to fall back into that same trap from which they have tried to emerge. The institutions which stand at the centre of the developing countries' efforts to establish their independence of mind are financial institutions, and the financial resources which they provide, disregarding a certain amount of cant about self-help, still come from the developed countries. Even the African Development Bank, which has no developed countries among its members, is heavily dependent for its long-term future on the hoped-for willingness of the developed countries to let it have some money. The route may be more roundabout, but the source is the same, and so is the risk of an imposed habit of mind.

The Asian Development Bank was established in 1966. With the African and Inter-American banks, it completed a trio of regional financial institutions which now serve virtually all the developing countries, and in which the developing countries have a majority of the voting power. Of the three, the Asian bank was the only one which did not at the outset have to face widespread scepticism. Indeed, it was greeted in the developed countries, both by their governments and by their private financial institutions, as a promising step forward. Its capital structure looked sound. Its backing looked respectable. Its terms of reference looked impeccable. The Asian bank was set up by people who had much experience in this field. It seemed set for a brilliant future.

My purpose here is to take another look at that future, in the light of a brief visit to Manila and the capitals of several member countries. The line of argument advanced here is derived from a broader study of all three regional banks, which is not yet complete. It is admittedly a highly prescriptive argument, in which, for the sake of clarity, I have left out most of the straightforward factual description of the bank's origins and structure, since these have already been fully covered elsewhere.

#### EXPLANATION

Since the argument is prescriptive, it may be sensible to begin with an explanation of two terms which I use frequently in a specially prescriptive manner. I am primarily concerned here with the 'political' role of the bank. I do not necessarily mean by this its willingness to enter into controversy. Still less do I mean the part it may play in relation to the foreign policy of non-Asian Powers. Essentially, I am concerned with the subjective element in its thinking, the scale of values by which it makes decisions between alternative courses, the weight which it gives to alternative benefits; in short, its view of the development process and the steps it takes to promote that view.

In discussing the political role of the bank, and in particular when comparing it with the Inter-American Development Bank (IADB), I attach some importance to the bank's 'style'. In itself, style may not seem of fundamental importance, but there are two respects in which it cannot be ignored. First, the way in which an institution responds to certain situations is the best evidence we have of how it will respond to other situations in the future. Second, none of the regional banks has real power in the accepted sense, but they all occupy a special position in relation to their members, which can be a source of strength, provided the institution concerned has a clear idea of the range of action open to it, and of the objectives which it is pursuing. By 'style', I mean the

way in which these institutions *use* their position, beyond the strict limits of their lending activities.

A study of regional banks first suggested itself to me as a result of my observation of certain differences of style between the World Bank and the Inter-American Development Bank. I had supposed these differences (and this was the hypothesis which I set out to test) to be largely attributable to some inherent quality of the IADB as a regional institution, with the borrowing members holding a majority of the votes on the board. The hypothesis was not seriously upset by the record of the African Development Bank, since the failure of that institution to generate a momentum or a style comparable to those of the IADB was easily explicable in terms of the African bank's weak capital structure.

In Manila, however, I found that the Asian bank was already exhibiting tendencies closer to those of the African bank than those of the IADB. This could not be explained in terms of its capital structure, which looks relatively sound, even if the resources at its disposal are rather small; and it could not be explained in terms of its charter, since on paper all three institutions have similar objectives and procedures.

If the style of the IADB is not attributable to its inherent quality as a regional institution, the probability is that it has been conditioned by the special circumstances of Latin America. The Asian bank, as I see it, is hemmed in by barriers which are likely to impede the development of a style which would enable it to take on the political role which is the main function of its existence. At a time when net aid is severely restricted, it is most unlikely that the Asian bank will succeed significantly in its more obvious aim, which is to bring additional resources to the region. For comparison, it may be helpful if I set out some suggested reasons why the IADB appears to have avoided getting trapped in this way.

#### THE CONTEXT OF THE IADB

Attempts at regional co-operation have a long if not entirely happy history in Latin America. Specific proposals for an Inter-American Bank can be traced back at least to the beginning of the century.

Since the Second World War, in the wake of the 'Good-Neighbour' policy, the Latin American republics have acquired considerable experience in the devising of common positions from which to resist American domination without cutting their links with their prosperous northern neighbour. As a result, the framework for political and economic co-operation in Latin America exists in the shape of a set of inter-linked institutions, most of which have their headquarters in Washington. The forms of Latin American co-operation are worked out within a mile of the White House.

The immediate antecedents of the establishment of the IADB are to be found in the late 1950s, when American hostility to the proposal was turned into active promotion of it by political developments in Latin America—*e.g.*, Richard Nixon's tour, and, later, the Cuban revolution. From the outset, the project was seen in political and social terms, as well as economic. This approach was exemplified in the Act of Bogotá, which led to the establishment of the Social Progress Trust Fund (SPTF), which was later put under the IADB's administration. Added political momentum was provided by President Kennedy's initiative in proposing the Alliance for Progress.

With this degree of political support, and at a time when the general climate for aid was favourable, the IADB was enabled to start life relatively free of worries about the availability of funds. More significantly, a large proportion of its early disposable funds were in grant or near-grant form, available for lending on extremely favourable terms. In this sense, it was even better placed than the World Bank, which only acquired soft funds after a period in which habits of mind had become set in a context of hard lending. Very soon, the IADB was the principal international lending agency operating in Latin America. Annual commitments have exceeded those of the World Bank for some years. Annual disbursements, also, are now greater than those of any other multilateral agency.

With political and social objectives engraved in its earliest thinking, and with relative freedom from financial restraints, the IADB launched out straight away on an experimental path. Although some lip service was paid to 'sound banking principles', its earliest loans showed a dominant desire to establish for the IADB a distinct personality and a distinct style. Unfortunately, as is now admitted, some very ill-considered loans resulted, and the IADB has since moved a little in the direction of the World Bank; but the early experimental spirit survives in the form of a delicate sensitivity towards socio-political aspirations and socio-political constraints.

Crucial to all this is the personality of the President, Felipe Herrera, who is a politician, not a banker, with a politician's flair for interpersonal and international relations. Compare the discernible, if rather fuzzy effect of Herrera's constant harping on Latin American aspirations with the nil or perhaps negative effect of George Wood's '\$3,000-4,000m', which was the additional sum which 'objective' calculations by the World Bank had shown the developing countries could absorb productively.

And the President, and the institution, are operating in a context which offers scope for experiment. Capital for manufacturing projects with high rates of return is not difficult to obtain in Latin America. Theumpy infrastructure sectors are largely taken care of by the World

Bank. The IMF and the World Bank between them, together with AID, have taken on the thankless task of applying pressure on general issues of economic and financial policy. All this leaves the IADB free to operate at the margin, venturing into the areas which are difficult to justify in quantitative terms, seeking new and less iron-fisted means of eliciting improved performance (*e.g.*, through establishing goodwill by politically-orientated lending), and generally using its lending operations as a platform from which to launch a wide range of initiatives. One should not overestimate the impact of this approach, and one should not assume that it is invariably, or even usually, the result of a carefully thought out policy; but, equally, one should not underestimate the political significance of an institution that takes some of the dreariness out of international development finance. And the IADB *is* a political institution. Such success as the IADB can claim for itself is to be found in its *élan*. It is a question of style.

#### THE CONTEXT OF THE ASIAN DEVELOPMENT BANK

I have set out the context of the IADB at some length, in the hope that it will be obvious at every point how different is the context within which the Asian bank has to operate.

Its antecedents cover a relatively short period. The idea appears to have originated in the Economic Commission for Asia and the Far East (ECAFE), just as the idea of the African bank originated in the Economic Commission for Africa (ECA): and like the African bank it suffered at the outset from widespread suspicions of the ambitions of the regional commission, and, in particular, of its executive secretary. This was a short-term problem. Like the African bank, it very quickly cut loose.

For a while, there was very little political support for the idea outside the region, and even within the region, Japan was at best lukewarm. But the Asian developing countries had it fairly clear in their minds (unlike the Africans) that they had to bring in the developed countries if the institution was to have financial strength.

The break came with Lyndon Johnson's Johns Hopkins speech in April 1965, in which he proposed a \$1,000m fund for the development of South-East Asia. But this was a political act of a very different kind from the Act of Bogotá or the Alliance for Progress. In Latin America, the United States had wanted to refurbish and enliven its political commitment. In South-East Asia, the United States was in a very exposed position politically, and the President's aim essentially was to provide a smoke screen as cover for a U.S. retreat. The Asian bank was to be part of the smoke screen.

With American money in it, however, the proposition looked more attractive to the Japanese, who therefore moved, and were encouraged

to move, into a key position in the negotiations. An international institution which has to rely on Japan as its main internationalist prop is in a very shaky position. Four years ago, I ended a study of Japanese aid with the forecast 'If the Japanese Government finds itself faced with a choice between improving its aid programme and suffering the material consequences of invidious comparisons, it will opt for the former'. Events have proved me wrong, for Japan has spent the time since then in dodging the choice altogether.

Partly because of the different political circumstances, but more conspicuously because of the difference between 1960 and 1966 in terms of the general aid climate, the Asian bank was set up with very limited resources. In the present state of the capital markets, its resources consist, in effect, of the paid-in portion of its subscribed capital. In other words, it starts life with smaller resources than the IADB, for lending to countries with about four times the population of the IADB's borrowing members. And in the present climate it has little prospect of a significant increase, in contrast to the IADB, which in eight years has increased its total authorised resources from \$1.390m to \$6.057m.

A more serious shortcoming lay in the failure to incorporate a soft fund in the basic structure of the bank. All three regional banks are empowered to administer special funds, but only the IADB was fortunate enough to be given control of such a fund in its early days: and because the timing happened by accident its significance was not fully appreciated. In the circumstances of the late 1960s, the Asian bank has had to play the same sad game as the African bank, pleading with potential donors for soft funds on an optional basis. To work from such a position of weakness is self-defeating. Predictably, the U.S. Congress recently threw out the Administration's request for \$200m for the Asian bank. Within a few days of that rebuff, Congress had authorised an *additional* \$300m for the IADB's Fund for Special Operations. For the IADB, the question of soft funds had always been central. For the Asian bank, it remains a hoped-for accretion.

Even if this decision is eventually reversed, the damage is now perhaps irreparable. First, soft funds have been rendered peripheral to the bank's ordinary resources, and therefore peripheral to its thinking. Second, a precedent has been set for detailed tying of the *use* of soft funds, so that, if the bank does eventually raise soft funds, they will resemble the \$60m that the IADB has raised in various forms from non-members, rather than the \$3,146m it has raised for the Fund for Special Operations (FSO) and the SPTF. The IADB devotes a large amount of energy to raising funds from non-members, in pursuit of the *political* objective of associating other advanced countries besides the United States with Latin America. But it is admitted that the amount raised hardly justifies the effort in purely economic terms, and the funds are



ned up in so many different knots that IADB officials dread having to use them. Third, and most significant, the Asian bank has lost that initial momentum and *panache* which were among the IADB's principal starting assets. Fourth, the possibility of incorporating political and social objectives in the bank's publicly-stated policy has probably been lost for the next five years or so.

A further handicap was the choice of site. Manila is a long way both from Washington and from Tokyo. It is also, in spirit, a long way from the bulk of Asia. It is neither a centre of power nor, as Singapore or Bangkok would have been, a junction of different currents of power. Not only does this render the bank peripheral in political terms: it also creates problems of staffing. 'Who wants to live in Manila?' was the rhetorical question put elsewhere by several people whom the bank had tried to recruit. There are several versions of the story of how Manila came to be chosen, but all the versions are equally compounded of accident and *opera bouffe*. Here again, little thought seems to have been given to the political implications of the decision.

Once Japan had failed to secure Tokyo as the site, it was inevitable, and indeed essential, that a Japanese nominee should become the president. But Japan's peculiar position in Asia made it impossible for Japan to nominate a politician, or even a non-politician with political flair. The President, Takeshi Watanabe, is widely respected as a sound and cautious financier. His appointment was conditioned by Japan's position in Asia, not by the need of what must be, if it is to succeed, a political institution.

So circumstances combined to create an institution with severely limited resources, for lending on hard terms, operating on the fringe of a vast continent which has little experience of regional co-operation and which is beset by widely differing political, social and economic problems on a gigantic scale, very few of which are amenable to limited purely financial solutions; and compelled to operate without a political base, and with only, so far as the United States is concerned, a negative political *raison d'être*. That was how it was set up. For the few brave or blind men who then agreed to try to make the institution work, perhaps because they believed in the broader ideals for which it stood, force of circumstance had set a trap. It may help to clarify what they were up against if I concentrate on two problems; the problem of the volume of the bank's resources, and the problem of the political constraints within which it has to work.

#### THE VOLUME OF RESOURCES

I have referred above to the problem created by the failure to build a soft fund into the bank's structure. My own view is that the lack of a

significant soft fund under the bank's direct control is likely to prove a more inhibiting factor than the smallness of the bank's ordinary resources.

The American money, and an equivalent Japanese sum which was to be put in with it, were intended for agricultural development, primarily in South-East Asia. A good case, though not an overwhelming one, can be made for the establishment of this priority. What is worrying is that the reasoning behind it was the reasoning of two particular shareholders, both of whom made it quite clear that they regarded these funds as at best quasi-multilateral. The underlying bilateral nature of the proposed funds was made absolutely clear by the subsequent action of Congress. One looks in vain for any commitment to the institution as such.

Talk of special funds continues, but the other developed members have inevitably followed the American and Japanese lead in suggesting specific uses for each mite that they are likely to contribute. Essentially, this means that such special funds as the bank receives will in effect be administered by it on behalf of one donor or another, and will play little part in the creation of the bank's own style.

So it is thrown back on its ordinary resources. Here the problem is one of quality rather than quantity, though it is true that the problem is rendered more serious by the pitiful inadequacy of the funds available. The shadow of Eugene Black hangs heavily over the Asian bank, and has created a climate of thinking redolent of the mid-1950s. (I ought to make my own judgment explicit here. In retrospect, I think it can be argued that Eugene Black, with his emphasis on making the World Bank's bonds saleable, did more than any other single person to obscure the central issues of development. His positive contribution was to make development respectable to the treasuries and banking institutions of the developed countries, but he succeeded in doing so largely by obscuring the political and social challenge, creating a highly frangible myth of development as a matter for good accountants.) At a guess, I would say that I heard the phrase 'sound banking principles' approximately 20 times a day when I was in Manila. Why? Because only by establishing a reputation for 'sound banking principles' can one hope to sell one's bonds.

Quite apart from the improbability of the Asian bank being able to float a bond issue of significant size *anywhere* for the next few years, it may be doubted whether its operational principles make the slightest difference either way. I have gone into this question quite carefully in New York, London and Frankfurt, and I have never found a financial adviser who looked at anything except the 'effective' unused callable capital and the record of defaults. I have also discussed it with officials in Tokyo, though not with private bankers, and the view advanced there is that the Asian bank will be nothing unless it can establish an

identity for itself which is quite distinct from that of the ordinary banking world. I have also looked at the record of the IADB, which has succeeded against all the odds in this respect, and I find no reference in its publicity to 'sound banking principles' in its project-lending. People who lend money to a bank want to be sure that they will get it back, not to pass moral judgment on the uses to which their money is put.

So this emphasis is unlikely to bring the Asian bank any extra resources. All it will do is to limit severely the range of projects it can consider, and stifle any spirit of experiment or imagination in its lending policy. This effect is likely to endure, even after the bank secures additional soft funds. On the evidence of the World Bank's handling of IDA, the Asian bank's instinctive reaction is likely to be to create a myth that its soft money is subjected to the same strict banking criteria as its ordinary resources. When this has been said a thousand times, strict banking criteria will have become an end in themselves, and the bank will have forgotten what development is about. Self-congratulation replaces doubt. Minds harden.

Mr. Watanabe has made a point of saying that he must husband the bank's resources. In the present aid climate, this attitude may be necessary for the bank's survival—I think it probably is—but one wonders what role it leaves for the bank in the development of Asia. Again, a comparison with the IADB is instructive, provided one takes the comparison merely as exemplifying the difference in the circumstances of the two institutions. In its first year of operations, the IADB made 73 loans. Its first loan (which subsequently turned out to be for a poor project) was for drinking-water in Peru. The Asian bank, after some hesitation, made its first loan, on hard terms, to the Industrial Finance Corporation of Thailand, an institution which has not had any marked difficulty in raising the finance it requires through conventional channels. Among other loans that the bank has seriously considered, too, one finds no evidence of any sense of social priorities. One is told that it is pure coincidence that the first loan was for such a bankable institution as the IFCT, in such a 'credit-worthy' country as Thailand. Perhaps, but the lack of awareness of the political and symbolic significance of the institution's first loan, of which this attitude is evidence, leaves one in some doubt about the Asian bank's ability to develop a distinct identity, or even to survive as a politically significant institution. So perhaps this is the point at which to turn to the question of the bank's political style.

#### POLITICAL STYLE

The reason why I attach so much importance to the question of political style is simply this. Development economics is about alternative

projections. When it comes to a choice between alternative projections, value judgments are required. To go for maximum overall growth with a given volume of resources involves just as sharp a value judgment as to go for redistribution of income, or for a socialist society, or whatever. Development decisions are decisions about societies. They are political decisions, which hopefully take into account the evidence that economics and sociology can provide. I have argued that historical and geographical circumstances prevent the Asian bank from adopting the political style of the IADB, which is a product of the special circumstances of the Western Hemisphere, not of the inherent qualities of a regional institution. But the World Bank, too, has developed a sort of political style, if only painfully and with much pretence that it is doing nothing of the sort. The Asian bank's capital structure in fact resembles that of the IBRD rather than that of the IADB. Does the record of the World Bank offer any basis for predicting that the Asian bank will do the same?

The World Bank's first exercise of major significance was the rescue operation, in 1958, which led to the establishment of the India Consortium. Two years later it established the Pakistan Consortium, and in the same year the Indus Basin Treaty was concluded under its good offices. The challenge of the Indian sub-continent was immense and compelling, and the World Bank had the resources and, as one of the better results of Eugene Black's presidency, the international prestige with which to meet the challenge. From there the World Bank branched out into other operations, *e.g.*, consultative groups, until, under George Woods, it gradually took on the character of political champion of development on a global scale. The key to this chain of events is the fact that it started with the biggest and most dramatic single challenge of all. A reading of the records suggests that the World Bank only dimly comprehended the scale of the enterprise on which it was embarking. But it did embark, and the tide of events drew it deeper and deeper in. And this trend has contributed, not only to a reorientation of the World Bank's thinking, but also to a significant change in the practices of some aid-giving countries and to a growing appreciation of the complexity of the development process.

The Asian bank does not have the prestige or the resources to operate on this scale. India appears in fact to have accepted a tacit self-denying ordinance on the use of the bank's money. Some of the smaller countries in which there might have been an obvious political role for the Asian bank to play—*e.g.*, Ceylon, because of the crisis in its foreign exchange position, and South Korea, because of its anxiety to diversify its sources of aid—have been pre-empted by the World Bank. Already, the Asian bank, making a virtue of necessity, is slipping into the habit of maintaining that its aims must be modest, that it does not have a central role

to play, that it will be content if it is able to show that it has done a little good here and there.

There remains one significant test case, which is Indonesia. In my view, the case of Indonesia shows up the weakness of the Asian bank with dispiriting clarity. The Indonesian operation was badly in need of rationalisation. Few countries were happy about Japan's position in it; there was a general feeling that such a long-term problem was not really the responsibility of the IMF; and it was assumed that the World Bank would not touch it, because of the doctrine of credit-worthiness. The Asian bank sent a small technical assistance mission, but the mission was carefully divorced from any implicit offer of funds. There was no push to lend on a large scale, and no push to take over the so-called Tokyo Club. And how could there have been? For Indonesia, like India, could easily have gobbled up all the Asian bank's funds. As a result, under Robert McNamara, the World Bank has walked into Indonesia, leaving the Asian bank on the sidelines again. So much for the Asian countries' 'own' institution.

One area in which all three regional banks have tried to develop a political style is that of regional integration. For the Asian bank, the obvious target is South-East Asia, and, in particular, the financial management of the development of the Mekong basin, when the time is ripe. But there are two problems here. The first is that the Mekong countries, or even the countries of South-East Asia as a whole, are only a minor part of Asia, and there will be trouble on the board if the bank devotes more than a small portion of its small resources to this area. The second is that the political origin of the bank, as a cover for an American retreat from South-East Asia, makes it very difficult for it to come out into the open as a political institution in this area—*vide* the trouble with Congress. A *South-East Asian Development Bank*, with the same resources, might have done something here. For an Asian bank, it is much more difficult. For the time being, it seems likely that the Asian bank's efforts to promote regional integration will be confined to the financing of improved communications, which, as the IADB has discovered, barely touch the edge of the problem.

With project-lending, country operations and regional integration excluded from the list of possible instruments for the development of a political style, what is left? In effect only the bank's technical assistance and other non-financial activities. The bank has made a move in this direction, with its *Asian Agricultural Survey*, which is a frankly political gesture, as most members of the staff are willing to admit. (Certainly, as a piece of research, it neither offers new insights nor distils the experience that already exists. But it does focus attention on a problem, even if its own answer to that problem shows the same depressing limitations as the 'incentives and inputs' approach which is currently

fashionable with a certain class of development economists in the United States.) But no conclusions seem to follow *in operational terms*, because of the bank's financial constraints. The same is true of its mission in Korea, and of its mission in Indonesia. So the trend which I see developing is one of increasing divorce of the bank's technical assistance from its lending operations. The assistance provided may be of the highest quality, as are some of the people involved, but it is difficult to see how this will strengthen the bank's institutional standing. There is evidence to suggest that the bank has perceived the danger of divorcing its technical assistance from its lending activities, and that it is trying to integrate them; yet the problem of the lack of adequate resources to support such a dual role remains as sharp as ever.

#### CAN THE DILEMMA BE RESOLVED?

The dilemma can be very simply stated. The success of a regional institution depends on its ability to generate momentum, which in turn depends, to use the words that come to mind in looking at the record of the Economic Commission for Latin America under Prebisch and the IADB under Herrera, on its *élan*, its *panache*, its political style. Yet the Asian bank has been set up in such a way, and in such circumstances, that an attempt to generate momentum in *any* direction is bound to run slap into one constraint or another. These constraints may be listed as the shortage of resources, the nature of its resources (with a deleterious effect on the bank's thinking), the role of the United States in South-East Asia, the role of Japan in South-East Asia, the location of the bank in Manila (with consequent staffing problems), and the heterogeneous nature of the vast area it has to serve. Under these circumstances, it will take a sort of genius to prevent the bank from degenerating into a peripheral institution, with no political or social role, and only a marginal economic role. Where shall such genius be found?

The neatest resolution of the dilemma would be the provision by the developed members of a genuine multilateral soft fund to be administered by the bank, with social as well as economic objectives written into its articles of agreement. Such a fund, to carry political weight, would have to be provided at a rate of at least \$200m a year for three years (thus outweighing the bank's ordinary resources), with a reasonable assurance of replenishment.

To state the resolution in those 'unrealistic' terms is to show just how desperate the dilemma is. As things are, what courses of action are left open?

*Prima facie*, without reference to the particular circumstances of Asia, one would suppose that the possibility of breaking through the bank's present constraints lies in one or more of the following areas:

- (i) concentration on a few carefully selected countries;
- (ii) a dramatic departure from 'sound banking principles' in project-lending;
- (iii) rapid commitment of its existing resources;
- (iv) the adoption of a forceful position in Asian international politico-economic discussions;
- (v) the adoption of an advanced position on the problems of regional integration.

For reasons already given, there appears to be little possibility of movement under the fourth and fifth of these headings, which leaves the other three. My own view, therefore, is that the bank should seek to obtain the board's agreement to concentrate the bulk of its lending on half a dozen countries which are more or less within its capacity and which in one way or another constitute special cases (my own list would be Afghanistan, Ceylon, Indonesia, South Korea, Nepal and Singapore; but it is easy to think of variations); that it should concentrate on projects with political and social as well as economic implications; and that it should seek to commit all its paid-in funds as rapidly as possible. At the same time, it should be pressing with every means at its disposal for the establishment of a wide open soft window, to which as many members as possible should contribute in varying amounts, but *on the same terms*.

It may be argued—indeed, it already has been—that this would be a dangerous course, which might well lead merely to the bank's disappearance. But the alternative, apparently more cautious, path is even more dangerous. Unless the bank can devise some highly selective criteria for concentrating on certain *countries*, it will end up concentrating on certain kinds of *projects*, scattered about, with no connecting thread and no concerted effect. If it states its criteria in terms of credit-worthiness rather than in terms of need, and if it tries to base its lending policy on limited economic calculations or even more limited financial calculations, it will render itself irrelevant to the problems of the countries it is meant to serve. If it becomes hypnotised by the need to husband and safeguard its resources it will either lend to those who do not need the money (like the IFCT) or not lend at all. The result of taking the cautious road will be a slide into a decent obscurity.

The bolder road is less risky than it looks. At least, it is no more risky than the business of development itself. The task of a regional bank, more fundamental than the raising of additional finance, is to integrate financial thinking into a developmental philosophy appropriate to the countries which it serves. Its central function is to scrutinise and to question the assumptions and the value judgments of established financial practice. Circumstances have combined to embed those

assumptions and those value judgments deep in the structure of the Asian bank, in a manner which appears wholly inappropriate to Asian conditions. But circumstances can still be defied.

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